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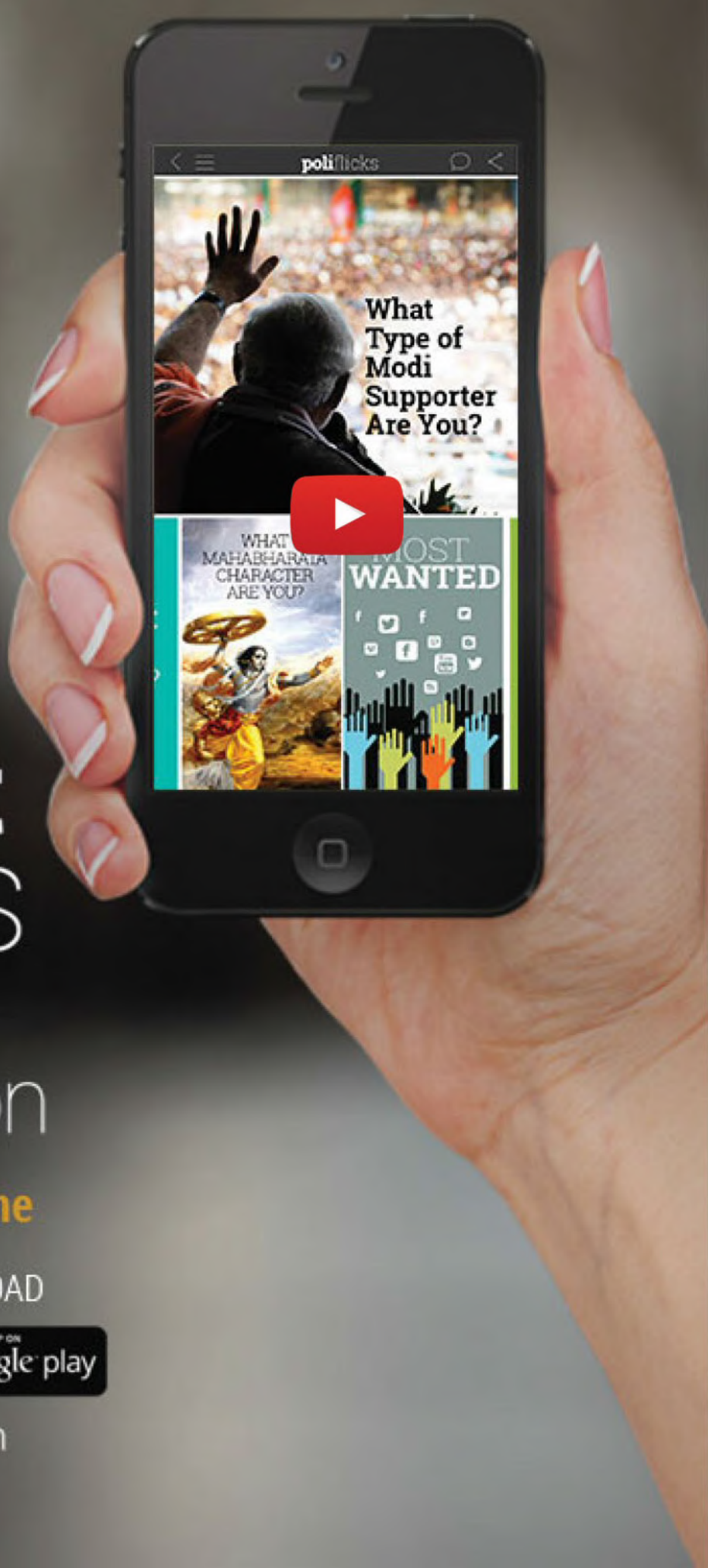


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## From the Editor

# The Bargain Hunters

Globally, businessmen and financiers with an appetite for extra risk have often made fortunes by buying and selling both distressed debt and distressed assets. Wilbur Ross, Jr., a Manhattan-based investor, with an estimated net worth of over \$3 billion, for example, makes his fortune by buying bankrupt or near-bankrupt steel plants, coal mines and textile mills in the US and then turning them around. Paul Singer, founder of Elliott Management, is another billionaire who has made his fortune largely by buying distressed debt of both corporations and countries and then fighting aggressively in court to make super normal profits. His latest battle, when he bought the debt of Argentina at a fraction of its original value and then insisted that he should be paid in full even though the country had cut a deal with other creditors to pay less, made headlines across the globe. Elliott and others, who specialise in distressed country debt, are often called vulture funds because they swoop in on countries that are in serious trouble.

In India, distressed assets have been bought and sold, though not at the same scale as it happens globally. The story goes that Ranbaxy came to Bhai Mohan Singh when the original founders could not pay back a loan they had taken from him. The Indian government has also occasionally sold off public sector companies that were ailing to private players.

A market for pure distressed debt secured by underlying assets, though, did not exist until the last NDA government tried to create a formal mechanism by passing the Securities and Asset Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002. It led to the creation of asset reconstruction companies (ARCs) that could take over non-performing assets on the books of banks that were willing to sell. However, despite its good intentions, nothing much happened on the ground in terms of sale and purchase of distressed loans until Raghuram Rajan became the RBI governor. In fact, the mounting bad loans and capital challenges in the PSU banks also created a fertile ground for sale to ARCs.

Rajan has been pushing the PSU banks to clean up their books, and this has led to a greater willingness to sell. Simultaneously, there is an increased interest in picking up these assets and private players have entered the asset reconstruction arena. In the past two years, assets worth ₹1,02,068 crore in terms of book value have been picked up by ARCs at a price of ₹43,243 crore and the market is picking up pace.

There is still much that needs to be done before Indian financiers can make the kind of money that international players do. A proper bankruptcy law would help greatly as would a better market for corporate bonds. The finance minister has already talked of both in his last Budget speech, and I suspect they will happen in due course.

Our cover story this issue looks at the players and how the market is shaping up. Meanwhile, as we go to press, we have seen both the Greek default as well as a crash in the Chinese stock markets. To check out the effect of the Greek crisis on global markets, see "Graphiti" on page 28. And closer home, how will the Chinese situation affect India? On page 22, read about the reasons for the crash in our Beijing correspondent Ananth Krishnan's story, and the possible impact in Dr Ashok Desai's column (page 26).



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Vol. 24, No. 15, for the fortnight July 20 to August 02, 2015.  
Released on July 20, 2015.

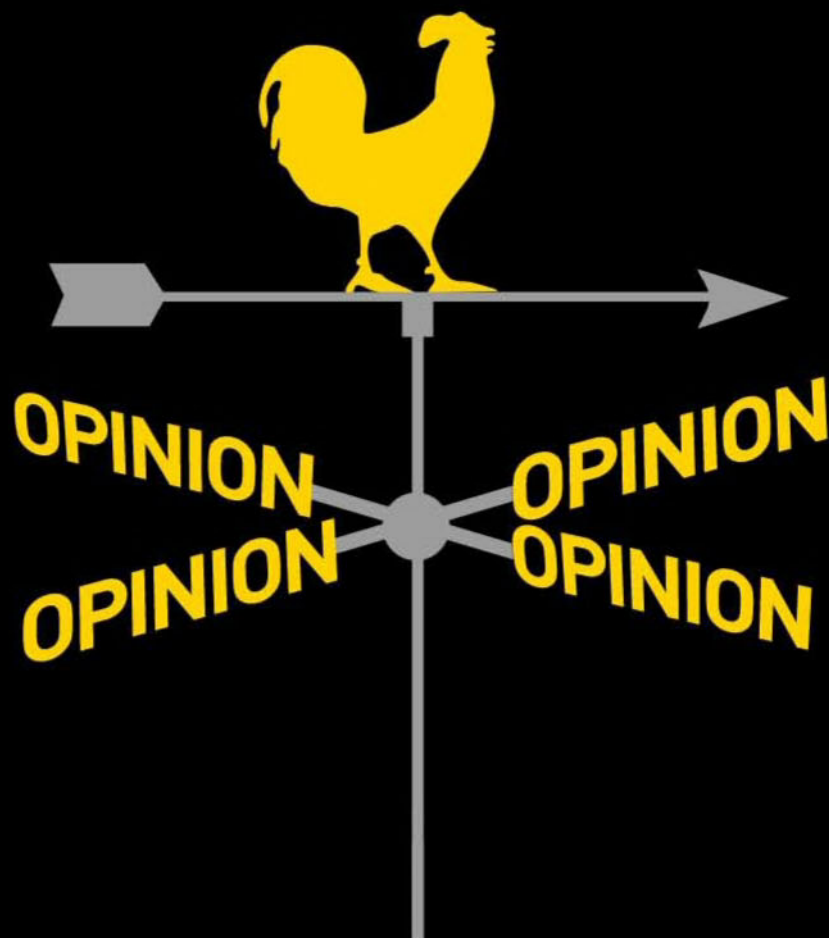
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### Emerging Giants

This refers to your cover story on companies that grew rapidly in a slowing economy (*Growth Warriors*, July 19). It was worth highlighting the performances of the 18 listed and unlisted companies, which shows how they identified growth avenues in a volatile business environment, and how these entrepreneurs, with innovative ideas, boldly swam against the recessionary tide. Kudos to the BT

team for bringing out such a fascinating article.

**Abhinav P.,** New Delhi

### Cellphone Growth

This refers to your article on mobile phones (*Making a Good Call*, July 19). The acclaimed "Make in India" and "Digital India" initiatives must be tempered to lend space for green-field projects and accelerated productivity of the existing facilities towards the promotion of Indian MNCs in this sector. Indian mobile companies must be given tax holidays and there is a need to facilitate with a single-window service, extending liberal countenance during gestation. These companies must deepen their R&D endeavours to have an edge in aesthetic outlook, elegant design, vibrant functionality and other value-added features, over others. They must tie up with service providers and customers to create a win-win situation. The mobile segment must be given due importance by policy-makers to take the country on an enviable fast growth trajectory.

**B. Rajasekaran,** Bangalore

### Power Debts

This refers to your article on the power sector (*A Glass Half Full*, July 5). It is a matter of shame that even today households remain plunged in darkness endlessly. Various power generation projects have hit the ground running, and investment flow in the sector has increased in the past year. Coal auctions and low crude prices should have actually benefited these companies. So, if everything is falling in place, why are they still not being able to deliver? Clearly, it is more of a managerial issue now, considering the huge debts power companies are still reeling under. It is time for them to come of age, bring in fresh blood, overhaul and reinvent themselves. Also, focus should shift on curbing leakages, preventing theft, ensuring payments and sourcing supply at the right prices. These companies should now start investing in renewable projects as they are bound to give massive returns in the long run.

**Gaurav Gupta,** Pune

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BRICS bank to set its own standards; no rivalry with others, says NDB President K.V. Kamath. It can become an associate of IMF.  
- **M. Ramanathan,** @ramanathanmuth7

Greece seeks three-year loan deal from EU to avert collapse. It is better for euro-zone to accept the proposal and save EU from collapse. - **Dr Radha Mohan Agrawal,** @AgrawalRMD

Global crude oil price falls to \$56 per barrel on Greece, China impact; India gains. But still petrol prices in India don't reduce. - **Veer Pratap Singh,** @Veer\_vin



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Strategic Industrial Relations	Pranabesh Ray	July 20 - 24	XLRI
Communication Skills for Effective Managing	Fr. Francis Peter, S.J	Aug. 10 - 13	XLRI
HR Business Partnering	Gloryson R B Chali	Aug. 17 - 20	XLRI
Business Analytics for Managers	P C Padhan	Aug. 17 - 21	XLRI
Branding through Customer Centric Management for Enhancing Growth & Profitability	Sanjay Patro	Aug. 24 - 27	XLRI
Emotional Intelligence and Interpersonal Skills	E S Srinivas	Sept.1 - 3	Bangalore
Business Analytics	SK De & Girish Punj	Sept.7 - 9	Bangalore
Strategic Management for Business Leadership	Sharad Sarin	Sept.7 - 9	XLRI
Assessor Certification Program on Assessment Centre Approach to Competency Mapping	R K Premarajan	Sept.7 - 11	Mumbai
Internal Marketing for Organisational Effectiveness	Sanjay Patro	Sept.14 - 17	XLRI
Finance for Non-Finance Executives	Santosh Sangem	Sept.14 - 18	XLRI
Managing Training: Design, Delivery and Impact Assessment	M Srimannarayana	Sept.21 - 25	XLRI
Basic Leadership Skills	Fr.S George & ISF Irudayaraj	Sept.21 - 25	XLRI
Teamwork Competency for High Performance	M G Jomon	Sept.23- 26	XLRI
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[businesstoday.in/futuregenerali-sabharwal](http://businesstoday.in/futuregenerali-sabharwal)



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**PSBs Pay Better**  
**Roopank Chaudhary** and **Aditya Nanavaty** of McLagan, explain why public sector banks are the ideal paymasters.

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## GADGET REVIEW

### Asus Zen Power

A sturdy design and good storage life make it a good buy

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### Indian Pharma Industry's Oliver Syndrome

**E. Kumar Sharma** says Indian policymakers have, almost every time, fallen short of expectations of the drug makers.

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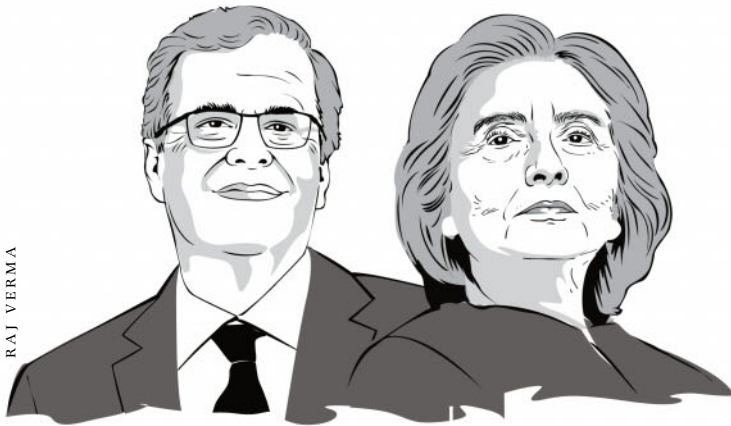
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## BUSH BUSINESS

**US Presidential elections**, due next year, may turn out to be a show of financial transparency. Republican candidate Jeb Bush released 33 years of tax records that traced his path to a net worth of between \$19 million and \$22 million, reports Reuters. The pressure is now on Democrat Hillary Clinton and Bush's Republican rivals to declare their wealth. Hillary and husband Bill, the former president, said they had earned more than \$25 million for delivering 104 speeches since 2014.

## PALACE POLITICS

**Rajasthan** politics is usually full of royal intrigue, and its palaces usually hog the limelight on the tourist circuit. In a departure of sorts, **Dholpur Palace**, known as the luxurious Raj Niwas Palace Hotel, is in the eye of the Lalitgate storm in Rajasthan. The opposition Congress claims it is government property and backs it up with Archaeological Survey of India documents. The BJP claims it was stamped as a royal property by the UPA regime.



In the largest **corporate settlement in US** history, BP Plc will pay this amount as penalty to the US government and five states to resolve nearly all claims related to the deadly Gulf of Mexico oil spill in 2010. The payment, to be approved by the courts, will be over 18 years. The rig explosion, the worst offshore oil disaster in US history, killed 11 workers and spewed millions of barrels of oil onto the shorelines of several states for nearly three months. BP shares jumped more than five per cent in New York trading immediately after the announcement.

## DRAGON ON A ROLLER COASTER

**The stock market crash in China** overshadows the crisis in Greece. The numbers in a nutshell...

**\$3.25**  
TRILLION

Chinese stock market losses since June 12

**\$238.02**  
BILLION

Greece GDP 2014

## MAMATA AND ACHCHE DIN

Back home, West Bengal Chief **Minister Mamata Banerjee** is preparing for *Achche Din* ahead of the state polls next year by ending a decade-old informal freeze on mass recruitment. She has announced a plan to hire 1.2 lakh peons and clerks, besides 70,000 teachers. The opposition is tongue-tied as no one can dare question this profligacy just before the polls. The move is estimated to cost up to ₹304 crore a month (₹154 crore on teachers, ₹84 crore on Group C and ₹66 crore on Group D staff). This will inflate the state's salary bill by 7.5 per cent.



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21

## ALL EYES ON SIKKA

**WHAT:** Quarterly results of Infosys

**WHEN:** July 21

**WHAT TO LOOK FOR:** The software industry is eagerly waiting for the first quarter results of Infosys to find out how it has been performing under its first non-founder Chief Executive Vishal Sikka. Wipro will reveal its numbers on July 23. India's top IT companies had posted disappointing numbers in the third and fourth quarters of 2014/15, and TCS showed muted growth this quarter.



RAJ VERMA



21 - 13

## HOUSE NOT IN ORDER

**WHAT:** Monsoon session of Parliament

**WHEN:** July 21 to August 13

**WHAT TO LOOK FOR:** The Modi government is set to face a determined Opposition on Lalitgate, which may throw a spanner in the works of its plans to push a strong legislative agenda. The Centre is looking at getting at least 17 Bills cleared by both Houses and will require cooperation from all parties. The land acquisition, real estate, and Goods and Services Tax legislations, which are being examined by parliamentary committees, are crucial to its reforms push.

20 - 21

## COUNTING ON LABOUR

**WHAT:** Indian Labour Conference

**WHEN:** July 20, 21

**WHAT TO LOOK FOR:** The conference is being held for the first time in over two years. Prime Minister Narendra Modi is likely to address the inaugural session of the 46th session of the ILC. The meet is being organised against the backdrop of a looming strike threat by trade unions opposing the Centre's September 2 labour law proposals, especially the one regarding easing of norms for hiring contract workers.



15

## OFFLINE ON ONLINE

**WHAT:** Centre-State meet on e-commerce

**WHEN:** July 15



**WHAT TO LOOK FOR:** The Commerce and Industry Ministry will discuss foreign direct investment in e-tailing and relevant tax issues with representatives of state governments. The sector's market size in India is estimated at around \$5 billion annually. Global retail giants, including Amazon, along with domestic players want the government to relax foreign investment norms for e-commerce.



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# FOCUS

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## Packet Loss for e-India?

The sheer scale of the Digital India programme and the coordination it requires from both the government and private players may throw it off track. By GOUTAM DAS

**Digital India is essentially a pulling together of older schemes. It is a repackaging of the UPA government's programmes**

Around March 2014, Devendra Verma, a US-based venture capitalist (VC), and the co-founder, Chairman and CEO of Hindustan Semiconductor Manufacturing Company (HSMC), was elated. The Union Cabinet had approved two semiconductor manufacturing facilities, one of which happened to be his Gujarat project at a cost of ₹29,013 crore. "Our chips can be used at least for government products that are manufac-

tured in India," Verma had told *Business Today* back then.

Nearly 15 months later, the script appears to have gone a bit awry. Verma faces a billion dollar question from his investors: "Who is your customer?"

The company does not have an anchor customer yet and all the Indian electronic product companies Verma has approached till now seem to be happy importing chips from overseas. A large multinational has

also refused him business saying their fab labs in China and Korea are yet to achieve their desired capacity utilisation. However, Verma is not giving up yet, and wants government to do more.

Part of Prime Minister Modi's recently-launched Digital India programme will be crippled if domestic manufacturers do not source electronics locally – one of the stated targets of the programme is to achieve 'net zero imports by 2020'. According to the India Electronics and Semiconductor Association, the Indian Electronic System Design and Manufacturing (ESDM) market will grow from \$76 billion in 2013 to \$94 billion in 2015. The industry is expected to touch \$400 billion by 2020.

However, local production and services is estimated at only \$100 billion. This implies a demand-supply gap of \$300 billion. The target of zero imports, therefore, is an arduous one, and is unlikely to be achieved unless the government figures out a way to coerce manufacturers into buying domestic components.

That's a tough ask. Also because Digital India, rather ambitiously wants to stitch many existing schemes from different ministries as well as departments to "prepare India for a knowledge future". It will rest on nine pillars. Apart from electronics manufacturing, there are broadband highways, universal access to phones, public Internet access programme, e-Governance, electronic delivery of services, information for all, jobs and, what the government calls, 'early harvest programmes'.

But since Digital India is essentially a pulling together of older schemes it is also a repackaging of the UPA government's programmes: Old wine in a new bottle. But, it takes a lot of good beer to make great wine – goes an old saying.

Let us sample some of the good beer brewed by the UPA which Prime Minister Modi now seeks to leverage. Although execution was a challenge, the UPA government's policies were steps in the right direction. In 2006, it approved the National e-Governance Plan (NeGP) that comprised 27 mission mode projects. Two important transformations here were the Passport Seva Project in 2010 and the MCA21 project, launched by the Ministry of Corporate Affairs to facilitate e-filing. Similarly, the concept of a unique identification was first discussed in 2006 and the Unique Identification Authority of India (UIDAI) was set up in 2009. Nearly, 82 crore Aadhaar numbers were generated by April 2015. The UPA government also had a vision for rural broadband. The government, in 2011, had approved setting up of the National Optical Fibre Network (NOFN) to provide connectivity to 2.50 lakh Gram Panchayats at 100 Mbps bandwidth, each. And in 2012, the Cabinet had approved the National Policy on Electronics with a target to boost domestic manufacturing and cut imports.

Announcements of investments by industry leaders made juicy headlines during the launch of Digital India – but that, too, were mere optics. Not all of it is fresh money; most of the investment and employment plans had already been frozen much ahead of the campaign.

Overall around ₹4.5 lakh crore worth of projects related to Digital India were pledged. Reliance Industries Chairman Mukesh Ambani had said he would invest ₹2.5 lakh crore in the rollout of wireless broadband infrastructure, among others. But a year ago, in June 2014, Ambani announced that its 4G services company Reliance Jio Infocomm would commercially launch the services in 2015, which involved investments of



AIJAY THAKURI



₹70,000 crore. In a report released in June this year, brokerage house Kotak Institutional Equities said it expects Reliance to make \$17 billion of cumulative investments in telecom by 2016/2017.

Kumar Mangalam Birla, Chairman of the Aditya Birla Group, said that Idea Cellular would invest \$7 billion over the next five years in network roll out. But the company had already planned its capex of around ₹5,500 crore for 2015/2016 a while back. Cyrus Mistry, Chairman of Tata Sons, said that Tata Consultancy Services would hire 60,000 IT professionals this year. However, the HR head of TCS, Ajoy Mukherjee, had earlier announced the company's hiring plans, soon after TCS had announced its fourth quarter results in April.

### The Big Idea

So what's new? There are disparate investments by private companies and the government. Different programmes run in isolation. The big idea is to make them part of a larger goal. The idea of an umbrella programme, says the government, will make this mission "transformative".

The hope is that the participating agencies and companies will rally behind a central theme. Programmes in India lose energy and a central theme with better monitoring may just keep them going. The government is likely to hunt for common linkages and probably standardise many e-governance initiatives, for in-



**PRIME MINISTER NARENDRA MODI'S DIGITAL INDIA PROGRAMME WILL BE CRIPPLED IF DOMESTIC MANUFACTURERS DO NOT SOURCE ELECTRONICS LOCALLY**

it. There are no applications, no content to consume. Dr Sumit Chowdhury, former president of Enterprise Business at Reliance Jio, clubs a set of applications that could work under the term 'Utopian Digital Village' – it must be a set of common cloud-based applica-

stances. That way, many states will have a shorter learning curve.

Transformations, which involve cultural change, are never easy. The breadth of things the programme wants to cover makes it even more complex. Take the case of NOFN. The programme, under the UPA government, was progressing at a snail's pace and the present government may speed it up. But, what next? Without reliable power supply, NOFN will be ineffective. Even if the 2.5 lakh Gram Panchayats are lit up with broadband, villages today have no clue about what to do with

tions delivering bookless schools, doctorless clinics, paperless commerce, and a cashless economy.

And, here comes the second bottleneck. Who is going to invest in creating these applications? The private sector may not be interested in a public private partnership (PPP) – projects in the villages may not be commercially viable. Som Mittal, the former president of NASSCOM and part of an expert committee constituted by the Department of Telecommunication on NOFN earlier this year, thinks there will be a problem even in funding the infrastructure to connect the villages. The initial budget for NOFN was

### WHAT IS DIGITAL INDIA?

1. An umbrella programme covering many departments
2. Weaves together a large number of existing ideas and schemes
3. The programme has nine pillars
4. It is coordinated by DeitY and is implemented by the government
5. The Prime Minister is the Chairman of the monitoring committee

**THE HOPE IS THAT THE PARTICIPATING AGENCIES AND COMPANIES WILL RALLY BEHIND A CENTRAL THEME TO MAKE DIGITAL INDIA A SUCCESS**

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around ₹20,000 crore. Today, it would cost ₹70,000 crore because of a new architecture recommended by the expert committee.

There is another reason why the private sector may not be interested in funding such projects. According to NASSCOM, about ₹5,000 crore in contract payments to technology companies are still stuck with the government from previous projects. The Goods and Services Tax Network (GSTN), a company formed to provide the technology backbone for India's most ambitious indirect tax reforms, recently discovered the cynicism when it went scouting for vendors. GSTN had to meet IT industry representatives many times before it could convince some to participate in its requests for proposal.

## Structural Issues

Other issues in the roll out of Digital India are more structural. The government may not have the institutional capacity to execute a programme of such massive scale.

*Business Today* recently spoke to the former Minister of State with the Ministry of Information Technology and Communications Milind Deora. He listed many issues that could throw a spanner in the works – lack of a stand on net neutrality, no mention of The Electronic Delivery of Services Bill, 2011 (which required public authorities to deliver all public services electronically within a maximum period of eight years), lack of clarity on privacy, cyber security, and limited human resources capacity in the government.

Not all of what Deora is saying is about taking potshots at the government. It will indeed be a challenge to monitor the whole pro-

## TARGET BY 2019

1. Broadband in 2.5 lakh villages, universal phone connectivity
2. Net Zero imports by the year 2020
3. 400,000 Public Internet Access Points
4. Wi-Fi in 2.5 lakh schools, universities; and public Wi-Fi hotspots for citizens
5. Digital Inclusion: 1.7 crore trained professionals for IT, telecom and electronics jobs
6. Job creation: 1.7 crore direct and, at least, 8.5 crore indirect jobs
7. e-Governance and eServices across all state and central government departments
8. Digitally empowered citizens – public cloud, Internet access

gramme. In the current governance structure, a monitoring committee, chaired by the Prime Minister, will oversee the execution. The Finance Minister, Minister of Communications and IT, the Minister of Resource Development, Ministry of Human Resource Development, and Ministry Health would constitute the rest of the committee. Special invitees would include the Principal Secretary to the PM, Cabinet Secretary, Secretaries of Expenditure, Planning, DoT and Posts, as well as the Secretary of the Department of Electronics and Information Technology (DeitY).

That's a powerful club but to execute a vision of this scale, one would require more professional programme management skills, and a body that can coordinate across ministries and states.

The government realise some of its limitations. DeitY's website has a presentation on Digital India and it must have been prepared by a brutally honest babu. The human re-

source issues Deora hinted at are listed in bullet points. "NIC (National Informatics Centre) – not equipped for a fraction of this task"; "DeitY – needs programme managers – at least four more officers at senior levels"; "Ministries – Need a Chief Information Officer or Chief Technology Officer".

The last slide of the presentation has India's 2014 global ranking on the ease of doing business – No. 134. If the grandiose plans are executed properly, the Digital India initiative could well help the country salvage its reputation. ♦

**THE CENTRAL GOVERNMENT MAY NOT HAVE THE INSTITUTIONAL CAPACITY TO EXECUTE A PROGRAMME OF SUCH MASSIVE SCALE**

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## Bears in the China Shop

The recent unprecedented crash in the Chinese stock market has dented investor confidence. By ANANTH KRISHNAN

AIJAY THAKURI

China is waging an uphill battle to restore battered investor confidence after an unprecedented crash in the stock market wiped out one-third of its value – close to \$4 trillion – in a matter of three weeks. While the stock market crash is unlikely to have a prolonged impact on the al-

ready slowing down Chinese economy, experts in Shanghai and Beijing say that a Chinese economy that is in flux will certainly have a bearing on the region on account of falling demand for commodities and an increasingly uncertain future for Chinese financing of overseas projects as banks at

home begin to grapple with a new reality.

The crash in the benchmark Shanghai Composite Index – which fell on July 7 to a low of 3,507, down by a remarkable 32 per cent from a high of 5,166 on June 12 – prompted a panicked government intervention: a six-month moratorium on selling stocks for any investor who owned stakes of more than five per cent of a stock, coupled with a halt on trading for more than one-third of all listed companies who were faced with margin calls.

The collapse followed a record-breaking bull-run: only in November 2014, the Shanghai index was at 2,400 before a government-encouraged campaign to boost the market, in part motivated by a long-term plan to push state-owned enterprises to go to the market to address persisting debt problems.

“The bull market was a classic asset bubble,” Oliver Rui, Director of the CEIBS-World Bank China Centre for Inclusive Finance in Shanghai, told *Business Today*. This was fuelled by a combination of government stimulus and “investor frenzy”. “Unfortunately, highly-leveraged greedy individual investors hijacked this initiative,” says Rui. As the government last month moved to clamp down on debt-fuelled margin trading, the sell-off began. “That is what caused the market to panic,” he adds.

On July 8, a record 112 billion yuan (around \$18 billion) was unloaded by traders, capping two weeks of losses. The government’s intervention – which included directing brokerages to buy billions of yuan worth of stock and routing 260 billion yuan (around \$42 billion) from the state-controlled China Securities Finance Corporation, besides enforced restrictions on selling – prompted a rebound on July 9, with the Shanghai index

rising by five per cent.

## Uncertain Future

The mini-rebound notwithstanding, China’s stock market faces an uncertain future. For one, the government intervention has dented the credibility of a market already famous for its rollercoaster swings.

The Chinese stock market is somewhat unique in the predominance of retail investors. As much as 84.1 per cent of investors have account balances less than 100,000 RMB (₹10 lakh) and 10.39 per cent have balanced between 100,000 and 500,000 RMB (between ₹10 lakh and ₹50 lakh), says Rui. Many of the

90 million investors on the Shanghai stock market are new entrants, prompted by the bull-run of the past year.

Only six per cent of them have a college degree.

The consequence is a market that is not often the most accurate reflection of what is happening in the real economy. In November, when China was grappling with a slowdown – the government cut annual GDP targets for 2015 to seven per cent, a target that today appears in-

creasingly challenging – the market went on a bull-run. Similarly, the current crash does not suggest that the situation of the real economy is just as dire, says Xing Houyuan, Deputy Director of the Research Institute run by China’s Ministry of Commerce. “Some Chinese middle class have entered the stock market to pursue immediate benefits and returns,” she says. “They have earned some money so more people now put their money into stocks. Fluctuations do not mean fundamentals of Chinese economy are not good.”

That is, however, true only up to a point. While the sell-off in Shanghai may be more a result of government tightening on margin lending – rather than a reaction to economic

**“SOME CHINESE  
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Xing Houyuan, Deputy  
Director of the Research  
Institute run by China’s  
Ministry of Commerce



indicators – the problem for the government that its intervention may have made an already opaque market further skewed. The government's move to prop up the market has



**Overcapacity in manufacturing:** Chinese workers at a textile factory at Hefei in east China's Anhui province

already likely dented China's ambitions of internationalising its yuan (or renminbi) and introducing broad financial reforms to address debt problems in the State sector.

### Impact on Region

The wider fear is that the consequences of debt-fuelled trading could spillover to the banking sector. "At the moment, it is only the stock market that faces a systematic risk. If the market is not quickly calmed, the pessimistic sentiments will spill over to the banking sector, and eventually it could affect the real economy," says Rui.

"Some insiders believe a significant portion of capital used for margin trading actually comes from the asset management products issued by the banks. Some also believe that some entrepreneurs have invested in the stock market using operating capital. The crisis could slow down the speed of deepening financial reform including marketisation of interest rate and internationalisation of the renminbi".

Since China's financial market is relatively

isolated, the impact on the region is likely to be limited beyond concerns in investor sentiment that have already been reflected in a number of Asian markets in recent days. However, if China's banking sector is pulled into the crisis, it will likely put a spanner in the spate of "going out" lending agreements that its banks have been encouraged to offer in the past year.

Last year, outbound investment from China for the first time exceeded foreign direct investment. With India alone, China signed \$22 billion worth of agreements in May when Prime Minister [Narendra] Modi visited China.

Most of these were financing arrangements, such as from the China Development Bank for the purchase of equipment by Bharti Airtel and Adani Power, and from the Industrial and Commercial Bank of China (ICBC) for Bharti Airtel and Infrastructure Leasing & Financial Services Ltd for infrastructure projects.

Beyond the stock market, the Chinese economy is also dealing with the larger problem of overcapacity in several sectors. While economist Arvind Virmani, formerly chief economic advisor to the Indian government and executive director of the International Monetary Fund, suggests that reduction in excess capacity in manufacturing in China could actually aid the global recovery, Beijing has at the same time moved to export this overcapacity through its ambitious \$ 100 billion "Silk Road" initiative.

Xing, of the Commerce Ministry think-tank, says that regarding the overcapacity problem, China's view is that this "production capacity is by no means backward so they should not be exceeded or eliminated, and if there is any need in the international market they have value".

For instance, the government is pushing new energy and solar firms, which are struggling at home because of low demand, to go overseas.

"We will upgrade our technology and industrial capacity so that we will transform our economic growth model, and at the same time transfer some competitive production capacity to countries along the Silk Road," says Xing. Whether they will be welcomed beyond China's borders is another question. ♦

**THE CHINESE ECONOMY IS DEALING WITH THE LARGER PROBLEM OF OVERCAPACITY IN SEVERAL SECTORS**

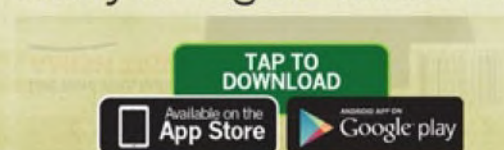
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By ASHOK V. DESAI

# China's Moment of Truth

The dragon is slowing but its declining prowess will not necessarily improve India's economic performance

**T**he Shanghai Composite index declined by almost a third in a month; then it jumped six per cent in a day. Stock markets like to leap and crash, but this is a bit extreme. It caused reverberations because it involves the Chinese economy. It grew at an annual average over 10 per cent from 1979 onwards. Such high, sustained growth is unknown in world history. At its end, China's gross domestic product, valued at the same prices (called PPP in economic jargon), was about the same as that of the United States, which has been the world's largest economy for a century. Its manufacturing value added in 2013 was a third higher than the US's. Indians may not like to dwell on these figures since our economy has been left behind but just in case we feel cheered up by the crash in China's stock market, we should worry about its global impact. The collapse of the US economy in 1929 had such widespread and per-

sistent effects that it came to be known as the Great Crash. Are we about to see a Grand Crash courtesy China?

This is not the first time that the Shanghai Composite has given the world a scare. It rose four-fold in less than a year in 2007/08, and then came down by two-thirds the next year. Shanghai Composite is not China's Dow Jones. In the year preceding the recent crash, Shanghai Composite rose about 50 per cent. Hang Seng, the Hong Kong stock index which is China's other major index, rose about 15 per cent. Shanghai Composite is not representative of the Chinese economy in the same way as Dow Jones is of the US: its stocks cover much less even of Chinese manufacturing, and its investors are relative rookies, not well-heeled, long-term investors.

The difference reflects the relative importance of stock markets in the two economies. Wall Street is the world's biggest stock

exchange, and attracts companies from all over the world. Shanghai does not even list Hong Kong companies, let alone those from the hinterland. Many of China's biggest companies are not listed anywhere; they are owned by the government. And local, unlisted companies are an important component of China's industry.

But independently of its stock indexes, the Chinese economy has been slowing down. To prevent it, the government made the banks it owns give cheap loans to their individual clients. They used the loans to invest in real estate. As a result, China has seen an unprecedented construction boom in recent years. And they invested some of the loans in shares. That led to the stock market boom in the country – whose end may be nearing.

However, what matters is the real economy. Its growth is extremely volatile; to draw some reliable conclusions, I have taken four-quarter averages.

They are close to 1.8 per cent a quarter or seven per cent a year for the past three years. That is not very illuminating. The savings ratio is equally stable, and equally uninformative. Power consumption in the first quarter of 2015 grew 0.8 per cent over the previous year, residential investment rose 2.6 per cent, while industrial investment fell 0.6 per cent. These are strong indications that China's growth has slowed down.

Its trade growth shows an even more drastic deceleration. Between 1990 and 2008, China's exports and imports grew at close to 20 per cent annually. After 2008, however, their growth rates came down to nine per cent. This no doubt has consequences within China that are not disclosed by the statistics but they must also have an impact on China's partner countries. China is a dominant market for the exports of some of its neighbours – Mongolia, Turkmenistan and North Korea – as well

*Ashok V. Desai is an economist and former chief consultant to the Ministry of Finance*

as for some African countries – Gambia, Mali, Sierra Leone and Congo Democratic Republic. Most of them also receive a high proportion of their imports from China; apart from them, China is a major exporter to Kyrgyzstan, Togo, Benin, Burma, Kazakhstan, Vietnam and Bangladesh. By and large, the countries that are

be affected, especially China's Asian neighbours, and beneficiaries of its aid. Whether the Sinic depression will be greater or smaller than some other depression is unanswerable since it will depend so much on international policy responses. What is more certain are its geographical dimensions.

When we look at the pic-

international influence today, as colonialism was in the older world. It has been and will be affected by the fortunes and strategies of the great powers. Specifically, Africa and South America have been the arenas of competition for influence between the US, EU and China; China's difficulties cannot leave their client nations un-

been poor, and not just vis-a-vis China; China's declining prowess will not necessarily improve India's overall economic performance. India's unimpressive performance in world trade and investment is due to misguided policies. Its correction requires that the policies be rethought and redesigned. In particular, Indian governments' penchant for pockets of protection within the country creates weaklings in competition. Its overall competitiveness can be improved only if the government takes a fairer stance towards competition.

Last year's election weakened one major factor that held India back, namely the inefficient, ineffectual policies of income redistribution embodied in Mahatma Gandhi National Rural Employment Guarantee Programme and the public foodgrain distribution. A further step still waits to be taken, namely greater neutrality of the government towards productive sectors and firms. China's government is only nominally communist except in one respect: it keeps away from private enterprise. The Indian government has generally been too close to the private sector, and has had favourites, such as business houses or the small scale sector. It will have to abandon this partisanship and force industry to stand on its own feet if it wants to make India a great industrial nation. ♦



**Taking stock:** Are we about to see a Grand Crash, courtesy China?

most heavily dependent on trade with China are those in Asia, especially East Asia, and in Africa, especially those with resources of use to China, and those on which its has showered aid.

The Great Depression was global. It left few nations untouched. A Chinese depression will also be widespread, since its major trade partners are the big economies of the world, especially the US, EU and Japan. But many smaller countries will also

be affected, especially China's Asian neighbours, and beneficiaries of its aid. Whether the Sinic depression will be greater or smaller than some other depression is unanswerable since it will depend so much on international policy responses. What is more certain are its geographical dimensions. When we look at the picture in this detail, it becomes clear how inadequate the stimuli the Bretton Woods institutions apply in the event of a global slowdown are. Past international downturns emanated from the Atlantic and its industrial countries, and spread to the rest of the world. A Chinese slowdown will affect its own neighbours and clients above all. There was virtually no foreign aid before the Great Depression. It has become a proliferous instrument of

touched.

China's resurrection had a strong impact on India. As China emerged as an industrial powerhouse, so did India as a net importer of industrial goods. In fact, the pattern of trade between the two replicated the old pattern between industrial and "developing" nations. China became a major investor in other developing countries, while India's foreign investment remains modest.

India's international economic performance has





# THE GREEK MELT DOWN

Greece is tottering on the brink. However, as these pages went to press, reports of Greece making conciliatory moves through proposals similar to what its referendum had rejected, brought fresh hope. Hard negotiations will follow for sure. Meanwhile, here is an account of how things panned out

Graphic by: **Anand Sinha**

Research by: **Niti Kiran**

## HOW THE CRISIS UNFOLDED

Source: IMF, RBI

**2004**

Greece confesses to misreporting of its financial data

**2009**

Fitch downgrades Greece's credit rating to '**BBB+**' from 'A'

**2010**

The Greek government approves a tough austerity package, gets financial aid package of around **\$146 billion** from IMF and European member states

**2011**

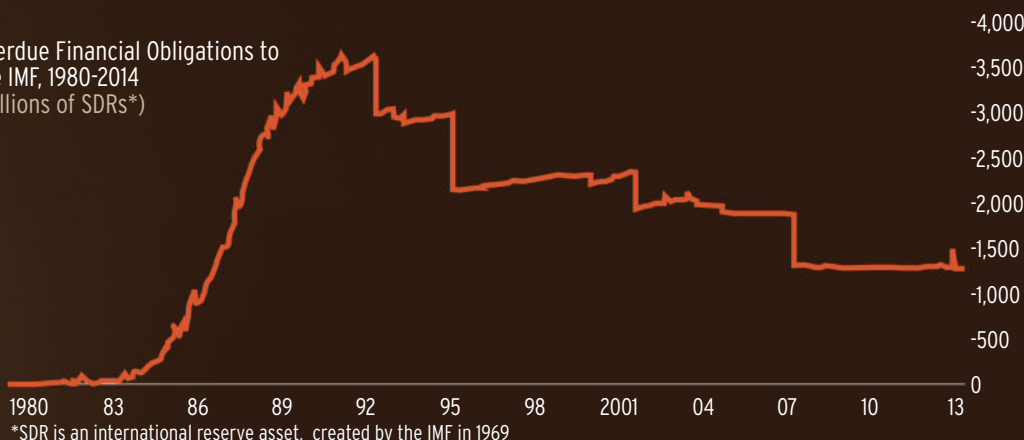
Private owners of Greek bonds accept a **50%** write-down on their investments

**2014**

Greece returns to the bond market after a four-year exile

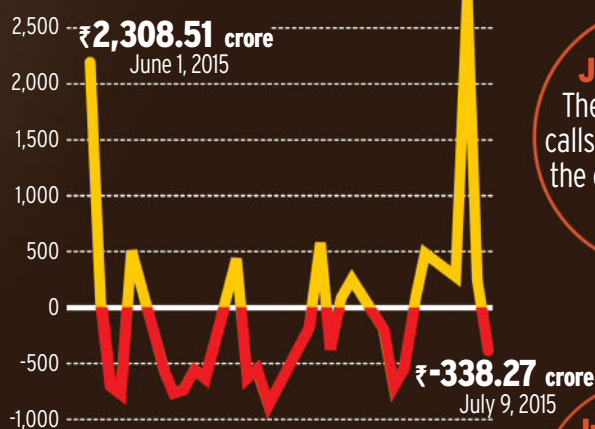
# 1 Greece, Zimbabwe, Somalia and Sudan have defaulted on payment of arrears to the IMF in the recent past

Overdue Financial Obligations to the IMF, 1980-2014 (Millions of SDRs\*)



**July 6, 2015**  
Greeks vote against fresh austerity measures in a referendum

# 2 Global investors hit the panic button. Indian stock market saw a capital outflow of over ₹3,000 crore in June

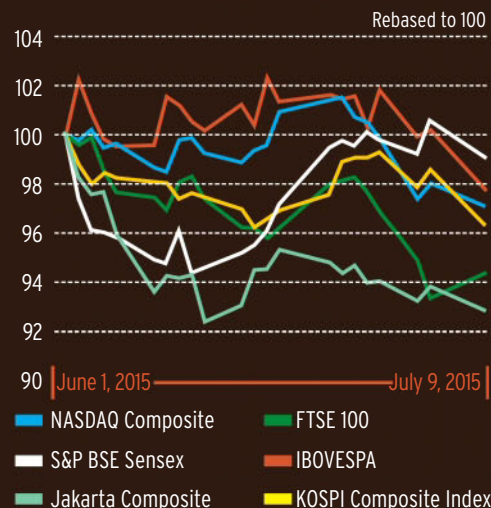


**June 27, 2015**  
The Prime Minister calls a referendum on the cash-for-reforms proposal

**June 28, 2015**  
Greece orders closure of banks for about a week

**June 30, 2015**  
The country misses its deadline for payment to the IMF

# 3 The fear is back in the financial markets. Stocks remained highly volatile across the globe

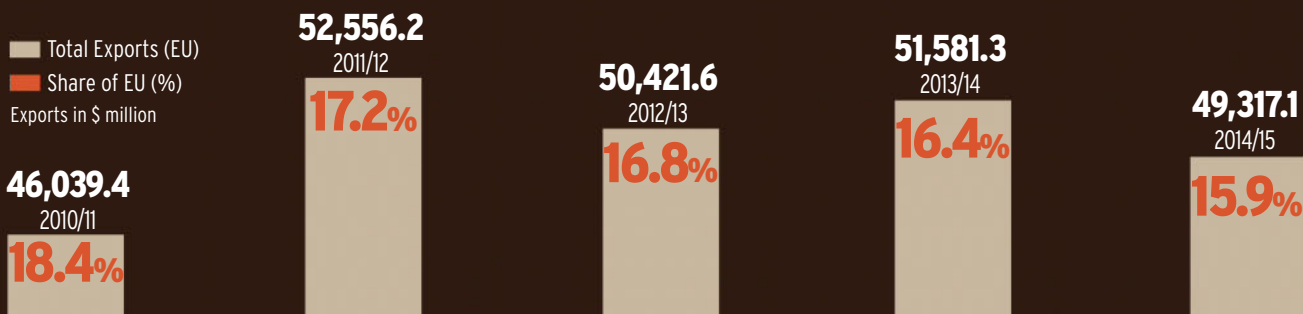


**Jan. 2015**  
Greek Prime Minister vows to end the tough austerity measures

**Feb. 2015**  
Greece secures a four-month extension of its financial rescue package

**June 4, 2015**  
The country delays a key debt payment to the IMF

# 4 India does little trade with Greece. However, if the European Union (EU) is hit, which contributes a significant share to our exports, it could be a cause for concern





**WHAT'S TRENDING**

# Hitting a Crescendo

With Apple's resounding relaunch in the music space, the tempo has changed for streaming services.

By **CHITRA NARAYANAN**

In 2003, Apple's iPod changed the way the world listened to music. Now the company is trying to stir a second musical revolution through Apple Music, which officially sounded off on June 30 with a free three-month trial. The new launch has already made Google change its beats. Just a few days before its launch, the search giant hastily added a free tier to its subscription-based Google Play Music app in the US.

Already reports are filtering in of users ditching Spotify and SoundCloud to try out Apple Music. Will it be able

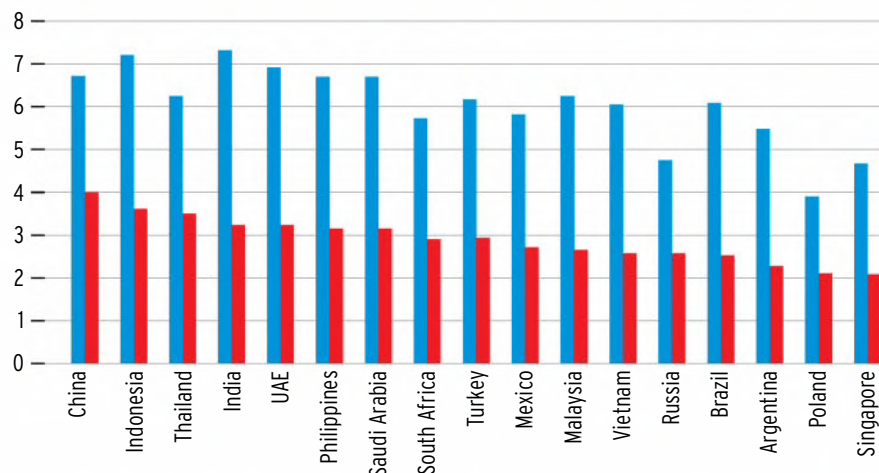
RAJ VERMA



**DIGITAL DASHBOARD**

## Multi-networking Is the New Wave

Indonesia and India lead the pack, with those in the 16 to 64 year age group having more than seven social media accounts on average. China is on top when it comes to actively using them (four on average)



to cause a mass scale migration? According to Jason Mander, Head of Trends at British consumer research firm Global Web Index, Spotify is the global leader in terms of monthly users, though in APAC, and in markets like India, SoundCloud is ahead. (Spotify isn't present in India).

So, Apple Music has to offer something beyond mere novelty value to surge ahead of the two. One big advantage for it is that with just a small software update (upgrading to iOS 8.4), Apple device users (iPhone, iPad, Mac) and even iTunes supported Windows PCs can access Apple Music. What's more, initially launched in iOS, Apple has promised an Android version shortly, which will strike a chord with Indian listeners.

Its rivals Spotify, Rdio (which acquired Dhingana and entered India), Google Play (acquired Songza last year) and SoundCloud, and our desi musical offerings ranging from Gaana, Saavn to Hungama have to work extra hard now. Apple Music launches with the advantage of the iTunes library. On the content front, it has sewn deals with most music labels, and has announced more than 30 million songs. In India, apart from T-Series, most other big music labels appear to be on offer.

Significantly, Saavn has just received a \$100 million Series C funding from Tiger Global, among others. It has now announced plans to scale up its service and also expand into video.

Looking at the initial user reviews and feedback, Apple Music's attempts at being the be all and end all of music is hitting the right note. A big plus for Apple is that it is offering not just music streaming alone, but personalises your collection (its For You feature which has soundtracks that you like is a big hit), offers live radio, has smart curation (by a human, mind you, and not an algorithm), and incorporates social sharing elements as well.

The weakest link appears to be its social element. Unlike other music streaming services, where users can follow people they know, Apple, through its Connect, has chosen to focus on users engaging with artistes, watching how they craft lyrics, see the backstage action, etc. This could end up just being a promotional platform for artistes, who incidentally are on other platforms like Twitter and Tidal as well. But with Apple Music's launch, the battle for listeners' ears is only going to get higher pitched. Stay tuned! ♦

@ndcnn

## LISTENING POST

### Viral Outbursts

Sensing opportunity in the discomfort that some people feel on Facebook or its lack of reach, two diametrically opposite social media networks have just been launched. Unhappy with the inappropriate content that is freely shared on FB often, a group of evangelical Christians in Brazil have launched a new network called Facegloria on which, they promise, you will never see posts or pictures that contain bad language or sexual references. Just a week into its launch, more than 100,000 people have signed up.

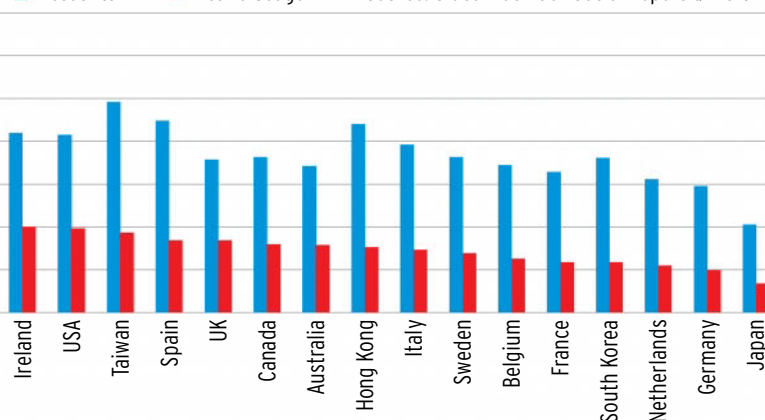
Another new network that has notched up over 100,000 users in next to no time is Plag (formerly Plague) – a social media app out of Lithuania that spreads content like a disease. Here, there is no need to follow anyone or be part of a closed circle. Instead, you get access to a free flow of content from a wide variety of people when you log in. If you post something, you can also see how it travels globally as Plag tells you the number of people and the location of the people you 'infect' with your post, who all spread it further and gives you the statistics of your message's views.



### Birthday Balloons

One of FB's biggest hit features is the birthday reminder notification. Now, Twitter wants to edge into the birthday party game, too. If you enter your date of birth details, Twitter will shower your timeline with animated balloons on your big day, and allow people to send #HBD tweets to you. Of course, there's an agenda behind it. Unlike FB, which collects personal data and is an advertiser's darling, Twitter does not really insist on real names, and so far has been a laggard in terms of ad revenues. By collecting the user's age details, it will be able to show more relevant targeted ads.

■ Accounts ■ Active Usage Source: GlobalWebIndex Social Report Q1 2015







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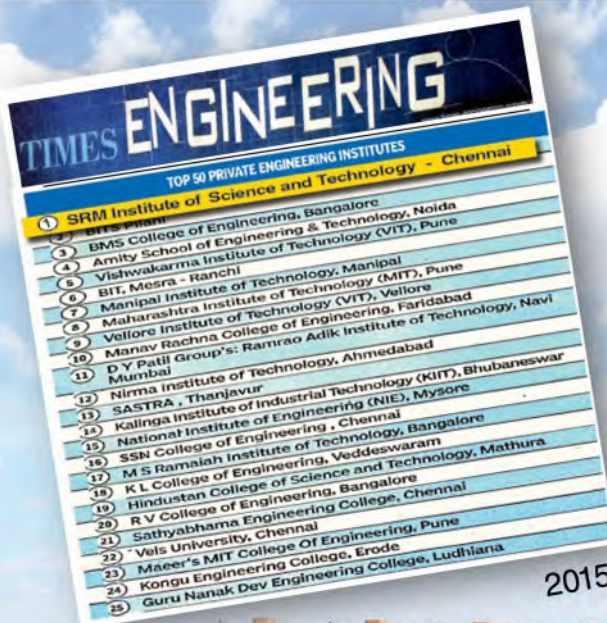
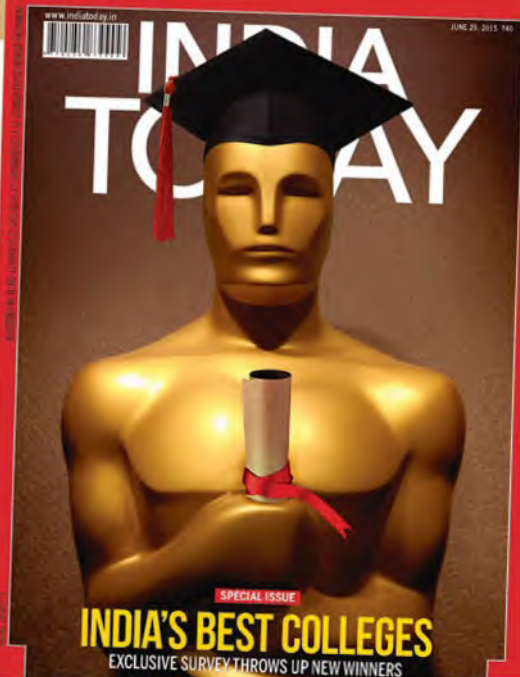
INDIA'S BEST COLLEGES THE INDIA TODAY-NIELSEN SURVEY

ENGINEERING

## TOP 20 ENGINEERING

Overall Rank  
2015 2014

					Factual rank
>	1	1	Indian Institute of Technology, Kanpur		5
^	2	3	Indian Institute of Technology, Kharagpur		3
^	3	6	Birla Institute of Technology and Sciences, Pilani		5
^	4	7	Indian Institute of Technology, Varanasi		11
^	5	9	Delhi Technological University, Delhi		4
^	6	8	Indian Institute of Technology, Jodhpur		2
^	7	10	Indian Institute of Technology, Guwahati		15
^	8	11	<b>SRM Engineering College, SRM University, Kattankulathur</b>	<b>1</b>	
^	9	16	Netaji Subhas Institute of Technology, Kolkata		7
^	10	12	National Institute of Technology, Karnataka		8
^	11	15	Government College of Engineering, Pune		11



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# Slipping Faith

Business confidence dips for the second straight quarter despite the Modi government's efforts to give a fresh impetus to the economy, finds the latest *Business Today-C fore Business Confidence Survey*. By MANU KAUSHIK

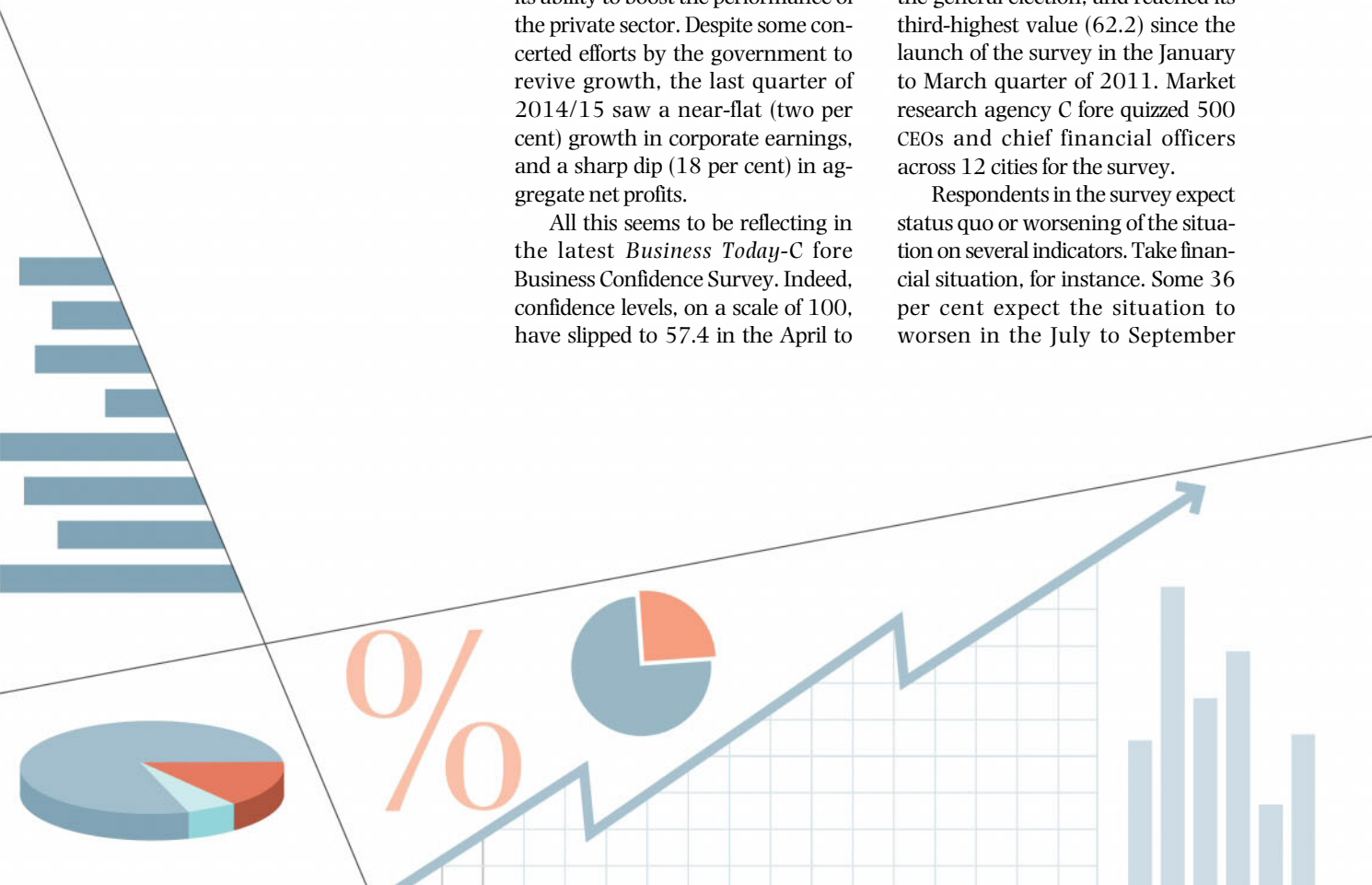
It has been a rollercoaster ride for the Narendra Modi-led NDA government over the past few months. It has surpassed expectations of corporate India on some fronts – controlling inflation and reining in fiscal deficit – but has also fallen short in many areas. The ultimate test for any government's economic prowess lies in its ability to boost the performance of the private sector. Despite some concerted efforts by the government to revive growth, the last quarter of 2014/15 saw a near-flat (two per cent) growth in corporate earnings, and a sharp dip (18 per cent) in aggregate net profits.

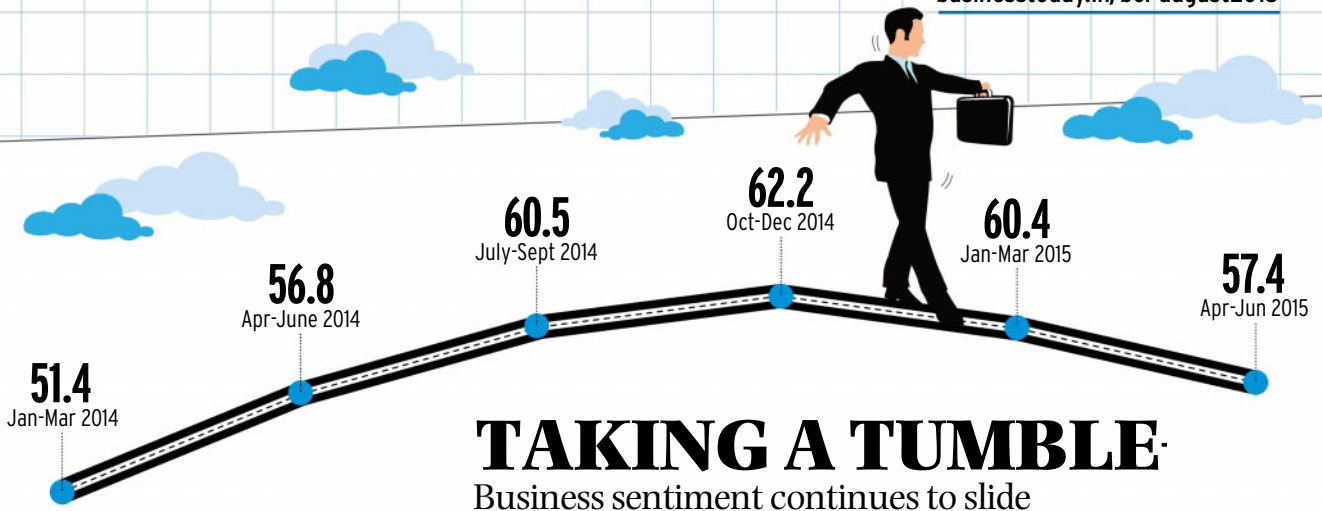
All this seems to be reflecting in the latest *Business Today-C fore Business Confidence Survey*. Indeed, confidence levels, on a scale of 100, have slipped to 57.4 in the April to

June quarter, down from 60.4 in the previous January to March period. It's the second consecutive quarterly decline in business confidence.

Business confidence index has seen a sharp upswing followed by a slump in the past 18 months. It had started improving in the January to March quarter of 2014, just before the general election, and reached its third-highest value (62.2) since the launch of the survey in the January to March quarter of 2011. Market research agency C fore quizzed 500 CEOs and chief financial officers across 12 cities for the survey.

Respondents in the survey expect status quo or worsening of the situation on several indicators. Take financial situation, for instance. Some 36 per cent expect the situation to worsen in the July to September





quarter. The corresponding figure in the last survey was 33 per cent. Similarly, more respondents (33 per cent) are concerned about the availability of finance in the current quarter as compared with the last survey (22 per cent).

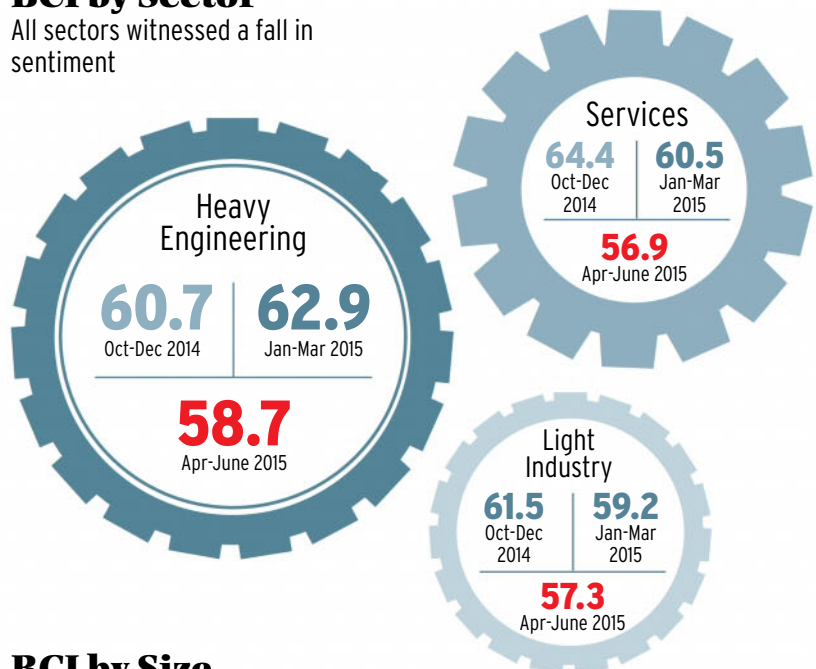
Ajay Seth, Chief Financial Officer of automaker Maruti Suzuki, says that NPAs (bad loans) in the banking system have gone up so sharply that lenders have become cautious. "Banks are likely to lend to companies with good credit ratings."

According to the survey, exports growth is another area where most respondents are pessimistic. Some 51 per cent are expecting a drop in exports in the July to September quarter compared with 46 per cent in the previous survey. In April, exports contracted by 14 per cent over the previous year. It was the fifth consecutive monthly drop in exports. "It is a reflection of weak international and domestic demand conditions," says D.K. Joshi, Chief Economist at ratings agency CRISIL.

A May 2015 report by CRISIL had pointed out that low demand, not policy, is the biggest problem for corporate India at the moment. "The investment cycle [is] unlikely to restart soon and growth recovery will be a slow process," the report said.

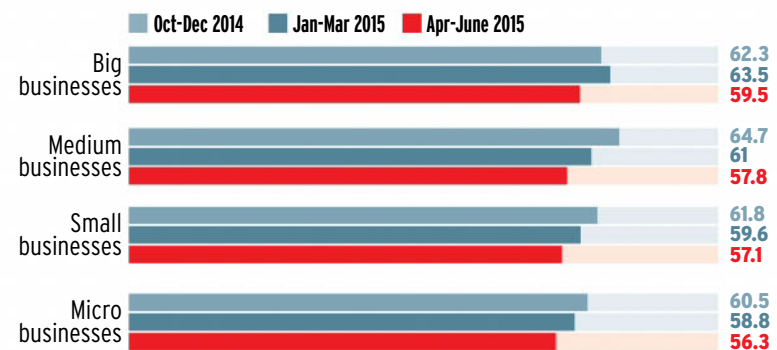
### BCI by Sector

All sectors witnessed a fall in sentiment



### BCI by Size

Confidence dipped across categories



Business Confidence Index on a scale of 100

**Big businesses:** Turnover > ₹500 crore **Medium businesses:** Turnover ₹100-500 crore  
**Small businesses:** Turnover ₹5-100 crore **Micro businesses:** Turnover < ₹5 crore





**“There is a growing realisation that the government has no magic bullet”**

**D.K. JOSHI**  
Chief Economist, CRISIL

Joshi says that since private sector investment is not picking up, the government is trying to “frontload” its expenditure budget and that could help boost demand. Some 9.1 per cent of the total annual expenditure was done in April alone. “There’s a realisation that there’s no magic bullet with the government. The recovery cannot happen with fiscal policy or interest rate cuts,” says Joshi.

More respondents (30 per cent) expect selling prices to get affected in the current quarter as compared with the previous survey. Also, a higher number of respondents (32 per cent) expect their profits to shrink in the same period.

In the current survey, only 26 per cent respondents have shown their willingness to make fresh investments in 2015. More than one-third respondents (35 per cent) had expressed their interest in making investments in 2015/16 in the previous quarter. Experts point out that this is possibly linked to under utilisation of installed capacity and lower consumption. “Corporates are still in a wait-and-watch mode. The overall demand is better than last year but the cycle has to turn,” says Seth.

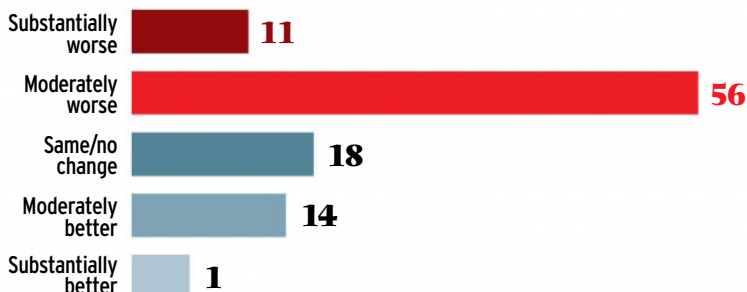
Corporate leaders are hopeful that the situation will improve in some areas. For example, 93 per cent of the respondents feel that the cost of external finance will improve or

## THUMBS DOWN

Business environment deteriorated on key parameters in the April-June quarter

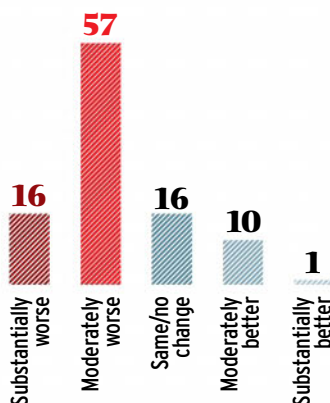
### Overall Economic Conditions

A majority felt that conditions had worsened



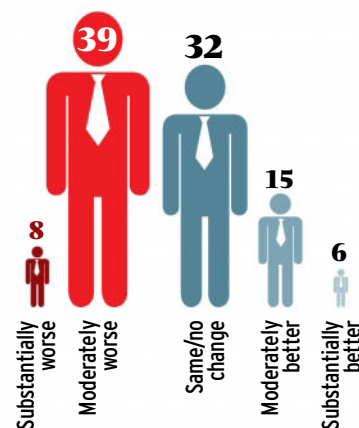
### Demand Conditions

More than two-thirds felt that the situation had deteriorated



### Hiring Conditions

Almost half said that conditions worsened

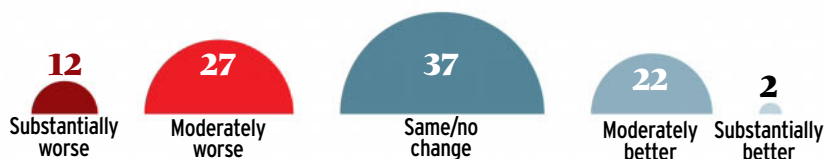


## GLOOMY OUTLOOK

Companies don't expect things to improve in the July-September quarter

### Overall Economic Situation

Only about a quarter expect the outlook to improve



Figures indicate percentage of respondents

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**“Corporates are in a wait-and-watch mode. Overall demand is better than last year but the whole cycle has to turn”**

**AJAY SETH**

Chief Financial Officer, Maruti Suzuki

remain same in the July to September quarter. In the April to June period, the figure was 88 per cent.

Also, they expect more interest rate cuts going forward. In June, a report by Citigroup said that key interest rate is likely to be reduced by another 25 basis points this fiscal with retail inflation under control.

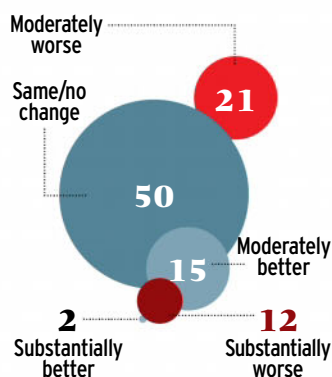
However, the last three repo rate cuts by the Reserve Bank of India (RBI) have not translated into lower lending rates for end users, both retail and corporate. Banks have resisted paring rates significantly.

The successive fall in confidence levels is a cause for concern. It should prompt the government to move faster on various fronts and make up for lost time. ♦

@manukaushik

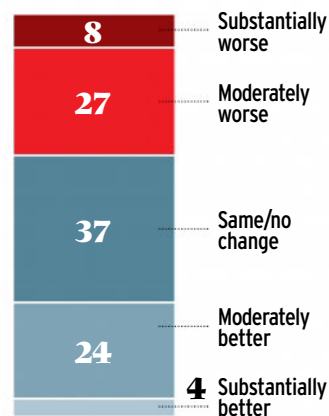
## Availability of Finance

Half see no change



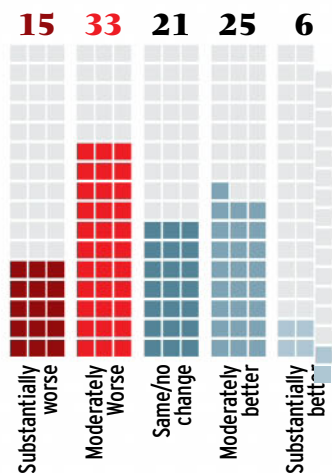
## Sales Pick-up

A third expects a deterioration



## Hiring

Half expect the situation to deteriorate



## Interest Rate Cuts

Two-thirds expect more cuts



## Investments

A quarter will make fresh investments in 2015



Figures indicate percentage of respondents

## METHODOLOGY

Market research agency C fore designed and conducted the survey, which was conducted between June 30 to July 3, 2015. A structured questionnaire was administered to CEOs or CFOs of companies. In all 500 CEOs or CFOs representing various industries in terms of sector and size were interviewed. The survey was conducted in 12 cities – namely Delhi, Mumbai, Chennai, Hyderabad, Bangalore, Kolkata, Chandigarh, Lucknow, Nagpur, Kochi, Vizag and Bhubaneswar. The companies were segmented based on their turnover and also the products offered by them. Those with turnover of over ₹500 crore have been termed as big, those between ₹100 crore and ₹500 crore as medium, those with a turnover of less than ₹100 crore as small and those less than ₹5 crore as microbusinesses.

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# DARKNESS AT NOON

The Marans' business empire is under siege.  
Will they be able to save it? By VENKATESHA BABU

**T**he MM Towers in the tony neighbourhood of MRC Nagar in Chennai hosts one of India's most powerful media companies. With its high walls, omnipresent security personnel and cameras watching the entry and exit of every individual, the headquarters of the Sun Group looks like a fortress being defended from an attack.

The threat, though, is not from competitors but from the country's current political alignments. At its peak, the group was a ₹10,000-crore giant that dominated media business in South India with its TV channels and cable/DTH business. With its 48 FM channels across the country, two daily newspapers, five magazines, an IPL franchise (SunRisers Hyderabad) and the airline, SpiceJet, it was one of the fastest-growing business groups south of the Vindhyas. However, it started losing out when DMK patriarch K. Karunanidhi – the grand uncle of owner Kalanithi Maran – was defeated in the 2011 state elections. Then, in 2014, the UPA, of which the DMK was a key member, was defeated, further eroding the group's influence.





Kalanithi Maran:  
Facing A Cloudburst



The empire, built over the past two-and-a-half decades, is now beginning to crumble. First, lack of support from state-run lenders forced Maran to sell the struggling SpiceJet to Ajay Singh, who is credited with the BJP's *Achhe Din* pitch in the 2014 elections. In fact, Singh had earlier sold SpiceJet to Maran in 2010. This pulled down the group's turnover from ₹10,000 crore to ₹4,000 crore. Now, Sun TV, the ₹2,331-crore TV business, is also being threatened. In the first week of June, there were reports that the Ministry of Home Affairs (MHA) had recommended to the Ministry of Information & Broadcasting that TV licences of the Sun Group be revoked due to "economic security interests". The threat, if carried out, will hit Maran where it hurts the most, for Sun TV is one of India's most profitable media entities and the group's cash cow. In all five southern states, except Kerala, Sun TV Network channels – Sun TV, Udaya TV, Gemini TV – are market leaders in the general entertainment category. The MHA has also denied security clearance to FM channels owned by the group. The Centre had also withdrawn the Multi System Operator licence to Kal Cables, owned by the Maran family, though the company has got relief on this from the Madras High Court. The assaults, including the earlier Enforcement Directorate notices for attaching more than ₹750 crore assets owned by him and his brother, have the potential to cripple Sun's empire.

At a personal level, the Central Bureau of Investigation (CBI) is already probing Kalanithi Maran and his brother, former Union minister Dayanidhi Maran, in a number of cases, including illegal use of a BSNL exchange installed at their residence. Dayanidhi has also been charged in the 2G spectrum allocation case.

## The Undeclared War

The Group Chief Financial Officer (CFO) of the Sun Group, S.L. Narayanan, says he was shocked when he heard about the latest MHA move and rushed to Delhi to meet officials and understand their concerns. "Nobody in this government wants to meet us. This has never been the case. In the past they might not have agreed with you but

they would meet you," says Narayanan.

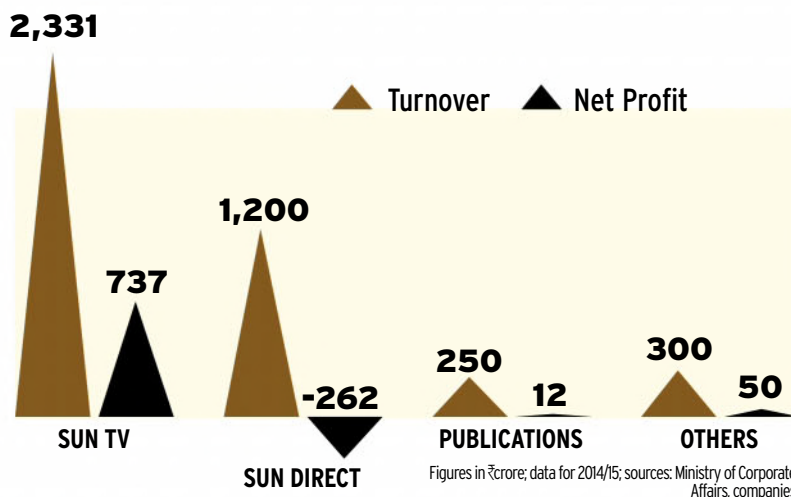
The issues Sun TV is facing are unique. This is because its fortunes are intertwined with the political associations of the promoter family. Therefore, it is important to look at these linkages and Kalanithi's early days to understand the challenges it is facing.

## Early Days

Hansraj Saxena, a college mate of Kalanithi at Chennai's Loyola College who later worked in a senior position at the Sun Group, remembers him as an above average student. Saxena had campaigned for Kalanithi when he ran for and won the presidentship of the students' union. It helped that he came from a pre-eminent political family. For Kalanithi's grandmother, Shanmuga Sundari, had brought up not only her son, Murali Maran, but also her brother, M. Karunanidhi. While Karunanidhi was known as Kalaigarnar (artist), Kalanithi's father was a man of letters, running the party newspaper, *Murasoli*.

By the time Kalanithi graduated with a commerce

## FIGURING IT OUT: Television remains the cash cow



**NOTE 1:** Except for Sun TV, the other group entities are not listed

**NOTE 2:** Other businesses include distribution, import-export, a call centre and other ancillary services

## Major Cases Against the Maran Brothers

1. The CBI has accused them of receiving hundreds of crores for help in takeover of Aircel by Maxis
2. The brothers are accused of installing a BSNL exchange at their house during Dayanidhi Maran's stint as telecom minister and using it to benefit the Sun Group
3. A money laundering case has been filed by the Enforcement Directorate
4. Dayanidhi is an accused in the 2G spectrum allocation case



NILOTPAL BARUAH

"Kalanithi is  
hardworking and prefers  
to keep a low profile"

**HANSRAJ SAXENA**, Former Deputy COO, Sun Pictures

degree and went to do MBA from the University of Scranton in the US, his grand uncle had been the chief minister of Tamil Nadu for a few terms. The father, too, was a Member of Parliament. The family also ran a few publications under Sumangali Publications.

After returning from the US in 1988, for two years, Kalanithi learnt the ropes of the media business and ran Poomalai, a video magazine on the lines of Newstrack, before deciding to enter the television business. He launched Sun TV in 1993.

### TV Takes Off

Kalanithi realised early on in his TV career that original programming was expensive. So, Sun TV bought TV rights for a large number of regional movies. Also, while others commissioned programmes, telecast them and earned from advertising, he turned the model upside down. Anyone could buy a slot on Sun TV and telecast content by paying a fee. This meant Sun did not have to hire people for programming and selling advertising time. "This looks like a

no-brainer. However, Kalanithi pioneered it in India. He converted his weakness, lack of 'formal' capital, into strength," says a former employee of Sun TV who did not wish to be identified.

Getting a transponder and programming is only the first step in the business. The next, setting up a distribution network, is more challenging. This is because money and muscle power rule the roost here. It is where the DMK and family links came in handy. With the patronage Kalanithi received from the DMK's first family, Sun was able to quickly roll out Sumangali Cable Vision (SCV) across the state. At the time it operated from Anna Arivalyam, the DMK headquarters in central Chennai, and shared the party's logo of rising sun for its channels.

Did Kalanithi succeed just because of his political links? A former associate who studied with him and did not want to be identified says if he was riding merely on the DMK's coat-tails, his success would have been restricted to Tamil Nadu. "He expanded all over south, buying channels in Telugu and Malayalam, offering a single platform for advertisers. He bought rights for most film libraries in the south before most people realised their value," he says.

However, the managing director of a major competitor says Sun's success was mainly due to two reasons. First, the near monopoly in distribution through SCV initially and backing from the DMK. Second, the ruthless manner in which competitors were stifled. There have been reports of Sun using its distribution network to kill competition. For instance, if it felt that a channel was becoming a competition, it would lose audio when beamed into homes. Also, the cable TV operator would change the position of the channel at regular intervals. It helped that during the early phase of the company, the DMK (1996 to 2001 and 2006 to 2011) was in power in the state.

Saxena, a one-time confidant and deputy COO of Sun Pictures, who has known Kalanithi for nearly three decades, says: "He is hardworking, not a party animal and is rarely seen at public events, preferring to keep a low profile. Yes, he has a temper, but only when crossed."

When Murasoli Maran died in 2003, Karunanidhi said that he had lost his "conscience keeper". However, the Maran brothers decided to carry forward their father's political legacy. Kalanithi would look after the family's commercial interests while Dayanidhi would look after the political interests, says a former employee.

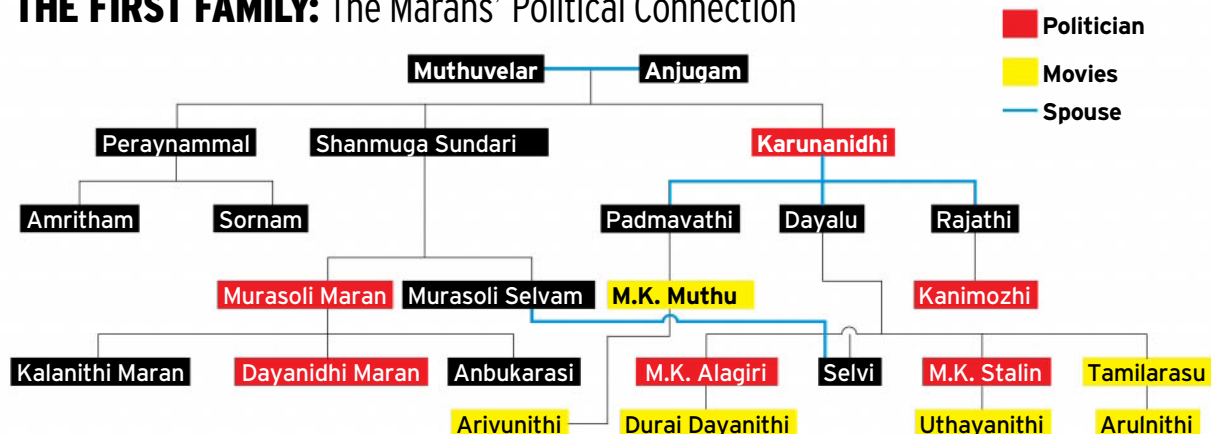
In 2006, Sun TV decided to list and raised ₹600 crore from the market. Just when everything seemed to be going well, the group faced its first big crisis.

### Second Coming

In 2007, *Dinakaran*, a newspaper owned by the Marans, published a survey promoting M.K. Stalin at the cost of his elder brother, M.K. Alagiri. This brought into the open the rift in the Karunanidhi family where a battle for succession



## THE FIRST FAMILY: The Marans' Political Connection



was being fought. Karunanidhi evicted Sun TV from the party headquarters. Even Dayanidhi had to quit as Union telecom minister. Some of Karunanidhi's children also felt that the grand nephews had short-changed their grand uncle by buying their stake in Sun TV before the IPO for a "paltry price".

Karunanidhi also ensured that Kalaigarnar TV, owned by his second wife and daughter from his third wife, was launched. Karunanidhi even had his government set up a state-owned cable services provider, Arasu Cable TV Corporation, to break SCV's hold on distribution.

Sun was on the back foot. But an old relationship came to the rescue. Karunanidhi's daughter Selvi was married to Murasoli Selvam, an uncle of Kalanithi Maran. Selvam looked after Sun's operations in Karnataka and so was interested in settling the row. He ensured a patch-up. Dayanidhi rejoined the Cabinet and Arasu was rendered toothless. With the media business throwing up plenty of cash, Kalanithi made his first move outside media.

### Rough Weather

The aviation sector is a tough nut to crack. So, it was a surprise when in January 2010 Kalanithi announced that he was acquiring a 37.75 per cent stake in low-cost carrier SpiceJet for ₹750 crore. He eventually took this to 75 per cent and pumped in more than ₹1,500 crore.

A senior executive of the Sun Group who claims to have advised against the move says, "The main business was throwing up so much money that he had to invest somewhere. He chose aviation." Kalanithi seemed to have turned around the airline in a year. However, the good times did not last. Five years later, he had to sell the business to its original promoters.

The year 2011 brought a second wave of troubles for the brothers. Dayanidhi, now the Union textiles minister, had to resign after the CBI implicated him in the 2G spectrum scam. The CBI also filed a case against the brothers after an NRI tycoon, C. Sivasankaran, accused them of

forcing him to sell Aircel telecom network to Maxis of Malaysia for an illegal gratification of ₹700 crore. The CBI chargesheet said the money was routed as a share premium for investment in Sun Direct, the DTH arm of the Sun Group. Narayanan, the Group CFO, offers a detailed defence on behalf of the Marans (see interview).

Dayanidhi was also accused of running a telecom exchange at the house he shared with his brother which provided high-speed connectivity to Sun Network, causing losses to BSNL. The brothers deny the charges.


The MHA is believed to have used the above instances and Kalanithi's sympathies for the LTTE during his student days to argue for the ban. Narayanan, however, contends that these are just allegations and so cannot be used to revoke Sun's licences.

With the DMK having no seat in the Lok Sabha and just four in the Rajya Sabha, the party is not in a position to help much. Also, with the BJP, which rules at the Centre, aligned with J. Jayalalithaa, its main rival, the pressure is unlikely to abate. But Narayanan says Sun will fight back. He says unlike SpiceJet, which was an acquisition, Kalanithi will never become a minority shareholder and there is no question of selling the network. However, the unfavourable political environment has meant that Sun has to supply its channels to Arasu after a year-long negotiation at a "substantial haircut", says Narayanan.

"With state elections due in six months, if the DMK comes back to power, it will help them, otherwise things look tough. But Kalanithi will not give up without a fight. Those who live by the sword...", says the managing director of a competitor.

Kalanithi, though, is believed to be preparing for all eventualities. His wife Kavery is more actively involved in running the company even as his 22-year-old daughter, Kaviya, is getting trained at Sun Music.

For the Marans, the political game is likely to decide Sun TV's fate. For Kalanithi, this means a fight to the finish.

A portrait of Subramanyam Lakshmi Narayanan, a middle-aged man with dark hair, smiling. He is wearing a dark blue suit jacket over a light blue striped shirt and a patterned tie. He is seated in a brown leather chair. The background is a textured wall with a gold and grey pattern.

# "We will not sell out"

NILOTPAL BARUAH

**S**ubramanyam Lakshmi Narayanan, the Group CFO, is the suave and articulate voice of the Sun Group, a good counterpoint to the media-shy Kalanithi Maran. SL, as he is called within the Group, talks to **Venkatesha Babu** about why they will not give in to the pressure and sell out the TV business.

**How did things come to such a pass that the**

**very existence of the group might be threatened?**

We have been completely taken aback by the events. We weren't even sure whether we wanted to be vocal on this, but we did as it spooked us. I had to go on television to say that this is patently unreasonable. These licences have been renewed for the next 10 years. They are maturing only starting 2021. So, when news came that the licences are being revoked because Mr Maran is being



investigated for some crimes, I called it an Armageddon on us.

### ***What was the genesis of this issue?***

Look, these licences are issued for 10 years. When time came for renewal of various channels in 2011, 2012 and 2013, they were renewed. So, I don't know (what the problem is). I have a more fundamental issue. Where is the need for the government to issue licences to the media? This is big government in its most horrible form. This is the kind of behaviour which makes India rank with Lesotho and Yemen in ease of doing business. This is a huge discretionary power vested with the executive which may or may not be exercised with reasonableness. This was relevant when satellite TV was new. I remember there were pitched battles in Parliament when the foreign investment limit in the sector was increased from 26 per cent to 49 per cent. All kinds of things were said, that foreigners will take over TV networks, espionage will be easy, etc. Today, 100 per cent foreign direct investment (FDI) is allowed in telecom. India is not a banana republic and if some subversive activity is being perpetrated, it can shut anybody overnight.

### ***What communication have you got from the home ministry and/or information & broadcasting ministry?***

This is what is surprising. Till date we have not received a scrap of paper from any ministry. The whole thing (about possible revocation of licences) we have read only in the press. No e-mail, no communication, verbal or written. I camped in New Delhi for three days asking for a meeting with Nripendra Misra (the Principal Secretary to Prime Minister Narendra Modi). Nobody in this government wants to meet us. This has never been the case. In the past they might not agree with you but they would meet you. For the first time, no senior person wants to meet. This is ridiculous.

### ***On a single day, 26 per cent market-cap of your listed entity was wiped out. What has been the reaction of investors, analysts, partners, employees and other stakeholders?***

One of the biggest bulge-bracket FIIs (foreign institutional investor) told me, "I am not a lawyer, but in the civilised world, you are presumed innocent until you are pronounced guilty. What law allows them to shut you down

when there is an allegation pending?" Sun Direct is being investigated for this investment it got. They say it is a bribe masked as FDI. That matter is sub judice. We have shown to the CBI (Central Bureau of Investigation) that the price that Sun Direct got is not unreasonable. If anything, it is extremely reasonable. Let me explain. There are two publicly available valuation benchmarks for us – Dish TV's IPO in April 2007 and Temasek's investment in Tata Sky. Our premium valuation is far lower than that. More important, the money from Astro has been



NILOTPAL BARUAH

**"Nobody in this government wants to meet us. This has never been the case"**

wholly and fully deployed into the (Sun Direct) business. We have tendered evidence running into tens of thousands of pages on what we did with the money. Bulk of it has gone towards purchase of set-top boxes and payment of customs duty on them. Against that investment, Astro has been given a 20 per cent stake, which has gained in value. We just did a rights issue at ₹120 a share. Sun Direct is the most profitable DTH company in India. Our margins are better than that of Dish TV. Sun Direct has five million subscribers who pay every month. Its gross subscriber base is eight million.

The beauty of our group is that each company is firewalled from the other. For instance, when SpiceJet was bleeding, not a penny from Sun TV was used for it. Taking

money from one company and putting it into another group company is the curse of corporate India. We said we will never do it. There are no cross-holdings in the group. In Sun TV, Kalanithi owns 75 per cent, in Sun Direct 80 per cent is owned by Mr & Mrs Kalanithi Maran, in fact Kavery (Kalanithi) owns 62 per cent. So, all holdings are separate. The publications division is separate. These are all silos.

We have 33 channels, 48 radio stations, a couple of print publications, some distribution business and a call centre. SunRisers (the Hyderabad IPL team) is a subsidiary of Sun TV. So are the radio stations. We are present in all 54 million cable or satellite homes in the southern states. In south, they watch Sun, Udaya, Gemini or Surya. The group's revenues are a little over ₹4,000 crore and it employs approximately ₹5,000 people.

### ***Do you see the actions of the Centre as political vendetta?***

I would like to believe that we are not in this situation because of political reasons.

### ***Have there been attempts at mediation with the Centre using the influence of some politically well-connected family members?***

I don't want to comment on this. I am not aware of this. My job is to run this company as a professional manager.

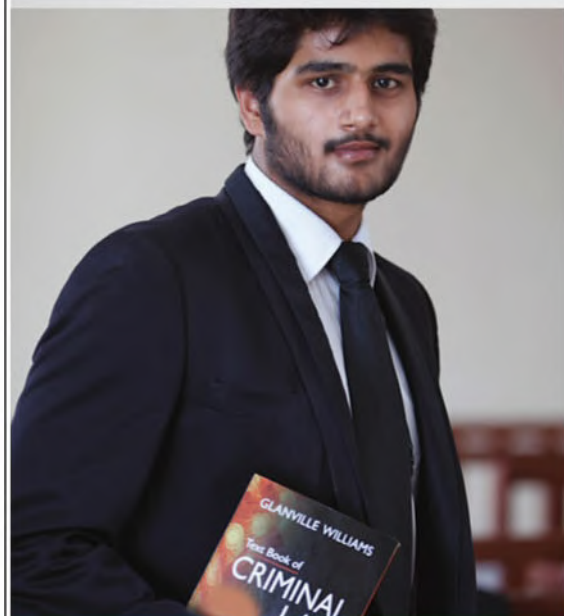
### ***So, the Centre's apprehension and likely revocation of licences is due of security threat or economic issues?***

How can we ever be a national security threat? We have been operating for 22 years and all we show is family dramas and movies. The content is nowhere seditious. Our content is not the problem. If the accusation is that if Mr Maran is guilty of some heinous (economic) crime, my answer is that it is still at an allegation stage and there is every possibility that he will be acquitted. Why should you shut us down in the interim?

### ***Just like in the case of SpiceJet, is there a possibility of ownership change in the group?***

We have no such plan. This is a great business. It is a labour of love. Kalanithi is very passionate about this business. He is very hands-on. This business is not for sale. To be very honest I also thought (the Centre's actions) were a prelude to forcing him out by making it look really disastrous, putting the fear of God in him and making him sell out. In between there was a report (that the Ambanis) were interested. I asked him. He denied it and asked me to strongly respond and issue a rebuttal. However, I saw this report about the MHA saying that if Mr Maran becomes a minority shareholder, the company will survive. It was chilling, as if somebody was sending a message. I asked him and he said there was no question of selling out. We are very clear. We will not sell out. ♦

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# CAN CYRUS MISTRY REINVENT TATA MOTORS?

RACHIT GOSWAMI

By NEVIN JOHN

It happened a few months after Cyrus Mistry took over the reins of the Tata Group. At the annual general meeting of Tata Motors on August 21, 2013, a gaggle of shareholders took the company management to task for the poor quality of the company's passenger vehicles (PVs). The technology used by the company appeared obsolete, they chorused. It was food for thought for the new group chairman.

There were obvious reasons for the angst of these shareholders. Most of the company's PVs were struggling to hold their own against competition in India. Take the example of Indica, considered India's first indigenously developed passenger car. Indica was never a match for vehicles from fleet-footed rivals, including Maruti and Hyundai, who constantly introduce cutting-edge technology and resort to high-voltage marketing to push sales. Some of the new offerings by Tata Motors – like Zest and Bolt – do offer the latest in technology (including diesel engines developed by Fiat) but are competing in a crowded market. As a result, Tata Motors' market share of the Indian PV industry has tumbled in the past decade, from 17 per cent to about six per cent now.

In fact, it's the iconic British brands, Jaguar and Land Rover, acquired by Ratan Tata in 2008, which are financially helping the Indian carmaker to stay afloat. The company also continues to dominate in the commercial vehicle (CV) market, with a market share of about 55 per cent, but the past two years have been tough for the segment with the economic slowdown impacting business.

Can Mistry script a turnaround story for Tata Motors? It's the PV business that requires his urgent attention. He has his task cut out and has chalked out an ambitious plan for the revival of the company. On the cards is an expansion of Tata Motors' footprint in the country by adding more dealerships. The company is intent on capturing a much larger share of the rural market where it has a small presence. Also, it will roll out a slew of new launches over the next few months. Plans are afoot to offer the latest in technology to take competition head-on.

### The Game Plan

Mistry knows there are many things that need to be set right at Tata Motors. With this in mind, he hired Mayank Pareek, one of the most sought after auto industry professionals,

Sliding passenger vehicle sales, humongous debt and growing competition have dealt a body blow to Tata Motors in India. The company has chalked out an ambitious plan to get back on track. Can it stage a recovery?

## Comeback Trail

### Tata Motors' five biggest weaknesses and how it's trying to overcome them

#### Poor Product Quality

It has firmed up a strategy to achieve 'world-class manufacturing'; opened design centres in Italy and the UK

#### Delay in Roll-out of Products

Introduced Launch Quality Operating System to focus on practices and procedures that help adhere to the launch cycle plans and timing

#### Poor After-Sales Service

Launched 90-minute Express Service, introduced Logistics Management System for speedy spare parts delivery

#### Lacks Blockbuster Products in its Portfolio

The company plans to introduce crossover SUV Hexa and compact SUV Nexon to change the perception about its vehicles

#### Attrition

Cyrus Mistry is reportedly looking to hire a new CEO and CFO, and contain high attrition rates







**“Our processes have changed, materials have changed and the engineering itself has changed”**

**MAYANK PAREEK, Head, Passenger Vehicles**

as the president of the PV division. Pareek was the chief operating officer of marketing and sales at Maruti Suzuki for over 20 years and was behind the company's drive into the rural markets, launching mobile vehicle servicing units in remote regions.

Pareek's primary focus is on boosting the dealer network of Tata Motors: “India is spread over 650 districts and 5,500 tehsils. But our footprint is limited.” The company has just 460 dealerships in the country even though it is one of the oldest auto companies in India. In comparison, Maruti has the largest pan-Indian service network with 3,060 outlets. Even a relatively new entrant like Nissan has 160 dealerships in the country. Pareek plans to triple the dealer network to

1,500 in the next four to five years. “We are coming out with the concept of mobile services, which is piloting in Delhi and Mumbai. We will scale it up across India once it's ready. Effective and cost-effective service is important for creating loyal customers,” he says.

Rural India is another big and, as yet, untapped opportunity for Tata Motors. At least 30 to 40 per cent sales should come from the rural market, believes Pareek. Rising prosperity and infrastructure creation in India's towns and villages have created a big market for car companies, he adds.

But the going won't be easy as Maruti and Hyundai have stolen a march over others in the rural markets. Indian carmakers will need to raise their after sales service standards to differentiate themselves from

the competition, according to Rakesh Batra, Partner and National Leader, Automotive Sector, Ernst & Young (EY). “It's time to bring fast-track service facilities, which is prevalent in the western world. Here, operations of dealer networks are below par, compared with the global standards,” he says, adding that parts inventory

**6%**



Tata Motors' current market share in the Indian passenger vehicle industry. It was 16 per cent a decade ago



management and workshop facilities need to be improved. It is an important learning for Tata Motors.

Meanwhile, for a long time, the company was selling cars to fleet customers, such as taxi operators and hotels, who have different priorities. A fleet customer looks for deals while individual car buyers focus on products and services. "So, we are improving the networking skills of employees, especially while selling cars to individuals, families and professionals," says Pareek.

Pareek and his team have been striving to raise the company's standards on all fronts including product quality, customer service and manufacturing. He appears satisfied with the outcome. In June 2015, Tata Motors' passenger business grew at a robust 12.5 per cent. The industry actually shrunk by 0.54 per cent in the same month. "We are on a growth trajectory and will continue to grow every month," he says. But not all numbers are impressive.

### Potholes

Tata Motors' net profit for the fourth quarter of 2014/15 fell 56 per cent – worse than expected – and India's largest automobile company by revenue also held back dividends for the first time since 2002. While the company's consolidated revenue rose 13 per cent to ₹2.6 lakh crore in the last financial year, profit remained flat at ₹14,073 crore. In a body blow, the Indian unit made a standalone loss of ₹4,739 crore – largely a consequence of the bleeding PV business. But JLR recorded an 8.5 per cent rise in profits to £2 billion (nearly ₹20,000 crore) despite slowing de-

## Horizonext

### Tata Motors' new strategy

#### Intense Product Focus

The company plans a bevy of launches for the global market. There are a slew of new products in the pipeline

#### World-class Manufacturing

The company is focusing on quality to take on competition. It claims that rigorous quality assurance processes, based on global best practices, have been initiated

#### Changing Priorities

With the launch of its compact sedan Zest and premium hatchback Bolt, Tata Motors took a strategic decision that new passenger vehicle products will only target the personal segment. The company will open 1,500 outlets, adding 200 this year alone, to boost market share

#### Improving Service Standards

All customer-related concerns need to be resolved at the dealer level within 24 hours of the complaint being filed. If any issue remains unresolved, the management will directly look into the matter

mand for luxury cars in China.

Tata Motors' PV products have failed to create an impact in India and that is the primary reason for its financial woes, according to V.K. Vijayakumar, Investment Strategist, Geojit BNP Paribas Financial Services. "They thought they could piggy ride on Nano for growing the numbers in the first half of this decade. But all their efforts to revamp Nano (with models like Twist) failed to attract buyers."

A gross debt of ₹73,610 crore in 2014/15 is the other major worry for the automaker, a steep rise from ₹60,642 crore in 2013/14. This was largely because Mistry was advised to persist with capital expenditure (capex) plans for turning the wheels of fortune in the company's favour. The capex and product development spend during the last financial year was ₹37,912 crore, including ₹3.1 billion (around ₹31,000 crore) at JLR. Cash and bank balance (including mutual funds) stood at ₹46,174 crore.

Vijay Somaiya, Vice President and Head of Treasury and Investor Relations at Tata Motors, says the company will reduce the debt by some ₹4,000 crore by August. The automaker will use the proceeds of its ₹7,490 crore rights issue to retire debt. "The rights issue proceeds are in fixed deposits. We will redeem the deposits when debt maturity comes up," he says. The Indian unit is also going for product development in a big way.

Vinayak S. Bapat, President and CEO, VXL Consulting believes that the bill for the JLR acquisition – the company paid \$2.3 billion to Ford Motor Co in 2008 for the British brands – still hurts the Indian busi-

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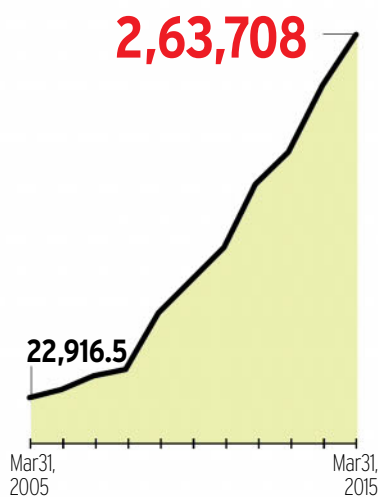
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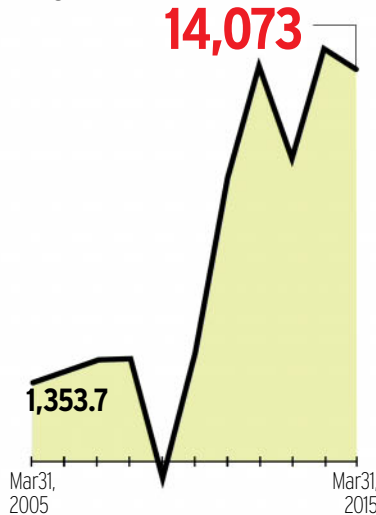
## Steep Climb

An overview of Tata Motors' financial position over the past decade

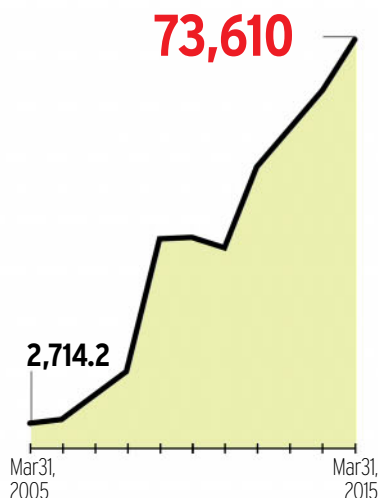
### TOTAL INCOME



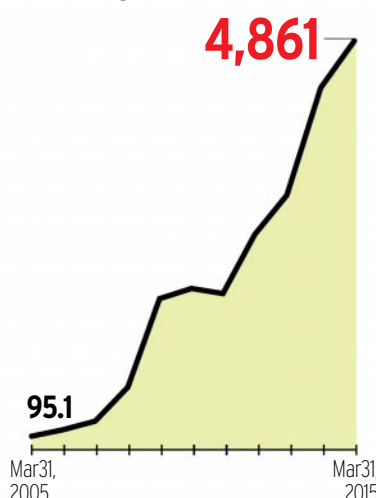
### PROFIT AFTER TAX



### DEBT



### INTEREST PAID



Figures in ₹ crore; Source: CMIE Prowess & company

ness financially. "JLR has enough cash on its books. The Indian unit has also paid for the acquisition. Then, why can't we take back the free cash to reduce the debt?" JLR has a debt of £2.5 billion. However, cash reserves stood at £4.3 billion. In addition, it has undrawn credits to the tune of £1.5 billion.

But JLR has ambitious investment plans lined up. It plans an in-

vestment of £3.6 billion to £3.8 billion in this financial year to grow its footprint in China, Brazil and Russia, in addition to the European markets. JLR chief Ralf Speth says the company will spend £400 million for manufacturing Jaguar XF and aims to make it a landmark product. "We are ramping up the sales of the new Jaguar XE now. After the XF, 16MY Evoque and

F-PACE will be launched in early 2016," he says. "We are using our entire capacity. There is shortage in supply compared to the demand of JLR vehicles. For that we are looking at expansion."

### Reinventing Tata Motors

After the sudden demise of Karl Slym, former chief executive of Tata Motors in January 2014, Mistry has been spending a substantial chunk of his time and bandwidth in reviving the company and ensuring innovation in technology, design, marketing and after-sales service. The company launched two new products – Zest and Bolt – last year as part of its new strategy. In 2015, it has unveiled a refurbished version of Nano, GenX Nano.

The car maker has taken several steps to improve the quality of vehicles as part of its 'HorizonNext' strategy. The manufacturing and engineering processes have changed, asserts a Tata Motors spokesperson. "At Tata Motors, we are in the process of developing multiple new platforms in line with market requirements and constantly working towards improving the performance and reliability of our existing ones. Besides products, we have also developed a host of innovative service offerings, along with various technological upgrades," adds the spokesperson.

The 'HorizonNext' strategy, introduced in June 2013, has focused on new launches. Tata Motors has unveiled eight improved and enhanced vehicles across five key brands including Nano Twist, Zest, Bolt, GenX Nano and the Safari Storme Refresh. The launch of Zest and Bolt – designed with inputs from Tata Motors' design centres in the UK, Italy and India (Pune) – has revived the demand for Tata cars and there is consistent rise in month-on-month sales of PVs. In the first five months of this year (January-May), the overall sales of Tata Motors' PVs rose 20 per cent to



**“We are using the entire capacity. Supply of JLR vehicles is falling short of demand. We are looking at expansion”**

**RALF SPETH, CEO,  
 Jaguar Land Rover**



RACHIT GOSWAMI

64,261 units over the same period last year. Moreover, Mistry wants to continue with at least two passenger vehicle launches every year until 2020. Typically, new models usher growth, says a Maruti Suzuki spokesperson. “In fact, all original equipment manufacturers (OEMs) that brought new models in the last financial year benefited and grew in the market,” says the spokesperson.

Meanwhile, the Indian unit of Tata Motors has also learnt from JLR. “We learnt processes from JLR but not shared any technology,” says Pareek. Speth of JLR points out that the synergy can’t go beyond processes because the business and science of luxury cars is completely different from that of mass vehicles.

Tata Motors has also introduced Forward Model Quality (FMQ) and Launch Quality Operating System (LQOS) programmes to boost sales. The FMQ team works closely with design and development teams, right from the early stages of the product evolution. The idea is to design a product keeping in mind the changing needs and demands of

the end customer.

The LQOS process ensures that teams involved in product development, manufacturing, material planning and logistics, partner for steady new products launches. The company claims that the quality and finish of the vehicles improved as a result of these initiatives.

Another hurdle along the way is the poor brand perception of the Tata vehicles and needs to be changed. It will be possible only by launching blockbuster products. Historically, Tata Motors has been a late entrant in many categories and missed developing trend-setting products like Scorpio, Innova, Honda City and Renault Duster. Such products will dramatically alter the perception about Tata products, say several brand specialists.

Kaushik Madhavan, head of automotive and transportation practice, Frost & Sullivan, a glo-

bal consulting firm, says there will be opportunities in compact SUV, crossover and sedan categories. The margins are better in these products. Competition will rise in the hatchback segment since new transmission technologies (which control the speed of the vehicle) will play a major role in luring customers. Global carmakers such as Volkswagen and Ford have introduced sporty but expensive dual-clutch transmission (DCT) but Japanese companies Honda and Nissan have opted for the fuel-efficient

continuously variable transmission (CVT). “For fighting them, Tatas have chosen the cost-effective and fuel-efficient mass market technology, automated manual transmission (AMT). Zest is an AMT machine, while Maruti uses it in Celerio and Alto K-10,” says Madhavan. AMT is an auto gear shift tech-

**12%**

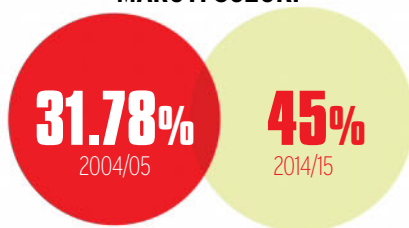
Growth in Tata Motors's passenger business in June 2015, The industry clocked negative growth in the same month



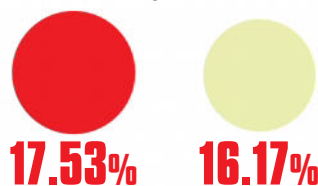
## Downhill Ride

Tata Motors's passenger vehicle market share has shrunk in the past decade

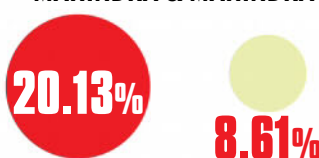
### MARUTI SUZUKI



### HYUNDAI



### MAHINDRA & MAHINDRA



### HONDA



### TATA MOTORS



### TOYOTA



### FORD



Source: SIAM

nology and is designed for heavy traffic conditions.

Batra of EY says modularisation in the architecture of the car is going to be the next phase in engineering. "The areas inside the car are being developed as modules in the developed world. Modularised architecture will save costs as the car maker doesn't need to design it for each product." Tata Motors will benefit from modularisation if the company opts for it, given its large portfolio, say analysts.

A customer requires four things from any automobile manufacturer – a sound product, robust build quality, goods sales experience and reliable service support, points out Pareek. "Any player can capture market share in the country if they deliver on these four pillars of customer requirements. After all, market share is but a result of the value proposition of an OEM's products," says Pareek. So, Tata Motors is hopeful of a comeback.

Tata Motors plans to build global standard products, as a part of the Horizonext initiative. Zest, Bolt and GenX Nano are part of this strategy. There are several new products in the pipeline including Kite (Hatchback and Sedan), Nano Diesel, Hexa (premium crossover SUV) and Nexon (compact SUV). The company has built a process for improving the quality of its products, says Pareek. "Our processes have changed, materials have changed and the engineering itself has changed." The automaker has decided that the new products will only be available for individual customers and not for fleet operations.

### Competition in CV Market

Meanwhile, in the CV segment, Tata Motors has had to contend with growing competition from global giants. Daimler and Volvo, the world's top two players in CVs, are trying to find a toehold in the Indian market. Daimler started production in June 2012 and

launched its first heavy-duty truck in three months. Volvo rolled out its first truck way back in 1998 in India but has, so far, preferred to compete in the premium category without touching the mass market, dominated by Tata Motors and Ashok Leyland.

Tata Motors has managed to prevent a big erosion in its market share. "We are keen to protect our dominance in market share. Today, there are at least eight players in the truck business, while it was two or three about seven years ago. Competition has been coming in. However, our market share has not fallen more than one or two per cent. We are geared up for competition," says Ravindra Pisharody, Executive Director, Commercial Vehicles at Tata Motors. To deal with the competition, Tata Motors is looking to brand commercial vehicles despite a dip in sales of Prima top-end trucks.

The economic slowdown impacted demand for trucks in the country. "When the economy slides, the capacity utilisation of trucks will slip drastically. As a result, fleet owners postpone new purchases," says Pisharody. "In CV purchases, everybody takes a loan of 80 to 90 per cent. Since paying instalments is directly related to their monthly income, many customers delayed new purchases to replace the old trucks."

The incipient economic recovery, though, is leading to a gradual turnaround in the business environment for CV makers. After more than two years, demand for medium and heavy commercial vehicles (M&HCVs) has started picking up. Light commercial vehicles (LCVs) too are expected to see a revival soon, says Pisharody. In the first two months of this financial year (April and May), the cumulative volume sales of Tata CVs clocked at 55,683 units, compared to 56,215 and 78,610 in the same period in FY 2014 and FY 2013, respectively.

## Wooing Customers

Tata Motors is going all out to woo customers. The company has decided that all customer-related concerns need to be resolved by the dealer within 24 hours of any complaint. Indeed, the management is directly monitoring the complaints. "Starting October 2014, we have noticed that the resolution rate has risen from 13 to 65 per cent as of January, 2015," says Pareek. The company has also upgraded over 200 showrooms to leverage technology and provide superior after-sales service. With the new 'Express Service' programme, the service teams have been able to deliver vehicles in 90 minutes, says the company spokesperson. "We have also introduced a new audit system with AC Nielsen for continued tracking and monitoring of the service network. Each service touch point is reviewed at regular intervals in the new audit system," the spokesperson adds.

On the supply side, the company has re-worked the logistics management system for speedy spare parts delivery. Tata Motors has also beefed up its distribution warehouse network – it has added a facility in Pune. Other initiatives include national service camps, mobile service vans, driver training schools and focused service engagements for the fleet service. At the recently concluded nationwide service camp, the company received almost 1.2 lakh vehicles for maintenance.

"We are helping our channel partners in enhancing their processes for recruitment, training and retention of employees. We have got new-look dealerships. We are also ensuring extensive training of the staff on the use of technology at the dealerships including video walls and new tablet-based customer engagement to ensure best-in-class customer experience," says an official. The company has deployed nearly 4,000 new tablets to ensure that the staff is well-gear-



RACHIT GOSWAMI

**"Competition has been coming in but our market share has not fallen more than one or two per cent. We are geared up for competition"**

**RAVINDRA PISHARODY, ED, Commercial Vehicles**

to meet customer needs.

Over the last two to three years, the company has slowly tried to lay the foundation of a performance-oriented culture. "We go through the whole process of setting targets and evaluating the performance of individuals. This method is becoming more stringent and objective every year. With this process, we continue to strengthen our HR processes and systems to identify, nurture and develop internal talent," says the official.

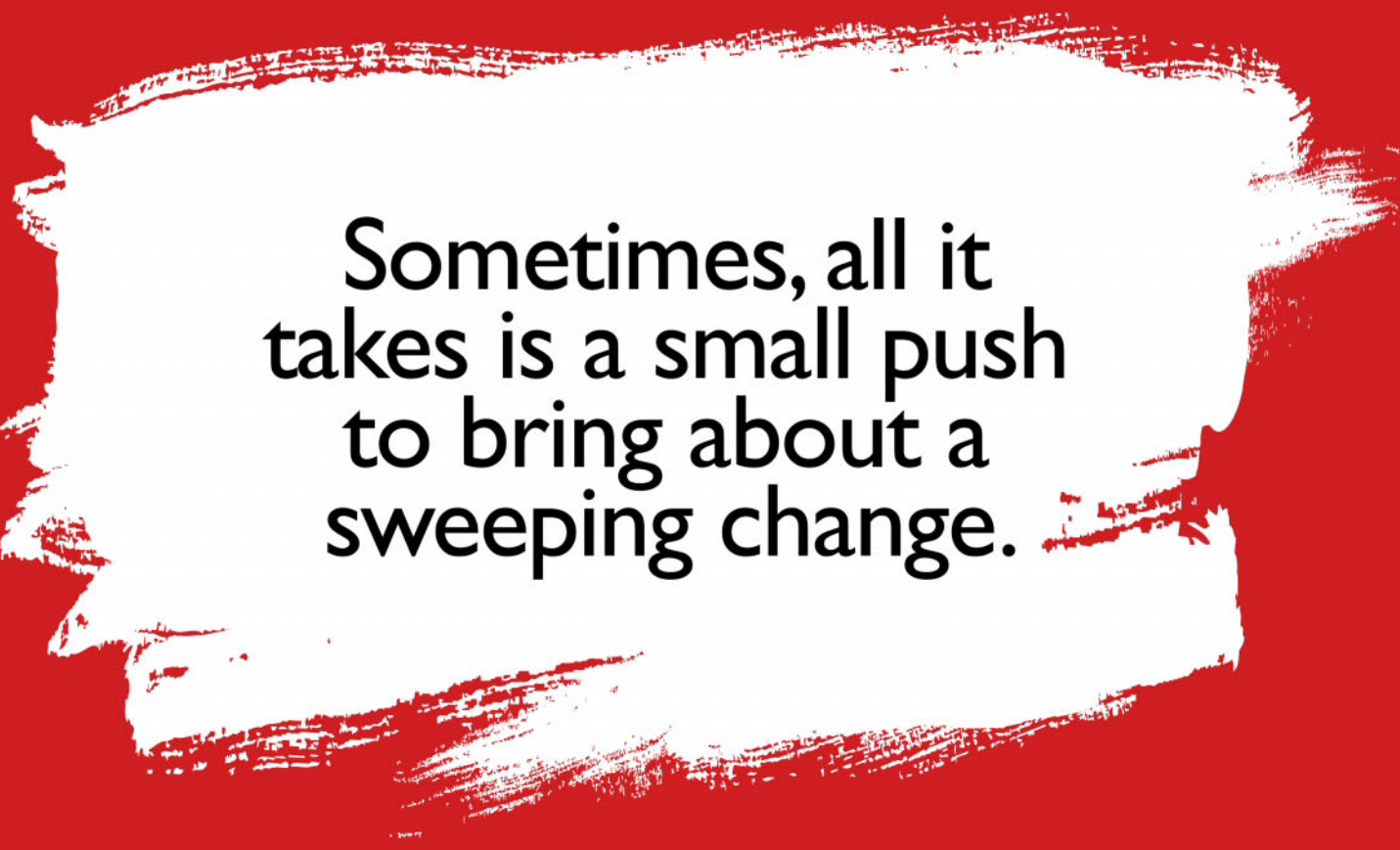
Meanwhile, Mistry has already given the mandate for finding a CEO for Tata Motors. The company has

had no CEO after Karl Slym. Mistry has led the company in the past one and a half years. Kavil Ramachandran, Professor at the Indian School of Business (ISB), says Mistry has passed many tests since taking over the mantle of the Tata Group. "He has, with quiet confidence, led the group through the current turbulence. He seems to be focused on consolidation and selective growth."

However, putting Tata Motors' PV business back on track is going to be his acid test. ♦

@nevinjl





Sometimes, all it  
takes is a small push  
to bring about a  
sweeping change.



# INDIA TODAY SAFAIGIRI

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# INDIA TODAY





MONEY FROM

# JUNK

Inside the business of buying and selling distressed assets...

By ANAND ADHIKARI AND MAHESH NAYAK

## THE BIG PICTURE

Only a fraction of the stressed loans have been sold by banks

**Total advances by banks**  
**₹70,00,000 crore**

**Total distressed assets**  
**₹7,70,000 crore**

**Gross NPAs**  
**₹3,10,000 crore**

**Total loans sold to ARCs**  
**₹1.89 lakh crore\***

Loan, distressed assets and NPA figures are estimates for March 2015;

\*Book value of the total loans; ARCs, however, bought at a discount, paying ₹62,551 crore;

Source: Market

**O**n the 10th of every month, State Bank of India's headquarters at Nariman Point in South Mumbai plays host to some eager guests. Heads of several of India's 15 asset reconstruction companies (ARCs) make a beeline to review the 'for sale' bad loans that India's largest bank would be willing to hawk for a price. A similar exercise takes place at some of India's largest banks, though not necessarily with such regularity.

Till fairly recently, such meetings were infrequent and resulted in one-off transactions. But, of late, the intensity of deals emerging out of such exchanges is soaring. And that, in turn, is giving rise to an unprecedented boom in India's distressed assets business. In the first decade of the existence of ARCs, banks sold all of ₹87,049 crore of bad loans for ₹19,308 crore. But in the past two years alone, ARCs have bought bad assets worth ₹1,02,068 crore for ₹43,243 crore. Last year, SBI alone had shed assets worth ₹12,500 crore, Bank of India ₹2,844 crore and Central Bank of India ₹1,119 crore. These include SBI's ₹1,600 crore loan in Bharati Shipyard to Edelweiss ARC, ₹900 crore Hotel Leelaventure loan to JM Financial ARC and ₹1,500 crore loan in Corporate Power to ARCIL.

Several factors are driving this flourishing trade in bad assets. But the biggest trigger came in November 2013 when Reserve Bank of India Governor Raghuram Rajan, in a strongly worded exhortation, asked the banking system to clean up its act. "You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue," he had said. Until then, scared to bell the cat, banks had been ever-greening their bad loans and slipping deeper into the abyss. What alarmed Rajan was that the gross and net non-performing assets

## TOP 5 PLAYERS



### ARCIL

The oldest ARC set up by leading commercial banks in India

Vinayak Bahuguna

### Edelweiss ARC

The largest in terms of AUM at ₹20,000 cr



Siby Antony



### JM ARC

Third largest in terms of AUM. Bought Hotel Leela's loan worth ₹4,100 cr.

V.P. Shetty

### Phoenix ARC

Kotak has been working in the distressed space even before the ARC concept came about.



Eshwar Karra

Works in the sub-₹100-cr space; delivers strong returns.



### IARC

Global private equity player KKR is taking an equity stake in it

Birendra Kumar

## AND OTHERS

ACRE

ASREC (India)

Pegasus Assets Reconstruction

Alchemist Asset Reconstruction Company

Reliance Asset Reconstruction Company

Pridhvi Asset Reconstruction and Securitisation Company

Invent Assets Securitisation & Reconstruction

ISARC

UV Asset Reconstruction Company

Meliara ARC



## THE BIG BAD LOAN SALE

It's getting bigger, better and also riskier



(NPAs) in the banking system had hit an alarming 4.2 per cent and 2.2 per cent, respectively, by September 2013 when Rajan came in, against an average of 2.6 per cent and 1.2 per cent, respectively, between 2009 and 2013.

Under Rajan's stewardship, the RBI has announced a host of measures that have fuelled distressed asset sale business. Early last year, the central bank allowed the banks to sell even the loans where the principal or interest was overdue by 60 days rather than 90 days, earlier. In essence, it allowed banks to start selling assets early if they felt the loan was non-redeemable. Other factors are also responsible. ARCs are betting heavily on the proposed new bankruptcy law which will give them a greater leeway (including sale of whole or part of the company and change of management or promoter) to revive the distressed assets. Four, in general, the industry believes that the Indian economy has seen through the worst of the slowdown and things can only look up from here. And, those who have the cash are happy to buy distressed assets since they come at a significant discount to an identical greenfield project.

For over 10 years, it was only ARCIL, backed by SBI and ICICI, which was active in buying loans from its sponsor banks. But a majority of new ARCs have been set up after 2008/09. Among the newest, Edelweiss ARC which was

set up in 2009, has worked up a portfolio of over ₹20,000 crore. At the second spot is ARCIL with a portfolio of ₹11,000 crore. The top five ARCs make for nearly 90 per cent of the accounts under management. Essentially, that means the ARC takes over the asset, or company, and tries to revive it by managing it better, instead of trying to recover money by selling off parts of it. Not everybody is chasing assets under management (AUMs) though. "We look at it as an investment business. We are not in the AUM game," grins Eshwar Karra, CEO of Phoenix ARC, Kotak Group, formed in 2004. Karra deals with only sub-₹100-crore loans, with a focus on turning around the companies and sold quickly instead of volumes

The big reason why ARCs remain enthusiastic is because sale of bad loans will only intensify. Banks, after all, are sitting on a pile of bad debts. Of the ₹70 lakh crore that the banking system has given in advances, nearly ₹7.7 lakh crore is believed to be classified as 'stressed assets' that have defaulted on their payments. Of this, ₹3.1 lakh crore is already defined as gross NPAs on which there has been a default. A lot of that is likely to be made available to ARCs for sale. So, while the banks are being pushed by the regulator to clean up their books, ARCs see an opportunity of making big bucks like their counterpart asset manage-



**ARSHIYA GROUP**  
TOTAL DEBT  
**3,000**  
DEBT SOLD TO ARC  
**600**

**CORPORATE POWER**  
TOTAL DEBT  
**5,000**  
DEBT SOLD TO ARC  
**3,000**

**ELECTROTHERM INDIA**  
TOTAL DEBT  
**3,400**  
DEBT SOLD TO ARC  
**1,500**

Figures in ₹ Crore  
Debt figures for 2014/15  
Source: Market/ARCs

ment companies (AMCs) and hedge funds in the US.

Globally, the distressed assets market began to emerge in the late 80s and early 90s in the US. In fact, most of the modern day private equity firms – KKR, WL Ross and JC Flower – owe their existence to early successes in the distressed assets business. By now, the US is also a major market for the ancillary industry around distressed assets, including trade in bonds of distressed companies and turnaround funds which buy completely broke companies, take over their managements, turn them around and then sell them. In Asia, the distress industry grew post the East Asian currency crisis in the late 90s. Early distress investors, such as Clearwater, Cerberus Capital, GE and Loan Star Funds, have made significant gains from such junk assets. Over the years, hedge funds have become rich and powerful enough to intervene in sovereign debt as Argentina is beginning to discover in the bitter dispute between two New York hedge funds Gramercy Funds Management LLC and Elliott Management Corp. In fact, Elliott even impounded an Argentine Navy vessel for non-payment, while the Argentine President Cristina Fernandez de Kirchner has vowed never to negotiate with the fund calling it “vultures”.

## A Hard Job

Despite the enthusiasm around distressed assets, it is not a job for the faint hearted.

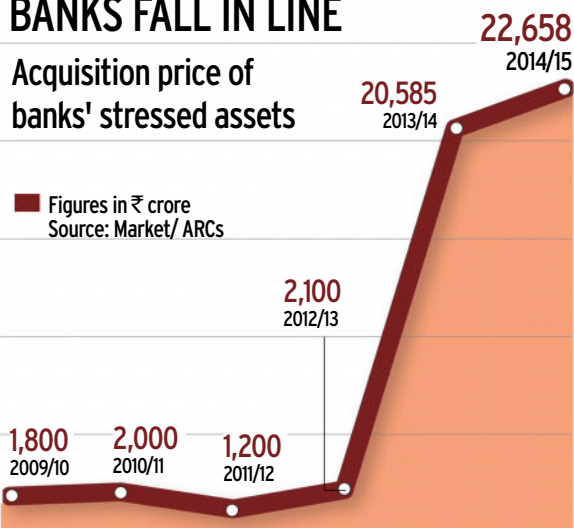
ARCs are a breed born out of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act of 2002. The objective, says former finance minister Yashwant Sinha, “was to enable the banks to acquire the securities which had been pledged and sell them without the interference of the courts”. Sinha adds: “We did away under this Act with the jurisdiction of civil courts and gave a huge power to the banks to deal with the issue of NPAs.”

Not everything has panned out exactly as planned. Several legal and regulatory hurdles have meant that ARCs were unable to exercise the kind of freedom to turn around these bad assets. “We have such a decrepit system for enforcing securities. In theory, it should be easier to enforce a pledge to sell a company and kick the management out, but most company managements will not go easily, and buyers don’t want to get into this trouble. He will buy only if you are giving it to him 100 per cent in an uncontentious manner,” says Harsh Pais, Partner, Trilegal, a Delhi-based law firm.

Take the case of Bharati Shipyard. A year after Edelweiss ARC bought Bharati Shipyard’s ₹4,570 crore loan from 12 of its 23 bankers, there awaited a surprise. As many as nine winding up petitions appeared out of the blue in the Bombay High Court thwarting the attempts of Edelweiss to turn around the cash-strapped ship building firm. Surprisingly, insurance giant Life Insurance

## BANKS FALL IN LINE

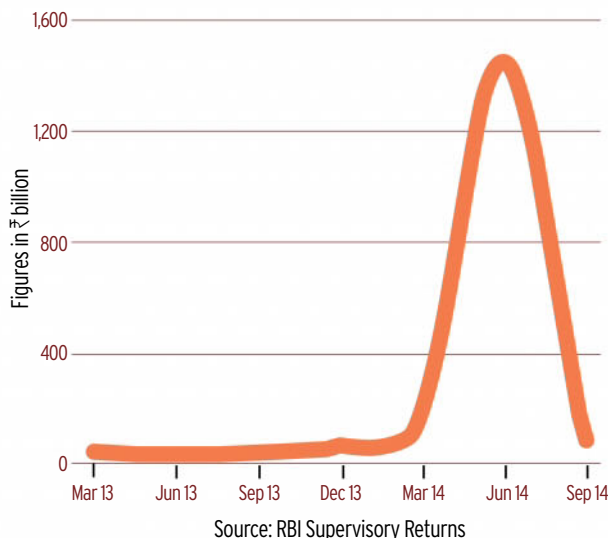
Acquisition price of  
banks' stressed assets





## CHANGING HANDS

Asset sale to ARCs has shot up in the past two years



Corporation (LIC) was also one of the petitioners despite being a secured creditor.

Yet, Edelweiss group chairman and CEO Rashesh Shah remains bullish. Shah, who began his career with the ICICI group when it was still a development finance institution and had not turned into a bank, believes he knows how to deal with stressed assets. "Very often a distressed company is still viable, but it is just that it is indebted," says Shah.

Last year, SBI and Bank of India jointly sold a loan of a distressed commercial mall in upmarket Bangalore. Phoenix ARC and Edelweiss ARC acquired the loans at different points in time from three banks and they agreed to work together to revive the Mall. It was a semi-finished mall with a loan outstanding of ₹400 crore. The project also had ready tenants on papers, but because of lack of funds, the mall's work was suspended indefinitely. The banking channel refused to lend and non-banking financial institutions (NBFCs) were circumspect. The two ARCs acted swiftly by bringing in an additional ₹70 crore to complete the project. "The stalled mall had no value, but by infusing additional funds, we will increase the value of the fully occupied mall to ₹600 crore based on the annual lease rental income of over ₹60 crore," says Shah. If it goes according to plan, both Edelweiss and Phoenix ARC will make supernormal profits in this distressed asset. The lending banks, too, will get their money back. Phoenix ARC's Karra says resolution works for him as the company boasts the highest 70 per cent redemption record of security receipts issued to banks in exchange of bad assets. Shah is, however, looking at the restructuring route



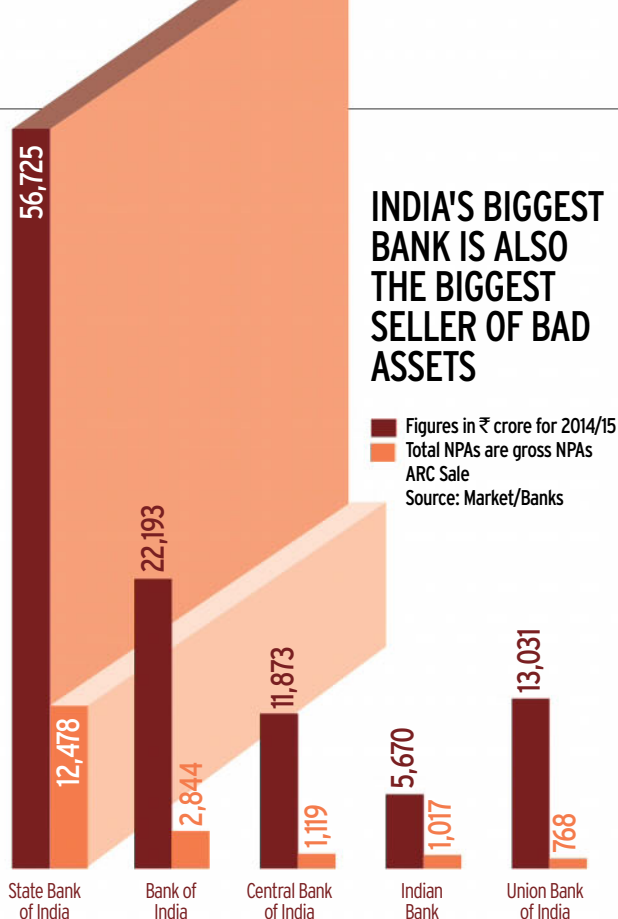
PHOTOGRAPHS BY RACHIT GOSWAMI

RAGHURAM RAJAN, Governor, RBI

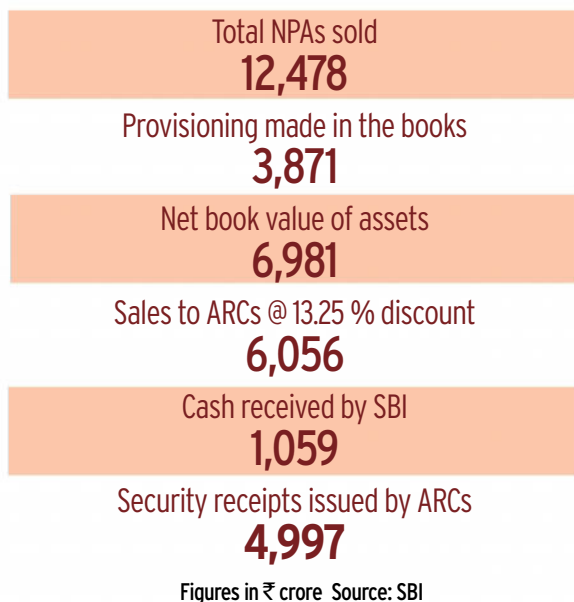
**"You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue"**

by working with promoters alongside: "We see this as a resolution business, while many of our peers are looking at it as a recovery business," he says, adding: "Resolution business is more of aggregating debt, fresh infusion of capital, identification of non-core assets, and bringing in a strategic partner. This requires a good mix of financing background, investment banking capabilities and also an understanding of the equity market." Edelweiss ARC is manned by IDBI Bank's former executive director Siby Antony.

Sale of loan to ARCs, however, is the last resort for banks. Unlike retail defaulters where banks are known to hire musclemen for quick recovery, corporate loan recovery is a different ball game. At times, there are labour unions demanding their pound of flesh; statutory authorities like income tax to excise jump in to claim their dues; employees approach the court for bankruptcy proceedings. But in most cases it is the deposed promoters/management



## SBI's SALE TO ARCs



that pose the biggest hurdle in a revival.

Sitting at the Edelweiss House in a Mumbai suburb, Antony is strategising to push the Bharati Shipyard winding up petition out of his way. Bharati has promised to repay the unsecured creditors in 12-15 months. Antony



P.K. MALHOTRA DEPUTY MD, State Bank of India

**“ARCs have much more flexibility than a bank in restructuring a loan”**

has also engaged with Bharati Shipyard's promoters P.C. Kapoor and Vijay Kumar, and other lending banks which did not sell their loans.

Not far away from Edelweiss' suburban headquarters is the 17th floor office of P.K. Malhotra, Deputy Managing Director (Stressed Assets Management) of State Bank of India. Malhotra, a veteran of banking with over three decades of experience, cannot seem to hide his smile. SBI had even hired consultant Alvarez & Marsal to turn around Bharati, but with no success. In fact, a corporate debt restructuring could not save Bharati. Malhotra, who spends most of his time identifying the bad loans for auction, is making sure that the bank has exercised all its options before parting with the loan. Banks' options start with a CDR package, suggesting one time settlement, exiting non-core assets, infusing additional funds, bringing in strategic investors and then suggesting complete takeover by another player.

For Malhotra, keeping bad loans in SBI's books is like feeding a white elephant. The ARC route gives the bank 15 per cent (earlier 5 per cent) of the negotiated sale amount as upfront cash, while the remaining stays in the book as investment in security receipts (SRs), which gets



redeemed over a period of five to eight years, depending on the ARCs' ability to recover. Past records show that ARCs returned 50 per cent of the SRs issued to banks. Clearly, Bharati is off Malhotra's back today. It is now the headache for Antony. The company founded by two technocrat-cum-entrepreneurs from IIT Kharagpur – Kapoor and Kumar – has been making huge losses for the last three years.

Any setbacks, such as that of Bharati's, haven't deterred top ARCs from buying big. ARCIL, the oldest ARC, bought another whopper of a deal in April this year. It acquired the ₹3,000 crore bad loans of Corporate Power, a company belonging to Nagpur-based Abhijeet Group.

For almost two years, its bankers had been negotiating with potential buyers, such as SREI, JSW, NTPC, TATA and the Adanis, to sell the loan, but with little success. SREI Infra was the first to show interest, but the deal couldn't go through because bankers were not ready for a major haircut. They believed that the company could be revived as its 1,080 MW power plant installed by BHEL (no Chinese equipment, stresses a banker) had a captive coal mine. "The plant was near the pit head. The coal was of good quality. The transportation cost was minimal," says the representative of a lender. There was an interest for complete buyout, but negotiations fell through midway. The reasons were the uncertainty over the mines as it came under CBI investigations for irregular allotment of coal mines (see *The Big Asset Sale*).

There are success stories too. Edelweiss claims to put Electrotherm (India), a leader in induction furnace, on a revival path. Edelweiss bought ₹1,500 crore of the ₹3,400 crore debt from over half-a-dozen banks. "We converted a part of the debt into equity," says Antony, whose ARC now holds a 10 per cent stake in the unit. Today, Electrotherm, which has been a loss-making unit since March 2012, has seen its revenues jump from ₹659 crore in 2013/14 to ₹1,829 crore in 2014/15. "I have to ensure 18 per cent IRR (internal rate of return) otherwise there is no business

in the bad assets," says Antony.

## Bankers' Dilemma

The sale of large NPAs, such as Bharati and Corporate Power, indicate a clear change in the banks' approach towards selling bad loans.

Earlier, banks sold only the written-off bad loans which were practically dead assets. They also sought a high price. Now, with the RBI on their case, banks are in a bind, even as there is no respite from bad loans. For public sector unit (PSU) banks, the government has stopped liberal funding of capital every year. The only option now is to generate cash by selling bad loans to ARCs.

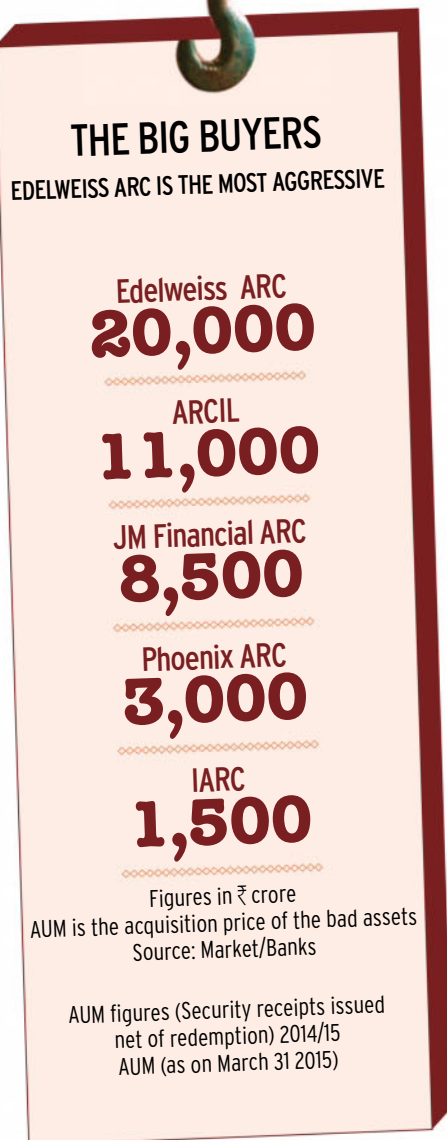
Take for instance the case of SBI, which sold the biggest chunk of bad loans of around ₹12,000 crore in its history in 2014/15. "This has helped us to clean our balance sheet. The transfer to ARC will also generate some return for us in the future," hopes Malhotra. This is true for the banking sector at large. ARCs, says SBI, remains the most pro-active. In fact, it has made sale of bad assets like an assembly line activity. The bank's monthly sale of NPAs (quarterly earlier) say a lot about SBI's seriousness to clean the books. "We have substantially improved our information inputs to ARCs," says Malhotra. SBI allows three weeks to ARCs to do their due diligence before accepting the bids. (See SBI's *Sale To ARCs*).

Undoubtedly, the big shift in SBI's approach is the sale of fresh NPAs, such as the Hotel Leela-venture exposure of ₹4,200 crore. It was put up for sale within three months of declaring it as an NPA. The sale to JM Financial ARC, however, came as a big surprise to the promoters of the luxury hotel chain. The bank reasons that there was

no hope of generating cash in the next four to five years.

## Patron RBI

Much of the credit for the excitement in the distressed assets business must go to the RBI. "Most of the changes have come from the regulator, which is also in response to the



**RASHESH SHAH**, Chairman, Edelweiss Group

**“We see this as a resolution business, while many of our peers are looking at it as a recovery business”**

build up of NPAs in the system,” says Nikhil Shah, Managing Director at Alvarez & Marsal. ( See *The Push Has Come From The RBI*).

In the past 18 months, the RBI has introduced a slew of reforms, including hiking the initial investment by ARCs from 5 per cent of the acquisition amount to 15 per cent, to discourage ARCs from relying heavily on the management fee model for their survival.

In the 5:95 model, ARCs used to buy a bad loan at a discount from banks’ book value by paying just 5 per cent upfront in cash, while the balance was in the form of security receipts issued by them. ARCs also get a management fee of 1.5 per cent every year on the overall AUM they manage. In the 5:95 scenario, ARCs were content playing the management fee model because on an investment of ₹5 (on a ₹100 loan), they were earning ₹1.5, which meant a 30 per cent rate of return on the investment of ₹5 (see *Route To Recovery*).

Ever since the RBI mandated the cash composition to 15 per cent (15:85 model) in August last year, ARCs have a greater stake in moving from the ‘management fee’ model to the ‘investment model’ as the 1.5 per cent management fee only amounts to 10 per cent rate of return on a cash investment of 15 per cent. This gives the ARCs more of an incentive to actually turn around the company and make it profitable, instead of just passively earning profits through management fees. It also ensures that they work harder.

### **Restructure, Resolve and Deliver**

ARCs have no magic wand to revive a sick unit. They mostly use the bilateral route by working alongside the promoter to de-leverage the business. “We are financial restructuring specialists. We are not business restructuring experts,” says Eshwar Karra, CEO of Phoenix ARC. Players like ARCIL and Edelweiss are playing in big loans where dozens of banks are involved. Loan aggregation is a huge challenge and the resolution strategy centres around restructuring of loans to revive a unit.

JM Financial, which bought the Leelaventure loan, is in a bind. Loss-making Leela is asset-rich with well-run hotel properties. JM is still in dialogue with the company’s management, which is asking for certain concessions in interest and repayment terms from JM Financial. Meanwhile, Leela has also approached the government to provide concessions to the hotel industry, in terms of



## **ROUTE TO RECOVERY**

**How banks get their money back through security receipts (SRs) issued by ARCs**

### **STEP 1**

Banks sell a bad loan to an Asset Reconstruction Company (ARC)

### **STEP 2:**

ARC pays 15% upfront; issues SRs for the remaining 85% to banks

### **STEP 3:**

ARC starts the turnaround and recovery process

### **STEP 4:**

It earns 1.5% as management fee

### **STEP 5:**

Recovery proceeds to be shared by the banks and ARC

### **STEP 6:**

If the ARC fails to recover the bad loans within eight years, banks write-off the investment



loan refinancing. "We have represented to the government for longer term loan for hotel industry by including existing hotels in the refinancing scheme. We are awaiting response," says Vivek Nair, Chairman and Managing Director, Hotel Leelaventure.

Three months ago, JM had put out an advertisement for the sale of Hotel Leela's Chennai and Goa properties to reduce the debt burden. "They are yet to zero in on the sale. In this difficult environment selling a large hotel property is very difficult," says a banker. In May this year, the company decided to mobilise ₹1,000 crore through equity or debt. "Ultimately, Hotel Leela will be a strategic sale to a big hotel chain," says a rival ARC official. JM Financial refused to participate in the story.

Edelweiss ARC, on its part, is ar-ranging ₹600 crore from high networth individuals (HNIs) to complete its order for delivering a couple of ships to Bharati Shipyard. Unlike banks, Edelweiss ARC has the flexibility to reduce the interest rates drastically, whereas banks cannot lend below their base rates. Similarly, Edelweiss could convert part of Bharati's debt into equity, whereas such decisions by banks would come under scrutiny. ARCs actually have no such worries. "Our short-term plan is to revive the company in 24-30 months," says Antony. There are some who say new investors

## THE PUSH FROM RBI

**Raising ARCs' initial investment from 5% to 15 %  
RBI says ARCs must restructure the loan within 6 months, not 12**

**Banks can sell any loan which is overdue for 60 days though these are technically not NPAs**

**FIs can invest up to 74% in ARCs**

**ARCs can join banks to become a member of the lenders' forum**

**ARCs can repay SR obligations to banks in 8 years, not 5**

**ARCs are allowed to invoke SARFAESI Act, if they can aggregate 60% of the debt**

(generally private equity) demand priority over existing lenders as they are taking a bigger risk. "This preference is not acceptable to those banks who have not sold their loans," says a market observer.

While ARCs try to identify and take only those assets which can be made viable, it does not always play out that way. The oldest, ARCIL finally got the Corporate Power loan at a hefty discount, but the entire economics of the project has now turned on its head. The coal mine was re-auctioned recently to another player. Now, the coal mine advantage does not exist any more. Another big negative is the location of the unfinished plant. The Corporate Power plant is in Chandwa in Latehar district of Jharkhand, which is a Naxalite-affected region. "We are working towards a resolution. We have to

finish it. We have to get coal linkages. We have to also get the power purchase agreement (PPA) revised," says an official of ARCIL.

"Banks generally have factory buildings or land as security, but what about the other assets in a business which are not subject to security, such as business licenses, contracts, customers, employees, etc.? How do you transfer these assets under SARFAESI? There is a big hurdle in transferring the continuity of the business," says Haigreve Khaitan, Partner at Khaitan & Company.

## AMCs vs ARCs

**Globally, governments create asset management companies to deal with stressed loans**

- AMCs are usually set up after a systemic financial crisis, whereas ARCs in India were set up as a proactive measure
- ARCs are sponsored by banks or non government bodies, whereas AMCs are set up by the government for quick resolution
- ARC is a perpetual institution model to deal with distressed asset in an emerging market like India, whereas the global ARC model deals with a specific crisis or cyclical problem
- In good times, the ARC model could be misused by banks to transfer their bad loans in order to clean up their books, while AMCs are not available when there is no crisis
- ARCs have to run after banks to aggregate loans, whereas in many countries, AMCs get the combined loan exposure
- ARCs have to work in the same legal system as banks with some special powers, but AMCs are given far-reaching powers to resolve bad loans
- AMC is a recovery model mandated for faster resolution, whereas ARCs are more of a resolution and revival model and, therefore, takes between 5 to 7 years to resolve a bad asset
- Governments have funded many AMCs in the past, whereas ARCs in India have to fend for themselves
- Eventually, ARCs in India will work like a buy-out fund, whereas globally, government-funded AMCs are mostly used to park bad loans, such as the ones seen during the Asian crisis, in countries such as Korea, Thailand and Indonesia



## OPINION **HARI HARA MISHRA** THE NEXT FEW STEPS

**A**RCs were setup under the SARFAESI Act, 2002, to relieve banks and financial institutions of the burden of NPAs and allowing them to focus on their core activities. In the last few years, stressed assets of the Indian banking industry have risen alarmingly and is at a level of over 11 per cent of gross advances. However, ARC which were created to combat this menace of growing NPAs, have not been effective in absorbing the accumulated stock and increasing flow. This has necessitated a review of the functional effectiveness of ARCs and measures are required to strengthen the institutional framework.

Even after 12 years of its existence, the ARC sector is still struggling to play an effective role. Aggregate network of all 15 ARCs is just about ₹3,400 crore, compared to the outstanding gross NPAs of the banking system at over ₹3 lakh crore, which is nearly 100 times the combined net worth of all ARCs. If we take cognizance of the whole of stressed assets, including restructured assets, the presence of ARCs will look still more diminutive.

ARCs lack the capability to stand up to the challenge. Even in cases where they would like to

acquire, there is a stalemate over NPA sales, because of the price expectation mismatch between banks and ARCs. Banks have time-based provisioning and, quite often, there is a disconnect between the underlying value of an asset and its book value. Public sector banks tend to play safe in having a 'provide and hold' approach to NPAs rather than selling it at a lower price due to apprehensions of accountability for taking such a decision on a later date. For NPA resolution, debt aggregation is the key to sort out inter-creditor issues. However, due to lack of uniformity in asset classifications, variations in security and charge particulars, and differing price expectations in respect of assets across various banks, debt aggregation suffers and creates bottlenecks in NPA management.

Further, ARCs face considerable difficulty in transaction consummation because of widely divergent stamp duty and registration charges from state to state, and procedures adopted at various places even within the same state. When assets are across multiple states, the problems get compounded.

Against the above backdrop, there is now an urgent need to address problems faced by ARCs and to empower them to play effective role in NPA management. Here are 10 steps for improving the functional effectiveness of the ARC sector.

1. Allow ARCs to go public. This will help mobilise funds and ensure greater disclosures and more transparency.
2. Remove the sponsor holding restriction of 50 per cent (exclud-

ing where banks are the sponsors and the holdings are capped by the Banking Regulation Act). This will facilitate them to have deep pockets and adequate risk appetite to invest without waiting for a matching contributor.

3. Widen definition of qualified institutional buyers to include high networth individuals.

4. Allow listing of SRs and allow free transferability of these SRs.

5. Issuance of comprehensive guidelines for valuation of NPAs for sale to ARCs. In case of 100 per cent settlement funding in cash, bilateral transactions be permitted without any auction.

6. Unified approach by banks in selling asset under consortium finance. Threshold of 75 per cent for acceptance of any offer made by an ARC in case of consortium/multiple banking arrangement may be reduced to 60 per cent.

7. Uniform stamp-friendly regime across states.

8. Simplify and rationalise guidelines related to the change of management of defaulting companies and removal of the clause that mandates return of management to the old defaulting management after payment of dues.

9. Thorough review of process efficiency (or lack of it) in debt recovery tribunals / district magistrates in assisting security enforcement and ensuring timely disposal of cases.

10. Constitute a key advisory group with all stakeholders to review the functioning of the ARC sector and suggest time-bound measures. ♦

*The author is President, UV ARC, Delhi. Views expressed in the article are personal.*



## THE VULTURE FUNDS

Globally, companies make billions by even buying distressed country debt, instead of mere corporate debt

Vulture funds are basically private equity or hedge funds with deep understanding of special situations. They buy assets cheap, strip them and even take management control before selling them. They are known as vulture funds as they prey on companies which are in distress, but have the potential for revival and growth.

Globally, players such as Elliott hogged the limelight when, in the mid-90s, they pounced on sovereign debt of the Panamanian government at a hefty 40 per cent discount at \$17.5 million. Later, they even took the country to the court seeking full repayment of \$27.8 million. The court in New York came down heavily on the government, directing it to make the payment, including an interest of \$57 million, to Elliott. The other big players are Cerberus, JP Morgan, DE Shaw, Davidson Kempner I, KKR, Blackstone, Anchorage Capital and Goldman Sachs. The basic strategy of these funds is to buy cheap with the aim of making hefty gains. In India, too, many such funds are making a beginning, though the distressed asset market is yet to evolve due to

the country's legal system and also because most companies here are promoter-driven. A few years ago, US-based Apollo Global, a vulture fund, had tied up with ICICI Ventures to set up AION Capital to invest in distressed assets. Blackstone, WL Ross, KKR, DE Shaw, Farallon Capital and Clearwater are also operating in India. Their experience has so far been mixed. UK-based private equity player, 3i, has shut its buyout division. Distressed funds that entered the Indian market after the Lehman crisis have even lost capital. WL Ross & Co, though, has made decent returns in the last 10 years. Hong Kong-based SSG Capital has entered India through the ARC route. The idea was to go for a complete buyout, takeover the management, and revive it. KKR, too, is buying a stake in Mumbai-based IARC.

Vinayak Bahuguna, CEO and MD, ARCIL, says: "Globally, the strategy has been recovery and not restructuring. It means stripping of assets to get back money." With hopes of regulations changing, it is hoped that India will also open floodgates for the vultures to grab their prey.

In cases where an ARC decides to opt for the asset-stripping route without the consent of the promoters, there is lot of resistance. ARCIL has struggled to sell Tulip Star Hotel (erstwhile Centaur near Mumbai's Juhu beach) for many years. The company has successfully challenged the SARFAESI notice of ARCIL in the past. Board for Industrial and Financial Reconstruction (BIFR) is yet another escape route where, after the failure of a corporate debt restructuring (CDR), promoters can immediately approach the board. "Once you take a SARFAESI action, BIFR action gets abated. But practically, it doesn't happen," admits an ARC official.

Many ARC heads say that the legal system is the joker in the pack that spoils the recovery process. Globally, AMCs are set up to resolve NPAs. They have the backing of a judiciary to help in repossession and sale of assets. The reality in the Indian context is that you cannot throw a promoter out of the company. Shah's biggest learning in a short

period is: "You cannot be adversarial with banks and promoters. You have to find a win-win deal involving the ARCs, banks and promoters." There are currently 20 lakh recovery cases pending in Lok Adalats, Debt Recovery Tribunals (DRTs) and SARFAESI. According to the RBI, ₹1,73,100 crore worth of money is locked in courts with the recovery record at ₹31,100 crore as on March 31, 2014. (see *Resolution Through Courts*).

## The Banker's Guide

Bankers hold a grudge against ARCs that they are unable to turn around the stressed assets despite a lot of flexibility in restructuring a loan. "ARCs have limited financial muscle, which leaves little scope for revival," says the head of a PSU bank. ARCs have spent barely ₹3,400 crore

VIVEK NAIR, Chairman and MD, Hotel Leelaventure

**"We have represented to the government for longer term loans for the hotel industry by including existing hotels in the refinancing scheme"**





to acquire total assets of ₹1.89 lakh crore of book value till date. If all the NPAs do find themselves in the market, that's another ₹3.10 lakh crore which require at least ₹22,500 crore of capital from ARCs by the 15:85 principle. That's the kind of money ARCs do not have today because of various reasons: they are not allowed to go public for now and there is no secondary market for security receipts.

ARCs find it difficult to access funding for basic needs like working capital. The selling banks cannot lend, while non-bank entities, such as private equity, demand 18-20 per cent interest with priority in repayment over existing debt. This leaves the responsibility of a haircut on debt on the capital-starved ARCs. CRISIL points out in its recent study that an ARC had to arrange for working capital for a textile company (name withheld) when banking channels shut their doors on it. Similarly, another ARC arranged funds for a mid-sized developer to complete the project.

There are some who suggest that the ARC game play has changed with a higher initial contribution at 15 per cent for them. "This requires an integrated approach (involving) support from PE firms, distressed funds and turnaround specialists, among others," says Hari Hara Mishra of a Delhi-based ARC.

"There have been a couple of transactions in the recent past where foreign institutions were interested in ARCs. For example, KKR showed interest in International Asset Reconstruction Company (IARC) and Hong Kong-based SSG Capital in Delhi-based ACRE. For global players, investing in ARCs enable them to take an exposure in the growing distressed market and, this may prove to be a win-win for both. "These global investors provide transfer of technical knowledge, information and capabilities, which is going to equip ARCs to handle complex cases. This will also provide access to global network in terms of investments and industry knowledge," says Munesh Khanna, Partner (Corporate Finance) at PWC.

"Foreign capital must come here because ARCs are starved of capital. The track record of ARCs has been abysmal in terms of return on equity," says Vinayak Bhuguna, CEO and Managing Director of ARCIL. The return on equity is barely double digit. So the performance has to go up to attract foreign capital. Currently, the capacity of ARCs to take up more fresh bad loans is also limited because of their low capital base. According to a report on ARC business in India by turnaround specialist Alvarez & Marsal, the current capitalisation of all ARCs put together is around ₹3,000 crore. "With the cash component increased to 15 per cent of acquisition, the net worth of ARCs would be sufficient to acquire only ₹20,000 crore of stressed assets. Assuming ARCs acquire the NPAs at a discounted norm of 60 per cent of the book value, all ARCs put together can garner ₹33,300 crore of NPAs," says the report.

## RESOLUTION THROUGH COURTS IS TIME CONSUMING

YEAR	PENDING CASES	RECOVERY
2014	1,73,100	31,100
2013	1,05,800	23,200
2012	61,100	14,400
2011	50,000	15,700
2010	31,283	7,514

Recovery figures in ₹ crore

(Recovery also relates to cases of earlier years) Source: RBI

## CHALLENGES ON THE WAY

Valuation of bad loans is still a problem area. ARCs have more skin in the game with an initial investment of 15% from the earlier 5%



Bulk of ARCs' books comprises written-off assets that are hard to recover

RBI has allowed sale of SMA-2 accounts, but SARFAESI is not applicable

ARCs can't throw out promoters, they have no option but to work with them

Very few cases of ARCs buying the entire debt. Banks still hold debt that makes them party to a company's revival



IT, excise and other authorities claim first rights on priorities over secured creditors

No secondary market for security receipts

Sale of asset to ARCs attracts stamp duty charges in some states






Management fee is now linked to NAV compared to fee on outstanding AUM earlier

Not allowed to raise money from IPO market



## THE BAD PENNIES

The following five industries, accounting for 25% of total advances by scheduled commercial banks, were responsible for creating more than half the stressed assets.

SUB-SECTOR		MAR-13	MAR-14	JUN-14	DEC-14
	<b>Infrastructure</b>				
	Share in total advances of SCBs	14.6	14.4	14.8	15
	Share in total stressed advances of SCBs	28.8	29.4	30.7	29.8
	<b>Iron &amp; steel</b>				
	Share in total advances of SCBs	4.9	4.8	4.8	4.5
	Share in total stressed advances of SCBs	8.2	10.8	10.2	10.2
	<b>Textiles</b>				
	Share in total advances of SCBs	3.7	3.5	3.5	3.4
	Share in total stressed advances of SCBs	7.5	7.7	7.2	7.3
	<b>Mining</b>				
	Share in total advances of SCBs	0.7	0.6	0.6	1.3
	Share in total stressed advances of SCBs	0.6	0.9	0.9	1.4
	<b>Aviation</b>				
	Share in total advances of SCBs	0.5	0.5	0.5	0.5
	Share in total stressed advances of SCBs	3.9	3.3	3.1	2.4
<b>TOTAL</b>					
	Share in total advances of SCBs	24.4	23.9	24.2	24.8
	Share in total stressed advances of SCBs	48.9	52	52	51.1

Source: RBI; Data in per cent

The recent RBI move to allow banks to take 51 per cent equity by converting their debt will be a game changer. "This will work as a threat for defaulters. It will force promoters to come to the table," says Birendra Kumar, Managing Director and CEO at IARC. If that happens, a lot of stressed assets will not reach the ARC stage. Skeptics, however, say banks are not in the business of running a hotel or an airline. "Banks will enjoy a provision arbitrage for 18 months after converting their debt

into equity. But after 18 months, they also have to sell the company to investors. If they don't sell, the banks will have to mark to market the value of their equity periodically," says Khanna.

### More Gaps to Plug

Either way, there's miles to go before ARCs have sound sleep. One of their biggest bugbear is that banks do not follow a consortium approach of selling and, therefore, ARCs have to resort to a time-consuming process of dealing with each bank separately. Bharati and Hotel Leela are good examples of the consortium approach where SBI took



**HARSH PAIS**, Partner, Trilegal

**"It should be easier to enforce a pledge to sell a company and kick the management out but it is not easy and buyers don't want to get into trouble"**



**MUNESH KHANNA**, PARTNER, CORPORATE FINANCE, PWC

## **“Global investors can transfer technical knowledge, information and capabilities to equip ARCs to handle complex cases”**

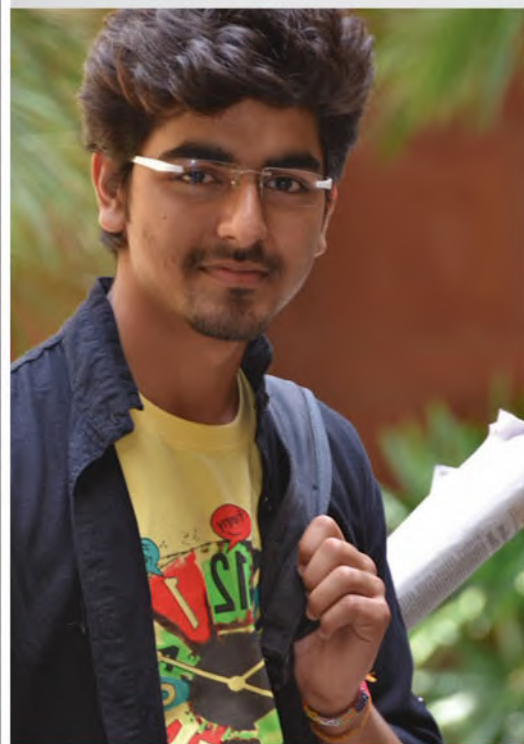
a lead, but in most cases, ARCs have to run after individual banks. This process could take as much as 6-12 months. “Big banks like SBI and ICICI, which are in big loans, can take a lead in bringing together all lending banks in a defaulting company,” says an ARC official.

Last week, ARCs raised another issue with Union Finance Secretary Hasmukh Adhia – that of joint bidding by ARCs. They suggested joint bidding would spread the risk in a large account. In Hotel Leela, Kotak’s Phoenix actually bought a small quantity of loan from a bank, which declined the JM offer because of valuation. Similarly, private equity players should be encouraged to buy stressed assets. Global private equity player KKR has already shown interest in acquiring a controlling stake in IARC. If the deal goes through, IARC will have access to KKR’s management bandwidth and its war chest of funds.

Raman Singh of Bank of India, who deals in stressed assets, says ARCs’ track record shows a recovery of 10-12 per cent of the book value and 50 per cent of the acquisition cost. This indicates half the SRs are as good as junk.

The outstanding SRs currently stand at close to ₹50,000 crore. And, more will get added along the way. If ARCs succeed, banks will also get their money, which is the objective of promoting specialised ARCs to recover bad loans in the economy. But if they fail to recover loans, it’s merely a book entry of transfer of a junk asset from a bank to an ARC. It is in the interest of everybody – the government, the banks, the legal system and the ARCs – to make the system work so that the NPA monster can be tamed. ♦

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# ***GOING AFTER THE ROGUES***

***SEBI CRACKS THE  
WHIP ON FOUR  
COMPANIES THAT  
SEEM TO HAVE  
BEEN RIGGING  
THE SHARE PRICES.***

**By MAHESH NAYAK**





# It

is not often that one hears about 239 entities and individuals being barred from a stock exchange by the regulator. But this is exactly what the Securities and Exchange Board of India, or SEBI, did on June 29 after its probe found that the Bombay Stock Exchange's (BSE) SME platform was being used to turn unaccounted money into legitimate market gains. The banned entities include four companies at the centre of the alleged fraud – Eco Friendly Food Processing Park, Esteem Bio Organic Food Processing, Channel Nine Entertainment (CNE) and HPC Biosciences. The others include those that were allotted shares by these companies in preferential allotment and pre-IPO placements, and those that funded the purchase of such shares.

## TIME TO ACT

How SEBI and exchanges can restore investor confidence

- The SME Exchange needs to work towards bringing in anchor investors, especially institutions
- The minimum public shareholding could be brought down to 10% from 25%
- The lot size must be reduced from the current ₹1 lakh to encourage more people to invest
- Listing guidelines must be same both BSE and NSE; dual listing (on both BSE and NSE) can also be made mandatory
- Can introduce compulsory safety net





"The scam will hit the confidence of investors in the exchange, impacting the ability of SMEs to raise funds," says Jay Parikh, Partner, Shardul Amarchand Mangaldas, a law firm. SMEs employ 40 per cent of India's workforce and contribute 45 per cent to its manufacturing output.

"The SME Exchange enables any company that needs capital to raise money, but the difficulty is in bringing in investors. Why would you invest in com-

(NSE). The platforms were launched in 2012 to give small companies access to capital.

### The Modus Operandi

The four companies at the centre of the storm were listed on the SME platform of the BSE between January and March 2013. What raised eyebrows, says SEBI's 80-page ban order, was the sharp rise in their shares between January 2013 and December 2014. For instance, Eco Friendly shares rose 6,265 per cent between January 14, 2013, and December 31, 2014. Similarly,

these companies (See...As PAT Fell). Eco Friendly, Esteem Bio and HPC are into cultivation, processing and distribution of agricultural products. Channel Nine is a producer and distributor of television serials, films and events. BT's attempts to contact these companies did not yield any result. Interestingly, Kolkata-based Guinness Corporate Advisors was the lead manager for all these four issues.

Despite their poor financials, these four companies raised funds through a series of preferential allotments to several entities. They also issued bonus shares.

At the IPO stage, says SEBI, a group of entities it calls the Funding Group – linked to entities that got shares in the preferential allotment financed a big chunk of the offers. The companies collectively raised ₹46.53 crore from their IPOs. Out of this, more than ₹19 crore was provided by the Funding Group. However, instead of using these funds for reasons listed while tapping the primary market, the companies transferred ₹30 crore (more than 50 per cent of the proceeds) to entities of the Funding Group either directly or through layering, says SEBI. Thus, they concealed the diversion of the IPO proceeds from the stated objectives, which is a violation of SEBI's listing rules.

The SEBI order further says that after the shares of these four companies listed on the SME platform, some entities, called the Trading Group, manipulated the price and volume of the four scrips and provided a profitable exit to preferential allottees and pre-IPO transferees.

"The funds required for purchase of shares by the Trading Group entities were provided to them through layering of fund transfers from several entities, including the entities of the Funding Group," it adds.

"The acts and omissions were prima facie for generating fictitious LTCG (long-term capital gains) so as to convert unaccounted income of preferential allottees and pre-IPO



## SHARES SOARED...

Little correlation between profits and stock prices alerted SEBI

SCRIP	PERIOD	PRICE RISE
Eco	Jan 14, 2013 to Dec 31, 2014	₹8.64 to ₹550
Esteem	Feb 07, 2013 to Dec 31, 2014	₹16.15 to ₹525
CNE	Mar 12, 2013 to Dec 31, 2014	₹17.60 to ₹525
HPC	Mar 19, 2013 to Dec 31, 2014	₹39.10 to ₹735

## ... EVEN AS PAT FELL

YEAR	ECO		ESTEEM		CNE		HPC	
	PAT	EPS	PAT	EPS	PAT	EPS	PAT	EPS
2010/11	1.48	2.85	2.14	428.46	0.04	0.9	0.0005	0
2011/12	<b>1.87</b>	<b>3.59</b>	2.94	98.12	<b>0.07</b>	<b>1.43</b>	3.05	4.66
2012/13	1.75	2.5	2.55	2.51	0.11	0.14	2.98	3.46
2013/14	<b>1.35</b>	<b>1.36</b>	1.84	1.23	<b>0.05</b>	<b>0.03</b>	1.25	0.77

PAT figures in ₹ crore; EPS in ₹; stock prices are adjusted; Source: SEBI

panies you are not sure about?" says Chirag Jain, Vice President, Merchant Banking Division, Ashika Capital.

A total of 101 companies have so far raised close to ₹1,000 crore on the SME platforms of both the BSE and the National Stock Exchange

Esteem Bio's shares rose 3,150 per cent, while that of Channel Nine and HPC rose 2,882 per cent and 1,782 per cent, respectively, between the middle of January 2013 and December 31, 2014. All this, despite the dip in profit after tax, or PAT, of

transferees into accounted one with no payment of taxes as LTCG is tax-exempt under Section 10(38) of Income Tax Act, 1961,” says the SEBI order.

Consequently, the preferential allottees and pre-IPO transferees collectively made a profit of ₹614 crore, it says.

## Other Problems

Experts say many companies are using the SME Exchange to enter the main board. “Many companies are using the SME Exchange to get listed as it’s a prestigious thing and enhances their valuations,” says Saurabh Agarwal, Director at Kennis Financial Services, a Mumbai-based wealth management company.

Take Anshu’s Clothing. It listed on the BSE SME platform in October 2012 after raising ₹5.05 crore. It graduated to the main board in just two-and-a-half years. What raises eyebrows is that the money was raised to give long-term advances, which is not a usual practice in the apparel business. Further, when it hit the market, it had a profit of ₹50 lakh in 2011/12. This fell to ₹2 lakh in 2013/14. The company switched to the main board even as the stock shed 50 per cent of its value. The BSE Sensex rose 50 per cent during the period. Interestingly, after its entry on the main board, the company has posted a loss of ₹21 lakh on a revenue of ₹38 lakh in 2014/15. Indeed, it’s easier to get listed on the main board via the SME Exchange route. Any company that wants to be listed on the main board must have posted a pre-tax profit of ₹15 crore on an average for at least three years. If not, 75 per cent issue must be subscribed by qualified institutional buyers. But a company listed on the SME platform can migrate to the main board after two years if its paid-up capital is ₹10 crore or more.

If it had not been listed on the SME Exchange, given its financials,



**ASHISH CHAUHAN**  
MD & CEO, BSE

**“If the regulator finds a discrepancy, it should take stringent action against the guilty”**

Anshu’s Clothing would have never made it to the main board under SEBI regulations. An email to the company did not elicit any response.

## Restoring Trust

Experts say misuse of the SME Exchange shows that there is a need to make systems more robust.

“The LTCG game also happens in companies listed on the main board. For that one cannot hold the whole exchange as faulty. There must be checks and balances. One way to check misuse is to broad-base participation by mandating anchor in-

RACHIT GOSWAMI



vestors,” says Mahavir Lunawat, Managing Director, Pantomath Advisory Services, a Mumbai-based financial services firm.

Companies with sizeable investments from institutions have given stable and steady returns. For in-

which will give confidence,” says Ravi Varanasi, Chief, Business Development, NSE.

Another way to widen the investor base could be by integrating the markets and making it mandatory for the SMEs to list on both the BSE and

stringent action against the guilty.

The BSE recently changed the SME listing norms by raising the paid-up capital requirement after the IPO from ₹1 crore to ₹3 crore as well as mandating a minimum net worth of ₹3 crore as against the previous requirement of ₹1 crore.

SEBI, which has kept retail and small participants away from the SME Exchange by mandating strict entry norms, must also get its act together. “Lower trade size after listing and lower underwriting levels are the need of the hour. These will increase liquidity and encourage more stakeholders to look at the SME Exchange,” says Pantomath’s Lunawat, who feels that the minimum public shareholding in SMEs should be lowered from 25 to 10 per cent.

There is often a mismatch between the valuations of SMEs and their funding needs. “We are dealing with various SMEs whose valuation is, say, ₹40 crore to ₹50 crore for a 25 per cent stake, while their requirement is 50 per cent of this or lower,” says Lunawat. “SEBI needs to ensure that the public float of 25 per cent will be ensured before the SME migrates to the main board,” he says (see *Time to Act*).

Chauhan’s focus is on bringing more companies to the BSE SME platform. “My vision is aligned with that of the Prime Minister, to give SMEs access to capital markets so that their growth is not restricted due to unavailability of capital. SMEs are key to job creation.”

SEBI, exchanges and institutional players, such as SIDBI, conduct seminars each month to encourage SMEs to tap capital markets, but there is not enough focus on quality.

“It’s important that the exchange generates credibility and visibility for the SME so that it also gets access to bank funds,” sums up Samir Bhatia, founder and CEO of *SMECorner.com*, an online platform that helps SMEs get loans. ♦



**SAURABH AGARWAL**  
Director, Kennis Financial Services

“Many companies are using the SME Exchange to get listed as it’s a prestigious thing”

stance, Ashapura Intimates, with substantial investment from Small Industries Development Bank of India (SIDBI), or SI VI Shipping, in which Edelweiss has picked up a stake, have given decent returns with much less volatility. “Participation from big banks can make a big difference. They will bring quality companies

the NSE.

Exchanges have already taken steps to improve credibility of their SME platforms. The NSE, for instance, asks CRISIL to evaluate companies before taking them on board. “We verify each company through a credit rating agency,” says Varanasi. So far, the NSE has allowed only manufacturing companies on its SME platform. It has stayed away from financial companies. The NSE also uses quantitative factors to analyse companies before listing them on its SME platform and not just qualitative ones.

“If some companies or merchant bankers are indulging in unfair practices, they should be thrown out,” says BSE Managing Director Ashish Chauhan, adding that if the regulator finds irregularities, it should take

@MaheshNayak

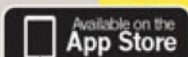
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# Conquering The *English* Channel



# Hollywood blockbusters and English entertainment channels are the new cash cows. By AJITA SHASHIDHAR

**W**hen the Paul Walker, Dwayne Johnson and Vin Diesel starrer, *Fast & Furious 7* hit the Indian screens in April this year with an adult certification from the Indian censor board, it left teenagers across the country immensely disappointed. However, what came as a big surprise to everyone is that this 'adults only' certified film went on to become the first ₹100 crore grossing Hollywood film in India. The earlier version of the film had raked in a revenue of just over ₹50 crore.

With Internet penetration increasing, smartphones and tablets becoming a way of life, there are no second thoughts that the average Indian is far more exposed to global content than even five years ago. In fact, 2015 is clearly a landmark year for Hollywood blockbusters in India. Soon after *Fast & Furious 7*, *Avengers 2* and *Jurassic World* were released and both of them have grossed revenue upwards of ₹100 crore.

In fact, *Jurassic World's* box office collection in the first week itself was ₹50 crore, which is at par with the kind of revenues that a Bollywood A-list film like *Happy New Year* or *Kick* generated in the first week of release. "We are releasing big tentpole Hollywood films even before they are released in the US," says Amrita Pandey, Vice President and Head (Marketing and Distribution Studios), Disney India. The studio released *Avengers 2* in India in May this year.

In a country of 1.2 billion, over 210 million speak and consume content in English. This number is expected to grow to 250 million in the next couple of years. The English speaking population is 10 times higher than a decade ago, when it was about 25 million. "Therefore, English entertainment is becoming increasingly important for not just the studios but also the broadcasters," says Sudhanshu Vats, CEO, Viacom 18. The entertainment company, which already has a bouquet of English Entertainment channels, such as Comedy Central and VH1, has recently launched its English general entertainment channel, Colors Infinity. Its studio arm would be shortly releasing *Mission Impossible* in India.

While the likes of Disney are hugely focused on marketing their Hollywood releases in the Hindi speaking and vernacular markets where they dub the film in local languages, Universal Pictures, which released *Fast & Furious 7* and *Jurassic World* in India, has changed its distribution strategy.

The studio, weeks before the release of *Fast & Furious 7*, decided to move away from the Motion Pictures Association norm of releasing films only on 2K platforms (a digital technology which is mostly offered by large multiplex chains in India), and released it on non-2K digital platforms also. "One of the reason for this norm was security and quality issues. Markets across the world changed to 2K, but India didn't do as extensively. We got only 2,000 screens as per 2K standards. In non-2K there are over 6,000 screens," points out Sarabjit Singh, General Manager, NBCUniversal.

By releasing the film on non-2K platforms, especially in the Tier-II and III cities, the studio was able to release the film on an additional 800 screens. The film generated an incremental 20 per cent revenue. In fact, over 40 per cent of the revenues of *Fast & Furious 7* and *Jurassic World*, came from Tier-II markets.



RACHIT GOSWAMI

**"English entertainment is becoming important for not just the studios but also the broadcasters"**

**SUDHANSHU VATS**, CEO, Viacom 18



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"For the first time Hollywood films gave us such handsome returns," agrees Ashish Bhandari, Co-Founder and Joint Managing Director of United Media Works, a non-2K digital distributor in several Indian states.

All the studios are marketing their films just the way they market Bollywood films. For *Avengers*, says Pandey, Disney created life-size figurines of the characters and did a spate of promotional activities across cities, apart from advertising on leading Hindi and vernacular TV channels and newspapers. "We marketed the film like a Hindi blockbuster and we also did cross promotions. For instance, we launched the ABCD2 trailer during the *Avengers* screening."

The advertising and promotion budget of most big Bollywood films is in the region of ₹10 crore. Pandey of Disney says that promotional spends for Hollywood releases is rising though they are not as much as Bollywood films.

## Action Pays

Why didn't a Hindi film like *Dil Dhadakne Do* not do as well in a market like Kanpur or Indore as a *Fast & Furious* or *Avengers*? The unanimous opinion is that action films always do well in small town India. "Action is language agnostic," points out Vats of Viacom 18.

Singh of Universal Studios agrees that Hollywood action films do have takers in Tier-II and III markets because of their high quality special effects. "We may not embark upon such a widespread distribution strategy when we release a film which is non-action," he says.

## English Broadcast

The viewership of English channels has soared by over 30 per cent in the last one year. According to Navin Khemka, Managing Partner at Group M's media agency, Maxus, there is a 43 per cent jump in commercial time sold on English general entertainment channels and a 15 per cent increase on English movie channels.

In fact, M.K. Anand, CEO, Times Network, claims that the ad price of his channels, Movies Now and Romedy Now, have gone up by 50 per cent in the last one year. "HD



NISHKANT GAMBRE

**"Digitisation has enabled us to offer a wider range of channels [even] in smaller markets"**

M.K. ANAND, CEO, Times Network

channels are giving advertisers an effective way to reach out to segmented high end audiences. Also, latest content is being aired at the same time as the West and that is also drawing viewers," explains Khemka.

No wonder, most big broadcasters are launching their second or third English channels. The last couple of weeks has seen the launch of three new channels—two of them are movie channels, Star Movies Select and MN+, and the general entertainment channel Colors Infinity.

The major trigger for the growth in viewership is obviously digitisation. "Digitisation has enabled us to offer a wider range of channels not only in the traditional English footprint of one million plus metros, but also in smaller markets which has a sizeable English viewing population," says Anand of Times Network. He says that his network, in the last year-and-half, has made its channels available in

1,400 digital networks as opposed to 250 earlier. "The viewership of our channels was just eight to 10 per cent, today, it's over 22 per cent," says Anand.

Vats of Viacom 18 says that English channels contribute about five per cent to his company's overall revenue of ₹2,000-odd crore, which he expects to increase to at least 10 per cent in the next three to four years.

He is hopeful that the English genre will make a giant leap once digitisation is rolled out completely. "Once packaging happens the discovery of people wanting to consume the English genre will go up drastically."

English entertainment has for sure reached an inflexion point in India. Be it TV shows such as the *Game Of Thrones* and *Two and a Half Men* or films such as *Avengers* and *Transformers*, there are enough takers. But we are still some distance away from markets like China, where *Terminator* raked in \$250 million, which was higher than what it garnered even in the US. The stumbling block here is nothing but infrastructure. India has 13,000-odd screens for a population of 1.2 billion. There are hardly 12 screens for every one million people. In contrast, the US has 120 screens per million people.

Clearly, the demand for English entertainment in India is set to jump exponentially in the days ahead. ♦

@AjitaShashidhar



# Staying Ahead in the Age of Competition

*Marketing strategist **Jack Trout** says that paranoia is essential for business success in a highly competitive world. He shares tips on dealing with competition with **Chitra Narayanan** in this exclusive interview*



**Is it really the age of competition or is it the age of alliances? We have seen unlikely partnerships being formed by business rivals to stay ahead today. Would you advise collaboration rather than competition?**

It is, indeed, the age of competition, not alliances. Alliances tend not to work over the long haul since each partner has different needs and agendas. Consider the Hero Honda alliance, which was the dominant motorcycle brand in India. But when Hero wanted to move to export, Honda declared that unacceptable as they were already a dominant global brand. The result was a divorce and Honda is now a major competitor to Hero in India. Interestingly, Bajaj, the

number three player in motorcycles, now has two tough competitors, rather than one. Their obvious move is to shift their focus away from commuter to sport motorcycles where they have a strong advantage, having pioneered the category.

**Quite a few business leaders believe in keeping an eye on the customer rather than on the competition. After all the customer is changing faster than competition? Is that the right strategy?**

Customer orientation is necessary but not enough as all the company's competitors are customer-oriented or they will not survive. This is why competitor orientation is critical to survival as you must differentiate yourself from your competitors. Without

**Jack Trout**, President of Trout & Partners, is the originator of 'positioning' and other important concepts in marketing strategy

differentiation, all you have is 'price' as a tool.

In India, Kirloskar's agricultural pump sets is an example. Their problem was Chinese pump sets that were selling on price. Kirloskar had to differentiate its sets as more reliable, thus lasting longer as compared to Chinese pump sets. It was a case of providing the consumer evidence of the greater value of the product. The beauty of this longevity strategy was that the Chinese pumps have not been operating in China anywhere near as long as Kirloskar pumps. This gave Kirloskar a built-in advantage when discussing time in operation.

In the age of competition, you avoid your competitor's strength and attack at weakness. Strategic planning will become more and more important. Companies will have to learn how to attack and to flank their competition, how to defend their positions, and how and when to wage guerrilla warfare. They will need better intelligence on how to anticipate competitive moves.

### **Is the digital economy rewriting the rules of competition?**

In some categories, the answer is yes. Retail is an

example. People can go online to order as opposed to having to go to a store. And with the likes of Amazon in the US or Alibaba in China, these companies have become giant retailers that have, indeed, rewritten the rules of competition. But not everything can be ordered online, especially where there is service or customisation involved. An example in the retail world is Nordstrom, a department store that has made service the cornerstone of their strategy. They have been less affected by the online retailers.

### **Today, the competition is fragmented – may not even be from within the same industry but come from somewhere else. How can a company watch out for the unexpected?**

The key to the unexpected is to stay nervous. Paranoia is critical to success. What I mean is that constant diligence is necessary in a competitive world. Everyone is after everyone's business, so a good worrier is a good marketer.

The biggest mistakes I've witnessed are companies that didn't take their competitors seriously until it was too late. The level of competition in today's world is excep-

## **If your competitor is smaller than you, you should move against your competitor as soon as you can so that they cannot develop momentum**

tional and only getting better. It is truly the survival of the fittest.

What people have to realise is that flexibility is a necessary mindset if you want to succeed. You can't predict the future so you must be ready to adapt.

### **What are your tips for dealing with and staying ahead of the competition?**

If your competitor is smaller than you, you should move against your competitor as soon as you can so that they cannot develop momentum. General Motors hung back when the Germans and Japanese cars invaded the US market with small cars. They felt they could not make money on this type of car so they rationalised their position by convincing themselves that Americans wanted big comfortable cars. We know they were wrong.

Whilst if your competitor is bigger than you, the best strategy is to sneak up and never appear to be

threatening. Southwest Airlines began with their service only in Texas, and non-hub airports. It then moved to the West Coast, spread to the Midwest and worked its way to the East Coast of the US – it maintained some real differences from its competitors that kept his cost down and today has kicked many butts!

There are times when it is advisable to 'shift the battlefield', i.e., to shift the efforts to a place where you can take better advantage on your strengths.

Another key to staying ahead of competitors is 'new and improved'. You can't just sit there and become a target. No other company in the history of marketing can match Gillette's efforts in the razor blade world. They are constantly adding blades and features to products that often replace existing products in which they have invested heavily. Today they have over 60 per cent of the razor blade business, a number they have held for decades. They also have very few competitors because most have discovered that taking on Gillette can be costly and not very productive. If there were a competitive hall of fame, Gillette would be at the top of the list. ♦

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# What's Apppening?

**Move over gaming. Indians are increasingly using apps for shopping, reading and photo editing, and this trend has deep implications for advertisers.**

By CHITRA NARAYANAN

When at home, Samridhi Sharma, 19, is always curled up in a corner with her Android smartphone, either snapchatting away or browsing through e-commerce apps. Photos are a big part of her phone usage. But every single picture clicked is air-brushed with Photo Editor or other similar apps. A heavy shopper on the mobile phone, she has half a dozen e-commerce apps, a mobile wallet and cab aggregator apps. She changes her phone's wallpaper literally every week and has installed a launcher app to customise the look of her device, and introduce shortcuts.

The growth in the use of personalisation apps (custom lock screens, launchers,) is a significant trend in

the way Indians use apps. Even as gaming still remains the number one app activity globally as well as in India, the big story is how users in Asia and India are shifting from apps for entertainment and gaming to more utility and productivity-oriented ones such as Battery Doctor, Clean Mate, shopping apps, personalisation, travel, news and reading apps.

"We work mostly on utility apps centred around photo/audio/video. The offtake in that space closely tracks the growth of smartphone penetration in the country," says Rohit Bhatt, CEO and MD of Robosoft Technologies, a mobile app developer that also has gaming apps like Spell Up, a word game, and Star Chef, a cookery and restaurant management game. According to a Cisco report, there are over 140 million smartphones in the country and over two million tablets. The report projects that smartphones will touch 651 million by 2019 in India.

## A Story of Diversification

"We believe that Asia is really shifting the diversification of app use and expanding usage across board," says Christopher Klotzbach, Head of Product Marketing at Flurry, a mobile analytics company now owned by Yahoo! He describes how photo editing apps such as Makeup Plus or Beauty Cam are very popular in Asia and says, "We are starting to see users in India drive growth there in terms of sessions use."

The growth of photo editing apps are of course linked to social media and the way pictures are increasingly shared over messaging applications. "You always want to look best in the photos you send to your friends and mobile users have the ability to edit photos in apps in a very easy and convenient way," says Klotzbach.

Even as photo editing apps record good growth, shopping is a huge category, in terms of time spent, in Asia. "It is second only to gaming.



**Christopher Klotzbach (R)** at Yahoo!'s Mobile Developers Meetup where he shared his company Flurry's research on how the world and Indians use apps

Nineteen per cent of users' time spent in Asia is on shopping applications. And, we firmly believe that India has a huge stake in that," says Klotzbach.

Those stats – based on a usage survey that Flurry did of 42,000 apps in 82 million devices in India – must be sweet music to the ears of players like Myntra that have gone mobile app only, and Flipkart, which reports suggest will go the same route soon. "India is early to the game of shopping through apps," says Klotzbach, predicting that we will see a bigger shift in the days ahead to mobile app commerce. "In the US, two-thirds of the users prefer apps over browsers," he says.

But even sweeter news for those investing in apps is the way overall app usage in India has grown. "Overall, in terms of app sessions (every time somebody opens an application), India grew year over year

by 131 per cent, outpacing Asia and the rest of the world, which is pretty remarkable, says Klotzbach. "We are seeing huge engagement and huge growth in India."

Klotzbach was here to host Yahoo!'s first-ever Mobile Developers

"Users are picking up applications over a hundred times a day," says Klotzbach, pointing out how from an advertising perspective it's now an absolute imperative for brands to shift their dollars into mobile apps.

Already that trend is visible. Market research firm eMarketer predicts in-app advertising will grow 10



**"India is early to the game of shopping through apps... We are seeing huge engagement and huge growth (in terms of app sessions)"**

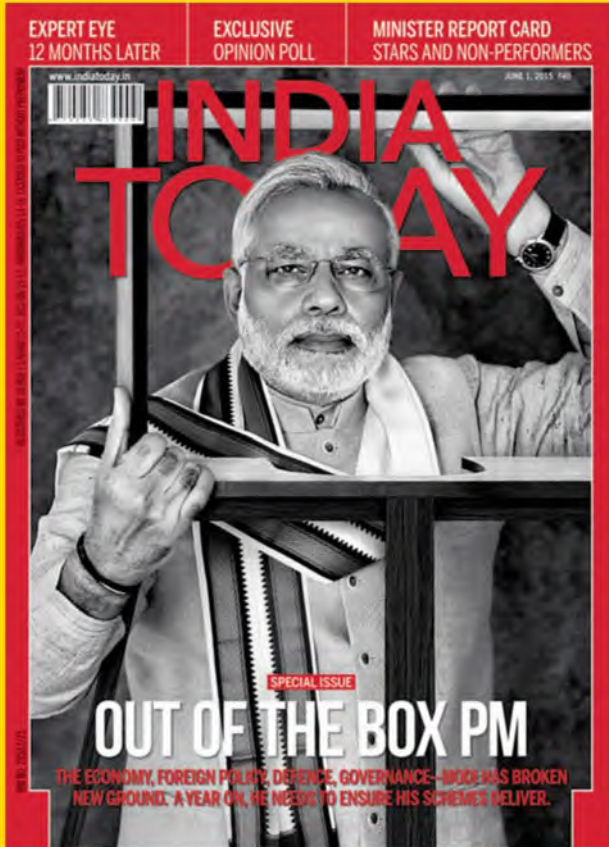
**CHRISTOPHER KLOTZBACH**, Head of Product Marketing, Flurry

Meetup in India and share Flurry's research on how the world and Indians use apps. For the app developers it must have been heartening to hear that 2014 marked the first year that users' time spent on mobile eclipsed the daily time spent on TV.

per cent faster on average than mobile web. By year-end, the app economy is expected to generate \$21 billion through advertising. By contrast, only \$7.93 billion would be spent by advertisers on mobile browsers.

Sanjeev Jasani, Head of Digital at





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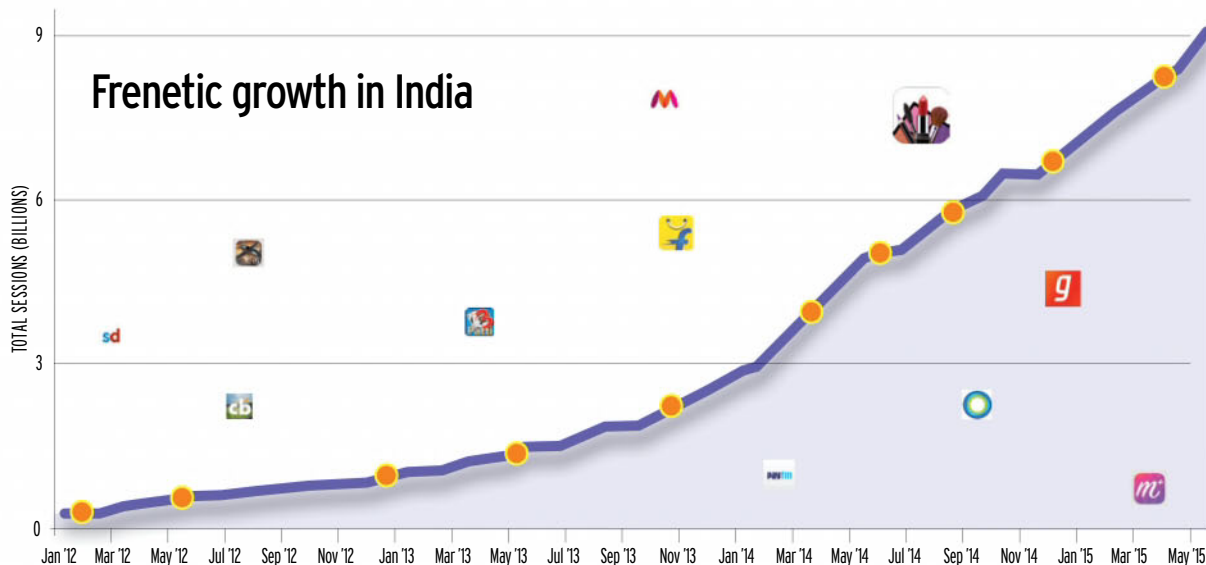
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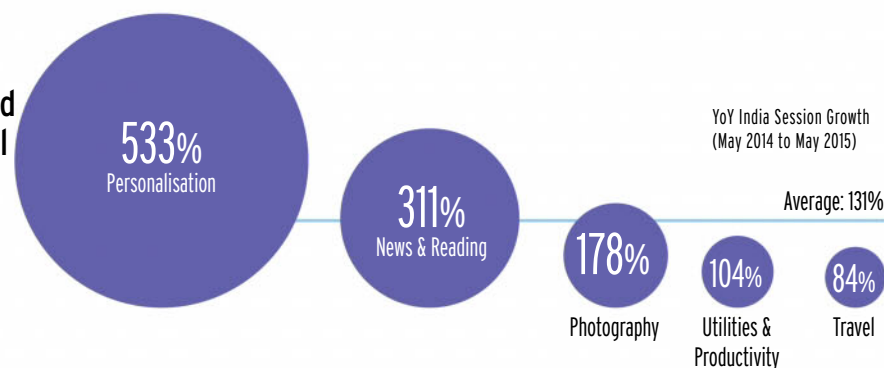


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## Personalisation, News & Reading, Photography lead India's app growth; overall growth outpacing Asia

Source: Flurry Analytics



ad agency Cheil India, says although advertisers are only scratching the surface of apps today, the space will evolve and he's personally excited about it. "Mobile landing pages will move from plain old URLs to deep links within apps. The game will shift from app-installs to app-engagement and these will be because of the in-app growth," he predicts. "You will see more native, interstitial and take-over ads with interactive and experiential content," he says.

### Going Native

"I think users engage 65 per cent more in native ads than they do on standard display units," says Klotzbach. Advertisers have also got a big response from video ads in gaming apps. "Video isn't a great format for gaming applications, but, during a break in a game, or a level break, app

developers often put video ads and they've seen success," says Klotzbach.

Games are still a big medium for brands as, surprisingly, mobile users are not averse to paying to progress in a game. "Our games are all free-mium (free to download) but the user has to make purchases within the game if he wants to speed up the progress, buy items that will make his game persona look better compared to other players. Compared to the rest of the world, the monetisation of games in India is mostly via advertisements displayed within the game," says Bhatt of Robosoft Technologies, pointing out that according to Chartboost (an ad network), the Indian market was the second-fastest growing market in the world, in terms of total time spent on games.

But for Klotzbach, it's the rate of growth being witnessed on non-

gaming apps that is more fascinating. "Between Q1 of 2014 and Q3 of 2014 time spent on mid to long tail apps grew by 21 per cent. Time spent in the top 25 apps grew by only one per cent. So, we are seeing apps that are providing different services than your traditional top 25 gaming and social apps really driving the growth of app usage in India and Asia," he says.

The implications of growing app usage are enormous for marketers. It could potentially impact email marketing too. Increasingly as e-commerce players shift to mobile apps, notification marketing could become more prevalent. Smart players are already moving into this space.

For marketers, it's time to take note of these trends and apply in their playbooks. ♦

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# Coming of Age

E-COMMERCE  
COMPANIES  
ARE WAKING  
UP TO THE  
NEED FOR  
SENIOR  
TALENT IN  
THEIR FOLD.

By SHAMNI PANDE



**Peeyush Bansal**, 32-year-old founder of online eyewear portal Lenskart, believes that errors of judgement can be minimised with the induction of experienced hands into the ranks

## MAKING EXPERIENCE COUNT

At least **five per cent** of the **top leadership team** of e-commerce companies is above 38 years of age

Most have at least **two decades** of experience

These seasoned hands bring in **systems and processes**



VIVAN MEHRA

But experience comes at a price. Salary ranges in the **₹2 crore to ₹7 crore** per annum bracket (usually includes stock options)

India has been waking up every morning to headlines on the madcap antics of 26-year-old Rahul Yadav, the controversial founder of Housing.com. Be it the rude letter to his investors, the bizarre distribution of his personal equity to all his staffers or a foolish prank on

the media culminating in his very public sacking, it's a circus out there.

Was it immaturity playing out? Was it an inability to handle pressures of scaling up so quickly and keeping his venture capitalists happy? Or was it mere whimsicality?

Haresh Chawla, Partner at India Value Fund Advisors, in a moving account of the Yadav saga believes it was the lack of an experienced senior that led to his fall. "No one asked them to pause, to review, to reflect... He had no mentor in the group," he writes, sounding a warning to all 20-something start-up founders on the importance of creating management strength they can lean on.

While the Yadav saga is an extreme example, there are other smaller examples as well. Take the way Indian online eyewear portal Lenskart tried to ride on the Nepal earthquake with an SMS promotion, 'Shake it off like the earthquake' for a discount offer. The company got pilloried for putting out an ad in poor taste. It was just the kind of mistake that any seasoned industry professional would have guarded against.

Peyush Bansal, the 32-year-old founder of Lenskart, quickly responded with an earnest apology but this incident has taught him a new lesson – he now recognises the need for senior talent in his young organisation. "Yes, of course," he says, ac-



"It was important for seniors like me to understand the focus of Amazon so that its values and style of functioning are consistent across geographies"

**AKHIL SAXENA**  
Director Operations, Amazon

NILOTPAL BARUAH

knowledging that such oversights can be controlled through the induction of experienced hands. They (start-ups) require long-term strategic thinking, which sometimes comes with exposure and experience of having lived through multiple situations," says Manish Bhatt, Founder-Director, Scarecrow, an ad agency.

The brave young world of start-ups is suddenly realising the need for a few grey hairs and throwing open its doors to experienced seniors. "Tenured talent is being sought after by e-commerce players. They bring in specific knowledge and experience relating to products, platforms, processes, systems or technology along with a specific functional capability especially involved in scaling up operations," say Pallavi Kathuria, Partner at Egon Zehnder, a leadership talent search firm.

Aparna Chopra, who has joined Lenskart very recently as VP, Strategic Initiatives, has no illusions about her key responsibility area (KRA) at the eyewear portal. "I'd say my experience is the most valuable thing I can bring to an organisation," says the well travelled executive, referring to her 17-year association with MNCs such as Nestle, Starbucks and Costa Coffee. "In a young start-up, one often tends to overlook building a solid foundation due to the dizzying speed at which growth takes place. However, I'm in a position to enforce a strategic view and make sure that the bigger picture is taken into account," she says.

Be it Flipkart, Snapdeal or Amazon, everyone's now hiring senior talent in droves. Snapdeal has recently recruited Amit Choudhary from Procter & Gamble (P&G) as its

Senior VP, Corporate Finance. Choudhary was spearheading the MNC's Asia pet care business across several countries, including Japan and Australia. Srinivas Murthy, Senior VP, Marketing at Snapdeal, was with pharma giant GlaxoSmithKline in his previous assignment. Murthy was the regional director in Africa. Snapdeal's new Senior VP, Finance, Vivek Patankar was earlier based at Unilever's London Office, in charge of the consumer goods company's entire global business. "With the rapid growth in the e-commerce industry, it is imperative to look at people who are self-driven and have risk-taking abilities," says Saurabh Nigam, VP, HR, Snapdeal. "As e-commerce is essentially a complex business model that requires continuous company reinvention, we are looking at a talent

pool with dynamic skill sets.”

But with the growing presence of senior talent in their ranks, the workplace dynamics and culture at e-commerce companies is now changing. No longer is it young and whimsical.

## New Character

Induction of senior people often changes an organisation's culture or character, according to Kartik Hosanagar, Professor of Internet Commerce at The Wharton School of the University of Pennsylvania. “In young start-ups, founders often call the shots and there is no expectation of consistency. Individual whims may dominate over processes.”

“We find that senior people are questioning our style of operations and are creating processes that make logical and business sense,” says a 24-year-old employee of one of the top three e-commerce companies in India. “Earlier, we would blindly do things that were suggested without a thought to the impact.”

For the seniors now walking into a young workplace, the ability to carry the entire team along is crucial. Some e-commerce companies – such as Amazon – even give them a crash course on the organisational philosophy and goals. It is intended to ensure their smooth integration into the team. Consider the example of Akhil Saxena, who joined Amazon in July 2013 as Director Operations. “Here we are obsessive about customer focus and satisfaction. Any action is taken by keeping that in mind and catering to that need. Hence, it was important for me to take that time and understand the focus of Amazon so its values and style of functioning is consistent across geographies,” he says. The end result – he has managed to deliver with speed and efficiency and also ensure that the entire team works together with him on projects. “When I joined, there was only one fulfillment centre (warehouse), and in 14 months I was able to launch 11 centres,” says Saxena.

Saxena's over two-decade experi-

## MOVERS AND SHAKERS

A number of high-profile seasoned hands are shifting to e-commerce companies

**Abhijeet Muzumdar** has joined Amazon India as its head of corporate development and private investments. He was the vice president of a global VC firm, Bessemer Venture Partners

**Pratik Seal** is now the Chief Marketing Officer at Housing.com. He was the business head at Star India

**Punit Soni** has crossed over to Flipkart as its Chief Product Officer. He was product management executive at Google

**Saikiran Krishnamurthy** has been recruited by Flipkart as Chief Operating Officer (COO) of its commerce division. He was partner at McKinsey & Co.

**Vikram Raizada** has joined Amazon as one of the category directors. He was the CEO (Retail) at Tara Jewels

**Jeyandran Venugopal** has been brought on board by Snapdeal to map out its future technology roadmap. Venugopal was previously with Yahoo! India

ence at Hindustan Unilever and KEC in operations has served him well in his current role at Amazon. But, above all, he believes that his substantial experience in mentoring the young has played a pivotal role in his success. “I am comfortable with high quality and young talent, and have been a coach and mentor to many young leaders and trainees,” he says.

Others also point out that e-commerce companies need a mentoring process for its young talent. “We realise that we cannot grow only on the basis of the high energy of 20-somethings. At the end of the day, they are young and are really are not in a position to create processes that are required to manage fast growth,” says Swati Bhargava, the 32-year-old founder of CashKaro.com, an online cashback and coupon company.

## No Longer Flat

So, what is clearly going out of the window is a flat organisation that was really at the heart of most of these young companies. “That does not work. Fact is people in their mid-to-late 30s are likely to be married and have kids. This makes them more settled and, in addition, they bring in valuable domain experience,” says Bhargava. Yes, there is the critical bit about the comfort of investors too. They would surely be worried about an organisation that is run only by people in their 20s. And there is nothing better than getting a former entrepreneur or a professional to shake things up. “This is not something new, even I was sought for skills as an entrepreneur,” says Subrata Mitra of Accel Partners, a venture capital fund, who was an early investor in Flipkart and is now on its board.

There are examples galore of e-commerce companies poaching senior talent. Consultancies and consumer goods companies are the favourite hunting grounds. Recently, Flipkart hired former McKinsey director Saikiran Krishnamurthy as Chief Operating Officer of its commerce di-



vision. Paytm has taken on board Nehul Malhotra, Head of Merchant Operations at McKinsey, as the digital payments company continues to forge ahead in mobile commerce.

## Organisational Stress

Yet, this kind of recruitment policy is mixing up the age profiles, where the tenured talent is even older than the founders. It is not only changing the work dynamics and the work culture, but also leading to organisational stress.

Ritesh Agarwal, Founder and CEO of OYO Rooms, candidly speaks about the impact of the induction of senior talent. "Of course, it is not easy dealing with people who are smarter than you," says this 21-year-old, who set up his budget hotel aggregator when he was just 19. The company has recently brought on board Abhinav Sinha from the Boston Consulting Group. It has recruited Ayush Mathur (earlier with Parthenon Consulting) to head Delhi operations and, among others, Shreerang Godbole from McKinsey & Co. to run Mumbai operations.

"Fact is that founders are control freaks and they think they know it best. So, it is very stressful learning to back off and trust senior colleagues. You have to learn to give them space and autonomy, and also earn their respect," says Agarwal.

The learning and adjustment process is clearly not easy for the young talent in an outfit, often including the founders. But wisdom gradually dawns on them that it is best to have seasoned

professionals running the show. "He (Agarwal) is extremely driven and passionate and has the gift of getting many senior people on board. But, he is also a guy who has no experience of having worked in a professionally-run organisation. So he is also learning and evolving as a leader," says Ravi Kiran, former CEO of Starcom MediaVest Group South East and South Asia, who is now the co-founder of VentureNursery – the start-up accelerator for OYO Rooms. Today, OYO Rooms has over 500 people on its rolls with average age around 24 years, and the leadership team of around 50 people has senior talent in their early forties as well.

Experienced people coming into an organisation can bring in key processes, says

"Tenured talent is being sought after by e-commerce players. They bring in specific knowledge and experience..."

**PALLAVI KATHURIA**  
Partner, Egon Zehnder



SUBIR HALDER

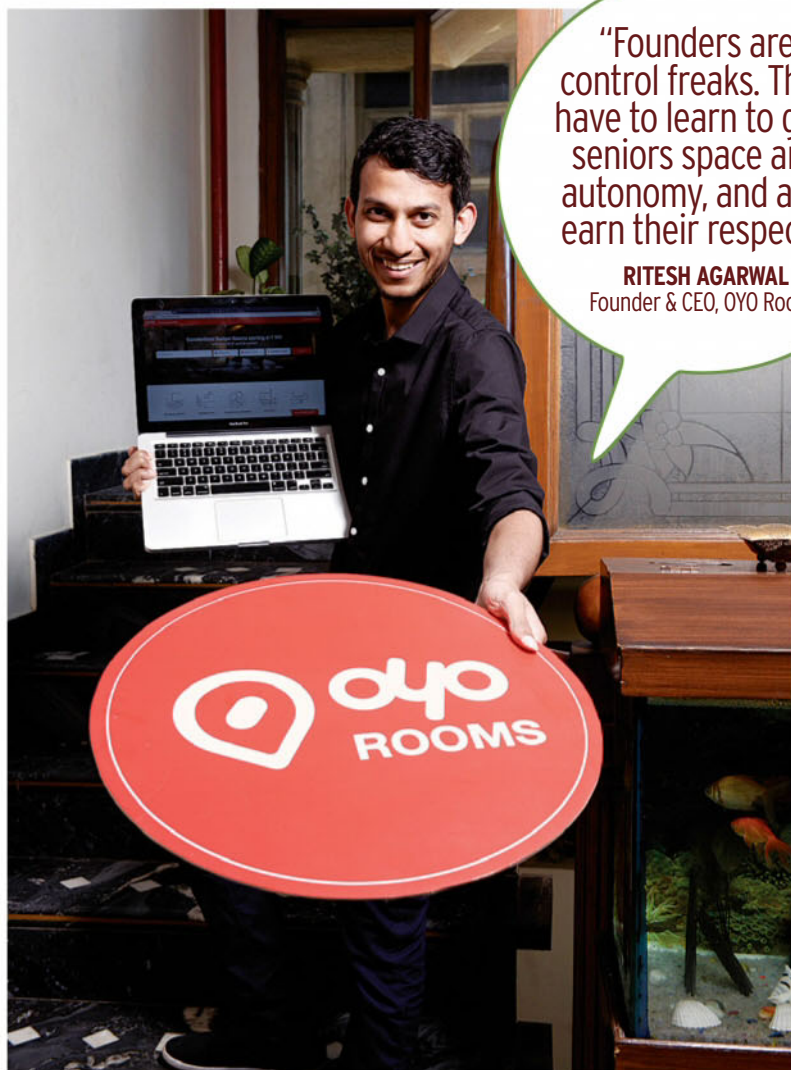
Hosanagar of Wharton School. "Another such change, particularly in Silicon Valley, can be work-life balance. At valley start-ups run by 20-somethings, it's not uncommon for employees to work late into the night and weekends. It's just part of the culture. Introduction of someone senior can again change the norms," he says.

It's not just the youthful founders who are adapting under the seniors – the reverse is happening too as the evolving work ethos demands an openness and flexibility from tenured talent. Given this, reverse mentoring is not a fad, but an existential reality that most dynamic professionals, such as 42-year-old Ranjeet Oak,

Chief Business Officer, Holidays, MakeMyTrip.com, readily embrace.

"Sure, I do know the dynamics of what it takes to reach out to 700,000 retail outlets, but I needed to quickly learn the online go-to-market structure and online product structure from someone younger, given that MakeMyTrip does over 15,000 transactions on a daily basis," admits Oak candidly, who has over 16 years of experience at P&G in various markets.

Are these people missing out on a peer group that leads to a more cohesive culture? "Myntra is at the forefront of doing things and we have talent from global companies that adds to the diversity. And there is employee ownership in such structures that makes it very attractive for any senior person," says 42-year-old Vikram Kolar, Senior VP at Myntra,



"Founders are control freaks. They have to learn to give seniors space and autonomy, and also earn their respect"

**RITESH AGARWAL**  
Founder & CEO, OYO Rooms

in, these issues are getting defined."

### Paying the Price

But tenured talent does not come cheap and is not easily available. Today, people with specific domain experience are commanding anywhere between ₹2 crore and ₹7 crore per annum. "Fact is that in India most professionals do not want to take a haircut on cash component to get a stake in highly valued companies. They want it all," says Kathuria. But growing e-commerce ventures are only too aware about such a challenge and, in fact, are prepared for it. Nidhi Agarwal, founder and CEO of fashion portal Kaaryah.com, is trying to address the issue by roping in talented professionals seeking only part-time, consulting roles such as Sarika Grover, the former marketing head at 99labels.com, an online sale portal. "She wants to be involved with different things and I am fine with that, so long as I too get to benefit from her experience," says Agarwal.

Bansal of Lenskart sums it up. "With more senior talent joining us, we would like to develop a much more professional and customer-focused culture in our organisation. This is already happening by empowering these new senior leaders to lead large teams and independently find solutions to problems without involving the founders," he says. "I'm also driving a lot more disruption as the senior teams give me confidence to take much bigger leap steps."

Occasionally, however, the seniors can go wrong too. Remember John Sculley, the corporate star who was hired from PepsiCo by Steve Jobs to steer the course of Apple and who ended up firing Jobs! Jobs came back to turn Apple around. Maybe there is hope for Rahul Yadav yet. ♦

@ShamniPande

adding that the opportunity available to foray into uncharted territories with e-commerce start-ups is a big draw for people like him.

Significantly, most of these e-commerce companies have extremely seasoned HR heads. Consider the example of Yuvaraj Srivastava, Chief Human Resource Officer at MakeMyTrip.com. He joined the company in May last year and has over 16 years of hardcore corporate experience dealing with industrial relations for organisations such as Asian Paints. MakeMyTrip, under Srivastava's guidance, has launched

product councils where everything and everyone is reviewed. The benefit is that the younger generation gets instant feedback and the older team members also get an honest opinion from others on their views and decisions. "A top down approach is not the answer," says Srivastava.

In fact, organisational culture is still a work-in-progress in most companies. "We had people walking in at odd times, or taking leave and there was no way of telling them whether it was acceptable or not," says an employee of a leading e-commerce start-up. "Now with seniors coming



# Crafting Success

*Cerana Beverages' craft beers have made an initial impact, but retaining the fizz in a crowded marketplace is a big challenge. By GOUTAM DAS*

PHOTOGRAPHS BY VIVAN MEHRA

←  
**ANKUR JAIN**, Founder & CEO of  
Cerana Beverages, at The Beer  
Cafe, Janpath, Delhi

**F**or a Monday evening, My Bar, a watering hole in Delhi's Connaught Place, was unusually busy. The entertaining banter of the tipsy was temporarily punctured by an argument. A 30-something across this writer's table ordered for "Bira White" – a wheat beer low in bitterness. The bottle served, instead, was a lager, the more bitter "Bira Blonde". The pub had run out of the wheat beer and the waiter opened the lager, inviting his customer's wrath. He refused the drink. And the bill.

Bira White was not available at The Beer Cafe, a beer chain, either. Nor did this writer find a bottle at retailer Nature's Basket's Greater Kailash outlet. The retailer, informed an employee, had run out of stock after this wheat beer outsold the lager 3:1 in the past few weeks.

For an established company, an "out of stock" scenario implies serious loss of business resulting from poor forecasting. But Ankur Jain, founder and CEO of Cerana Beverages, does not fret. He triumphantly calls the two beers "India's first craft beer" brands. "We have sold 10,000 cases in Delhi in May; 70 per cent of that is Bira White," he says. One case is two dozen 330 ml bottles. In terms of gross revenue, it clocked \$1.5 million (₹9 crore) in Delhi in May. "It is beyond our expectations," he says.

There are different ways to describe a craft beer. An "intellectual beverage" to some; to others, especially the Americans, it must be "small, independent, traditional" – the flavour has to derive from innovative brewing ingredients and its annual production no more than six million barrels. Jain does not agree with this description. "Craft can be big. But the essence remains the same – great-tasting beer made with natural ingredients, made by passionate brewers, and the right processes," he says, before emphasising, "Taste triumphs testosterone."

When Jain was thinking of an Indian beer brand around 2013, the choice of this category was easy picking. India consumed around 270 million cases of beer in 2014/15. Craft beers, including microbreweries, make up only one per cent of the market. Overall, the market is dominated by United Breweries Ltd (UBL). According to a June 2015 report by brokerage ICICI Direct, UBL has a 51 per cent market share with its Kingfisher brand alone commanding a 36 per cent share and its Heineken brand in the premium segment countering global brewers. Jain positioned his beers between a Heineken (₹100 for a 330ml bottle in Delhi) and a Corona (₹200). While Bira White costs ₹175, the Blonde comes for ₹150.

The pricing, in many ways, is a function of his operating model. Cerana does not brew in India. It outsources production to Belgium. "We created the recipe. It took us a year to arrive at the right taste. We had a Belgian brew master," Jain says. The idea was to introduce Indian guzzlers to a quality they were not familiar with. "The message from Kingfisher was 'we are the authentic Indian brand and therefore, as an Indian, you should consume me'. Everybody else who came from Europe or America was telling the consumer 'drink me because I am so highly respected'. It was a sterile message, a condescending message," Jain analyses. "But beer drinking is meant to be a lot more democratic and fun." Along came Bira with a winking, perhaps a drunk monkey on its label – symbolising the tropical climate, India, and fun.

## QUICK FACTS

### PRODUCTS:

Two beers, Bira 91 White and Bira 91 Blonde

### BREWING SINCE:

November 2014. Formally launched in Feb 2015

### CURRENT MARKETS:

Delhi, Bangalore. In Mumbai, Pune and Kolkata soon

### PRICE POSITIONING:

Costlier than Heineken, cheaper than Corona

### GROSS REVENUE:

₹9 crore a month in Delhi (measured at retail value)

### FUNDING:

Raised ₹7.15 crore from an angel fund and high net-worth individuals



INDIA  
TODAY



# SAFAIGIRI

Summit & Awards 2015

Sometimes, all it  
takes is a small push  
to bring about a  
sweeping change.

Jain is exploring ways to drop his pricing to around ₹100 and thinking of local production – the company's Vice President of Production, Jaideep Wanchoo, recently joined from Carlsberg India where he was the head of quality. Interestingly, most of Cerana's leadership have little background in the alcohol industry, though all of them are fanatical beer lovers. Chief Operating Officer Anuj Krishan's last job was at UBS Investment Bank in London. He loves his beer pilgrimages to Belgium, "trying their various lambics – beer fermented with wild yeast". Marketing head Tanmoy Mukherjee was earlier with Lavazza Coffee. He once "drank himself silly in Stockholm bars". And Jain's most memorable beer experience was "staying overnight in the dorms of the Abbey of Chimay, waking up at 5 a.m. for a prayer, and then heading to the breakfast room for a beer with the monks."

Jain is a techie. His first job was at Motorola in the US, where he developed mobile applications. His first start-up, in Brooklyn in 2002, was in health-care management. He sold the firm in 2006 and moved to India to work with Reliance Retail. "In Brooklyn, my office was down the street from the Brooklyn Brewery, where I used to spend a large part of my time every Friday and Saturday," Jain recollects. "I was not a beer drinker before I moved to New York, but Brooklyn made me one." Cerana started as an import and distribution company in 2009, but pivoted in 2013, when Jain saw an opportunity in craft beer.

The path ahead is likely to be bumpy. Excise is a state subject and changes in tax rates is one headwind every alcohol company faces. Cerana learnt this lesson early. The company initially launched the beers in Delhi and Gurgaon, but had to pull back from the latter from April



**PRADEEP VERMA,**  
Senior Partner  
CFB Consulting GmbH

**"You need money to establish the brand. For smaller companies, the brand promotion will be limited. Also, big daddies keep a watch. They can offer better schemes to retailers and distributors"**

1, as Haryana upped excise duty on imported liquor and its beers became three times more expensive.

The start-up is now expanding in Bangalore, Mumbai, Pune and Kolkata. But as it expands, distribution costs and complexities will increase. Pradeep Verma, Senior Partner at CFB Consulting GmbH, and a beer consultant, says one needs deep pockets to become a pan-India brand. "You need money to establish the brand. For smaller companies, brand promotion will be limited," he says, and adds a second challenge: "Big daddies keep a watch. They can offer better schemes to retailers and distributors."

Samar S. Sheikawat, Senior Vice President of Marketing at UBL, thinks microbreweries and craft beer is largely a big city phenomenon.

For the next five years, he predicts, the market for craft beer will remain small. Today, 85 per cent of the market is strong beer, or those with seven to eight per cent alcohol content. Indians like to get a "kick", and mild beer (including craft beer), with less than five per cent alcohol, will not have many takers.

All entrepreneurs are optimists – Jain believes craft beer, including microbreweries, would capture 15 to 18 per cent of the market by value in 10 years. The overall Indian beer market would expand, too. The per capita consumption of beer in India is below two litres whereas Russia guzzles 76 litres, Brazil 64.5 litres, and China 34.5 litres. The ICICI Direct report says India's per capita beer consumption will rise to five litres over the next decade thanks to favourable demographics,

greater social acceptance and higher disposable income. To Jain, that very thought is more intoxicating than the drink he makes. ♦

@Goutam20



# SECURE WIPE

**You can be a victim of identity theft if you do not delete your device data properly.** By NIDHI SINGAL

**I**f you thought deleted data cannot be recovered, you are wrong. There are third-party softwares that make data recovery child's play. Most of us either delete data files stored on smartphones, tablets, laptops, hard disks and pen drives, or run the factory reset command, while some others feel their data will remain safe if the device storage is formatted. Deleting data is, however, a far more complex process. So, before you decide to discard your old gadget here's how to ensure your personal data does not fall in the wrong hands.



RAJ VERMA



**Android OS:** Factory reset is one of the most common ways to delete data from devices. But if you plan to sell or discard it, factory reset is just not enough. You have to first encrypt the data before running the command. Just tap on settings, security and select encrypt phone. Add a complex password that is hard to crack and then press on factory reset. It is a tedious process and can take a couple of hours. Once the hard drive is encrypted, all the data will be scrambled and, effectively, useless.

**iOS:** iPhones and iPads are far more secure than the rest. They come with full disk encryption supported at the hardware level by Apple. The company claims to have designed the iOS with security as its core. A simple erase all content and settings will do the job. The iPhone will ask you to key in your Apple account password before the device is wiped clean. If anyone tries to access the information, he or she will have to first create a new account and that will not allow them access to the previous data.

### **Windows devices, hard disks and pen drives:**

Even Microsoft acknowledges that reformatting a disk or reinstalling the operating system does not translate into wiping a device clean of the data. The company recommends Active@ KillDisk and Softpedia DP Wiper. Both tools are free. Killdisk is a hard disk drive sanitising tool that destroys all data and also cleans up the drive's boot sector. RoadKill's Disk Wipe is another software that securely erases the contents of a disk. It can either replace it with random data or leave the drive completely blank. While running the software, you can select the number of passes that should be performed as it ensures data is totally unrecoverable. This programme works well on hard drives as well as flash drives. Eraser is a software that removes residues from the deleted files, overwrites the wiped disk several times with selected patterns. Both can be used if you want your disk to be wiped clean. Darik's Boot and Nuke also do a good job. You can also seek professional help.

**SSD:** The software won't be any good for cleaning an solid-state drive (SSD). The simplest way is to search for the SSD manufacturers drive-wide secure erase. You can download the specific programme. You can then use it to wipe the solid-state drive. The other option is to encrypt the SSD using VeraCrypt. There's also a third option. Third party software, such as Parted Magic, come at a nominal price and can erase the disk. It works well on Mac OS as well.

**Mac:** On a Mac, you can use the built-in FileVault utility to encrypt the SSD. It is simple to use and does not require any passphrase or additional software.

After a security wipe using third-party apps and software, you can also load the device with data such as movies and wipe it all over again. This data will be overwritten on the emptied space that will further eliminate the chances of retrieving data. If you overwrite the data several times, it reduces the chances of recovering data.



**BAG IT OR JUNK IT:**

Premium-looking smartwatch with faces. Comes at a price.

**PRICE:** ₹29,990

**RATING:** 4/5

**PLUS:** Premium look, watch faces

**MINUS:** Price, battery

# LG G Watch Urbane

LG's G Watch Urbane is a premium smartwatch which is priced on the higher side. But is it worth the money is the question. **By NIDHI SINGAL**

**T**he G Watch Urbane isn't LG's first attempt at a smartwatch. It had come up with the G Watch and G Watch R. But unlike those, this is a premium timepiece.

The G Watch Urbane has got a stainless steel casing with gold finish and a stitched leather strap. At first glance, I wasn't happy with the looks, but once I put a face of my choice to the watch, it wore a completely different look that would complement both your business and casual wardrobe. Unlike the Moto 360, which had a black bar at the bottom, this one has a full circular dial measuring 1.3 inch. The premium timepiece has a bright and sharp display with 320x320p resolution and offers great sunlight legibility. The side button helps turn on the display and adjust the brightness, and if you press it for long it gives you access to settings.

This smartwatch runs on the latest Android Wear 5.1.1 and is powered by 1.2Ghz Qualcomm Snapdragon 400 quad-core processor with 512 MB of RAM. It has 4GB of internal storage. It's 10.9 mm thick and the large metal bezel adds to its weight (66.5 gm). I found it a bit too heavy, but it would be a fine fit for a man. It is IP67 certified, dust and water resistant.

To set up the LG G Watch Urbane, you will first have

to install the Android Wear app in your smartphone and pair it over the Bluetooth. The watch is easy to use and you can master the workings of the device within a short span by swiping on the display. You can slide your finger from the top to the bottom edge to access notifications, theatre mode and quick settings, apart from increasing the brightness. All the apps are placed on the homescreen. This watch can be used to view call, email and message notifications, and to get traffic alerts. Unlike some of the smartwatches that support calling, this one does not. You can access call logs but will have to pick up your phone to dial and make a call. You can also access Google Now-based contextual updates in the form of cards, just by flicking your wrist. The 'Ok Google' command wakes up the watch and takes commands for sending a text message, checking weather updates, setting up a reminder, controlling music, launching an app and much more.

One of the best features of the Urbane is the Wi-Fi Sync, which continues to fetch Internet-based notification even if you forget your phone at home. The only criterion being that the phone should be connected to the Internet. For charging, there isn't any port, but you will have to plug it to the charging accessory that comes with the watch. A full charge lasted for over a day-and-a-half. ♦

# Sony Xperia Z3+

At first glance, the Z3+ is a shade smarter than Z3. The amazing features will make you fall in love with it, but it may also be too hot to handle. **By NIDHI SINGAL**

It essentially looks and feels the same as its predecessor. At 6.9 mm and 144gm, it's marginally thinner and lighter than the Z3, and I don't see any reason why Sony would have played around with a perfected design. It houses a power button, volume control rocker and a dedicated camera key on the right panel and, on the left, it features a single slot which houses both the nano SIM and SD card slots. The charging port and the headphone jack are at the bottom and

top, respectively. The curved edges are more distinct and accentuated, but the screen is the same as Z3's at 5.2inch with Full HD (1080x1920 pixel) resolution.

As soon as you switch on the phone, you start noticing discernible refinements over the Z3. Playing heavy games, streaming videos and recording 4K videos, were like a breeze. The Qualcomm Snapdragon 810 processor (1.5Ghz quad-core plus 2Ghz quad-core) does a good job when it comes to speed, but as expected, it heats up the device quite fast. Barely eight minutes into recording a 4k video the phone screen displayed a warning: "If the device temperature rises, the app may close during use". Sony must address this issue immediately.

The 20.7 MP rear camera was, however, a treat. The photo quality was quite good across varied lighting conditions. The superior auto mode detected all kinds of landscapes and changed the white balance and other settings automatically. The camera was fast and the 4K videos were not only of great quality, but the playback quality was amazing. The twin speaker embedded inside that slim design packed in a surprising punch.

Overall, the performance of Z3+ was snappy and its dust and water resistant feature makes it that much more appealing. Hopefully, Sony can address the heating issues with future software updates. ♦

@nidhisingal



## BAG IT OR JUNK IT:

Feature packed, but heats up very fast. If this issue is addressed, it may be your next.

**PRICE:** ₹53,990

**RATING:** 4/5

**PLUS:** Design, camera, water and dust resistant

**MINUS:** Price, overheating



# New Rules for a Digital World

For those who are worried that technology and the Internet are closing in on us too fast, too soon, the book is a soothing balm. By UMANG BEDI



## **Online Gravity: The Digital Giants Driving the Way You Live, Earn and Learn**

By Paul Xavier McCarthy

PAGES: 336

PRICE: £14.99

Simon & Schuster UK

McCarthy  
writes about  
how new  
businesses are  
bringing in new  
ways to get  
things done  
for the online  
community

Online business pro and technology expert Paul X. McCarthy's latest book is a fascinating account of how the startling and intriguing phenomenon called 'digital' has brought its own set of rules for business giants and start-ups alike to harness. For all devil's advocates and nay-sayers feeling vexed and worried that technology and the Internet are closing in on us too fast, too soon, and for those who feel they are on a collision course with the ever-growing global and competitive workforce, *Online Gravity* is a soothing balm.

Although McCarthy reveals the existence of the dominant giants in the business, the book also reveals remarkable opportunities for smaller companies to cash in on the "distinctive and original insights into the new set of rules that are reshaping" how to conduct business, how to work, even our personal lives and leisure. Understandably, online has become the new home for innovation. McCarthy writes about how new businesses are bringing in new ways to get things done for the online community, often "combined with the new-found capabilities of the web to support mobile, real-time and big data interactions".

At the heart of the book are ideas and knowledge. As McCarthy says, "good ideas" and "reliable knowledge" are "different from many other commodities in our lives" as "they are not things that any individual and company can own". Add to this our thirst to know more. The web empowers us to not only change the way we work and go about our daily life but also help others with information they can use and learn from.

It's not surprising that the quest for knowledge has become all-pervasive, moving beyond traditional barriers. McCarthy explains this by citing the "talent signatures" for knowledge economy giants such as Apple, Google and Amazon and their diversification to alternative approaches in hiring. Consider this: Apple has seven times the number of liberal arts graduates than others in the domain; so does IBM.

Delving deeper into the domain of knowledge, McCarthy reveals how small can, indeed, be beautiful – or ugly – for business, too. Taking the nuance of timing into account, small events that in the past may not have been thought relevant, can today have significant "snowball" effects by virtue of online gravity. He cites how new products and companies can innovate and harness the exponential online growth capabilities with the help of powerful platforms such as Google, Facebook, Alibaba and Amazon.

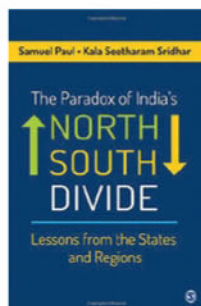
Perhaps, the book's prime focus is the set of seven laws shaping the new business world. McCarthy explains their inherent ability to help present and future generations transform into relevant, informed workers and business owners of the century.

Just like the online world it explores, the book is a global phenomenon, digital by its very nature, with the ability to exponentially speed up processes, create a network as infinite as its reach, and act as a harbinger of ubiquitous and multi-dimensional talent. The theories and observations that McCarthy unravels in the book are not just about the digital giants driving the way we live, earn and learn. Just like gravity keeps the stellar bodies in place, in addition to the online superstructures there's still "lots of space in between" for more diverse and smaller structures to create their own identity. ♦

*The reviewer is Managing Director, South Asia, Adobe Systems*

# Apples and Oranges

The book fundamentally errs by comparing India's northern and southern states. By ANILESH S. MAHAJAN



**The Paradox of India's North-South Divide**  
By Samuel Paul and Kala S. Sridhar

PAGES: 236  
PRICE: ₹850  
Sage

As a student of political economy, if someone asks me to draw similarities between Uttar Pradesh (UP) and Tamil Nadu (TN), I would point out political theatre as the one thing in common. In both states, family-run parties—the Yadavs of the Samajwadi Party in UP and Karunanidhi's clan that controls DMK in TN—have been challenged by parties dominated by a woman, Mayawati and J. Jayalalithaa, respectively. Apart from this, there is hardly any similarity between the two states.

Herein lies the problem with this book. To put across their point, the authors compare the two states. The paramount finding is that though the south (TN) was somewhat better placed for over two decades initially, it was only in the post-liberalisation period that it could realise its potential and surge forward. The book puts across quantitative data on proximate and foundational factors based on interviews with officials and scholars in both the states.

But to my mind, it is rather like comparing apples to oranges. The situation today is that if you compare any state with the parameters of giant-sized UP, then that state is bound to shine.

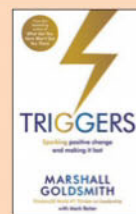
Despite stability in governance for the last eight years, UP is growing only at approximately five per cent. TN has an inborn advantage of being a state with ports, so obviously it will attract manufacturing, and not UP. The study also indicates that the southern Indian state's better proximate and foundational factors facilitate the inward flow of resources for investments in manufacturing and services.

The book infers that the gap between the southern and northern states of India has widened in recent years in terms of per capita income and poverty reduction. An analysis of historical data for over four decades shows that the gap between the two regions was much smaller earlier and that the north (UP) even had a headstart in some areas. But the authors find that southern states were able to take advantage of the liberalisation era. On governance related parameters, too, the south fared well. While the per capita development spending in the north is more, it has not translated into higher literacy rates, superior performance on health care parameters and better infrastructure, leading to lower resource efficiency.

As such, the book does not offer any recipes for achieving development, but only points towards an enabling environment for investment, governance, health and education to take advantage of the unfolding economic opportunity. More than answers, this book leaves you with a fresh set of questions. ♦

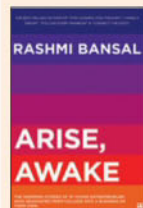
## Triggers

THE  
FORTNIGHTLY  
PICK



By Marshall Goldsmith  
Hachette Book Publishing  
Price: ₹399  
The author, the world's No.1 leadership thinker, offers simple, practical advice on the triggers that will help us sustain positive change.

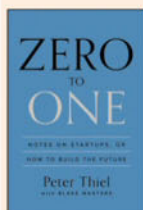
## BUSINESS BESTSELLERS\*



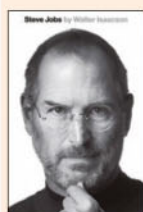
**Arise, Awake**  
By Rashmi Bansal  
Westland Books  
Price: ₹200



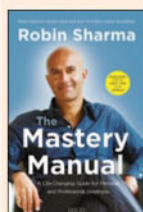
**Elon Musk: Inventing the Future**  
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Virgin Books  
Price: ₹699



**Zero to One**  
By Peter Thiel  
Random House  
Price: ₹499



**Steve Jobs**  
By Walter Isaacson  
Little, Brown Book Group  
Price: ₹550



**The Mastery Manual**  
By Robin Sharma  
Jaico Publishing House  
Price: ₹199

\*Top books by sales for June 21-July 4, 2015; Includes only books released after July 1, 2014; Information provided by [amazon.in](http://amazon.in)



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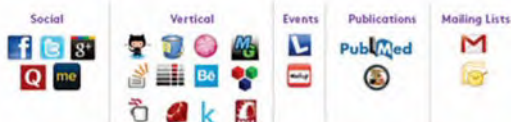
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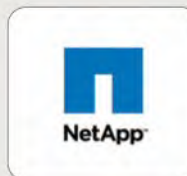
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**Description:** Responsible for driving indirect sales through creating and managing a portfolio of Channel Partners. Responsible for driving indirect sales through creating and managing a portfolio of Channel Partners.



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Pursuit Strategic Business Development Manager

**Location:** Delhi

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**Description:** Responsible for selling and negotiating complex IT and business solutions to drive NetApp revenue at strategic global enterprise clients (Fortune 500).



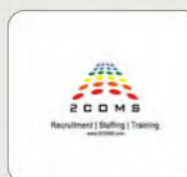
## Jobsplan

Marketing / Product Manager

**Location:** Gurgaon

**Job ID:** 17122490

**Description:** Market research for recognizing business opportunities, Understand current and potential customers etc.



## 2COMS Consulting Private Limited

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**Job ID:** 17135681

**Description:** Candidate should have minimum 2 years of Channel sales experience.



## Walking Tree Consultancy Private Limited

VP - Business Development, Sales & Marketing

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**Description:** Responsible for heading the sales force effectiveness and steering the business growth.



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NETWORKS**Juniper Networks Inc.**

Finance Associate Manager - GL

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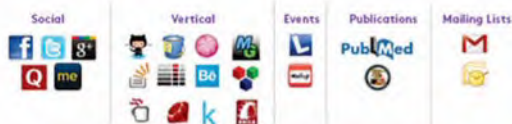
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**Misys Software Solutions India Private Limited**

Assistant Manager Revenue Accounting

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SHEKHAR GHOSH

## Cheaper by the Dozen

'E' seems to be the new obsession of **RATAN TATA**, who is shopping by the dozen. After his investment spree in a host of entrepreneurial e-businesses, ranging from Snapdeal, Paytm, Urban Ladder, CarDekho and Ola Cabs, Tata's 12th bet is in an electric vehicle start-up. The 76-year-old former chairman of the salt to software Tata Group has just picked up stake in Ampere, a Coimbatore-based start-up founded by a woman entrepreneur, Hemalatha Annamalai, which makes electric cycles, scooters and trolleys as well as special purpose vehicles for the differently-abled.



**Lalit Modi**  
Former Chairman, Indian Premier League-

## Sledging from the Stands

**LALIT MODI** is an equal opportunity disruptor. Cutting across party lines, he has thrown his darts everywhere. His targets include President Pranab Mukherjee, the Congress leadership, former UPA ministers and businessman Vivek Nagpal. He has taken to Twitter to make sensational disclosures. In one of his tweets, he has also talked about starting [fightcorruption.org](http://fightcorruption.org). Knowing him, we must get ready for more *masala*.



**Rahul Yadav**  
Former CEO, Housing.com

## Home Alone

**RAHUL YADAV** has been sacked by the board of Housing.com. The reasons cited for removing Yadav, the only dropout among the 12 co-founders from IIT Bombay who started the real estate portal in June 2012, largely relate to his brash behaviour towards the investors, who he had said was 'intellectually incapable'. The 26-year-old did apologise but it seems that the damage had already been done. The news of Yadav's exit follows speculations that the investors will likely sell the company and were reportedly in talks with online classified company Quikr.

**Mukesh Ambani/  
Y.C. Deveshwar**  
CMD, RIL/ Chairman, ITC Ltd

## The Median Gap

India's richest man **MUKESH AMBANI**'s annual salary of ₹15 crore has remained unchanged in the last seven years, but it is 205 times above that of the median employee remuneration at Reliance Industries (RIL). However, this ratio stands much higher at 439 times in the case of **Y.C. DEVESHWAR**, the Chairman of ITC. The shareholders-approved compensation of Ambani is much higher at ₹38.86 crore. RIL says that the fact he draws lower than what is approved for him reflects on Ambani's desire to set a personal example for salary moderation at the managerial levels. Deveshwar's remuneration rose by 24 per cent during 2014/15. His gross remuneration stood at over ₹15 crore, but his net pay was much lower at ₹7.3 crore.



SHEKHAR GHOSH

COMPILED BY NEVIN JOHN, ANILESH S. MAHAJAN AND TASLIMA KHAN





VIVAN MEHRA

Investing in local manufacturing has helped Daikin Airconditioning India scale up in the country, says **Kanwal Jeet Jawa**, Managing Director, as he outlines his growth strategy to **Dipak Mondal**. Excerpts:

## “Be in a state of perfect imperfection”

### *What are your strategies to stay ahead of the competition in the segment?*

With value gaining more momentum than price across many categories, the pressure on global brands to stay ahead of the customer expectation is paramount. At Daikin, we believe in doing simple things but doing them exceedingly well with a view to stay ahead of not only the competition but from consumers aspirations. Speed in thinking and execution is the cornerstone of our success.

### *What are the new technologies in airconditioning that can give competitive advantage?*

Daikin changed the rule of the inverter AC market when it came with the new refrigerant, an environment-friendly, low GWP (global warming potential) refrigerant, R32, about two years back in Japan. It is very energy-ef-


ficient as it takes less than 5 amp current compared to 10 amp current consumed by ACs with existing refrigerants. After Japan, R32 AC was also launched in India. Today of the 400,000 ACs sold by Daikin, 32 per cent are R32 ACs.

### *How do you keep your employees motivated?*

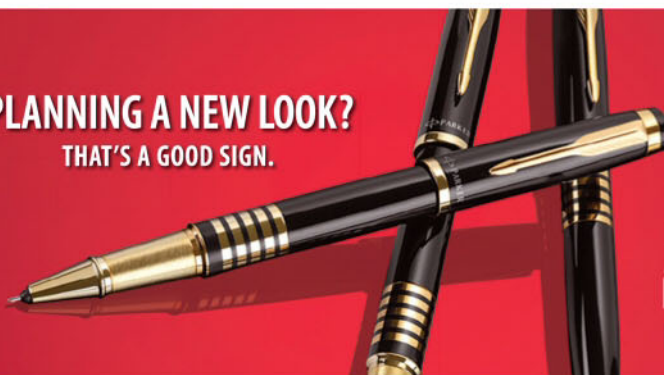
I have a very simple theory that I keep sharing with over 1,600 Daikin employees: To remain in a state of perfect imperfection.

### *What are the future plans of the company?*

My dream is to make Daikin India an epicentre of manufacturing that would eventually service the Central Asia and SAARC countries. We are looking to commence our second manufacturing in India to fuel this expansion. ♦

  
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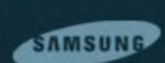
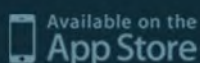


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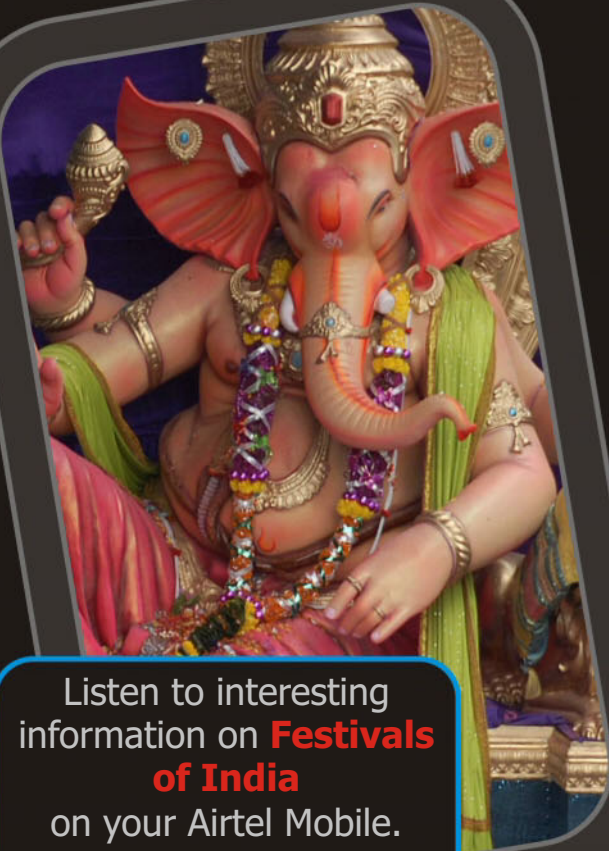
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Volume 10, Number 7, July 2015

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Cover by RAJ VERMA

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Illustration: RAJ VERMA



# For a Steady Cash Flow

Investors should consider dividend plans of equity mutual funds if they need money at periodic intervals. By SHOAB ZAMAN

**N**ilesh Rokadia, a mutual fund distributor in Raigad district, near Mumbai, has several clients who need regular income, including some who are retired. Rokadia often prefers to recommend them

to invest part of their portfolio in dividend plans of equity funds instead of monthly income plans (MIP) of debt products for regular cash flow. "Inadequate exposure to equities could lead to a shrinking of their investment portfolio since debt investments

will normally give returns that are lower than inflation," he says.

This is because equity as an asset class has the potential to outperform other asset classes over the long term. Moreover, the dividend paid out by debt funds is subject to dividend



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distribution tax at 28.325 per cent in case of individual and Hindu Undivided Family investors and 33.99 per cent in case of local companies whereas dividend paid by equity funds is tax-free. So, investors get higher dividend in case of equity funds.

Let us explain this with an example. An investor who put in ₹10 lakh in ICICI Prudential Value Discovery on January 1, 2008, would have received a total of ₹2,96,436 as dividend and the current value of that investment would have been ₹25,20,474, growing at a compound annual pace of 14.63 per cent (excluding dividend). Had the investment been made in Reliance MIP, the dividend would have been ₹8,40,654 and the current value of the investment would have been ₹20,12,047, giving CAGR returns of 10.88 per cent (excluding dividend). While there will be no tax on the dividend received on ICICI Prudential fund, the investor would have to pay tax on the Reliance MIP scheme at the rate of 33.99 per cent.

Of course, not all dividend equity funds pay every year. ICICI Prudential Value Discovery is one of the few funds that has given out regular dividends, even in a year when it reported negative returns, while Mirae India Opportunities is among those that pay dividend only if it had achieved positive returns in the previous year.

Feroze Azeez, Director – Investment Products, Anand Rath Private Wealth Management, says retired people should ideally meet their liquidity needs for three years by the debt portion of their portfolio. If investors need regular income from their equity investments to support their living expenses, they can opt for the dividend option in equity funds, especially if the requirement is in the first year of their investments. “The decision to invest in funds with a dividend payment track record depends on the investor’s liquidity requirements and time horizon,” he says. “If you

need liquidity one year after making the investment, you can choose the growth option and benefit from the compounding effect and later consider the switch-out option at regular intervals as equity MFs are not taxed after a year,” he adds.

But not everyone is in favour of dividend-paying equity funds. Mumbai-based investment advisor Rohit Shah says he does not recommend this option to his clients. “The growth option is better as it helps increase overall returns. But investors should choose the growth option only if they do not need immediate returns,” he says. “We suggest that investors

## Choosing Dividend-paying MFs: A Checklist

- Consistency of dividend payout
- Record across market cycles
- Prevailing market situation and future prospects
- Asset allocation, liquidity status
- Prevailing fixed-income returns
- Tax rate and income level

don’t depend heavily on dividend income since these can fluctuate. The advantage of dividend-paying equity funds is that the profit gets booked regularly,” he adds.

Sankaran Naren, CIO, ICICI Prudential AMC, opines: “While dividend history is a good indicator of a fund’s performance, investors also need to consider other parameters like fund strategy and suitability.” An important point to note is that dividends are paid out of NAV. So, the NAV drops to the extent of the dividend paid. Naren says debt as an asset class is less volatile as compared to equities. So, dividend-paying debt funds are more predictable compared with equity funds in terms of regular income. “People

who need cash flow cannot depend on the unpredictability of when and how much dividend will be declared. In that case, MIPs or hybrid products could be more suitable,” he says.

## SHOULD YOU INVEST?

Not all funds consistently give dividends. Even if an equity mutual fund pays dividend annually, the time and rate of dividend are not fixed, although patterns can be spotted for a few funds. For example, Franklin India Bluechip fund has a good track record of giving dividends and it usually pays it in January. Also, the rate depends on the profit earned by the scheme. “If you need inflows at frequent intervals you may have to opt for a debt mutual fund that has a monthly, quarterly, half-yearly as well as annual dividend option,” says Azeez of Anand Rath.

Shah says that, since the returns on equity MFs are market-linked, poor performance can negatively impact cash flows. “If one has surplus funds, it may be better to invest in growth-oriented diversified equity MFs for at least five years. This can help generate a decent corpus and can be of good use in later years of retirement stage,” he suggests.

Rokadia, the Raigad distributor, says he suggests a mix of MIPs and dividend-paying equity fund to investors who need regular cash and have less money. To investors who have an investment portfolio of more than ₹50 lakh and a high risk appetite, he suggests investing part of the amount in dividend-paying equity funds.

Naren says an investor who is retired or nearing retirement should preferably be inclined towards funds that offer stability of returns. So, MIPs or hybrid schemes should make up a larger portion of their investments while some portion could be allocated to equity for long-term growth. ♦

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# WHY YOU MUST



Illustrations: RAJ VERMA

It is well known that India is grossly underinsured. Life insurance penetration, measured as a percentage of premiums to a country's gross domestic product, was just 3.1 per cent in 2013/14, compared to 11.7 per cent in Hong Kong and 8.8 per cent in the UK. This perennial problem, however, can cost us dear unless we, the common investor, understand the difference between insurance and investing and, more importantly, know the real benefits of the different types of insurance plans available in the market.


Most people believe that they can save enough money to replace their assets, should anything happen to them. But problems arise in the event of the unforeseen – an accident, disability, or even death – derailing all the plans that one had followed so meticulously, even for the one who had a disciplined approach to saving. This is why life insurance must be an integral part of our overall financial plan.

The first step, however, is to understand that insurance is not an investment tool that could help save income tax, but is imperative to cover you from risks. And, managing risks is all about addressing our life goals, and ensuring everything goes as planned for the rest of the family even if the earning member dies suddenly.

What comes in our way, however, is: 'What if nothing happens to me? Does all that money I have paid as premium go down the drain?' At first look, it seems logical. And, that's one reason why most Indians stay away from pure term insurance policies – something, that financial experts say, is the most important chapter to secure the life of your loved ones – because these products do not give the policyholder any return on the amount paid as premium during his or her life time. But, consider this: For a 35-year-old, an annual premium of ₹10,830 for 25 years can buy a life cover of ₹1 crore, which can offer stability and meet the immediate needs of the family of the insured in the unfortunate event of his or her death. And, yes, if the person survives the 25-year term he or she loses the ₹2.7 lakh paid as premium.




However, considering the uncertainties that life is all about, if we ask ourselves: 'What if something happens to me? Will I be able to provide a financially secured life for my dependents?' The question may, all of a sudden, come as a revelation to most of us, more so for those who form the base of the financial pyramid. The bitter truth, in the Indian context, however, is that the rich, in spite of a financially se-



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# BUY A LIFE COVER

Do not run the risk of being unprotected. Secure your financial future and that of your loved ones at the click of a mouse. By SHOAB ZAMAN

cured life, are more adept to taking to insurance, compared to the not-so-moneyed. And, this must change. Fortunately for us, the government is also trying to raise awareness by offering various schemes and taking steps to bring it to your doorsteps. Here, we will give you a sneak-peak into why it is the right time to take advantage of the activities in the insurance space by both the public and private players.

## KNOW YOUR PRODUCTS

**TERM PLANS:** Term insurance plans are pure protection plans which pay the sum assured on death of the policyholder. They are cheaper by 50-60 per cent when bought online. The rates, however, vary according to the policyholder's age and lifestyle habits. For example, smokers will have to pay a significantly higher premium compared to that of a non-smoker.

**UNIT-LINKED INSURANCE PLANS (Ulip):** Ulips had caused a major financial drain to investors during the 2000s leaving many feeling betrayed. However, after 2010, with a change in rules suggested by the regulator, the Securities and Exchange Board of India, unit-linked plans have not only become more cost-effective, but provide you with the perfect platform to launch your life insurance needs. Online distribution has sharply reduced acquisition and maintenance costs as well, so much so that there are some Ulips whose costs are lower than that of mutual funds. For instance, if a 30-year-old man invests ₹50,000 every year in Aviva's i-Growth plan, the corpus will grow to around ₹13 lakh in 15 years, assuming an 8 per

cent annualised rate of return. If the same amount is invested in a five-star rated large- and mid-cap fund, the corpus would work out to around ₹11 lakh in 15 years (at 8 per cent), considering the higher expense ratio of mutual funds at 2.6 per cent, compared to 1.29 per cent for Ulips.

Some low-cost Ulips, according to policybazaar.com, an insurance comparison site, are Aviva i-Growth, Bajaj Allianz Future Gain, HDFC Life Click2Invest, HDFC Life ProGrowth Plus and Edelweiss Tokio Wealth Accumulation. Since charges are front-loaded, the benefits are more if you stay invested for a longer duration. Also, loyalty additions are generally added after eight to 10 years.

**TRADITIONAL PLANS:** Traditional policies give a sum assured and a guaranteed or vested bonus at maturity. Such plans invest money in fixed income instruments and are for people who do not want to take a lot of risk. Several companies are also offering traditional plans online.

## DIGITAL PUSH

In addition to the efforts of the life insurance companies, the central government, too, has been playing its part to sync the digital India programme with the evolving insurance space. It has launched three schemes, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and Atal Pension Yojana (APY), to take insurance to the doorstep of the most vulnerable sections of the society using the digital platform. Private insurers have gone online to save costs and pass on the cost benefits to policyholders. India's massive subscriber





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base – of over 900 million mobile phone and 200 million internet users – has proved to be facilitator in this massive overhaul.

Experts say term plan is one of the fastest growing segments online in the life insurance industry and insurers need to leverage this opportunity. “The digital platform plays a significant role in our business. Around 93 per cent of our new business applications are initiated using the online platform, 50 per cent renewal payments are made through the website or electronically, and 69 per cent service transactions are processed through website, SMS or IVRS,” says Sandeep Batra, Executive Director, ICICI Prudential Life. According to a report by Boston Consulting Group and Google India, insurance sales from online channels will grow 20 times by 2020.

Digitalisation has also improved offline sales. Says Batra: “Life insurance continues to be sold offline as it helps the customer to identify the appropriate insurance policy. The use of technology in the sales process has resulted in faster turnaround time.” Almost 93 per cent of ICICI Prudential’s sales in 2014/15 happened using the digital platform. It has also helped in reducing the grievance ratio significantly.

## PAPERLESS INSURANCE

You can now maintain your policies in digital form as well. This is much more convenient than keeping physical copies for years. It also

## DIGITISATION

**Here’s why it is best to store your policy documents in electronic format.**

**SAFETY:** There is no risk of loss or damage to policy documents as it may happen with physical files; electronic form ensures that the policies are in safe custody and can be easily accessed when needed.

**CONVENIENCE:** All insurance policies, be it life, pension, health or general, can be electronically held under a single account. The details of your life insurance policy can be accessed at any time by logging on to the online portal of the repository.

**SINGLE POINT OF SERVICE:** All service requests with respect to digital policies can be submitted at any of the repository’s service points. Irda has licensed five companies to act as repositories - NSDL Database Management, Central Insurance Repository, SHCIL Projects, Karvy Insurance Repository and CAMS Repository Services.

### SINGLE KYC, LESS PAPERWORK:

If you buy a new online insurance policy under an existing account, you don’t need to go through KYC verifications again, if there are no changes to your KYC details already recorded in your account.

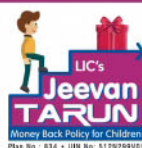
gives you a platform to revise details electronically without any hassle. Says S.V. Ramanan, CEO, CAMS Repository Services: “In the interest of the policyholder, it is important they take advantage of this free-of-cost initiative to convert their policies into electronic format. We have seen people who have been impacted with natural calamities, such as in J&K and Assam, suffering, as the physical copies of their insurance policies were lost in the floods.”

## CLAIMS SETTLEMENT

We have also witnessed increased activity in the mobile application space where insurers are competing against each other to provide the consumer with an easy-to-use platform to connect even during the claims process. “At ICICI Prudential Life, we have a complete online process for claims settlement. This, in addition to the claims specialist, who handholds claimants through the entire process, stationed in each branch to ensure that genuine claims are settled in the shortest possible time,” says Batra. Mobile apps also enable policyholders to directly access and modify all the necessary information about their policy, modify information, pay premium and even buy new policies.

While the government and insurers join hands to provide you with the best of services, it is in your hand to secure your life and that of your loved ones. So, take the plunge and secure your financial lifeline. ♦

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(From L to R) Gaurav Mashruwala, Certified Financial Planner; Vinay Sah, Executive Director, LIC; Vivek Law, Editor, Money Today; Suresh Badami, Chief Distribution Officer, HDFC Life; and Rajiv Sinha, Senior Vice President and Head, Insurance Broking, IIFL Group

# INSURANCE INDUSTRY SET FOR REVIVAL

Insurance regulator IRDA's recent guidelines to make the products more customer-friendly in terms of the cost structure will boost the sector

**T**he Indian insurance industry has faced several challenges over the last few years primarily due to a downturn in the overall economy as well as regulatory changes. The slide was most visible in the popular Unit-linked Insurance Products (ULIP). With the overall market sentiment turning around over the past year, economic growth returning and the regulator having stepped in to bring down charges, things seem to be turning around for the sector.

Money Today's esteemed panel, comprising Vinay

Sah, Executive Director, Life Insurance Corporation of India; Suresh Badami, Chief Distribution Officer, HDFC Life; Gaurav Mashruwala, Certified Financial Planner; and Rajiv Sinha, Senior Vice-President and Head, Insurance Broking, IIFL Group, in conversation with Vivek Law, Editor, Money Today, discusses and deliberates on the various steps that are needed to be taken at regulatory, distribution and financial literacy levels.

**Vivek Law:** Over the last few years the insurance industry has witnessed a downturn. Can you share



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with us reasons for the same?

**Vinay Sah:** The last two to three years have not been so good for the industry, although LIC did good business in 2013/14 witnessing 4-5 per cent increase in market share due to the closure of many of its plans. However, 2014/15 has not been good owing to the fact that the number of products we could sell were limited and the economic slump contributed to it. The Insurance Regulatory Development Authority (IRDA) brought in regulations which led to a total product redesign in 2013/14, where we had to close 61 products, some as old as the corporation itself, and come out with new products (except one health and one immediate annuity product). Last year we came out with 18 entirely new products, although in phases and currently have 21 products.

**Suresh Badami:** Although 2013/14 witnessed some slowdown, we were fairly well placed last year with a 25 per cent growth in terms of insurance policies. Prior to the regulatory changes we had filed for new products and got approvals on time. We now have 25 products across traditional and Ulips as per new guidelines. IRDA has made the products more customer-friendly in terms of the cost structure.

**Vivek Law:** Have we witnessed a pick up in number of new customers?

**Rajiv Sinha:** Last year we saw 26 per cent growth in the first-year premium collection. The online boom and information available have educated many people about the need and benefits of insurance owing to which insurance is being bought than sold. We are also increasingly moving towards selling policies online.

**Vinay Sah:** I don't see a trend of insurance being bought and not sold pan India. It could be true in some pockets. Indians still haven't forgotten the concept of joint family and insurance is always being linked with returns.

**Vivek Law:** Have you seen a shift in people realising

insurance is important? Also, is there a formula to how much insurance one should have?

**Gaurav Mashruwala:** We have seen a drastic shift in people wanting insurance. One needs to have insurance as an instrument to maintain the overall financial well being. Although the thumb rule of having a life insurance cover of 10-times your income still exists, in reality it is more complex than that, and is typically tailor made. Once you have defined your goals, your death is a financial loss and, hence, you need to calculate how much those goals cost today (if death were to happen today) plus a certain amount of kitty (for ongoing income), whatever is the corpus is your financial loss. From this amount, once you

**The thumb rule is to have a life cover of 10-times your annual income, but if you aspire for more, you need more cover**




reduce your existing policy, you arrive at your net loss, which is the amount of insurance you need. More the assets, less the cover. However, if you have more loans and more dependants, and your aspirations are higher, you need more cover.

**Vivek Law:** After the regulatory intervention, how cheap is insurance today compared to 3-5 years ago?

**Suresh Badami:** The regulator has made the products much cheaper than they used to be, in terms of surrender charges (capped at ₹6000) among many others. This enhances the chances of higher penetration.

**Rajeev Sinha:** Ulips were typically sold as a substitute to mutual funds a few years ago when the markets had it going good, since investors chased returns. The customer



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has now educated himself and knows that insurance is primary and that returns are a by product. There was a time when the allocation charges in Ulips were as high as 80 per cent. All this changed over the last few years with new regulations coming into place and the markets falling, which led to the popularity of Ulips coming down. Insurers are more keen on buying plain vanilla products. The focus, as far as distribution is concerned, has moved back to traditional plans.

**Vinay Sah:** Collection of premiums for the private sector last year was ₹38,000 crore out of which ₹14,000 crore was from Ulips. The charges have been there but there is more transparency for the customer. Earlier Ulips were primarily seen as an alternate to mutual funds where in one could exit in six months. Now the regulator has made it transparent in terms of what you would get when you exit, that is, minimum death benefit, charges, etc.

## Earlier, there was only fear of dying, now there is fear of living... in terms of disability, medical and pension cover



**Gaurav Mashruwala:** The charges have come down dramatically. However, investors must realise that you invest through mutual funds and through insurance, not into either of them. Hence, whoever is charging you less to reach that asset class – considering the performance of the asset class remains the same – is the best for you.

**Vivek Law:** In spite of the charges being brought down, what are the challenges in terms of delivering these products to consumers today?

**Vinay Sah:** Previously there was only the fear of dying, now there is fear of living, too. People have started thinking in terms of disability, medical as well as pension cover. However, in rural India, there is still a large amount of push needed. Currently, they can get a term assurance plan offered through the *Pradhan Mantri Suraksha Bima Yojna* (PMSBY), which covers them for ₹2 lakh at a premium of ₹330 annually. Hence, there is a start.

**Suresh Badami:** In urban areas there is a lot of awareness about insurance. For instance, a study shows that 40-45 per cent people research online before they buy a product. There is a large amount of goal-based selling and products are also simpler for distributors to sell. This will increase penetration. Infact, we sell a

lot of policies online; Almost 37,000 policies were sold through the online route last year and this segment is growing very fast. Presence on social media, products available online and whether they are cost effective will matter. The agency route is a large model for us and open architectures like the bancassurance tie-ups may open more ways to reach out to consumers. There is a lot more that can be done in terms of other segments, such as health, where changing lifestyle not only brings regular diseases like heart, but cancer is on the rise – one million new cases are reported every year. People don't realise the need to cover themselves. Our cancer care product is the cheapest in the market. Pricing and easy availability becomes imperative.

**Rajeev Sinha:** Products have become simpler and easier to buy which is why online has the potential to reach out to more people. We are in the process of developing an app, wherein it will be easy for customers to buy and compare insurance considering everyone has a smart phone today, including the rural areas which will enhance penetration.

**Vivek Law:** What is your outlook on the pension sector?

There are various challenges we face today. We have an aging population. Nearly 9 per cent of the population is over the age of 60 years today and over the next 35 years, the number of people aged 60, or more, will multiply by 2.6 times, while that of those in the working age bracket of 15-59 will rise by less than half of that. This means there will be only 3.3 workers per old person in 2030 from 4.2 today. The number gets crunched further to 2.4 workers by 2050. Hence the pension provision for old age is the only solution to make them financially independent. Also, there is improving life expectancy with each passing year, (and) due to the overall improvement in the longevity, financial strain for the old age above 60 years is increasing. Growth rate of the pension scheme per person grows because of the dearness allowance granted as well as one-time rise due to revision in pay scales. Pay commission revision tends to increase pay scales to accommodate improvement in living standards, while dearness allowance is linked to inflation.

The currently available pension schemes are from the central or state government's Defined Benefit (DB) provision (not in vogue for the new member in central and most of the state governments); central or state governments' Defined Contribution (DC) provision (thorough National Pension System (NPS)); private pension arrangement such as DB or DC provided by the employer; individual pension arrangement offered by insurance companies or through NPS; Subsidised pension scheme sponsored by

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the central government such *Swabalamban Scheme* and *Atal Pension Yojana*.

**Vivek Law:** What is the way forward for the insurance industry over the next one to two years in terms of product innovation, the need for health and disability covers?

**Vinay Sah:** Product innovation is happening and owing to the Insurance and Regulatory Development Authority (IRDA) regulations, traditional products are also becoming very transparent for the insured, specifying the minimum payout that has to be made to policy holders as well. It is only a matter of time before insurance picks up, considering we are seeing the economy showing an upward trend. Purchasing power is increasing, however, the share of insurance to GDP has not increased in that proportion.

**Gaurav Mashruwala:** A large number of product variants are available and we would also like more, more so, in the health care sector. Apart from illnesses, we have people living much longer who require cover where treatments are taken at home, long-term care products, wherein you pay your premium during your work life and get the benefits on retirement, including nursing treatment, etc. If somebody is willing to pay more premium, treatment across the globe should also be available.

**Vivek Law:** There is a lack of understanding that health insurance is a forte of general insurance companies. However, since a decade, life insurance companies have been offering health care products, which are different in their construct. How should I, as a consumer, look at fulfilling my insurance needs?

**Gaurav Mashruwala:** Your base insurance cover should be from a general insurance company, more so, in principal of indemnity, if you have recurrence they keep paying you, reimbursement of treatment costs. Thereafter, any other cover that is not being covered, for instance a disease excluded or expenses related to home treatment taken, or a loss in salary, principal of benefit products can be added on.

#### Questions from audience

**Is India underinsured because of reach?**

**Vinay Sah:** It is not the only reason considering the combined number of branches of LIC and private companies is about 10,000 across the country along with 21 lakh agents. There are other factors as well. For example, although we are a saving community (7 per cent of GDP), insurance is only about 4 per cent as on 2013. It is about changing mindsets.

**Gaurav Mashruwala:** The financial inclusion drive taken up by the government, which includes people having bank accounts as well as the *Pradhan Mantri Suraksha Bima Yojana* (PMSBY) will help to change this, going forward.

**Suresh Badami:** India is under insured due to a variety of factors, including how much people are willing to invest in insurance and, the fact that, products used to

**Now you can buy any insurance plans with ease and more products are available at cheaper costs**



be complicated. Things have changed. You can now buy insurance with ease and more products are available at cheaper costs. In the UK, there is a basic stakeholder insurance for the masses, we have the Government of Indian doing it.

**Can we see anything from private insurers? One product that can be offered to the masses?**

**Vinay Sah:** There is already a social sector insurance scheme run by the government, the latest one being *Aam Aadmi Bima Yojna* (AABY), wherein LIC offers the policy through nodal agencies and have huge numbers enrolled. Premium is sometimes shared with the insured or the government pays for it, wherein a cover of ₹1 lakh is available for ₹100 or ₹200.

**Suresh Badami:** The approach of the regulator is to make products simple and easy to buy. There are fair amount of insurance products available at the rural end from social and rural obligatory side. HDFC Bank, for instance, has sold more than 3 lakh policies since this launch. This shows latent demand.

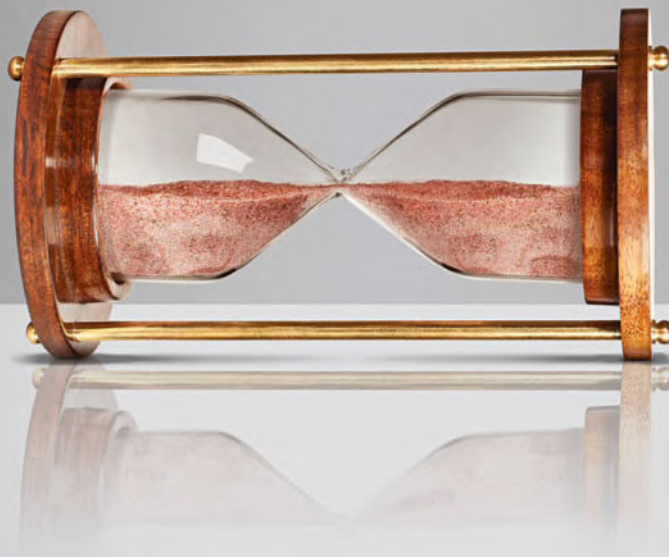
**We don't see many guaranteed return products?**

There is a fair amount of insurance products that are available on guaranteed returns.

**Is there any advantage of having multiple insurance covers for various diseases?**

**Gaurav Mashruwala:** Buy maximum health insurance cover for all kinds of illnesses. After that you could go for specific covers, in case, there is a family history. We are not looking at one single health insurance plan, but have a portfolio of products. ♦

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# CITY WISE

Several health insurers offer you a discount based on the city you live in. Should you go for it? By TEENA JAIN KAUSHAL

Illustration: RAJ VERMA



**W**hat determines the cost of your health insurance policy? The obvious answer is age, gender, health and sum insured. But there is one more factor – the city you live in. As the cost of medical care is higher in metro cities than in smaller cities, many insurers offer policies where people pay based on their area of residence.

According to the Insurance In-

formation Bureau, the average claim size in Hyderabad is ₹33,192. In Mumbai and Delhi, it is ₹46,806 and ₹40,179, respectively. In Bihar and Jharkhand, the figure is ₹9,000-11,000. In Maharashtra, it is ₹36,514.

Nikhil Apte, Chief Product Officer, product factory (health), Royal Sundaram Alliance Insurance, says: “The cost of hospitalisation is much lower in smaller cities. In metro cities we see more cases of lifestyle diseases, while in rural India claims are mostly

for infectious ailments. That is why we have passed on the benefit to customers (of smaller cities).”

Should you go for such plans? Sandeep Patel, CEO, Cigna TTK Health Insurance, says: “With zone-based pricing, one will have to pay lower premium if one is from a Tier-II/III city. This way a customer in Tier-II/III city will not cross-subsidise a customer in Tier-I city by paying the same premium.”

Suresh Sadgaopan, founder of fi-

nancial advisory firm Ladder7, says consumers should be aware of what they are buying. "For example, a person should consider what would happen if he migrated from a metro city to a smaller city? Similarly, what are the restrictions if a policyholder living in a Tier-II/III city has to go to a metro city for treatment?"

City-based pricing helps one pay premium as per the cost of treatment in his or her city but with some checks and balances. Here is what all is on offer.

**Premium:** Several insurers offer discounts of 10-40 per cent based on the city you live. For example, for a couple aged less than 35 in Delhi, Star Health offers a cover of ₹2 lakh for ₹6,287. The same cover can be bought for ₹4,562 (37 per cent less) if the couple shifts to a smaller city.

Also, note that not all metro cities are classified as Zone-1. The list differs from insurer to insurer, which di-

to customers." Some insurers do not offer differentiation based on cities. Sanjay Datta, chief, underwriting and claims, ICICI Lombard, says: "ICICI Lombard adopts standard pricing for all health insurance products. Most people today opt for metro cities or specialised hospitals to avail of best health care. Standard pricing helps the insured avail of all benefits of the policy across cities."

**Migration:** Insurers generally revise premium rates if a policyholder relocates from a Tier-I to a Tier-II/III city. Bhaskar Sharma, Managing Director, SBI General Insurance, says: "If a person moves to a smaller city from a metro city, then there will be a change in the premium component. There will be endorsement and he can take a refund. He may not necessarily have to change the policy as he can get treatment on same policy anywhere."

Patel of Cigna TTK Health Insur-

a Tier-III city will get 80 per cent claim for treatment in a Tier-II location and 70 per cent for treatment in a Tier-I city. Some insurers, instead of restricting coverage, insert a co-payment clause for treatment in a higher category city. One example is Cigna TTK's ProHealth plan. The quantum of co-pay varies from policy to policy.

Patel of CIGNA TTK Health Insurance says: "ProHealth provides waiver of co-pay in case of hospitalisation due to accident as we feel customers should not be penalised in emergency situations." There are also policies that do not restrict treatment or impose co-payment for undergoing treatment in bigger cities. Somesh Chandra, Chief Operations Officer and Chief Quality Officer, Max Bupa, says: "The good part is that a health companion customer in Tier-II/III cities can easily avail of treatment in the city of his/her choice. While he gets an advantage in terms of discount in premium (up to 10 per cent), we do not restrict him from availing of treatment in a Tier-I city. Policy terms and conditions remain the same. There will not be any change in premium."

## **CITY-BASED PRICING HELPS ONE PAY PREMIUM AS PER THE COST OF TREATMENT IN HIS OR HER CITY BUT WITH SOME CHECKS AND BALANCES**

vide cities based on the cost of health care and their experience in different cities. Without any standard classification of cities, you need to be careful. For instance, in Max Bupa, Delhi comes under Zone-II, but in Star Health it is a Zone-1 city.

You should not decide based on premium rates alone as features of these policies vary from insurer to insurer. V Jagannathan, Chairman and Managing Director, Star Health and Allied Insurance, says: "The premium may be less, but a policyholder may face difficulty if treatment is taken in a high-end hospital in a metro city. However, a lot depends upon specific conditions. Some policies offer choice

ance, says: "Migration is normally allowed at the renewal stage. If the customer wants to continue treatment in a bigger city, he can opt for that by paying a higher premium. He will not have to co-pay in future."

**Advanced treatment:** You must find out how your insurer is going to pay you in case advanced treatment is needed. This is because different insurers offer you different features. For example, in case of SBI General Health Insurance, if a person having cover for a Tier-II city moves to a Tier-I city for treatment, he will get 80 per cent of the claim amount. For Tier-II/III, he will get the full amount. Similarly, a person having a plan for

### **WHAT TO DO?**

If you are looking for ways to reduce your health insurance premium, city-based health insurance policies offer a solution. But before signing up, understand how payouts are made for treatments outside the city you live. If you are ready to pay extra, go for standard policies with full coverage. Yashish Dahiya, founder and CEO, policybazaar.com, says: "Ideally, in higher age bands, it's preferable to pay extra upfront to get all-India coverage than confining yourself to a zone."

Health insurance premium can be considerably different based on the city you live in. Make your decision after weighing in all the factors. ♦

@teena\_kaushal





## “Covering all towns and most villages is the biggest challenge”

**Tapan Singhel**, MD and CEO of Bajaj Allianz General Insurance, speaks with **Teena Jain Kaushal** about how the general insurance industry is shaping up. Excerpts from an interview:

**Insurers have developed new features such as restore and treatments abroad to make a health insurance policy more attractive. What more innovations can one expect in future?**

Different consumers have different requirements. For example, for somebody in the north-east, accessibility to Kolkata itself is a huge issue. The cost of transportation is going to be a lot, so this is something that we see from the consumer's perspective. A lot of people look for it, so some of us staying in big cities don't realise that. But just go outside big cities and there are a lot of people who want such facilities where they can be transported to big cities. I think we already have this transportation in upper-end products where people are getting transported by helicopters or getting picked up. But in the middle-range and lower-range products, which cater to the masses, for just maybe 100 kilometres, transportation to reach to a good hospital is missing. That is something which we are working upon because a solution to my customers that gives







them good access is more important than anything else.

We also want that our customers should get claims very fast. We came out with cashless service in motor insurance policies way back. Now everybody is doing it. We came out with cashless service for health insurance. I think the customer wants something more. Suppose there's a lady in Gurgaon going to Delhi at 10 in the night. She would want that if the tyre goes flat, somebody comes and changes it. She would not want to step out of the car at that point of time or if the fuel runs out or the battery comes out in the parking lot at night. I think the lady would want that somebody would come and change that. So we came out with 24X7 service. So now the lady customer could ask and call our toll-free number. We'll change the tyre, we'll charge the battery, we will get that fuel for her to reach her place.

**After the earthquake in Nepal, insurers claimed that enquiries about home insurance policies increased manifold. Did people actually buy the policy after that?**

Home insurance is again, I think, one of the most under-penetrated products in India. Less than one per cent people who can afford home insurance have a cover. When the Nepal earthquake happened, we thought let's try and reach out to our customers and to the people at large and see what best can be done.

So one method we thought of was let's send SMSs. But we did not send the text messages immediately so that people do not see it that we are trying to be opportunist because, although the intention is good, it should not be misinterpreted. So we sent it about seven to 10 days after. The response was after one lakh SMSs, only 12-15 people responded. So I think when a loss happens, those days the enquiries are very high. When it comes to a disaster, I think the first four to five days people think about it. In seven days it was back to where it was.

**How has the industry changed after the implementation of the Insurance Act?**

The industry is excited. I think the regulators will be coming out with some guidelines on that because a lot of responsibility has come on the regulators now in terms of evolving things which were earlier stuck with the bill. An empowered regulator is good because then we don't have to wait for the changes in Parliament. So when it comes to the industry, to the regulator, that has been a good sign. Now we have to wait and see how the regulators come out with their thoughts and

their guidance on how to take it forward.

**What are some concerns of the general insurance industry?**

What I have seen is that people love to blame the government, people love to talk of concerns, that is an easier option. I think for me it is not about any concern or issue with the government. Yes, when the economy grows, the industry grows. We are linked to the industry. The issue is can we reach out to people who are not covered? India has 7,000 towns, and the insurance industry has not even covered all the towns for reach. Can we at least begin with covering every town or most of the villages in the country so that people have access to insurance? That would be the biggest challenge. Second, as an industry, can we look at correcting the price? There is nothing to do with the government or with the regulator.

Also, how will the industry sustain itself if there is going to be pure underwriting losses happening? Can we correct the price to at least make underwriting profit? Again, if you look at the concerns for us to correct – not for the government or the regulator to correct – can we make policy wordings simple to a customer so that in one sentence she understands what she is covered for? The customer bought the cover thinking her car is

**“We want that our customers should get claims very fast”**

covered, but when claim happens she gets 50 per cent or 60 per cent. Now, who do you blame? So can you make a product where you understand that if you are covering a car and these things go wrong, this is paid and this is not paid? So in two sentences, you finish off and you understand what you are buying. If the claim happens you get what you understand.

**There has been talk about inflation-linked products. Is it a feasible option?**

We had thought about inflation-linked products. We went to the market to check with our distributors, but the response was not good. They say they are fine with the fixed-range product, which can be moved up on the customer's notice. But one belief is that the inflation-linked product is necessary because a lot of time people take a sum insured which is relevant when they take it and after some time the sum insured is no longer relevant. So if these products were linked to inflation, they would play a better role. ♦

@Teena\_Kaushal

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# Revised ITR Forms

It's time to pay more attention as the income tax department seeks more disclosures to catch tax evaders. By TEENA JAIN KAUSHAL

**T**his is the time of the year when people run around to file their income tax returns. This year, however, you could take things easy as the deadline has been extended to August 31. The controversial and cumbersome provisions for mandatory disclosure of expendi-

ture on foreign trips and bank balances have been dropped. New provisions have also been introduced, but in a much simpler form.

The forms that were notified last month were withdrawn given widespread opposition for stringent disclosure norms. People opposed the idea of sharing information about

foreign trips and bank balances. The new forms have done away with detailed disclosures but they still ask for information on your foreign trips and bank account albeit indirectly.

Many more changes have been made in the ITR forms. Here is a guide to help you understand these changes:

## NEW FORM ITR 2A

Considering that many taxpayers have more than one house property but do not have capital gains, the finance ministry has proposed a new Form - ITR-2A - to simplify the process. The form is for an individual or HUF with two house properties but no capital gains, income from business/profession or foreign asset/foreign income.

The good news is that Form ITR-2 and the new Form ITR-2A will not be more than three pages, and information will be captured in the schedules if applicable.

**FORM ITR-2A**

**INDIAN INCOME TAX RETURN**  
(For Individuals and HUFs not having Income from Business or Profession and Capital Gains and who do not hold foreign assets)  
(Please see Rule 12 of the Income-tax Rules, 1962)  
(Also see attached instructions)

Assessment Year: **2015-16**

**Part A-GEN GENERAL**

First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Last name: \_\_\_\_\_ PAN: \_\_\_\_\_

Flat/Door/Block No: \_\_\_\_\_ Name of Premises/Building/Village: \_\_\_\_\_

Road/Street/Post Office: \_\_\_\_\_ Area/Locality: \_\_\_\_\_

Town/City/District: \_\_\_\_\_ State: \_\_\_\_\_ Pin code: \_\_\_\_\_

Country: \_\_\_\_\_

Residential/Office Phone Number with STD code: Mobile No. 1: \_\_\_\_\_ Mobile No. 2: \_\_\_\_\_

Email Address-1 (self): \_\_\_\_\_

Email Address-2: \_\_\_\_\_

Do you have Aadhaar Number? (For Individual) ☐ Yes ☐ No. If Yes, please provide: \_\_\_\_\_

Sex (in case of individual) (Tick) ☐ Male ☐ Female

Employer Category (if in employment) (Tick) ☐ Govt. ☐ PSU ☐ Others

Income Tax Ward/Circle: \_\_\_\_\_

Passport No. (Individual) (If available): \_\_\_\_\_

Return filed (Tick/Please see instructions number-7) ☐ On or before due date-139(1), ☐ After due date-139(4), ☐ Revised Return-139(5), ☐ under section 139(2)(b), or, in response to notice ☐ 139(9)-Defective, ☐ 142(1), ☐ 148, ☐ 153A/153C

If revised/defective, then enter Receipt No and Date of filing original return (DD/MM/YYYY): \_\_\_\_\_

If filed, in response to a notice u/s 139(9)/142(1)/148/153A/153C enter date of such notice: \_\_\_\_\_

Residential Status: (Tick) ☐ Resident ☐ Non-Resident ☐ Resident but Not Ordinarily Resident

Are you governed by Portuguese Civil Code as per section 5A? (Tick) ☐ Yes ☐ No. If "YES" please fill Schedule 5A

Whether return is being filed by a representative assessee? (Tick) ☐ Yes ☐ No. If yes, please furnish following information -

(a) Name of the representative: \_\_\_\_\_

(b) Address of the representative: \_\_\_\_\_

(c) Permanent Account Number (PAN) of the representative: \_\_\_\_\_

**Part B-T1 Computation of total income**

**TOTAL INCOME**

1 Salaries (7 of Schedule S) 1

2 Income from house property (3c of Schedule III) (enter nil if loss) 2

3 Income from other sources

a from sources other than from owning race horses and income chargeable to tax at special rate (1 of Schedule OS) (enter nil if loss) 3a

b Income chargeable to tax at special rate (2 of Schedule OS) 3b

c from the activity of owning and maintaining race horses (3c of Schedule OS) (enter nil if loss) 3c

d Total (3a + 3b + 3c) (enter nil if loss) 3d

4 Total (1+2+3d) 4

5 Losses of current year set off against 4 (total of 2e and 3e of Schedule CTA) 5

6 Balance after set off current year losses (4-d) (total of 4 of Schedule CTA + 3b) 6

7 Brought forward losses set off against 6 (2 of Schedule BFL) 7

8 Gross Total Income (6-7) (1 of Schedule RPLA + 3b) 8

Do not write or stamp in this area (Space for bar code)

For Office Use Only  
Receipt No: \_\_\_\_\_  
Date: \_\_\_\_\_  
Jual and Signature of receiving official: \_\_\_\_\_

Page 1 of 3

## PASSPORT NUMBER

The good news is you are no more required to give details of foreign trips or expenditure thereon to the income-tax department. But you still need to give your passport number, if available, in Forms ITR-2 and ITR-2A. Experts say it is like window dressing as the income-tax department can still get information about your foreign trips from the immigration department.

BANK ACCOUNT	14	Details of all Bank Accounts held in India at any time during the previous year (excluding dormant accounts)				
	Total number of savings and current bank accounts held by you at any time during the previous year (excluding dormant accounts). Provide the details below.					
	Sl.	IFS Code of the Bank	Name of the Bank	Account Number (the number should be 9 digits or more as per CBS system of the bank)	Savings/ Current	Indicate the account in which you prefer to get your refund credited, if any (tick one account <input checked="" type="checkbox"/> )
	1					<input type="checkbox"/>
	2					<input type="checkbox"/>

## BANK ACCOUNT DETAILS

Earlier, you used to give details of only one bank account for refund purposes. Now, you will be required to give details of all your active bank accounts held at any time during the previous year. You will need to fill the IFS code and number of all current/savings bank accounts.

FORM	SAHAJ ITR-1		INDIVIDUAL INCOME TAX RETURN (For Individuals having Income from Salaries, One House Property, Other Sources (Interest etc.). Refer to Instructions for eligibility.)				Assessment Year 2015-16	
	First Name		Middle Name	Last Name		PAN		
PERSONAL INFORMATION	Flat / Door / Building		Name of Premises / Building / Village				Status I - Individual	
	Road / Street		Area / Locality				Date of birth	Sex (Select)
	Town/ City/ District		State (Select)		Country (Select)		Pincode	
	Email Address		Mobile No. 1	(STD Code)	Phone No.	Mobile No. 2	Employer Category (Select)	
	Income Tax Ward / Circle				Return filed under section (Select)			
FILING STATUS	Whether Person governed by Portuguese Civil Code under section 5A ? (Select)				Enter PAN of Spouse if applicable			
	Whether Original or Revised return? (Select)		Tax Status		Nil Tax Payable			
	If Revised/Defective, then Enter Receipt Number of Original Return				Date of Filing Original Return			
	Notice No (Where the Original Return filed was defective and a notice is issued to the assessee to file a fresh return Sec 139(9))				If filed in response to a notice s/s 139(9)/142(1)/148/153 A/153C enter date of such notice			
	Residential Status (Select)							

## CHANGE IN AMBIT OF ITR-1

Under new provisions, individuals having exempt income without any ceiling (other than agricultural income exceeding ₹5,000) can now file Form ITR-1 (Sahaj). In another move, any resident individual earning income from outside India or having a financial interest outside India is not allowed to file the income tax return in ITR-1 from now.

## POSTING ITR-V

Earlier, after filing the return online you needed to post acknowledgment separately to the income tax office. Now, under new provisions you no more need to post ITR-V if Aadhar number is provided in the ITR form. This could be a big relief for taxpayers. ♦

@Teena\_Kaushal





# Get More from MFs

Direct plans offer higher returns than regular plans, but they are meant only for savvy investors. By TANVI R. VARMA

**D**irect plans of mutual funds (MFs) have lately gained a lot of popularity, and with reason. If an investor does not need investment advice from an intermediary, he can boost his MF returns by up to one per cent on an equity fund and 0.50 per cent on long-term income funds. This difference in returns doesn't sound much when the markets are hitting new highs and diversified equity MFs have returned 20 per cent on average in the year (till May 25). But since this is an annual charge, even a one per

cent difference could mean substantial savings owing to the power of compounding.

Let us say you invested ₹10 lakh in a fund with a total expense ratio (TER) of 2.5 per cent. (The TER is a charge that a fund levies on your investment to manage your money. A higher TER will result in lower returns and vice versa.) If the fund earns 15 per cent and its TER is 2.5 per cent, it would mean a net return of 12.5 per cent. In this case, ₹10 lakh invested for 10 years at 12.5 per cent CAGR would grow to ₹32.50 lakh.

A one per cent lower charge would mean this amount would grow by 13.5 per cent, i.e., to ₹35.50 lakh. The TER also matters in case of debt funds. The past year could be considered as a bumper one for debt funds as they posted double-digit returns. In the long run, these funds, typically, record high single-digit returns. Hence, in a low-yielding environment, any additional expense levied on these funds will count, making it a differentiating factor amongst funds.

Market regulator SEBI (Securities and Exchange Board of India)

has stipulated a limit on the TER. Equity funds, for instance, can charge a maximum of 2.5 per cent, while debt funds can charge 2.25 per cent of the average weekly net assets. Seemant Shukla, head of sales and business development at Edelweiss Asset Management, says the TER also depends on the assets under management (AUM) of the scheme. According to SEBI guidelines, the TER needs to fall as AUM increases. D.P. Singh, Executive Director and Chief Marketing Officer at SBI Mutual Fund, says a fund house managing assets worth ₹2,000 crore would typically have a TER of 1.8 to 1.9 per cent (after operating expenditure), of which one to 1.40 per cent goes towards distribution cost and asset management companies (AMCs) are left with 0.40 to 0.50 per cent for AMC management fees.

How do funds manage to give you additional returns? Direct plans have a lower expense ratio since they do not engage distributors, hence saving on distribution expenses and commissions paid to the distributors. These plans have a separate net asset value (NAV) that reflects the lower charge. Take, for instance, the ICICI Prudential Focused Bluechip Fund. The year-to-date expense ratio for its direct plan is at 1.30 per cent, much lower than the 2.16 per cent for its regular plan. Owing to the reduced costs, the returns from these funds increase by a similar extent. This is a trend seen across fund houses (see *Higher Returns*).

Direct plans have been in existence since 2013, in accordance with a SEBI ruling. This allowed AMCs to create direct plans not routed through a distributor in existing as well as new schemes. While investing in direct plans, the investors deal with the AMC directly, either through offline or online channels, and no intermediary is involved.

Are direct plans suitable for

you? “Direct plans are only suited to financially aware investors or if one wants to invest into plain vanilla products,” says Singh of SBI MF. According to a CRISIL report, the share of vanilla products like liquid funds was highest in direct plans, followed by ultra short-term funds, the categories which see higher investment by institutional investors. The report says more institutional investors and wealthy individuals are likely to shift to direct plans as these investors are more capable of taking in-

## HIGHER RETURNS

Performance of direct and standard plans of some top performing large cap equity funds

Fund	1-yr return
Kotak 50 - Direct Plan #	28.09
Kotak 50 Regular Plan	26.99
Franklin India Bluechip Fund - Direct Plan #	25.57
Franklin India Bluechip Fund	24.5
ICICI Prudential Focused Bluechip Equity Fund - Direct Plan #	21.49
ICICI Prudential Focused Bluechip Equity Fund - Regular Plan	20.51

Returns in %; Data as on May 26, 2015;  
Source: Valueresearchonline

formed decisions.

Further, do not choose a fund only because it has a lower TER; it may not necessarily be better. It will not make sense if you save one per cent on charges and invest in a fund that underperforms its category by five per cent. For retail investors, it may be best to invest in MFs based on a financial plan created in accordance with their investment objective.

## RIISING COSTS

In September 2012, SEBI allowed AMCs to charge up to 0.30 per cent more on the expense ratio if a speci-

fied proportion of new inflows into a scheme came from locations beyond the top 15 cities. This was to help increase the reach of MFs among the masses. “While it is important for the MF industry to improve its geographical reach and bring in long-term retail money from smaller towns, like any other businesses, it should have been the AMC who bears their expansion cost rather than the investor paying additional TER,” says Jimmy Patel, CEO, Quantum Asset Management.

SEBI also mandated AMCs to plough exit loads back into the scheme. But to compensate this loss in revenue from exit load collections, AMCs were allowed to levy a TER of 20 basis points. So in all, an additional 50 basis points were allowed to be charged in addition to the 2.5 per cent expense ratio. Hence, a small fund, which has an AUM below ₹100 crore, could end up charging three per cent. The new rules also allowed service tax on the investment management fee to be charged to the scheme, which means it would be borne by investors. According to Patel of Quantum, there has always been a lack of transparency in the transaction, distribution and market cost in the MF industry. “The commission paid is typically not disclosed, which compromises the interest of the investor,” he adds.

To address this issue, SEBI has mandated distributors to disclose the commission they earn on the scheme they recommend to investors compared to its peers. On average, the annualised fees for distributors are in the range of 0.50 to one per cent for equity funds. While some AMCs may give upfront commission, the rest offer a trail commission. In short, as an investor you must be aware of the commission a distributor would earn from the scheme recommended to you and decipher whether it is in your interest. ♦

@vtanvi





**Calsoft Labs India Pvt Limited**  
Manager / Sr Manager - Finance  
**Location:** Chennai  
**Job ID:** 17018442  
**Description:** Should have the ability to Prove track record of developing procedures, implementing process improvements and communication model for operational activities.



**Topsource Infotech Solutions Private Limited**  
Senior Executive Internal Accounts  
**Location:** Pune  
**Job ID:** 17131734  
**Description:** The role of a Senior Executive Internal Accounts is to ensure that the tasks assigned are completed on time, accurately and completely.



**Cadence Design Systems (India) Pvt Ltd**  
Senior Account Executive  
**Location:** Bengaluru / Bangalore  
**Job ID:** 16577267  
**Description:** Will act as the primary sales contact for the Cadence products in certain accounts with responsibility of generating business from those accounts and from other open territory accounts.



**UnitedHealth Group**  
Account Payable Executive  
**Location:** Delhi  
**Job ID:** 17133185  
**Description:** Receiving, verifying and processing vendor invoices, Maintaining Invoice trackers etc.



**Arnold Consulting Private limited**  
Accounts Executive  
**Location:** Pune  
**Job ID:** 17127637  
**Description:** Control of the profit and loss is one of the main activities, together with 3 years of experience, preferred language is Marathi and English.



**Vitasta Consulting Private Limited**  
Manager Taxation  
**Location:** Navi Mumbai  
**Job ID:** 17126251  
**Description:** Responsible for Direct Tax ( Income Tax, TDS, Transfer Pricing ) and Indirect tax (Indirect tax - Excise, VAT, Service tax, CST, customs laws etc) etc.



**Misys Software Solutions India Private Limited**  
Assistant Manager Revenue Accounting  
**Location:** Bengaluru / Bangalore  
**Job ID:** 17124660  
**Description:** Should be a qualified Chartered Accountant with a post-qualification experience of 5 – 6 years.



**2COMS Consulting Private Limited**  
Accounts Associates  
**Location:** Kolkata  
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## Juniper Networks Inc.

Finance Associate Manager - GL

**Location:** Bengaluru / Bangalore

**Job ID:** 17081184

**Description:** Monitoring month close progress as per close calendar and timely communication with Corporate Accounting.



## Sand Martin Consultants

Accountant

**Location:** Noida

**Job ID:** 16867402

**Description:** The selected candidate will be working on highend US/ UK/ Australian Accounting.



## Jobsplan

AVP - Fund Raising

**Location:** Navi Mumbai

**Job ID:** 16626683

**Description:** Thorough knowledge of entire range of commercial/corporate banking products, Handle asset products like working capital facilities, project finance, term loans, structured finance, etc.



## Talent Mappers Consulting India Private Limited

Admin & Accounts Executive

**Location:** Bengaluru / Bangalore

**Job ID:** 17111292

**Description:** Good knowledge of an account with tally, Microsoft Office and e-mail.



## Golden Opportunities Private Limited

Supervisor - Accounts payables

**Location:** Pune

**Job ID:** 17111628

**Description:** Looking for professionals with 5+ years of experience in accounts payables.



## eClerx Services Private Limited

Financial Analyst

**Location:** Mumbai, Navi Mumbai, Thane, Pune

**Job ID:** 16984044

**Description:** Good knowledge of derivatives & capital markets is a must, Excellent verbal & written communication Skills.

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# SMALL AND SWIFT

Small- and mid-cap funds are likely to deliver attractive returns, but one must tread with caution.

By TANVI R. VARMA



**B**etween June 29, 2014 and June 29, 2015, small- and mid-cap funds were the best-performing category of equity funds, delivering 30 per cent returns. In comparison, diversified large-cap funds posted 14 per cent, while the BSE Sensex delivered 10 per cent, during the period under consideration.

According to Janakiraman R., Vice President and Portfolio Manager, Franklin Templeton Investments India, hopes of an economic turnaround resulted in mid- and small-

caps outperforming large-cap funds. A significant re-rating of their price-to-earnings ratio (PE) multiples have also contributed to the performance. This, he says, is led by fundamental and behavioural factors.

On the fundamental side, when an economy starts reviving, earnings of small- and mid-cap companies witness faster recovery because they are at the tail-end of the food chain – better cash flow helps their working capital needs, and as interest rates come down it reduces their debt and interest burden, allowing faster rev-

enue pick up. On the behavioural side, once the economic recovery starts, there is large domestic participation in the market. As a result, small- and mid-cap companies see higher capital flows and, hence, the stocks witness higher prices. Aashish Somaiyaa, Managing Director and CEO, Motilal Oswal AMC, agrees: “Liquidity chases fundamentals. And, supply is allocated where there is more potential for growth,” he says, adding that during the last 14-month-to-date, ₹90,000 crore flowed into equity mutual funds, al-



Illustration: RAJU VERMA

most half of which, i.e., ₹45,000, was invested in mid-caps.

In September 2012, when the markets had hit rock bottom, small- and mid-caps were at their historic lows owing to higher leverage and inadequate demand, putting pressure on the companies. According to Mrinal Singh, Senior Fund Manager, ICICI Prudential AMC, pockets of small- and mid-cap companies are poised to capture the economic recovery which is slowly taking root. "If one looks at the economic data, we are in the early stages of an economic recovery; cur-

rent account deficit (CAD) is under control, inflation is benign and interest rate cut cycle is underway. With falling interest rates, demand revival and improved investment climate, both operating and financial leverage are likely to improve for these companies," says Singh.

Having said that, the stock market is yet to see an improvement in their earnings. "A revival of the capex cycle or the deleveraging of infrastructure sector will support earnings growth, but there does not seem to be visibility on these

two sectors getting deleveraged for the next three to six months," says Singh. However, earnings should not worry a long-term investor (three to five years). "Strengthening consumer demand and a deflation in commodity prices, which gives these companies a major cost advantage, will help their margins," says Janakiraman, adding that 2014/15 has seen improvement in performance compared to 2013/14 and is likely to gather momentum over the next two to three years with an expectation of 15 per cent earnings growth.

A large number of funds have delivered significant alpha to investors with sound strategies.

**Multi-cap strategy to value investing:** ICICI Prudential Value Discovery Fund, for instance, has managed to deliver consistent long-term returns, outperforming the benchmark since inception (see *Leading the Pack*). According to Singh, the fund adopts a disciplined investment approach to build a diversified portfolio of stocks having reasonable potential to deliver value to investors over the long-term. It follows an unconstrained multi-cap strategy wherein the mid- and small-cap exposure of the fund is at 50-75 per cent, while some large-caps also find place in the fund. In the past one year, the fund has been overweight on infrastructure and domestic cyclical sectors. Top stocks in the portfolio include ICICI Bank, Reliance Industries, Mahindra & Mahindra, PI Industries and Amara Raja Batteries. "With India on the road to economic revival, these sectors have aided the performance of the fund," says Singh. The price of Amara Raja Batteries, for instance, has doubled over the last one year, while PI Industries saw an increase from ₹300 in June 2014 to ₹350 now.

**Riding on the consumer wave:** Franklin India Smaller Companies Fund has been the best performer over a three-year period with 42 per



cent returns, as on June 29, 2015. Janakiraman, who manages the fund, typically picks stocks where businesses are profitable but not asset-intensive, and are capable of delivering more cash than what they absorb. His current favourites are banking and wealth management, auto ancillaries, consumer durables, industrials and auto sectors, along with companies that have an intellectual advantage like IT. "The objective of smaller company funds is to identify companies that grow at reasonably attractive rates for long periods of time," he says.

**Bordering on large caps:** Although it has a limited performance history, Motilal Oswal Most Focused Midcap 30 Fund has been among the top performers in the last one year, delivering 50 per cent returns. According to Somaiyaa, the common thread across all stocks held in the portfolio is that they are not deeply cyclical. "The fund philosophy is to buy companies which are showing secular earnings growth of 18-20 per cent in the last five years and ROE of 16-18 per cent," he says. Most stocks are in the upper end of the mid-cap and lower end of the large-cap segment.

**Is there still some steam left?** Mostly, mid- and small-cap stocks have gone up three to five times. This makes one wonder whether these funds are still good investments. "Valuations are on the higher side and in spite of the tremendous opportunities that lie in the small- and mid-cap segment, extra caution needs to be exercised due to the higher risks they carry," says Janakiraman. Over the last 10 years, mid-caps have outperformed large-caps by one per cent (16.6 per cent), but in the next five years they are likely to outperform by one-two per cent, he adds.

Somaiyaa concurs with the view and is of the opinion that the magnitude of alpha seen last year is not

## LEADING THE PACK

Fund	1-Year Return	3-Year Return	5-Year Return
SBI Small & Midcap Fund	57.0	42.0	23.1
DSP BlackRock Micro Cap Fund - Regular Plan	50.2	38.8	21.1
Motilal Oswal MOST Focused Midcap 30 Fund - Regular Plan	49.0	-	-
SBI Magnum Midcap Fund	44.4	41.1	21.9
Escorts Leading Sectors Fund	43.0	33.0	15.5
Kotak Emerging Equity Scheme - Regular Plan	42.9	33.4	17.6
Mirae Asset Emerging Bluechip Fund - Regular Plan	41.8	38.8	-
Tata Midcap Growth Plan - A Fund	39.7	35.4	18.8
Canara Robeco Emerging Equities Fund - Regular Plan	39.2	37.4	22.8
IDBI Diversified Equity Fund - Regular Plan	39.2	-	-

Data as on June 29, 2015; Source: Valueresearchonline



sustainable. Having said that, fund managers of mid-cap funds will take into account the high valuations and move out of stocks that have returned fair results, and invest in those that still have some value left. Do remember that when markets do well, mid- and small-caps tend to generate high returns, while in falling markets they tend to suffer. Typically, small and medium businesses are not strong enough to weather bad macro scenario and, if interest rates were to shoot up, their ability to pass on costs is much lower than bigger companies.

Analysts say one must invest in funds with a lower turnover ratio (less than 0.5) and those which have performed through various cycles, comparing their performance vis-a-

vis their benchmarks.

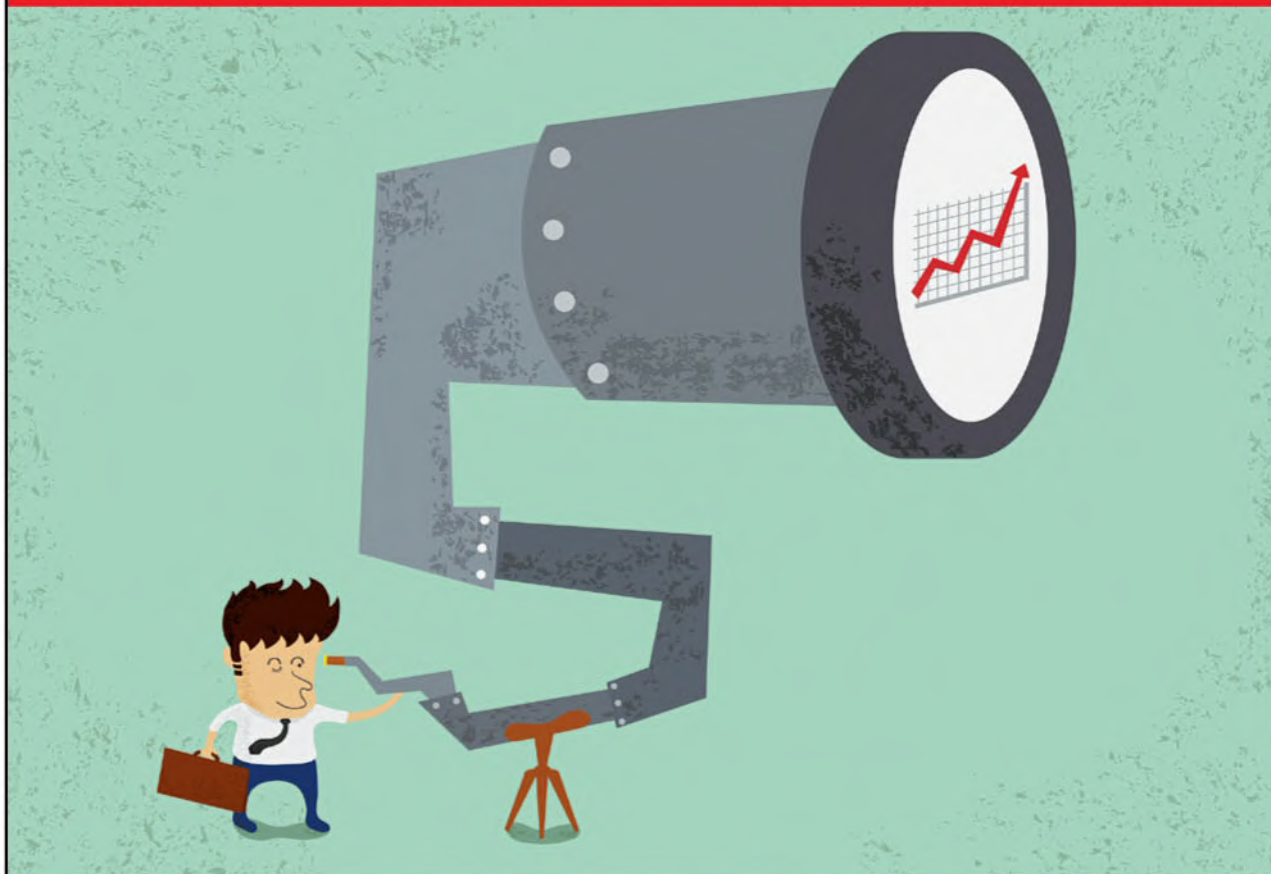
Investors who can stomach market volatility and have a long-term investment horizon may allocate a portion of their portfolio to small- and mid-cap funds. Equity is a volatile asset class and mid- and small-caps are even more volatile. According to Singh, investors can manage this volatility by increasing the time horizon. If you have a three-year horizon, you are better off investing in large-cap funds, for longer horizons you should consider investing in mid-caps. The key is to identify prudently-managed mid-cap funds.

According to Janakiraman, a 40-year-old investor could invest up to 25-30 per cent in mid- and small-caps. If one assumes that economic recovery will last for five years, earnings growth will show great returns from here on, considering that the returns are due to re-rating. In the next four to five years, the market is expecting 15 per cent plus earnings growth. With the Indian stocks market trading close to a 10-year average, investors are likely to be the winners. ♦

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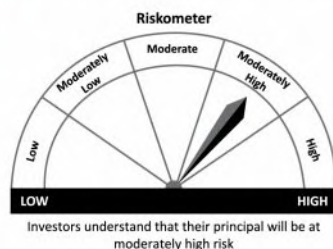
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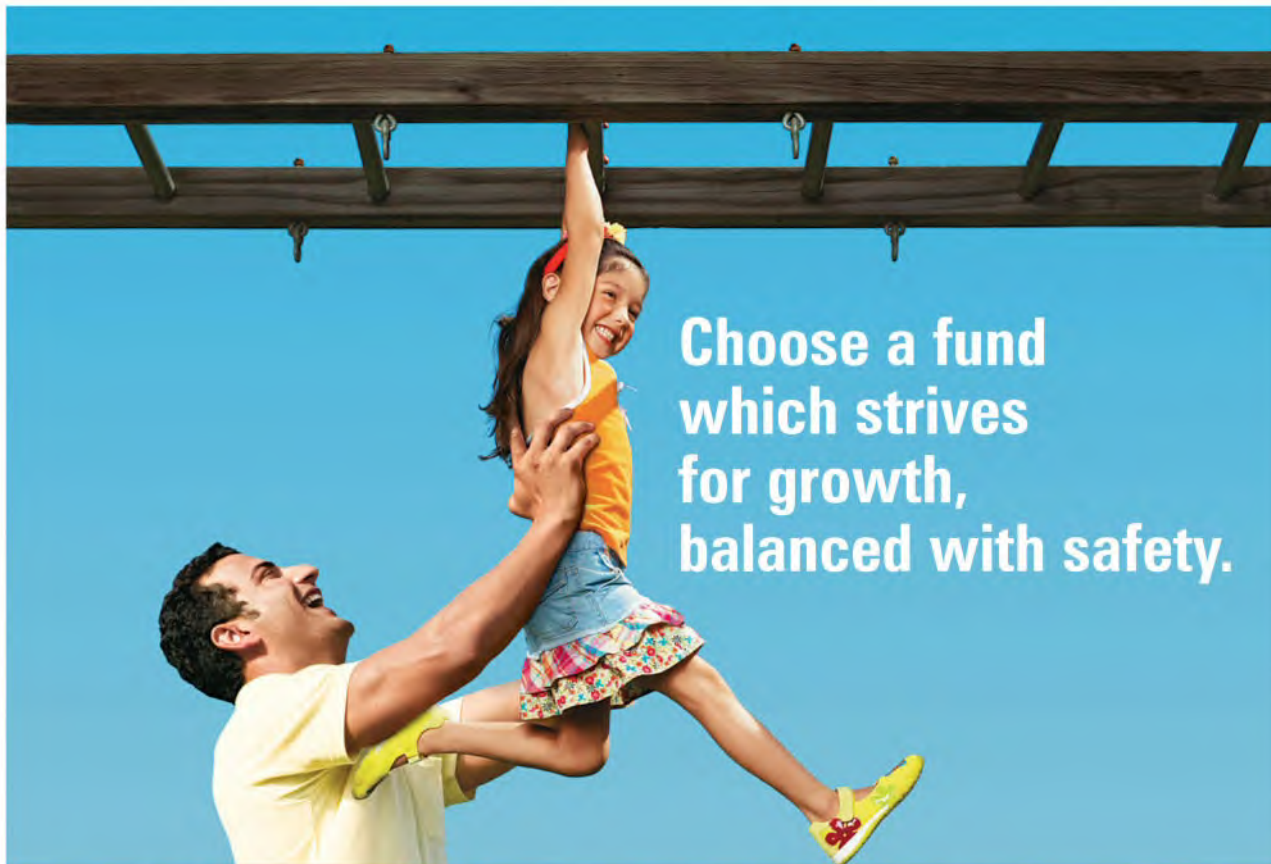
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