

SPICEJET Out of Air Pockets?

General Motors CEO Mary Barra  
**WHY INDIA MATTERS**



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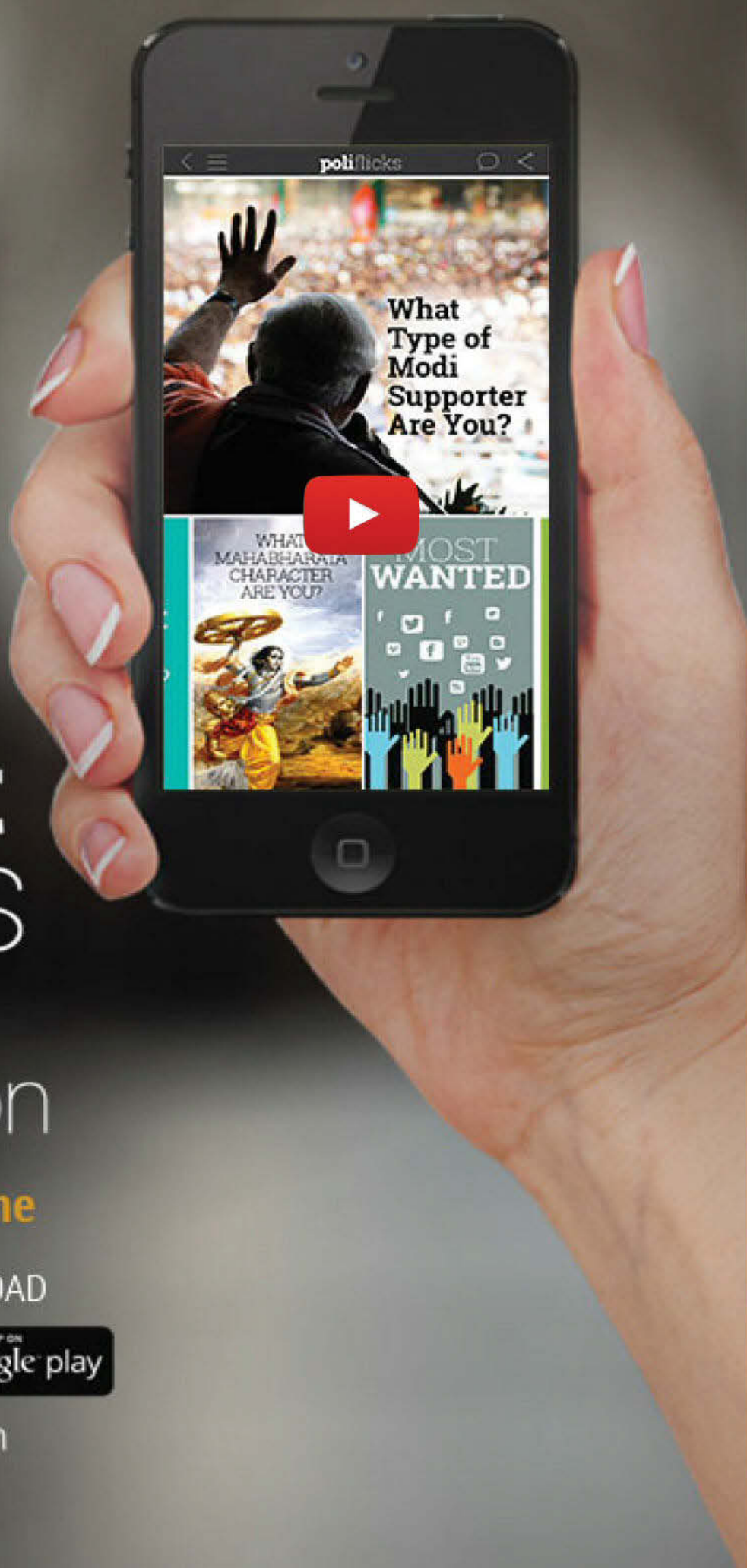


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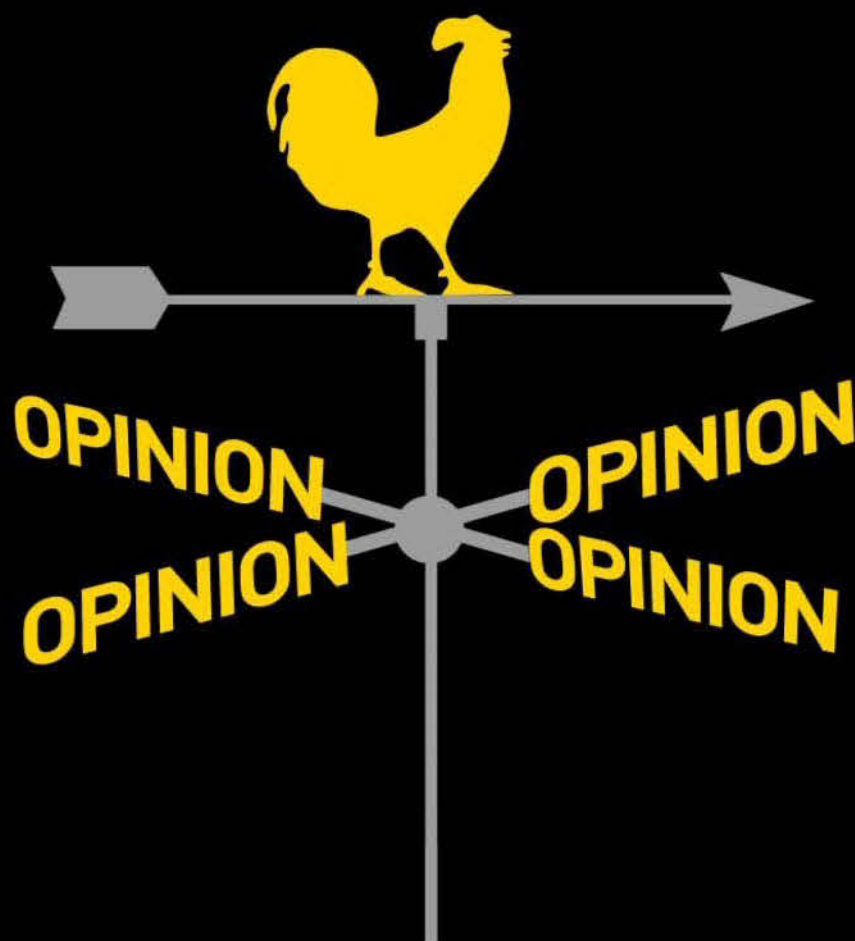


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## The Taxicab Business

For about five and a half decades, the taxi business in India followed a fairly simple structure. There were taxi stands in different areas in the cities, and independent licensed cabs operated out of those. There were some small entrepreneurs who would own three or five cabs, and hire drivers. There was also a minuscule segment at the top end mostly operating through tie-ups with big hotels. These were operators that bought premium cars and catered to high-end business travellers.

Sometime in the first decade of this century, the first innovation in the market took place. Some entrepreneurs took radio cab licenses, bought cabs and started services in big cities. The services were called EasyCabs, Mega Cabs, Meru Cabs, etc. Barring Meru, they were not very big in scale. Meru, with funding from venture capitalists, became the undisputed leader. Today, it has a fleet of 6,000 owned cars and another 14,000 aggregated cars. The radio cabs charged marginally more than the old yellow and blacks, but they offered better, branded cars with proper air conditioning, uniform pricing, equipped with GPS systems, and the guarantee of a certain reliability.

In 2010, Ola Cabs came into being, following a very different model. While Ola Cabs had a centralised call centre through which customers could book a taxi, it focused more on its mobile app, which took the convenience of booking a cab to a whole different level. It also followed a pure aggregator model, instead of buying its own cabs à la the radio operators. Also, after raising a huge amount of money from venture capitalists, it began discounting heavily. If radio cabs were charging in the vicinity of ₹20 per kilometre, Ola was offering rides at half that price. Despite charging low prices, they also provided special incentives to drivers to join hands with them.

In 2011, TaxiForSure was born, following much the same model as Ola, but as it managed to secure fewer backers, it fell far behind and a few months ago, Ola bought it lock, stock and barrel.

Meanwhile, in 2013, Uber, which had been making waves in the US, decided to set up shop in India as well.

As things stand now, Ola, with TaxiForSure, is the clear market leader and some estimates say it has over 80 per cent market share in terms of registered vehicles. Meru is number two. Uber, though still small in India, has just announced that it plans to spend over a billion dollars in the country over the next nine months. Reports say that Ola has embarked on a fresh round of fund raising, too. The radio cab operators have been forced to follow the aggregation model, too.

Like other e-commerce start-ups, Ola and Uber are burning cash and they have no immediate plans to turn profitable either. They are chasing market share.

But why is everyone so interested in what is still a money-losing venture? That's because the pot of gold at the end of the rainbow is huge. Estimates put the current total taxi market in the country to be around \$14 billion in size (the organised bit is barely \$800 million or so), and it is growing at over 20 per cent per annum. So the potential for growth is huge and also the main reason so many investors are plunking down so much of cash.

Our cover story this issue looks at the great taxi war playing out. Also, don't miss out the fascinating story of how Ajay Singh is turning around SpiceJet. That is on page 26.



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## Indian CEOs Not Overpaid

This refers to your cover story on Indian CEO salaries (*Are Indian CEOs Overpaid?*, August 16). The workplace is becoming increasingly dynamic as the war for talent heats up. It is no longer surprising when we get to know about quality talent being poached by companies with deep pockets and the sheer desire to outperform competition. It is no state secret that Indians are in high demand in the global job market due to their abilities. And with many Indian firms going global, the challenges of hiring and retaining talent have increased manifold. One thing that many of us fail to realise is that although the glass cubicle and million-dollar compensation look very appealing on the surface, the package comes with its own set of restrictions and challenges. One needs to remember that it is always the fittest who survives and takes away the prize. Also, rich people all over the world have started recognising the impor-

tance of creating equitable societies and are donating portions of their wealth, thus giving back to the society in their own small ways, like Warren Buffett, Bill Gates, Kris Gopalakrishnan, and many others. It is time to put this debate to rest. Indian CEOs are not overpaid. They are just adequately compensated.

**Gaurav Gupta, Pune**

## Net Neutrality

This refers to your article on Net neutrality (*Tough Times Ahead*, August 16). Internet.org and the introduction of Airtel Zero have put the topic of Net neutrality at the centre of a healthy debate in India. In spite of the fact that it looks okay to DoT and TRAI, there is actually a doubt in users' minds who want to access the web without the telecom service provider getting to serve some sites faster than others. While telecom companies do not like the way apps are running on their networks for free, it's great for start-ups as they can come up with an app today and immediately attract a global audience.

**Ankur Chopra, On e-mail**

## Indo-Iran Trade

This refers to your article on India's trade with Iran (*A Passage to Iran*, August 16). The article highlighted avenues for fruitful co-operation between India and Iran in the aftermath of the latter's nuclear deal with western powers for stalling nuclear proliferation and subsequent lifting of economic sanctions. It is time for India to forge a lasting association with Iran, as in the past, for mutual development. The Centre must make a list of probable treaties and busi-

ness initiatives to get a focused and comprehensive platform to clinch the deals affirmatively. India must try to claim a special status from Iran in preference to China and Russia to create a level-playing ground. India should install refineries in Iran on a joint-venture basis. It must also help Iran develop Chabahar port on a war footing. This would help stabilise India's presence in Afghanistan as Chabahar is commercially and geopolitically a nodal point.

**B. Rajasekaran, Bangalore**

## Clarification

This refers to Jay Parikh's column *SEBI and Its (Over)reach* (July 19). In the said column, it has been mentioned that "In either case, the suspension of trading does affect legitimate trades and due to the lack of clarity on the transaction this seems to be a premature step by the regulator." In this regard, SEBI has clarified that trading in the scrip of Surana Solar was not suspended. Based on certain surveillance inputs, *prima facie* examinations in the scrip of Surana Solar were carried out, and as a proactive surveillance measure, the payouts pertaining to the scrip for two settlements were withheld. In due course, the payouts were released.

**N. Hariharan, CGM, SEBI, Mumbai**

## Correction

Dilip Shanghvi's designation in photo caption (*Merger Pangs*, page 19, August 16 issue) is going as Chairman of Sun Pharma. It should be founder and managing director. The error is regretted.

Send all your comments to: [editor.bt@intoday.com](mailto:editor.bt@intoday.com)

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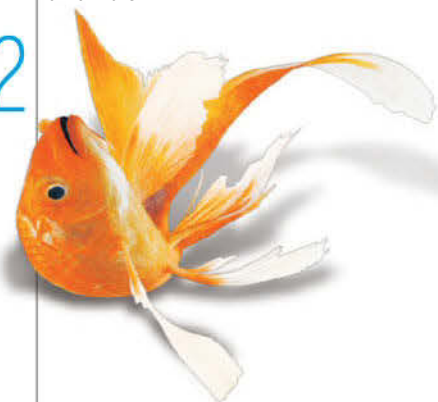
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## IN TOP GEAR

Jeremy Clarkson, who had generated both controversy and profits for the BBC, is back. The sacked BBC *Top Gear* host, with co-presenters Richard and James, has signed a £160 million deal with Amazon to present a new motoring show, reports Reuters. Amazon said the new show will be available on its subscription streaming service Amazon Prime next year (2016) and run for three seasons. The *Top Gear* show aired in more than 200 countries and was watched by 350 million viewers worldwide.

# SONY

## BACK IN INDIA

Sony Corp is back in the country, thanks to the Make in India initiative, after a decade. The Japanese company will soon start manufacturing its Bravia line of television sets here. Sony India sales touched ₹10,600 crore in 2014/15.



## 5.04 MILLION

Volkswagen's worldwide sales in the first six months of 2015.

The German carmaker benefitted as car demand in Europe accelerated at the fastest pace in five-and-a-half years, softening the blow from a slowdown in China.

## 5.02 MILLION

Toyota's vehicles sales in the same period.



## ONE HOUR

A trip from London to New York in Airbus' just patented hypersonic jet with speeds as high as Mach 4.5, or four-and-a-half times the speed of sound

## THREE-AND-A-HALF HOURS

Time taken by the now retired Mach 2 Concorde, a joint venture between Airbus' two predecessors – France's Aérospatiale and British Aerospace – for the same trip.

## SEVEN TO EIGHT HOURS

Time taken to make the same journey by a conventional airliner, such as Airbus' own A330, to cross the Atlantic.

## 1.5 BILLION

Projected Indian population in 2030, according to a UN report. There will be more Indians than Chinese by 2020 when both the Asian giants will have 1.4 billion each.

## 7.349 BILLION

The world's current population, which is set to reach 9.725 billion by 2050.





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## MODI REPORT

**WHAT:** Report card by ministries and departments

**WHEN:** By August 15

**WHAT TO LOOK FOR:** The Prime Minister's Office has written to all ministries and the NITI Aayog to furnish details of progress on the commitments made last year. They have been asked to identify five major activities, explaining in not more than 250 words each, on how these could make a difference to the lives of the people. Some of the key announcements by Prime Minister Narendra Modi last year on the 68th Independence Day included the Pradhan Mantri Jan-Dhan Yojana, the Skill

India Mission, the Make in India initiative, the Digital India drive, the Clean India Mission and the Sansad Adarsh Gram Yojana. Modi's second speech from Delhi's Red Fort on August 15 is likely to focus on the initiatives and achievements of his government over the past year and what lies ahead.

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## GOOGLE CHALLENGE

**WHAT:** EU anti-trust charges against Google

**WHEN:** August 17

**WHAT TO LOOK FOR:** Google is facing charges of abusing its market power – allegedly distorting search results to favour its shopping service, hurting both rivals and consumers – in a dozen EU countries. It is trying to stave off a possible €1 billion fine and has until August 17 to respond.



23

## BANDHAN BEGINNING

**WHAT:** Bandhan Bank launch

**WHEN:** August 23

**WHAT TO LOOK FOR:** Kolkata-based Bandhan Financial Services Pvt Ltd will start full-fledged commercial banking operations on August 23. Bandhan will merge the microfinance institution business with the bank, as per RBI requirements, but it will carry on its micro-loan activities through its existing 2,022 low-cost service outlets. The commercial bank will start operations with 600 branches, Bandhan's Chairman and Managing Director Chandra Shekhar Ghosh said.

21

## BAN ON DRUGS

**WHAT:** EU-wide ban on 700 generic drugs

**WHEN:** August 21

**WHAT TO LOOK FOR:** The European Union-wide ban on the sale of 700 generic drugs that underwent clinical studies at Hyderabad-based GVK Biosciences' facility will kick in from August 21. Eight Indian companies including Dr Reddy's and Lupin have been impacted, apart from a few global majors like Mylan that source from India. These medicines can no longer be distributed or sold by drug companies, wholesale dealers, drug stores and other outlets in the EU. The French regulatory agency ANSM had in its May 2014 audit found evidence of data manipulation of electrocardiograms of people linked to the studies on some of these generic medicines.





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# FOCUS

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Market Limbo

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Taking a Tumble



RAJ VERMA

## Your Cake, Your Way

India Inc.'s generous serving of dividends, despite dismal earnings growth, feeds its own needs. By JYOTINDRA DUBEY

**₹11,400 cr**  
Amount earned by  
TCS promoter Tata  
Sons through  
dividends in 2014/15

Dividend payout is a crucial indicator for investors while selecting stocks. A company with a regular dividend payment history shows it is making profits. If the company decides to pay higher dividend, it should mean that profits have also increased. But, recent data show otherwise. India Inc. has been very kind in distributing profits to their investors, but there is huge inconsistency between their profit and dividend payout growth.

Equity dividend payout of BSE 500 companies between 2009/10 and 2013/14 rose at 15.3 per cent compound annual growth rate (CAGR), while their net profit increased by only 8.2 per cent CAGR. Sample this: Out of the 715 companies that have released their annual reports for 2014/15, dividend payout witnessed a 19 per cent growth, while net profits was just at 4 per cent. Around 18 per cent of these companies have increased their dividends



## THE FAB FOUR

Companies adding to India Inc.'s aggregate dividends in 2014/15

|                           | MAR-14          | MAR-15          |            | MAR-14           | MAR-15           |            |
|---------------------------|-----------------|-----------------|------------|------------------|------------------|------------|
| Company Name              | Equity dividend | Equity dividend | % Increase | Profit after tax | Profit after tax | % Increase |
| Tata Consultancy Services | 6,267.3         | 15,473.9        | 146.9      | 19,331.9         | 20,059.7         | 3.8        |
| Infosys                   | 3,618.0         | 5,111.0         | 41.3       | 10,648.0         | 12,330.0         | 15.8       |
| Bharti Infratel           | 831.3           | 2,081.8         | 150.4      | 1,517.9          | 1,992.4          | 31.3       |
| Wipro                     | 1,973.6         | 2,963.6         | 50.2       | 7,840.5          | 8,705.9          | 11.0       |

Source: CMIE Prowess; Figures in ₹ crore, unless otherwise stated

payout ratio in 2014/15 despite witnessing a negative growth in their bottom-line.

This puts a big question mark on the policies of corporate India and the rationale behind increasing dividends. "One of the major reasons behind rising dividend payouts is weak business sentiment and lack of investible opportunities. So, companies, which are sitting on cash, have preferred to distribute the surplus," says Amit Tandon, Managing Director, Institutional Investor Advisory Services (IIAS)

The bulk of growth in dividend payouts in 2014/15 came from TCS, Infosys, Bharti Infratel and Wipro. TCS paid ₹15,474 crore to shareholders, two-and-half times more than last fiscal. A special dividend of ₹40 per share to celebrate its tenth year of stock market listing, made the difference. Wipro's and Bharti Infratel's dividend payout were up 50 per cent and 150 per cent, respectively. Apart from Bharti Infratel, whose bottom-line grew 31 per cent in 2014/15, all others showed marginal growth in profits. TCS, which emerged as India's highest dividend payer in 2014/15 even with its net profit growing just 4 per cent year-on-year, also surpassed Coal India, the highest dividend payer traditionally.

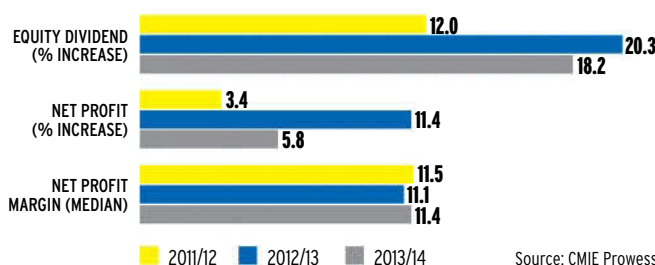
Dividend announcements also have an impact on stock prices – a major factor behind the stock market performing well, regardless of the poor corporate results. As on August 6, the Sensex gained 5,728 points, up 25.6 per cent from its March 2014 levels. Dividends paid add up to the shareholders' return, over and above the capital gains they earn through share price movements.

"Dividend payout is a distribution of value to investors unlike earnings growth, profitability and cash flows, which are considered to be value creators. Investors attach more importance to value creation in their investment decisions. That said, dividend payout does act as a cushion to valuations and profitable companies, which generate free cash flow from operations (FCFO) and pay dividends, are considered good investment bets. However, low ROCE, high dividend companies with negative FCFO and leverage may not necessarily be good bets," said Ravi Sundar Muthukrishnan, Co-Head Research, ICICI Securities.

Dividend income, however, does not add much to the

## PERFORMANCE IS NO PROOF

There is a huge gap between dividend payout and profit growth



profits of small investors. But, promoters and large investors make considerable wealth from the bounty. Interestingly, all major dividend payers herein, are promoter-led companies. Tata Sons, the promoter of TCS, owns 73.7 per cent shares and has earned around ₹11,400 crore through dividends. Most of this money will be reinvested in other Tata Group companies, such as Tata Steel, which are struggling to get back on track.

Another major contributor to the spurt in India Inc.'s dividend payouts is public sector units and the reason is evident: As the government of India is a majority shareholder, it is directly benefitting from liberal dividend payouts by PSUs. "The fiscal deficit pressure has resulted in PSUs steadily increasing dividends and this is reflected in the increase in aggregate dividend payouts of India Inc.," says Tandon.

Coal India paid dividends of ₹13,075 crore in 2014/15, followed by ₹8,128 crore by ONGC. Both companies had reported a dip in profits last fiscal.

While the regulations in India do not mandate companies to state a clear dividend policy, the disconnect between dividend payout and profit builds a strong case for a transparent mechanism in declaring dividends. "The regulator must encourage companies to declare a clear dividend policy in the company's annual filings. Companies must also spell out the minimum dividend they will pay as a percentage of its earnings, and this should also be placed before the shareholders' for ratification," adds Tandon. ♦

@JyotindraDubey



AJAY THAKURI

## Tread with Caution

Investors must think twice before putting money in small- and mid-cap stocks as these have surged even though the main indices are going nowhere. By MAHESH NAYAK

**SOME EXPERTS EVEN GO SO FAR AS TO SAY THAT MID- AND SMALL-CAP STOCKS ARE CLOSE TO ENTERING THE EUPHORIC TERRITORY.**

**T**he extremely bullish view of 2014, when India's stock markets delivered returns of 30 per cent, is slowly giving way to a quiet realism.

The biggest reason is that India Inc.'s profits remain well below expectations. In spite of this, investors, in search of higher returns, have pushed up stock prices – especially of mid- and small-cap companies – far

above what can be justified by earnings. Some experts even go so far as to say that mid- and small-cap stocks are close to entering the euphoric territory. There is also a fear that foreign institutional investors, or FIIs, will take out money from emerging markets, including India, to invest in US markets when the Fed increases rates later this year.

"Everyone is cautious ahead of the increase



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in US rates," says Sonal Varma, Executive Director-India Economist at Nomura Financial Advisory & Securities, who last week visited Asian countries to meet clients that invest in emerging markets.

"Investors aren't bearish as such but delay in clearance to the Goods and Services Tax and

Cap (up 17 per cent) indices. Both have been touching new highs in the last few days and are showing no signs of abating. The BSE Sensex has risen just 5.5 per cent in the last one year.

One reason for investor interest in smaller stocks is that many large-caps have become highly priced on an absolute basis. For instance, the MRF stock has risen 70 per cent to ₹41,000 in the last one year. Just because one has to invest as much as ₹41,000 to buy one share of MRF, many investors turned to alternatives such as TVS Srichakra, a small-cap tyre stock that has risen three times to ₹2,600 during the period. Similarly, Force Motors has risen three times (226 per cent) compared to 55 per cent rise in the Maruti Suzuki stock. Shreyas Shipping is up 16 times (1,524 per cent) compared to 7.5 per cent rise in the Shipping Corporation of India shares.

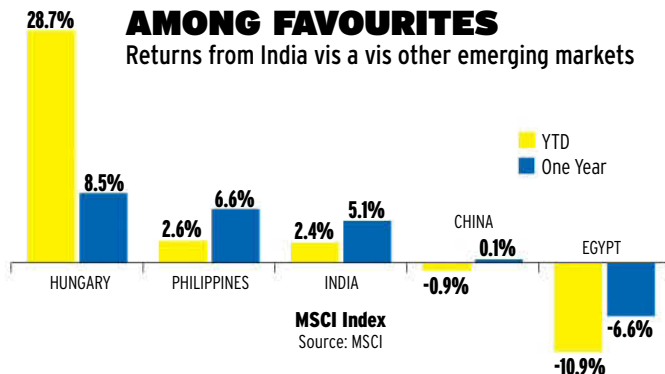
Manish Bhandari, Managing Director at Vallum Capital, an investment advisory based in Mumbai, says speculation is fuelling the rally in small-caps, but mid-caps are rising due to re-rating of their price-to-earnings multiples and change in ownership.

Though a short correction is likely, the trend of money, both domestic and foreign, entering Indian equities will continue. "Money is moving out of gold and real estate, as these have underperformed, into financial assets," says Nilesh Shah, CEO and Managing Director, Kotak Mutual Fund.

Around \$150 billion is invested in gold and real estate every year. Experts estimate that 10-15 per cent of this is expected to flow into equity markets. In the first three months of 2015, inflows into equity mutual funds were ₹32,255 crore, three times more than the ₹9,968 crore in the same period last year. "Money is entering assets that have done well. Mid-cap stocks have given impressive returns in the past two years," says Vallum Capital's Bhandari. It is estimated that 30-35 per cent money allocated for equities is finding its way into mid-caps. He says another reason for the interest in mid-caps is the subdued performance of large-caps. "It's difficult to say that the mid-cap space is euphoric. It can correct from here, but that will be a technical correction. One can't compare today's situation to 2008. Back then, the global economy was on the verge of a crash and today it is on a recovery path. Everything, however, boils down to the performance of companies," he says.

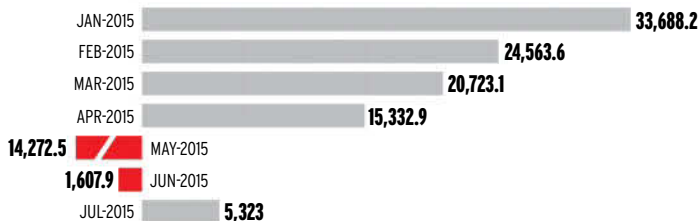
## AMONG FAVOURITES

Returns from India vis a vis other emerging markets



## WANING INTEREST

FII's net investment in Indian equities is falling



Figures in ₹Crore; Source: Sebi

land bills and disappointing corporate performance have made FIIs stay away from Indian equities," she says (See *Waning Interest*).

"There is no urgency to invest as this market isn't going anywhere in a hurry," says Mugunthan Siva, Managing Director of India Avenue, an Australia-based fund focused on Indian equities. "The next six months will be a clear wait and watch. Cash is king in the medium term," he says.

Indian fund managers mirror the view. "The Indian market isn't a runaway market, but whenever it goes down, I will be a buyer, and vice versa," says S. Naren, CIO at ICICI Prudential Mutual Fund, India's second-largest fund house after HDFC Mutual Fund.

## Pain Point

High valuations of stocks in India are clear from the performance of BSE Mid-Cap (up 27 per cent in one year to July 31) and BSE Small-

**AROUND \$150 BILLION IS INVESTED IN GOLD AND REAL ESTATE EVERY YEAR. EXPERTS SAY 10-15 PER CENT OF THIS MAY FLOW INTO EQUITIES**



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## THE BIG MOVE

Small- and mid-cap stocks are on fire

|                              | Mid-caps | Small-Caps |
|------------------------------|----------|------------|
| NUMBER OF STOCKS             | 78       | 584        |
| BEAT BENCHMARK               | 34       | 227        |
| UNDERPERFORMED THE BENCHMARK | 44       | 357        |
| INDEX RETURNS IN ONE YEAR    | 27%      | 17%        |
| STOCKS THAT DOUBLED          | 4        | 47         |

Data for one year to July 31; Source: ACE Equity

Out of 609-odd companies with a market cap of ₹4,000 crore and less, 225 have beaten the BSE Mid-Cap index. Of these, 76 have doubled in the last one year. Around 25 have risen between three times and 16 times.

Investors are also taking heart from the fact that the market is not expected to see a sharp fall from here. "The downside is capped. It can fall 15 per cent, but if you have to be in equities, you should have the stomach to digest such dips," says Siva of India Avenue.

That is why even long-term investors are becoming active at mid-cap and small-cap counters. "It's not just traders and speculators, even some mutual funds have been active in the mid- and small-cap space. This is a cause for concern as these companies are becoming more expensive than their large-cap peers," says Shah of Kotak, adding that there's a risk if these companies do not deliver according to expectations.

### Half Full or Half Empty?

What about the long term? "India's economy bottomed out last year, but revival will be slow and gradual. India is a great place to invest," says Naren of ICICI Prudential. "Whenever I look at a country for investment, I take five parameters—fiscal deficit, current account deficit, inflation, GDP growth and credit growth. In all

these areas, India's macros are top class." To top it up, crash in prices of commodities, especially crude oil, will lead to huge savings of \$50 billion for India. The only big factor weighing heavily on markets is the huge debt on books of infrastructure and real estate companies, which is one reason for tepid investment activity and job creation.

"I worry only about infrastructure companies that have not been able to deleverage. Similarly, resi-

dential real estate is so expensive that the sector will not get deleveraged soon. I am worried about these two sectors," says Naren. "Corporate performance may revive once infrastructure and real estate companies get deleveraged. The huge amount stuck in infrastructure and real estate sectors is the real worry. Things that can change this situation are reduction in interest rates, fall in prices of real estate or increase in wages."

Interest rates, it seems, are the key. "There is no incentive for companies to invest. The return on equity of India Inc is near its all-time low. For companies to invest, interest rates have to come down or consumption has to rise. Until the corporate performance improves,

equity markets will not see a big upmove," says Shah of Kotak Mutual Fund.

"If India is short on execution, investors will start looking for alternatives. If earnings continue to disappoint and inflation is sticky, it is likely that investors will pull out," says Siva of India Avenue.

The future will also be dictated by foreign fund flows and global developments. This means investors should expect volatility. "Lack of triggers may see the Sensex move in a range of 26,500 to 28,500. For it to cross 30,000, corporate performance has to fire," says Siva. ♦

## WHAT CAN GO WRONG FOR INDIAN EQUITIES

- China credit bubble
- Rise in US interest rates
- Spike in inflation
- High fiscal deficit
- Strengthening of US dollar/weakening of rupee
- Default by a commodity exporter country

## WHAT CAN GO IN FAVOUR OF INDIAN EQUITIES

- Deleveraging of infrastructure and real estate companies
- Cut in domestic interest rates
- Rise in credit off-take
- Improvement in corporate performance
- Rise in consumption and income

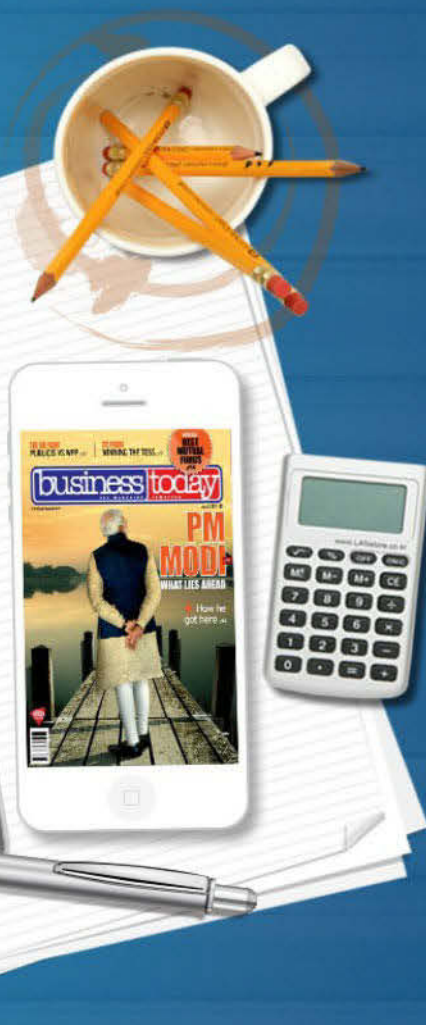
**THE FUTURE WILL BE DICTATED BY FOREIGN FUND FLOWS AND GLOBAL DEVELOPMENTS. THIS MEANS INVESTORS SHOULD EXPECT VOLATILITY AND MOVE WITH CAUTION**

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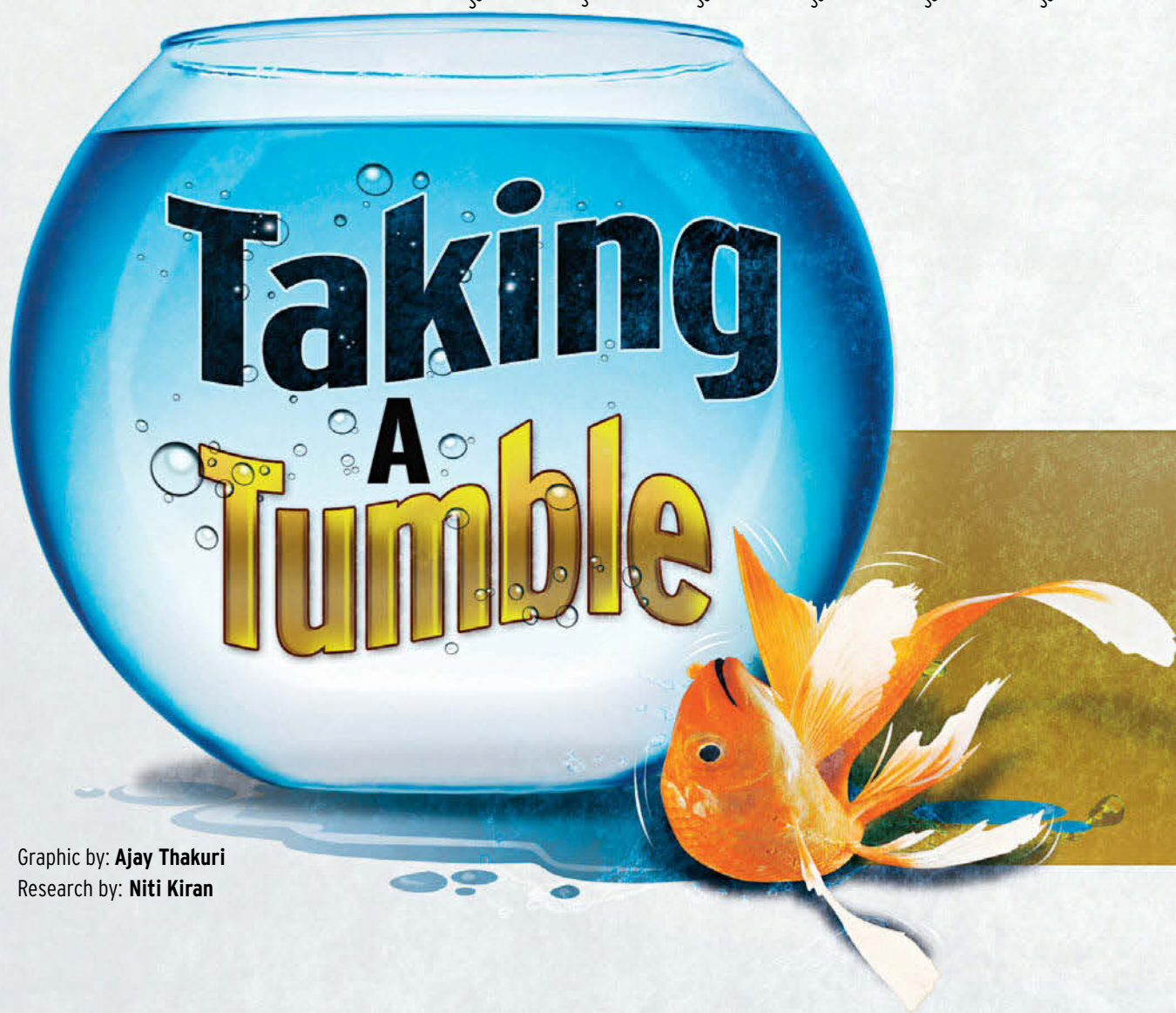


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FOR MANAGING TOMORROW



The yellow metal is fast losing its sparkle. Gold prices have plunged to a five-year low, slipping below \$1,100 per ounce. A strong dollar has reduced gold's allure as a safe haven. The likely hike in rates by the US Federal Reserve could keep prices down. Indeed, gold could slide further before returning to fair values

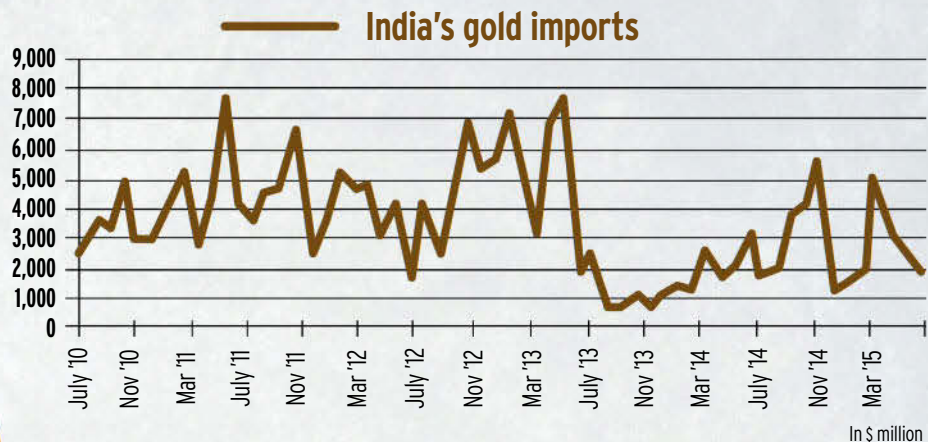
1 International gold prices have plummeted almost 33 per cent since 2011 and are expected to continue their downward journey for a while



Graphic by: **Ajay Thakuri**  
Research by: **Niti Kiran**



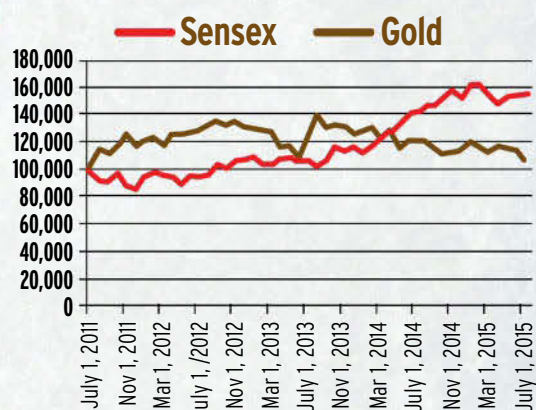
2 Indian gold imports in June dipped around 37 per cent year-on-year to \$1.96 billion



3 The dollar has strengthened against most currencies. A strong dollar checks safe-haven buying in the yellow metal

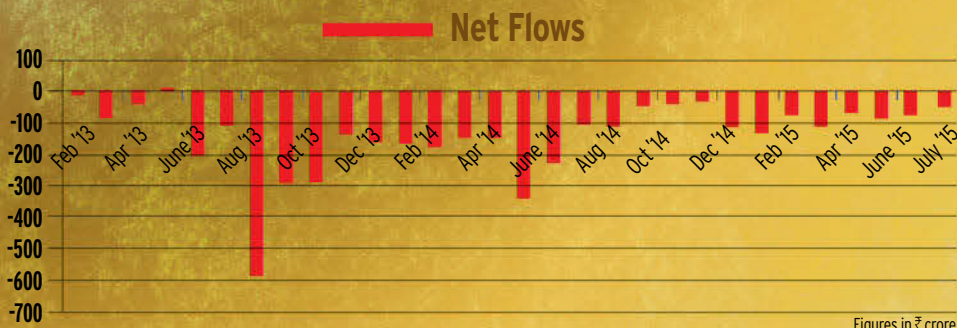


4 Indeed, gold has given annualised returns of just around 2 per cent since July 2011. The figure is 11 per cent for the Sensex in the same period



Figures show how an investment of ₹1 lakh in Sensex and gold has fared since July 2011

5 Gold exchange-traded funds, a fast-growing asset class earlier, are now falling out of favour and have witnessed 25 months of continuous fund outflows



Figures in ₹ crore



**WHAT'S TRENDING**

# A Minus for Google+

After persisting with its social network attempt Google+ for years, the search giant is now finally backtracking.

By **CHITRA NARAYANAN**

RAJ VERMA



**E**ven giants have Achilles heels. Google's is social. Try as it might, the search giant that lords over the Internet world has just not managed to crack the social code. From Orkut to Google+, it has been one long journey of experiments and failures. Last fortnight, when it officially delinked

Google+ from YouTube, the world began writing obituaries to the five-year-old social network that never really took off.

So is Google going to now say minus to its Google+?

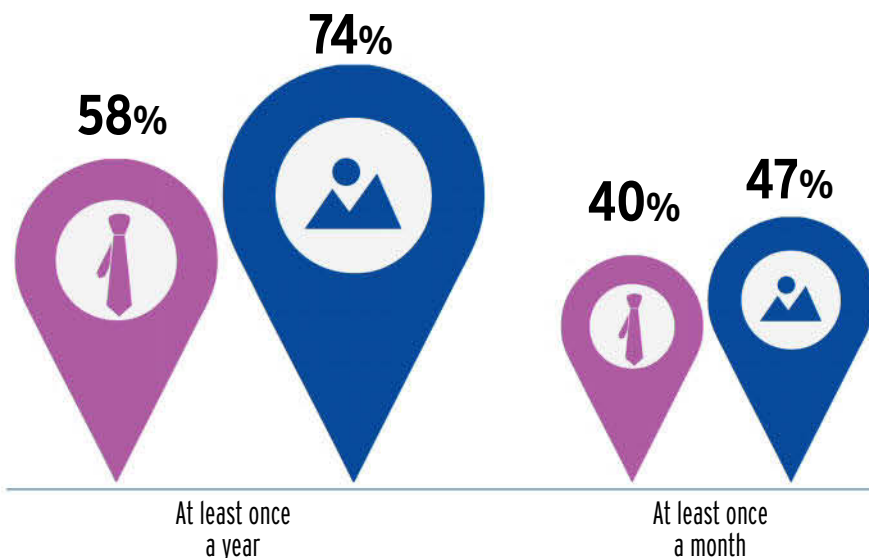
All the signs point that way. Slowly and steadily Google has been delinking compulsory Google+ link-

ing from many of its other products. In the past it had tried to force the product on users of YouTube and other services. In 2013, it had started Google+ comments on YouTube videos linking the two much to the annoyance of users. But now in a surprise development, it has decided to cut that link and has

**DIGITAL DASHBOARD**

## DISRUPTING BUSINESS TRAVEL NEXT?

Following a year-long trial in the US, Airbnb recently announced a global expansion for its Business Travel Program. And new data suggests the new venture by the San Francisco-based website for people to rent out lodging, does have global appeal





posted a detailed guide on how users can delink their accounts.

There have been a series of other moves too that show that Google is now no longer going to bank so much on Google+. Take the way it had delinked Hangouts and Photos from Google+. In a blog post, Bradley Horowitz, the Google Vice President who took charge of the social network, says: "We will also move some features that are not essential to an interest based social experience out of Google+. For example, many elements of Google+Photos have been moved into the new Google Photos app. And we are well underway to putting location sharing into Hangouts and other apps, where it really belongs."

The fact that Google has started tinkering so much with Google+ has led to increased speculation that the search giant is setting the stage to kill the product.

Google's social experiments have been many. There was Orkut launched in 2004 – around the same time that Facebook started. And though Orkut had a significant following in India and Brazil, Google finally had to kill it in 2014 as the network just did not have the muscle. Then there was Reader, launched in 2005, which was killed

in 2013. Wave and Buzz were other social experiments that failed. Finally in 2010, at the behest of its social architect Vic Gundotra, Google threw its weight behind the Google+ experiment.

Five years later, the numbers show that despite the powerful advantage of a linked Gmail Account, Google+ remains an empty platform – the influencers throng Facebook (FB), Twitter, Instagram and LinkedIn. While FB has more than 1.4 billion monthly active users, Google+ has just around 400 million or so monthly active users. While the others were rather quick in their mobile integration, Google+ fell behind.

Even as there have been acquisition rumours – will Google buy Twitter is a favourite discussion topic – Google itself seems averse to self-destruct its baby as yet. Horowitz says that Google+ will now focus on connecting users around specific interests. Interestingly, the Google+ team has been renamed as Streams, Photos and Sharing. Through photo sharing it will still keep a foothold in social media. But is that enough? Let's see if a second version will come out of the Google labs or Google+ will die a slow death. ♦

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## LISTENING POST

### Video Gaga

Meerkat and Twitter's Periscope now have company with Facebook Live going, well, live! Launched on August 5, the new video streaming service from the world's largest social network allows celebrities and public figures to livestream videos on the platform. Facebook Live will be accessible through its Mentions app launched last year.

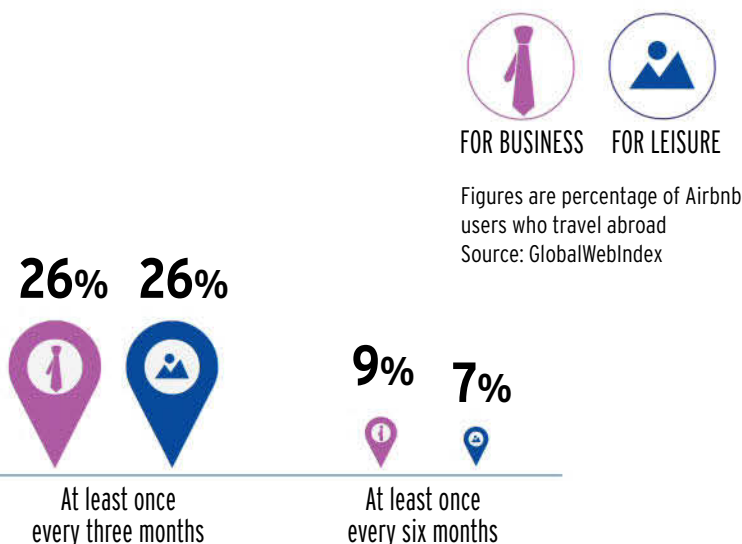
It's fast becoming the era of live video streaming with Twitter claiming over a million people logged into Periscope just 10 days after it hit the app stores. Meerkat has logged in over two million users. While Meerkat and Periscope can be used by anyone, Live seems to be aimed only at public figures right now. "With Live, public figures can take fans behind the scenes, host a Q&A, share announcements, and more – all in real time," wrote Vadim Lavrusik, a product manager at Facebook, in a blog post. "Live is a new way for you to connect authentically with your fans in the moment," he said.

### Appy Discount

Here's a happy announcement from Google. To give more flexibility to Indian users and developers on Google Play, the search giant has announced that, starting July 31, users in the country can get apps at as low as ₹10.

Alistair Pott, Product Manager, Google Play, said in a blog post that India continues to be a major growth opportunity for developers to reach new users on Google Play. "We've received feedback from our global developer community and we are offering them more flexibility to choose how much to charge for their apps and games in India."

With this change, Google hopes to acquire new paying users and drive its overall monetisation. It's all about scale, after all. While app usage is on a growing curve, it's still nowhere near web penetration – and discounts like these will find more conversions.



A front-on view of a white SpiceJet aircraft on a runway. The aircraft is centered, with its two large engines visible. The runway has yellow markings, and the sky is filled with dramatic, grey clouds. The title text is overlaid on the lower half of the image.

# Smooth Takeoff But...

...air pockets ahead.

By MANU KAUSHIK

SHEKHAR GHOSH





SpiceJet Chairman  
Ajay Singh at the  
Delhi airport (T3)

It was a close shave for the passengers and cabin crew aboard SpiceJet's flight SG 1085 on March 8. It took off as scheduled from Bangalore's Kempegowda international airport for Hubli around 6 p.m. but soon ran into rough weather. Just before landing, a downpour and thunderstorm engulfed the aircraft. It appeared to lose balance and wobbled through the runway with a damaged left main gear before skidding to a halt.

While it was a miraculous escape for those on the Bombardier Q400, also called turboprop, the damage to the aircraft was beyond repair. SpiceJet discontinued its operations to Hubli thereafter.

But the crash of the turboprop had an unexpected outcome. In May, Gurgaon-based SpiceJet posted its first net profit – of ₹22.51 crore – in eight quarters. A major contributor to the bottom line was the income – ₹61.35 crore – that the airline earned from the insurance claim on the damaged aircraft. "It is part of life. Sometimes, we pay to insurers and sometimes, we get from them," says Ajay Singh, Chairman of SpiceJet.

Experts called it a stroke of luck but the airline turned in another impressive performance in the next quarter to zip up the sceptics. The carrier posted a net profit of ₹71.8 crore in the April to June period, its second consecutive profitable quarter. It was also the highest first-quarter net profit in the history of the airline.

Indeed, Singh has been working tirelessly to nurse the airline back to health since his takeover earlier this year. His hands-on approach has led to the gradual improvement in market share, passenger load factor (PLF) or the number of



## THE STORY SO FAR

**1993**

Lufthansa signs an agreement with S.K. Modi in 1993 to launch a new domestic private airline, **ModiLuft**

**2008**

Ace investor **Wilbur Ross** invests in SpiceJet

**2011**

SpiceJet changes its business model by inducting **Bombardier Q400 aircraft** into its fleet to tap regional demand

1993

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010


**2005**

**Ajay Singh** raises funds to restart ModiLuft. Renames the airline SpiceJet. Joins hands with **Bhupendra Kansagra**

**2010**

Sun TV Network's **Kalanithi Maran** buys 37.7 per cent stake. Infuses about **₹750 crore** into the airline in his personal capacity. Ajay Singh quits board

**2013**

SpiceJet CEO **Neil Mills** quits



Source: BT Research

## SPICEJET'S RESURGENCE

While IndiGo is the only major airline posting profits...

| Revenue     | 2014/15       | 2013/14      | 2012/13      |
|-------------|---------------|--------------|--------------|
| Jet Airways | <b>20,966</b> | 19,036       | 18,841       |
| IndiGo^     | <b>10,360</b> | 11,432       | 9,440        |
| SpiceJet    | <b>5,202</b>  | <b>6,356</b> | <b>5,715</b> |
| Net Profit  |               |              |              |
| Jet Airways | <b>-2,097</b> | -4,130       | -779         |
| IndiGo^     | <b>721</b>    | 473          | 783          |
| SpiceJet    | <b>-687</b>   | <b>-1003</b> | <b>-191</b>  |

... SpiceJet appears to be on the comeback trail

|            | Q1 2015/16  | Q2 2015/16   |
|------------|-------------|--------------|
| Revenues   | <b>786</b>  | <b>1,106</b> |
| Net Profit | <b>22.5</b> | <b>72</b>    |

^For nine months ending December 2014  
Source: BSE, InterGlobe Aviation Limited DRHP

Figures in ₹ crore

seats sold as a percentage of seats available) and financial performance in recent months. However, the challenges in front of SpiceJet are still daunting.

### The Problems

SpiceJet was stumbling from one crisis to another for the past three years. Its losses mounted to ₹1,003 crore in 2013/14, leading to a crippling shortage of cash to pay off debt and dues. Then, in December last year, it was the last straw. The airline was grounded after oil companies refused to refuel its aircraft due to non-payments. Singh, who had started the airline in 2005 before selling his stake to Kalanithi Maran in 2010, stepped in immediately. After getting speedy approvals from the government, he acquired 58.46 per cent shareholding in SpiceJet from Kalanithi Maran and Maran-owned Kal Airways Private Ltd in February 2015.

Singh didn't invest a penny out of his pocket in the airline until he



## 2014

SpiceJet losses climb to a record **₹1,003 crore**. The carrier runs into turbulence with a spike in flight cancellations and planes taken back by lessors for non-payment of dues

2011 2012 2013 2014 2015

## 2015

Ajay Singh steps in with a **₹1,500-crore revival plan**. Maran and his associate company KAL Airways transfer their 58.46% stake to Singh. The airline posts record Q1 profit of **₹71.80 crore**.

had a fair idea of the challenges before him. Singh nearly camped in the SpiceJet office in Gurgaon for weeks doing due diligence and taking stock of liabilities. Once he had made a detailed assessment of the airline's problems, he devoted time to convincing the government about his ₹1,500-crore revival plan. "In December, the DGCA (Directorate General of Civil Aviation) passed an executive order asking SpiceJet not to make advance booking of tickets. It is like the Reserve Bank [of India] saying this bank is going to fail. It was a sure shot way of making an airline collapse," Singh recalls.

It seems that Singh's interest in the airline is largely driven by the premium time and parking slots allotted to SpiceJet in key cities. Airports in India give slots based on a host of factors, including the age of the airline, terminal capacity and number of runways. Older carriers are given preference over newer airlines when time slots are allotted for the winter and summer schedules

every year. After the Kingfisher Airlines debacle, IndiGo, SpiceJet and GoAir gobbled up its prized slots.

After taking over SpiceJet, Singh has been trying to improve the on-time performance (OTP) record of the airline. Still, the airline fares poorly on the OTP parameter in four metros – Delhi, Mumbai, Bangalore and Hyderabad. In May and June, its OTP stood at 72.1 per cent and 60.2 per cent, which was the lowest among domestic carriers. IndiGo, in contrast, had an OTP of 80.2 per cent and 82.6 per cent in those two months.

Singh says a low OTP can be attributed to the three planes that it took on wet lease from Czech charter airline TVS. These planes came on board for a short period to meet the rising passenger traffic during April to June. Wet lease is a leasing arrangement whereby an airline or lessor provides an aircraft, crew, pilots and maintenance to another airline. "Our turnaround time is 25 minutes. They go by their rules. Their turnaround time is 45 minutes," he adds.

### Rising from the Ashes

Singh, however, is turning

things around on various fronts. Take market share, for instance. Between July 2014 and February 2015, SpiceJet's market share dropped every month, sliding from 20.9 per cent to 9.2 per cent. But it has picked up in recent months, touching 12.1 per cent in June.

"If we get the costs [of turboprops] down to exactly what we want it to be then we can even add more aircraft. Otherwise there's a still question mark over it"

Sanjiv Kapoor  
COO, SpiceJet

The first quarter of 2015/16 showed remarkable improvement in operational efficiencies. SpiceJet's overall costs were down 42 per cent in April to June 2015 as compared to the same period last

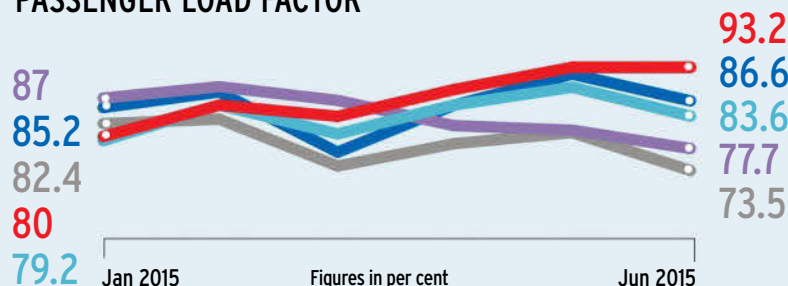


## SPICEJET VERSUS THE REST

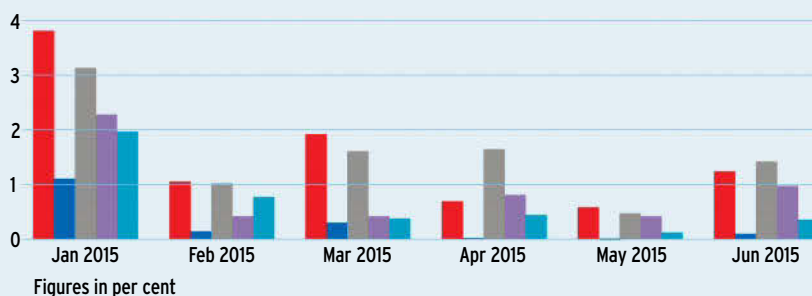
How various airlines compare on key parameters

SpiceJet IndiGo Air India Jet Airways GoAir

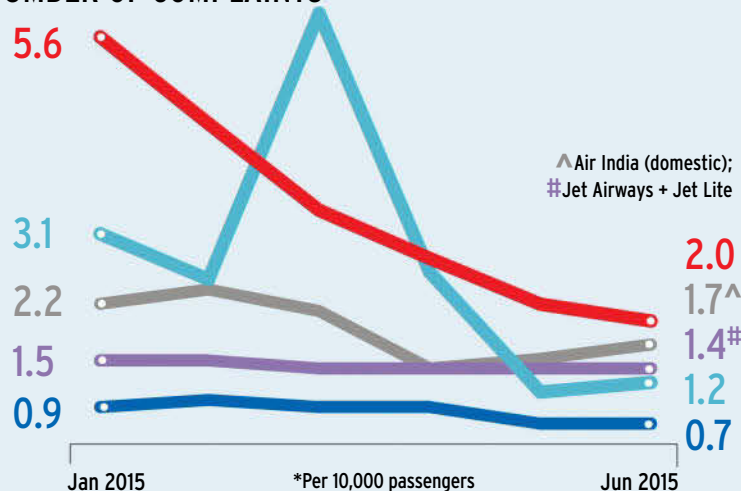
### PASSENGER LOAD FACTOR



### CANCELLATIONS

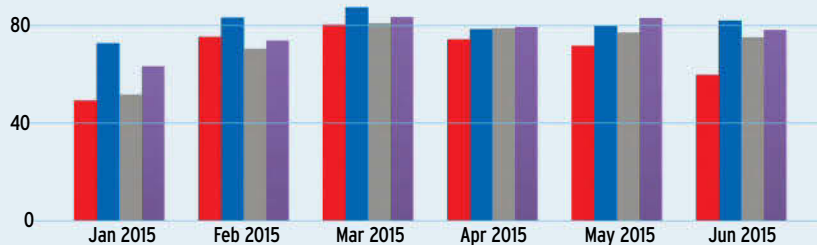


### NUMBER OF COMPLAINTS\*



### ON-TIME PERFORMANCE^

SpiceJet IndiGo Air India (Domestic) Jet Airways + JetLite



^For Bangalore, Delhi, Hyderabad and Mumbai airport

Source: DGCA

year. Low aviation turbine fuel (ATF) prices was the major contributor to this trend. Fuel accounts for almost 45 to 50 per cent of an airline's over-all costs.

The airline has also shown marked improvement in its PLF rate. In May and June, the airline recorded the highest PLF – 93.1 per cent and 93.2 per cent, respectively – among domestic airlines. But PLF rate can be misleading, say experts. Airlines can easily boost it through flash sales. For instance, SpiceJet has done around 11 flash sales since January, including a July offer of tickets priced at ₹1. “Such sales are part of the low-cost carrier (LCC) business. LCC is like an Udupi hotel in the sky. If you keep prices low, load factors increase,” says G.R. Gopinath, founder of Air Deccan.

However, experts say there's nothing wrong with such a strategy. “An airline knows its historic PLFs for different seasons. If they can plan now, and set aside a small percentage of seats in a [future] lean season for flash sales, they can increase the PLFs without making losses,” says an aviation analyst.

Flash sales would not account for more than four to five per cent of total available seats, Singh had told *Business Today* in March. For SpiceJet, it would also help in restoring customers' trust in a brand which was tarnished because of large-scale flight cancellations some months ago.

“For an airline to come back so quickly and be profitable in a weak quarter and fly with 90 per cent load factors is a very unique occurrence in the aviation [industry],” says Singh.

### Take-off Troubles

Even as the airline gets back into shape, there are challenges galore that could delay its recovery. To begin with, SpiceJet is struggling to induct new aircraft in its fleet. Its current 34 aircraft fleet includes 18 Boeing 737s, 14 Bombardier Q400s and two wet-leased Airbus A319.

Going forward, it plans to increase fleet size to 45 to 50 aircraft in





DEEPAK G. PAWAR

2015/16. But getting new planes is difficult especially because the airline had a tough time with its existing lessors over rental payments.

Following its crisis in December, three lessors – Wilmington Trust SP Services, Babcock & Brown Aircraft Management, and BBAM Aircraft Leasing and Finance – dragged the company to various courts seeking to de-register their (Boeing) planes with SpiceJet due to payment defaults. Once de-registered, the airline can't use those planes.

According to Singh, out-of-court settlements have been reached with all three lessors. "During this [first] quarter, we have reinducted an air-

**"Issues with lessors have given a bad reputation to India and SpiceJet in particular. It will take time for the new management to prove its credentials"**

**G.R. Gopinath,**  
 Founder, Air Deccan

craft that had previously been returned and are in discussions to reinduct few more, which reflects renewed lessor confidence in SpiceJet," SpiceJet's CFO Kiran Koteswar said in a statement during the second quarter results. SpiceJet has returned almost 20 planes to lessors over the past year.

Nevertheless, the whole incident has made lessors more cautious. Gopinath says the issues with lessors have given bad reputation to India and SpiceJet, in particular. "It will take time for the new management to prove its credentials," he adds.

Under the Cape Town Convention, to which India acceded in 2008, the lessors should be given repossession of aircraft in case of payment defaults by an airline. For example, in the case of Kingfisher Airlines, airport operators seized aircraft because the company owed money to them. "In India, they don't make repossession easy. They go to courts. They also remove parts. Once the aircraft is stuck in the country, the lessor loses money. The convention says that if the airline cannot pay, you first return the aircraft, and then make an account settlement," says Gopinath.

Last year, SpiceJet placed orders for 42 Boeing 737 Max planes, which will start arriving from 2018. The company is trying to prepone the deliveries to 2017. Then, there are reports of the airline buying 100 new planes from either Boeing or Airbus as part of its long-term plan.

Singh says that he could not anticipate that the aircraft availability would become a challenge in the short term. "When we went to the market, the aircraft were not available. My anticipation was that because of the troubles in Russia and some other places, there would be more planes available. Unfortunately, there seems to be more Airbus available than Boeings," he says. It is generally difficult to get aircraft in the short-term. Most orders are placed three to five years in advance.

## A Thorn in Side

Nearly three months after joining the airline in 2010, the last SpiceJet CEO Neil Mills placed orders for 15 Q400s. He was confident that compact turboprops would make sense for an airline looking at expanding its footprint. First, only a limited number of airports in India can handle narrow-body aircraft (A320s or B737s). Turboprops can be operated on smaller airports where big planes can't land. The previous management thought that they would be able to tap into regional demand, connecting small towns with short-haul flights to metros like Chennai, Delhi and Hyderabad.

Also, the government policy encouraged induction of smaller aircraft. It was a diversion from the global LCC model of having single-type aircraft fleet, which keep financial and managerial complexities down and operations simpler.

The management soon realised that they required two sets of pilots, engineers and cabin crews. It also meant different contracts and additional cost of maintenance, repair and overhaul (MRO).

It turned out that the maintenance and spare parts contracts signed with Bombardier by the previous management were unfavourable for SpiceJet. "We had signed a contract which was fixed charge per month per aircraft. Even if the aircraft is not flying, we still have to pay a fixed fee. Now, we are changing that. We will only pay for maintenance

based on the hours the aircraft is flying. We are also renegotiating the costs of spare parts," says Sanjiv Kapoor, COO, SpiceJet.

With renegotiations, the overall costs for turboprops have come down by 10 to 12 per cent. "It has to come down more. We are halfway through. If we get the costs down to exactly what we want it to be then

**"Intense competition in domestic market led to frequent bouts of flash sales in 2014/15 that created a sudden traffic spurt. An improvement in overall business sentiment also helped"**

Amber Dubey, Partner & India Head of Aerospace & Defence, KPMG

we can even add more aircraft. Otherwise there's a still question mark over it," says Kapoor.

If nothing works out, the last resort for SpiceJet would be to sell these turboprops in the secondary market.

Expert opinions are divided on the future of Q400s with SpiceJet. Kapil Kaul, CEO (South Asia) of aviation consultancy CAPA, says that operat-

ing with only 14 Q400s doesn't make any financial sense. "The Q400 fleet size should be increased to over 35 to 40. So, continuing with Q400s will need serious funding and very careful evaluation is required as it could hurt overall profitability."

An aviation industry analyst, Ameya Joshi, says with dual-type fleet, SpiceJet can get more PLF by connecting smaller cities with metros and in turn feeding into their metro-to-metro network. "They now have a workforce trained on the Q400s along with considerable number of pilots, crew and engineering staff," he says, pointing out to global LCCs like Flybe, WestJet and Allegiant Air don't have one-type fleet.

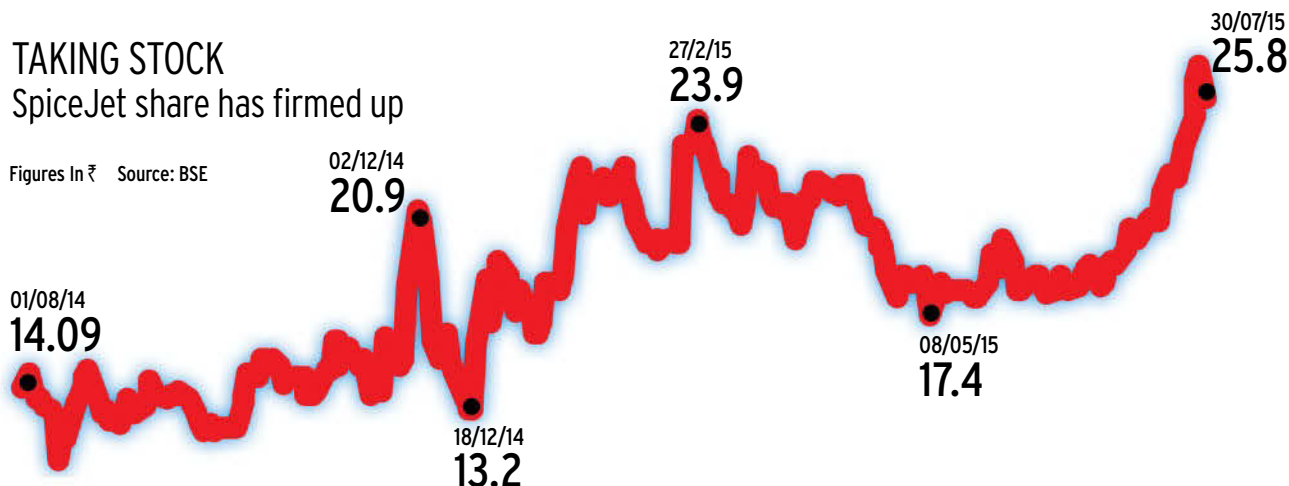


A. PRABHAKAR RAO

## TAKING STOCK

SpiceJet share has firmed up

Figures in ₹ Source: BSE





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## Back to Basics

There are other problems for SpiceJet. The airline has not focused on building a network over the years. In a typical LCC model, every destination should have a reasonable number of flights (per day) so that the fixed costs get amortised.

Similarly, for an aircraft, more seats translate into lower unit costs. Even if an airline is flying more passengers, the staff salaries and equipment costs are fixed for each station.

mestic and seven international and operates 250 daily flights. "We have dropped loss-making and one-flight-a-day stations such as Bhopal, Indore, Pondicherry, Riyadh and Sharjah," says Kapoor.

## The Future is LCCs

Meanwhile, things are looking up for LCCs again, and players like SpiceJet are likely to benefit from it. A recent report by CAPA says that the industry's financial performance is ex-

LCCs in 2014 on some routes. For instance, in the last quarter of 2014, SpiceJet's average fares for a Delhi to Mumbai flight were higher than that of Air India, IndiGo and GoAir.

This year has been spectacular for the industry with passenger traffic growing at 19.81 per cent during the January to June period as compared to last year. The drop in fuel prices allowed airlines to offer discounted fares through a series of flash sales to rev up demand. "Intense competition in domestic market led to frequent flash sales in 2014/15 that created a sudden spurt in traffic. An improvement in overall business sentiment in India also helped," says Amber Dubey, Partner and India Head of Aerospace and Defence at KPMG.

Experts point out that even though the domestic passenger traffic has nearly halved between April 2011 to March 2012 (121.51 million) and January to December 2014 (67.38 million) the market leader IndiGo has managed to increase its market share in the same period. For instance, its market share has grown from 23.8 per cent in April 2012 to 38.4 per cent in June this year.

"Whenever an airline goes down (Kingfisher or SpiceJet), IndiGo tends to benefit because of its consistency and scale," says an aviation analyst.

In fact, IndiGo is the only airline that has become profitable in the past four years. Its closest rival GoAir is also profitable but with a much smaller operations – only 19 aircraft. IndiGo, on the other hand, has about 96 planes and is adding about 10 to 15 new ones every year.

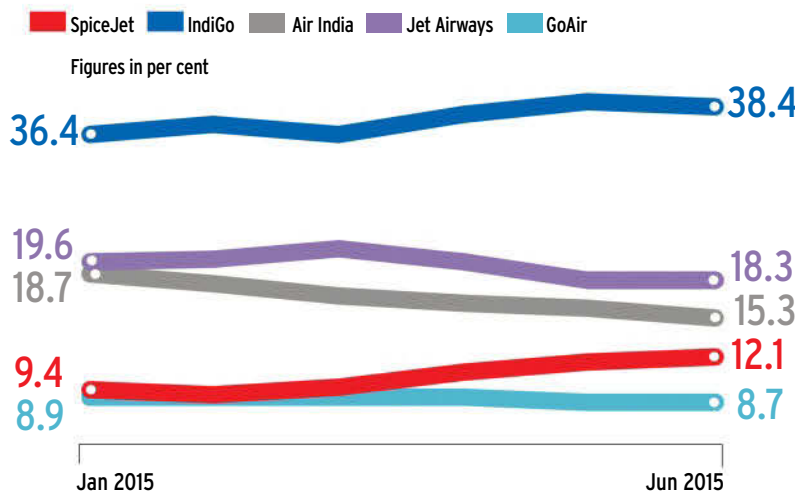
The competition is also likely to intensify in the LCC market with the launch of two regional airlines – Air Pegasus and TruJet.

## Overstaffed

The rise of IndiGo coincided with the fall of SpiceJet. The SpiceJet management went overboard with staff hiring till the end of 2103. At one point, SpiceJet had employed some 140 employees per aircraft as compared

## BACK IN THE RECKONING

SpiceJet's market share has improved in recent months



That's why most LCCs have maximum seats allowed in an aircraft.

Some years ago, SpiceJet started opening too many stations with only one flight a day such as Mysore, Indore, Bhopal and Pondicherry. Last year, the company started relooking at its network with an aim to consolidate the number of stations and increase frequency between them.

In November 2013, for instance, the airline operated to 56 stations out of which 10 were international. In December 2014, it reduced the number to 46. The network rationalisation also included international long-haul destinations which were not making money. Today, it has a network across 41 stations – 34 do-

pected to improve further in 2015/16.

The market share of LCCs in the aviation industry is set to rise to over 70 per cent in two years, from 65 per cent currently. IndiGo's domestic market share will almost certainly cross 40 per cent during 2015/16 and could cross 45 per cent within the next two years. In such a scenario, it would be interesting to see how SpiceJet makes an effort to regain market share without compromising on profits.

Full service carriers (FSCs) are putting up a good fight. Indeed, according to a recent study conducted by regulator DGCA, there was hardly any difference in fares of FSCs and





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to about 100 for IndiGo. It's an important metric to look at because the moment an airline breaches the 90 employees per aircraft ratio, it is seen to be overspending on staff salaries which can affect profitability. Clearly, the new SpiceJet management realised that it has to prune its staff strength if it is to become profitable.

Overstaffing took its toll on SpiceJet. Its employees eventually were not paid salaries on time last year, leading to mass exodus of pilots and cabin crew. Singh says that staff rationalisation was his top priority when he joined the airline. In 2014, the airline had 5,500 employees. "When I took over, it had already gone down to 5,000. Currently, we have about 3,800 people. After laying off over 1,000 people, our staff rationalisation plan is almost complete," says Singh.

But that was not enough. Singh also assessed the performance of senior staff who were hired by the previous management at "exorbitant" salaries. For example, SpiceJet's former VP (revenue management) Fares Kilpady was reportedly paid over ₹2.5 crore. Recently, seven senior personnel have quit the company.

There are talks of more pruning at the top. "I have to do it gradually at the senior level. I cannot create a vacuum all of a sudden," says Singh.

## The Long Road Ahead

SpiceJet needs to quickly start generating profits because its promoter cannot continue pumping in money. So far, Singh has put in around ₹850 crore, which is significantly short of the amount – ₹1,500 crore – that he had planned to invest initially. Singh says the money is arranged by him from banks, trade finance, creditor finance and his own funds. Singh, who owns around 59.13 per cent stake in the carrier, has recently pledged 34.04 per cent of his stake, as per the July 17 filing to stock exchanges. He is also planning to infuse

another ₹300 crore in which he will accommodate some private equity (PE) players who have not invested in the airline so far.

Recently, there were reports that Gulf carriers such as Qatar Airways and flydubai are in talks with SpiceJet to pick up a stake. Both airlines, however, have denied any discussions with SpiceJet. "We have also got offers from some foreign carriers to participate but I think it is at premature [stage]. PEs have not invested for

the reason that the company didn't need cash as urgently. They bring strategic value to the company. We will take a call on the timing and the amount," Singh says.

SpiceJet has also pared its liabilities significantly in the past six months, but it still needs to pay back some dues. The statutory dues, salaries, bank debt and liabilities of oil companies and lessors are already paid off. Now it is left with vendor dues. About ₹600 crore worth of (vendor) dues have been restructured with a payment plan that's spread over a few years.

With some stability in operations, SpiceJet is now trying to move up the value chain. It has launched three ancillary services recently – Spice Assist, priority check-in and bag-out-first.

Also, it has refocused on its premium product – SpiceMAX – that mostly caters to corporate travellers. SpiceMAX seats come with more legroom, priority check-in and complimentary meals and beverages at an extra fee of ₹500 to ₹1,000. Corporate customers spend higher amount than leisure travellers.

"The successful LCCs make 15 to 20 per cent of their revenues from ancillary sources. We just reverted to our original strategy of trying to increase the ancillary revenues. We also aim for 15 per cent target," says Singh.

The current off season is, perhaps, the ideal time for Singh to draw up a long-term strategy for network, pricing, fleet and staff. "Raising funds of about \$200 million is critical to effective and executable long term strategy. A new SpiceJet has to emerge post December 2015 which has a clear strategic direction," points out CAPA's Kaul.

For Singh, the journey has just begun. ♦

@manukaushik

### CHALLENGES

- ▶ A two-type fleet leads to operational and financial complexities
- ▶ Inability to lease planes in the short-term as lessors will be cautious
- ▶ It will take time for customers to trust SpiceJet brand again
- ▶ Employee-to-aircraft ratio is still high (over 110)

### STRENGTHS

- ▶ New promoter, new senior management and easy availability of funds are major advantages
- ▶ Low ATF prices will keep the operational costs low
- ▶ New tie-ups, more add-on services and unbundling of fares could boost revenues



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S. KUMAR





**G**eneral Motors (GM) has been operating in India for almost two decades but hasn't been able to make a mark in a market dominated by Japanese and Korean companies. CEO **MARY TERESA BARRA**, during a visit to India recently, announced that the company will shut its Gujarat plant to consolidate production at its Talegaon plant in Maharashtra and that it plans to invest \$1 billion to launch 10 vehicles in the next five years and double its market share to nearly four per cent by 2020. In an interview with **NEVIN JOHN**, she explains the US automaker's changing approach to the Indian car market. Edited Excerpts:

**You met with Prime Minister Narendra Modi and discussed the investment plans. How do you plan to move forward in India?**

The \$1 billion allocated for India is part of the \$5-billion investment we plan for strengthening Chevrolet brands and positioning us to win in growth markets. We recognise India as an important country, where there are rising opportunities in sync with the growing aspirational middle class. Chevrolet, with a new family of vehicles, will be able to provide great value to the market. We have done a lot of work to understand the Indian customer, their concern on values, technology, fuel economy, safety and connectivity. We want to double our market share in a short span. The expansion of the Talegaon plant and supply base will create 12,000 jobs. We are looking at deep localisation of manufacturing in parallel to the Make in India strategy of the Narendra Modi government. Our strategy is to make GM India the hub of export. We target to export 30 per cent of the volume from the country.

**Arvind Saxena, Managing Director, GM India:** We already export cars to Chile. The next export destination is Mexico. We are scouting for new export markets including the African continent. We will also export powertrain and components.

**Barra:** We plan to present 10 locally manufactured new products in the next five years. The target is to reach all aspects of the Indian market since there is tremendous growth opportunity here.

**Why have you never introduced luxury products such as Cadillac and Buick in India?**

We will be looking at launching the right products across markets and will check whether high-end products could signify the brand.

**Stefan Jacoby, International President, GM:** The emphasis is on local manufacturing, which makes sense and will boost the brands. The luxury cars are iconic American brands. We target to get sophisticated customers, who truly want new variants than moving from vehicle A to B. The base vehicles and the low-cost cars will, of course, grow because of the population migrating from two-wheelers to cars. But the other segment, the middle class, is focusing on features like safety, durability and fuel economy. Design is also important for middle-class customers. They are keen on content, appeal and attractive interiors and exteriors. We believe that Chevrolet could fit in this space. As far as the electric vehicles are concerned, it is still a long way to go in India. We see an opportunity for luxury vehicles here. We will deliver accordingly.

**You also have many of your great products in China but not in India. Will you introduce those products in India?**

**Jacoby:** Introduction of those products is under consideration. We will not reveal which product we will bring here. But we understand the market and know that SUV is a potential segment in India, especially compact SUVs. We will have a full line-up to offer to the customers in the next five years.

**When we look at previous investments, there is a feeling that GM is focused more on China and Brazil rather than India. What are the reasons?**

I think \$1 billion is good enough to change that feeling. We have been in India for 19 years. We have invested \$1 billion so far. But we decided to double our investment. This means we want to stay here. The 10 new products will be the new beginning. It will strengthen business.

**Where will you deploy the \$1 billion?**

This is for developing new products specifically for the

Indian market. We are also investing for the equipment and machines at the Talegaon plant. We will make products here in line with our localisation policy.

**Jacoby:** Our localisation will even go to the Tier II of the supply chain. These will be deeply localised products for the Indian market.

***Why did you fail to keep on the momentum that you got with the launch of Beat in 2010 in India?***

I was not at this job that time. Still, I can say that we didn't see some of the opportunities in the Indian market. We didn't have the right products to continue the success. The issues in quality and the recalls impacted growth. The \$1-billion investment to strengthen the Talegaon plant will help us to overcome these issues. It is

***What are your learnings? How are you redefining the company?***

We are working hard to become the most valued automotive company. Our customers want us to grow, build strong brands and introduce breakthrough technologies to enhance experience. In my tenure, we focused on customers. We demonstrated that last year amidst the challenges. We developed a 'zero-defect' mentality and revamped the way we do validation and testing to become the leader in safety. Technology has advanced dramatically. See the electric cars. Chevrolet Volt and the next generation Volt EV are exciting. We announced the intelligent driving system, which will provide safety in congestions.

**“The \$5-billion investment in China, India, Brazil and Mexico will help us to gain market share and continue the growth momentum”**

a recommitment and a new start for Chevrolet in India.

***Will you sell the Gujarat plant to reduce the liabilities from the books of the India unit?***

We have decided to cease production and continue to look for opportunities. We don't have anything specific to announce right now. We plan to settle it in consultation with the employees.

***You made a loss of \$600 million last year in India. Will you look at writing off part of your investments to reduce the burden on the books?***

I am not going into specifics. The main message is that we want to build a sustainable and profitable business here. We have a comprehensive plan that we are executing.

***How do you plan to ramp up the after-sales service?***

**Saxena:** We have a strong plan to improve the customer experience. We have launched the global programme called Chevrolet Complete Care. We have about 250 service centres. As and when demand grows, we will increase the number of service centers.

***You have completed 19 months at the top job.***

***There is a feeling that saturation has hit the western markets. Which segment offers greater margins for GM there?***

The western market is still going strong. We are experiencing good growth. Every rollout under the strong brands gets acclaims there, whether it is Cadillac or Chevrolet or regional brands like Buick or Opel. We continue making progress in North America with strong results. We expect that Europe will break even next year.

***Are you still feeling the pangs of bankruptcy?***

We have well passed that and progressed to the future. Today, we have a strong customer base, big brands and reliable partnerships with dealers, suppliers, governments and communities, which we work.

***How do you plan to regain the top spot that you lost to Toyota and Volkswagen?***

The important aspect that we look at is margins and profitability. The \$5-billion investment in key markets – China, India, Brazil and Mexico – will help us to gain market share and continue the growth momentum. If you look at our family of vehicles or acquisitions, you will understand that we are focused on profitability.



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***Your strategy is linked to margins and profits. Why did you move away from the old strategy of top-line growth?***

I want both. You can grow market share, but it is not sustainable if it's not profitable. We are looking to run the business in a sustainable fashion. If you look at the technology and the kind of vehicles we build for India, the effort is on customer satisfaction and value for money.

***The second quarter financial performance in China is appreciable. You have improved the margin from 10 per cent to 10.2 per cent despite the slow-***

***“The next export destination is Mexico. We are scouting for new export markets including Africa”***

***down. How did you achieve it?***

As we started seeing the market dynamics changing, the China team became proactive and looked for improving efficiencies across all aspects of the business. They keenly studied the customer requirements. Resultantly, we introduced successful SUVs like Buick Envision, Chevrolet Trax and Baojun 730. We are focused on building the vehicles that the customers want. GM is today nimble and agile to face the market challenges.

***How do you plan to cut costs in China? Will it affect the product quality?***

Cost cutting has nothing to do with quality. We will never make a change that will affect quality. We are the industry leaders in quality and safety. We may look at discontinuing some irrelevant features. As part of cost cutting we look to improve efficiency in design and production.

***How did you overcome issues like safety recalls?***

We changed the way we engineer and develop the products. In today's products, you see high quality, reliability and durability. That is the fundamental changes that we have done across the globe to make sure we are the leaders in safety and quality.



Arvind Saxena, MD, GM India

VIVAN MEHRA

***I believe you are trying to change GM's culture and organisational structure, which was considered very insular and slow moving till its bankruptcy...***

Yes, culture change happens every time. You will have to change the business process and the way people work and how you engage them. We have made tremendous progress, empowering people to do the right thing, focus on the customer and drive for results. In India, we have announced that. Still, we have a lot of work to do and we will continue to do that.

***What are the innovations happening in GM?***

The key innovation is happening in developing technology for improving customer experience. We procure information on customer needs from our regional managers. We have a group of researchers to identify promising technologies. They work with universities around the globe. We have a comprehensive mechanism for collecting information from customers and putting it in technologies in the vehicles.

***You are the first woman CEO of any major automobile company in the world. How do you see it?***

Barra: You are being recognised for a job because of your contribution for the results. There is no gender specific reason for it. But in this role I can motivate young women. Education is an important aspect that young boys and girls seriously look into. In today's world, everything is becoming technologically sophisticated. I advice young women should focus on mathematics and science for capturing the opportunities. ♦

@nevinjl



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# TAXI



# WARS





# OLA Vs UBER Vs Everybody else...

By GOUTAM DAS



AJAY THAKURI

**C**

handler Singh apologises as he is a tad late when he comes to pick up this writer in his new Swift Dzire. Singh has been a driver for many years; most recently with The Imperial, a heritage hotel in Delhi. He earned a lot from tips foreign tourists doled out, but was getting tired of polishing his shoes every morning – a demand from his managers he found hassling. Instead, he wanted to work on his own

terms. So a few months ago he, along with a friend, bought a car on loan and started working for San Francisco-based cab hailing company Uber. He hopes he will make ₹25,000 a month on average. Uber, says Singh, also tops up with ₹300 per trip during peak hours. At the end of the trip, from Noida to South Delhi, Singh quips: “I am trying out Uber. If this doesn’t work, I will go to Ola. I am also getting calls from Meru every day.”

All marketplaces have a choke point. In the case of e-tailers, it is the consumers whose appetite for discounts leads them to flame venture capital money. In the case of on-demand taxi aggregators such as Uber, Ola Cabs and Meru Cabs, it is the drivers. Taxi aggregators typically don’t own any cabs or employ drivers; they connect customers with drivers through a tech platform, the front-end for the customer being an app. According to one estimate, 1.6 million vehicles in India are licensed to run as cabs but there are not as many quality drivers. It is quite a task for aggregators to convince drivers – used to a mom-and-pop model or radio



**Ola**  
Bhavish Aggarwal  
Co-founder and CEO

taxis – to work with them. And those who are available, like Singh, may not remain loyal to one company.

Securing the supply side has become a slugfest among India's top three on-demand taxi companies – ANI Technologies, which runs Ola, Uber and Meru – as they pour money to capture the market. Ola and Uber, particularly, backed by global venture capitalists, are threatening to make every other taxi company in India irrelevant. Home-bred Ola has thus far raised more than \$700 million. Uber has mopped up \$6 billion and has committed \$1 billion for India in the next nine months. Both are using their war chest to offer incentives to drivers and discounted fares to riders. Traditional radio cabs and small-time operators are struggling to match up. The existential threat has made them cry out

“market monopolisation”. Companies such as Meru, Carzonrent and Mega Cabs have thrown their collective might to regulate the “unregulated” on-demand companies. Legal tussles have greeted the aggregators. But more about that later.

Meanwhile, big money is making this battle worth fighting for. According to the Association of Radio Taxi India, the taxi business in the country is growing at 20 to 25 per cent a year. The organised taxi sector accounts for just four to five per cent of the industry and totals \$800 million. It is expected to grow to \$7 billion by 2020.

### Ride Share

Ola has emerged as the clear leader in terms of market share. According to a presentation by SoftBank Corp., an investor in Ola, the company had a 60 per cent share in November 2014, based on data of registered vehicles. TaxiForSure – a company Ola acquired in March this year – had 14 per cent share. Meru had the second-largest share at 16 per cent while Uber, which is now the world's most valued technology start-up at \$50 billion, just had five per cent of the market. Ola appears to have expanded its share if we were

### OLA CABS

- Founded in Mumbai, December 2010
- Active in 100 Indian cities
- 100% aggregated
- Cabs booked only through app
- Aggregates autos
- Cash payments accepted everywhere / wallet option

### FUNDING RAISED

**\$700 million+**

### INVESTORS

DST Global, SoftBank, Falcon Edge, GIC, Sequoia, Steadview, Matrix, Tiger Global

### TOTAL INCOME

| 2013/14 | 2012/13 |
|---------|---------|
| 51.05   | 16.41   |

### PAT

|        |        |
|--------|--------|
| -34.22 | -22.80 |
|--------|--------|

### TAXIFORSURE\*

### TOTAL INCOME

| 2013/14 | 2012/13 |
|---------|---------|
| 4.29    | 0.64    |

### PAT

|        |       |
|--------|-------|
| -17.08 | -3.02 |
|--------|-------|

\*Ola acquired TaxiForSure recently

Figures in ₹ crore Source: ROC

NILOTPAL BARUAH



to go by the disclosures SoftBank made during its earnings presentation for its fiscal year on May 11. The combined market share of Ola and TaxiForSure is 80 per cent. Meru's share has dropped to 12 per cent while Uber is at four per cent. All other taxi companies together have the rest.

Ola had a head start in the aggregation market, having started in December 2010. TaxiForSure was founded a few months later, in June 2011. Uber entered India only in October 2013. Meru, of course, started much before, in 2007, but it mostly had owned cars – it bought cars and employed drivers. It began a shift to the aggregation model in 2011. Ola managed to raise money faster; its Series A funding came from Tiger Global in 2012 and Series B from Matrix Partners and Tiger Global in November 2013. In contrast, TaxiForSure's Series A came only in June 2013. That allowed Ola to aggregate cabs faster than anybody else and innovate on the technology. Ola introduced the mobile app for cab booking in 2011 while TaxiForSure and Meru both managed that only in June 2013.

Ola today claims 250,000 vehicles on its platform, including autos, and a presence in more than 100 cities. It says it is adding 1,500 vehicles every day. Meru, however, says the market share mathematics should not be based on the number of cars; it has to be on consumer revenue. If that is factored in, Meru claims its share would be 23 per cent. Uber, which operates in 18 cities, disputes the market share numbers. An Uber spokesperson contends that the company is much closer to Ola in terms of overall market size. "It's not as one-sided as that report or subsequent media reports have made it out to be," he says. "We are the same size or larger in many big metro cities in India."

Whatever the size, Ola does get the bragging rights for now. It publicly prides itself for beating Uber in being more India-centric. On July 4, Ola teased Uber on Twitter. From its official handle, it posted: "@Uber\_India Couldn't agree

## UBER

- Founded in San Francisco, June 2009
- Active in 18 Indian cities
- 100% aggregated
- Cabs booked only through app
- Aggregates autos
- Cash payments accepted in six cities
- Paytm wallet, credit and debit card work

## FUNDING RAISED

**\$6 billion**

India specific: \$1 billion

## INVESTORS

Lowercase Capital, Menlo, First Round, Benchmark, Goldman Sachs, Google Ventures, Baidu

## TOTAL INCOME

| 2013/14 | 2012/13 |
|---------|---------|
| 2.26    | N.A.    |

## PAT

| 2013/14 | 2012/13 |
|---------|---------|
| 0.07    | N.A.    |

Figures in ₹ crore Source: ROC



**Uber**  
Amit Jain  
President, India

VIVAN MEHRA

## THE OTHERS

### Mega Cabs

Kunal Lalani

Chairman and Founder



Founded in Delhi, 2002

Radio taxi

Active in six Indian cities

### EasyCabs

Rajiv K. Vij

CEO (Carzonrent)



Founded in Delhi, 2000

Radio Taxi

Active in 4 cities

### Fast Track

Redsun C. Ambigapathy

MD



Founded in Chennai, 2001

Call Taxi

In 42 cities

more! uberGO, Auto, Wallet, Cash that's a lot of flattery! #WelcomeToIndia". Uber laughed it off: "@Olacabs Haha so contemptuous. Have a good weekend, guys!"

What was Ola pointing out? "These are things they learnt from us," a social media handler from Ola says, laughing. "Competition is good."

## Gig Battles

While Ola, Uber and Meru are all aggregators, their approaches are nuanced. They differ in some cases and converge in many. Uber is a pure play app-based service and has a westernised template. One can book a cab only through the app. No cash payments are accepted globally though the company recently made a significant exception in India. Customers can pay through the Paytm wallet, credit cards, debit cards, as also cash in a few cities. In India, the company offers uberGO (hatchback vehicles or small cars that are the cheapest), uberX (mid-sized sedans that are costlier) and uberBLACK (larger vehicles at premium pricing).

Almost all countries have the uberX service but only India has a cheaper version in uberGO. And there is a subtle difference in the operational model between India and the US. While in India only a driver with a commercial driver's licence and commercial insurance can enlist, in the US, anybody with a personal vehicle can become an Uber driver provided he has a driver's licence and insurance.

That, in fact, is Uber's global model and has heralded the rise of the on-demand economy or the 'gig economy' flexible employment where the worker is more a contractor than an employee. It has sparked debates on changing labour market dynamics and spurred a new wave of micro entrepreneurship not seen before. Freelancers, like Chander Singh, can potentially make more money than his peers employed by a company to drive cars. Using technology, Uber has succeeded in matching sparse capacity with demand. In its marketplace, riders can get picked up in as little as five minutes while drivers now spend less time sitting idle. The success reflects in numbers: Uber operates in 329 cities across more than 59 countries.

The gig economy model is highly scalable because it is cost efficient. The burden of owning, licensing, insuring and maintaining a car rests with the driver, not Uber. The model, loved by investors, has led to a boom of on-demand start-ups across the world. And in India, too. Deep-pocketed venture firms have allowed on-demand companies to chase market share and gain scale even as they bleed heavily. Ola's losses, for instance, are growing every year. It had a net loss of ₹34.22 crore in 2013/14, according to disclosures made with the Registrar of Companies. In 2012/13, it lost ₹22.80 crore. Recently, Bloomberg News reported that Uber's global operating losses total \$470 million but it did not mention the time period. That number may be outdated by now.

Uber-like services include Lyft in the US that has made an imprint in the car pooling market. Sidecar will help you reach a destination, and deliver a package along the same route, too. GrabTaxi matches taxis with passengers in Southeast Asia. In China, there is Didi Kuaidi, and it aggregates shuttle busses too. Need a quick ride in Mumbai? No problem. HeyTaxi will connect you with a two wheeler.

Ola was founded in Mumbai by IIT Bombay graduates Bhavish Aggarwal and Ankit Bhati. They shifted headquarters to Bangalore in





2012. Aggarwal says Ola's approach works better in India. "We have built a very Indian service with an Indian business model. For instance, we accept cash (in all cities), unlike Uber," he says. Customers have the option to pay by wallet as well. However, today, half of Ola's payments are made through cash.

When *Business Today* spoke to Aggarwal a few months ago, he boasted of running a call centre as a differentiator. "You can also book an Ola through a call centre. A lot of Indians are not comfortable booking through an app," he had said. But from August 1, Ola discontinued the call centre for bookings – the centres are only for support. That makes its model more Uber-like.

Meru is the only player amongst the three to have a hybrid model. According to CEO Siddhartha Pahwa, 70 per cent of its cars are today aggregated. The rest are owned by Meru and are given under a subscription model to drivers. "It creates a sense of ownership. The driver becomes owner of the car after four years," he explains.

The gap with Ola notwithstanding, both Uber and Meru say they have long-term plans for India. They are picking their battles, trying to outdo each other in innovation and promotions.

Ola introduced autos on its platform in October 2014; Uber announced it in April this year. In March, Ola introduced Ola Cafe, a food delivery service – customers can order through the app and Ola cabs will deliver the order in quick time. Uber doesn't have a similar product in India but Ola Cafe is similar to Uber's uberFRESH service in the US and uberEATS in Spain. Uber has run promotions around food delivery in India with uberGOURMET, a gourmet meal service curated by celebrity chefs. In April, restaurant discovery company Zomato said it has integrated an Uber button on its app that will help users book cabs to the restaurant they wish to visit. And after a rape incident in an Uber car in Delhi in December last year, both Uber and Ola introduced an in-app 'SOS' button.

Now for the other significant rivalry. Cab aggregators have heralded

## MERU

- Founded in Mumbai,
- April 2007
- Active in 23 Indian cities
- Hybrid Model
- 70% cabs aggregated
- Cabs booked through app, website and call centres
- Does not aggregate auto
- Cash payments accepted everywhere/credit and debit card options/ wallet options

FUNDING RAISED  
**\$125 million**

INVESTOR  
India Value Fund

## TOTAL INCOME

| 2013/14 | 2012/13 |
|---------|---------|
| N.A.    | N.A.    |
| PAT     |         |
| 3.56    | -31.11  |

Figures in ₹ crore; Source: ROC



## HOW ON-DEMAND CABS WORK

1

Customer loads the mobile wallet with cash or stores credit/debit card details

2

Customer opens app and sets pick-up location (some apps can pick location on their own)

3

Selects payment method

## HOW CAB AGGREGATORS SPEND FUNDING MONEY

Aggregator gets funded

It pays a one-time joining incentive to drivers or a referral bonus

an era of ridiculously low prices – a cab ride in some cities can be as low as ₹5 a kilometre. To be in business, all aggregators must discount the consumer on one hand but also compensate the driver on the other. Because securing supply is pertinent, that often means pampering drivers with all sorts of incentives. That is a game traditional radio taxi operators, focused on profitability, cannot play. “Because they (aggregators) have raised money, they are selling (fares) at half the price. Drivers are being lured by incentives and benefits which have no relation to the cost of transaction,” says Rajiv Vij, CEO of Carzonrent, which runs radio taxi EasyCabs in four cities. He has 2,500 owned cabs and makes profits.

### Now the War

During a 10-km journey from Kalkaji to Sunder Nagar in New Delhi one Thursday morning, Meru driver Nadeem couldn't stop talking about what a good time it is to be a driver. He didn't own the car he was driving and pays a daily rent of ₹1,200 to Meru. At times, he chooses to work throughout the day, catching up on sleep between 11 p.m. and 4 a.m. when demand for rides is low. He can make up to ₹2,000 a day, after paying Meru its daily share, fuel and maintenance expenses. But he has plans. “I will go to Uber once I buy my car,” he says. Why not any other aggregator? “I have heard Uber pays an additional ₹250 as incentive for every completed trip. That is higher than everybody else.”

The ability to discount rides for customers and incen-

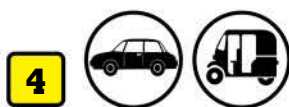
tivise drivers is directly proportional to the war chest each company has. Today, Uber has the largest globally – its commitment of \$1 billion for nine months in India translates into a monthly spend of around \$111 million. That is nearly the combined monthly cash burn rate of India's three largest e-tailers – Flipkart, Amazon and Snapdeal.

“We can expand and improve our operations, expand into newer cities, develop new products as well as payment solutions, and establish a great support network,” says Amit Jain, the lanky President of Uber India. The company, which primarily operates through regional general managers and city general managers, made a significant departure from its global policy by appointing a country head for the first time, in May. The former Rent.com executive has now relocated to Gurgaon in India from the US. “With this investment and the strong rate of growth we are seeing, we expect to hit over one million trips per day in the next six to nine months,” Jain adds. Uber currently completes 200,000 trips a day, say sources. Ola claims 750,000 plus rides a day, though its competitors dispute the number.

Uber launched in Bangalore, its first city in India. It is now in 18 cities, which makes India its largest geographic market outside the US. “We are continuing to see robust 40 per cent growth month-on-month and with more investment in product, hiring, and payment solutions, we expect to grow at an even faster rate,” Jain says.

Neeraj Singhal, Head of Expansion for India at Uber, says the company offers various incentives to drivers from





**4** Selects cab type and then places the order

**5**

Cab picks up the customer and the trip is tracked by GPS



**6**

At the end of the journey, the fare is charged directly to the digital wallet. In the case of cards, a customer enters CVV and verification password on the app. Payment can also be in cash

**7**

The aggregator transfers money to the driver's linked bank account in 24-48 hours



→ The consumer's ride is discounted and the driver is compensated for the loss

→ Aggregators pay drivers special incentives – for every trip, total number of trips completed in a day/week, etc.

**"We can expand and improve our operations, expand into newer cities, develop new products as well as payment solutions, and establish a great support network"**

AMIT JAIN/ PRESIDENT/ UBER INDIA

time to time but didn't disclose any details. The incentives differ in each city. In Delhi, for instance, Uber did not charge commissions from drivers between January and July. It has restarted taking commissions. Globally, it takes a 20 per cent cut from every completed trip.

The company's appetite to drop prices and incentivise drivers can only head north. A *Financial Times* report in June said the company was close to securing another \$4 billion in equity and credit financing that would bring its overall funding to \$10 billion, which "far exceeds the sums raised by Facebook or Google before their initial public offerings".

On February 27 this year, Uber announced it has dropped fares up to 40 per cent across 11 Indian cities including the metros. "Lower prices increase demand for rides, meaning drivers do more trips at every hour of the day; maximising their income any time they choose to go online," the company wrote in a blog. In July, the company added Coimbatore,

Bhubaneswar, Mysore, Indore, Nagpur, Visakhapatnam and Surat to its portfolio of cities in uberGO, costing between ₹5 and ₹7 a kilometre.

Can Bhavish Aggarwal stop Amit Jain?

Uber's runaway success globally is playing out a tad differently in the emerging markets of China and India where local players are more dominant. Like Ola, the dominant player in China is Didi Kuaidi according to a Chinese media report, it has 80 per cent of the car hire service market as of June while Uber holds 11.5 per cent. Didi Kuaidi recently raised \$2 billion to fight Uber.

Aggarwal needs more cash to continue playing the game he has thus far succeeded in. Ola has raised a disclosed amount of \$652 million; overall, more than \$700 million. A few media reports have indicated that the company is in the process of securing another \$500 million. That would be good ammunition to retain its lead. Thus far, Ola has been using its cash shield effectively to undercut competition. It



NILETPAL BARUAH

## RATE WAR

What Ola and Uber charge in Delhi

### Ola

| TFS<br>(Hatchback) | Mini<br>(Hatchback) | Sedan | Prime<br>(Corollas & Innovas) |
|--------------------|---------------------|-------|-------------------------------|
| 7                  | 8                   | 11    | 20                            |

### Uber

| uberGo<br>(Hatchback) | uberX<br>(Mid-sedan) | UberBLACK<br>(Sedan) | - |
|-----------------------|----------------------|----------------------|---|
| 7                     | 9                    | 12                   | - |

### Radio taxis

**20 and above for sedans**

All figures in ₹ per km

**"Nobody was using taxis for short distances. They used autos. We wanted to make it cheaper for the customer"**

RAGHUNANDAN G./ CO-FOUNDER/ TAXIFORSURE

killed most of its domestic competition, including TaxiForSure.

Ola launched a new service, Ola Mini (small cars), "at auto fares" in February 2014 in some cities. In August 2014, Ola dropped its Mini rates from ₹13 to ₹10 a km and Sedan rates from ₹16 to ₹13 a km. That started a price war with TaxiForSure, which in November 2014 was forced to drop prices to ₹49 for four-kilometre in all cities it operates in, down from ₹200 for 10 km. TaxiForSure couldn't sustain these prices. "Nobody was using taxis for short distances. They used autos. We wanted to make it cheaper for the customer," says Raghunandan G., co-founder of TaxiForSure. Cab drivers, however, didn't agree to such low prices. "So we said whatever is the deficit we will pay. We started paying them ₹150 to begin with. Now it has dropped to ₹75 to ₹80 as the number of trips they do has increased and they earn more," he adds.

Raghunandan recently exited the company after it was acquired by Ola in March this year for \$200 million. TaxiForSure couldn't raise the funding it would have required to discount customers and compensate drivers after the Uber rape incident resulted in regulatory uncertainty and spooked investors.

Ola continues to play the same game today.

Between May 27 and June 29, the company revised its fares twice. First, it dropped its Mini prices to ₹8 a kilometre in Delhi NCR from ₹10. Then Sedan prices were slashed from ₹16 a kilometre to ₹11. In July, rates for TaxiForSure hatchbacks halved, from ₹14 a km to ₹7. That matches uberGO's fare. At current rates, Ola is undercutting Uber in sedans in Delhi (see *Rate War*). Radio taxis are far more expensive; their sedans don't cost below ₹20 a kilometre.

Radio taxi companies have christened Ola's pricing "predatory", a strategy wherein a player offers a service at extremely low rates to create a monopoly to drive out the competitors and create entry barriers. "Of late, we have observed that a few app-based cab aggregators are indulging in predatory pricing," says Kunal Lalani, Chairman of the Association of Radio Taxi India and owner of Mega Cabs that runs 2,300 owned vehicles and 250 aggregated ones. "The Competition Commission of India has initiated an investigation into this matter," he adds.

Meru CEO Pawha says he has observed that the app-based aggregators are incentivising their drivers at around ₹150 per trip to retain them in their network and compensate for their loss. He says Ola has a burn rate of \$15 million to \$20 million a month, Uber around \$8 million to \$10 million while Meru is





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at \$1.5 million to \$2 million per month. Uber's \$1 billion commitment for nine months will make a mockery of this math. Ola didn't comment on its cash burn rate and an Uber spokesperson dismissed Pawha's estimate. "Our business and Meru's is very different. I would take those comments with a grain of salt," he said.

Ola's Aggarwal acknowledges that there are tactical incentive structures in some cities. Ola's gap funding – the money paid to the driver to compensate low trip fares – can be performance driven. "The incentive structure is based on customer feedback. So for X number of trips completed, you can qualify for Y amount. There could be more incentives on special days such as Dussehra," a spokesperson says.

Meru, which has a funding of \$125 million from India Value Fund, says it doesn't have to offer incentives to drivers in the way Ola and Uber do. "A Meru driver earns about ₹2,500 of consumer revenue everyday, which is significantly higher than the revenue given by our competitors," says Pahwa, who was in a combative mood. "Meru charges ₹20 a kilometre. Our trip size is roughly 14 to 15 km. The competition is able to charge about ₹12 to ₹14 a kilometre from the consumer and has a trip size of seven to 10 kilometre," he says.

The race, though, has just begun. Since August last year, Meru has run a happy-hour scheme, 30 per cent

## THE REGULATORY HEADWINDS



Ola and Uber non-compliant with the Modified Radio Taxi Scheme in Delhi



The two aggregate AITP cabs, which run on diesel. It violates Supreme Court order mandating commercial vehicles in the city to run only on CNG

cash back offers from time to time, and a 25 per cent discount booking offer. A radio promotion in Delhi is currently urging people to download its app. The company may be burning far less cash right now but will have to do more if it were to remain relevant.

### Regulatory Skirmishes

The rapid rise of Uber globally, and other app-based cab aggregators, has come with its own set of headwinds – none more threatening than a tsunami of regulatory battles the companies have to ward off. Protests and lawsuits against Uber have surfaced from Paris to San Francisco. The fate of Uber and Ola has a common thread here. Scales may tilt in favour of whoever handles the regulators better.

City governments are worried about the safety of commuters. In Delhi, after the rape incident in December 2014, sporadic complaints of indecent behaviour have been made. In July, a lady complained of a TaxiForSure driver masturbating while driving her. "He had little control over the wheel as well as his perverseness. He had a smile on his face that will haunt me for nights to come. A #PSYCHOTIC man with a severe chemical imbalance for a driver is nothing but serious," she later wrote in a Facebook post that went viral. A similar complaint surfaced from an Uber-user in Kolkata.

Governments are also concerned about a host of other issues, from whether the app-based service providers are

## UBER CONTROVERSIES: A SAMPLING

December 5, 2014: An Uber driver is accused of rape by a woman coming home from Gurgaon to Delhi

December 6, 2014: A 46-year-old driver is accused of driving a woman in Boston to a secluded spot and raping her in the back seat

March 18, 2015: uberPOP banned in Germany; a court says transport laws violated

May 28, 2015: South Korea prohibits taxi services by private drivers; UberX is the reported target

June 25, 2015: Paris protests turn violent; French taxi drivers block traffic

July 25, 2015: A 56-year-old driver is accused of following a woman into her home in Dallas and sexually assaulting her





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## SAY HELLO TO AUTOS

**M**uch like ants, yellow icons move around in Uber's map – they are the autos. Indians do not just take cab rides; much of India, in fact, moves in three wheelers. And auto aggregation is picking up pace. Uber announced autos in April 2015 and says the service has picked up “fantastically well”.

“It’s been a game changer for many auto drivers who are now not restricted to business based on line of sight. For many, becoming a partner driver with Uber was transformational and a first introduction to smart technologies, GPS navigation and electronic banking,” says an Uber spokesperson.

Ola introduced autos before Uber did – in October 2014. The company claims more than 50,000 autos registered on its platform, the maximum being in Bangalore and Chennai. Taking autos in both these cities was a headache for commuters: autos rampantly overcharged or refused rides. Also, these cities are more reliant on three wheelers. Mumbai has a taxi culture whereas Delhi has a metro.

“The auto app for the driver is different from what a cab guy gets. It has seven regional languages,” says an Ola spokesperson. Requests for autos are broadcast within a 1 km distance and the first auto to accept gets the business. In the case of cabs, Ola directs the request to the nearest cab.

The three wheeler market is getting disrupted, too.

meeting local transport regulations to if they should classify drivers working on their platforms as employees. The ‘contractors’ versus ‘employees’ debate is particularly hot in the US in the run up to the presidential elections. And that is something that questions the very basis of the gig economy model. In July, Democratic presidential candidate Hillary Clinton commented: “This on-demand or so-called ‘gig’ economy is creating exciting opportunities and unleashing innovation, but it’s also raising hard questions about workplace protections and what a good job will look like in the future.”

If you are not an employee, there are no benefits – no company insurance and holidays, for instance. At the heart of this debate is the control on-demand companies exert on the contractor. A Uber driver might be independent, but his routes are monitored and the fare he charges are regulated by the company. That makes him less of a freelancer.

In June, the California Labor Commissioner’s Office said Uber drivers are employees and asked Uber to pay Barbara Ann Berwick, who worked as a driver for a few weeks, \$4,152.20 in expenses. The commission’s ruling, however, is non-binding and applies to a single driver. Uber is facing a similar legal action in the UK, brought about by the union for professional drivers, GMB. Uber is appealing the California order.

Can this spill over to India? Manish Sabharwal, owner of staffing company Teamlease, says chances are low unless Uber and Ola goof up. “If they don’t make payments on time, there might be an issue. Otherwise, I am not sure. Self-employed drivers in Uber and Ola have much higher productivity than *kaali-peeli* taxis (black-and-yellow coloured local taxis) because of capacity utilisation,” he says. “If you make them (drivers) employees, the on-demand model doesn’t work. Uber is a labour market app that allows higher capacity utilisation of self employed people. Self-employment is a different contract and a different decision.”

In India, Delhi has been the hotbed of legal tussles ever since the Uber rape incident of December 2014. After the incident, the Delhi government banned the services of app-based aggregators who were non-compliant with the Modified Radio Taxi Scheme of Delhi’s Transport Department. Ola says it does not require such a licence since its cabs have All-India Tourist Permits (AITPs). However, the AITP cabs run on diesel and that violates a Supreme Court order mandating commercial vehicles in the city to run only on the less polluting compressed natural gas (CNG). Both Ola and Uber have continued to operate in Delhi without a Radio Taxi licence since the state government found it difficult to implement the ban. The Delhi government, in the meantime, refused these companies’ applications for radio taxi licences.

Ola had approached the Delhi High Court seeking quashing of the ban but the court on July 29 refused to provide interim relief, saying the company failed to comply with the ban since January as also the use of CNG vehicles instead of diesel ones.



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**Sidecar**

A US start-up, it has a service similar to Uber as also same-day package delivery for retailers – it combines “people and packages on the same route”

**Lyft**

Uber's rival in the US. Has made an imprint in the car pooling market

**Haxi**

Norway's popular “spontaneous” ridesharing company. Spontaneous ridesharing is a private arrangement between the driver and the passenger

**HeyTaxi**

Mumbai-based company that connects commuters with riders on two wheelers for local trips. Also does parcel deliveries

**Didi Kuaidi**

China's most popular taxi hailing company. Also aggregates shuttle buses

**ON-DEMAND BOOM**

Ridesharing services are growing in popularity across the globe

The High Court observed that the Supreme Court's orders with regard to ban on diesel taxis has been “violated with impunity” and that the “petitioner believes that it is not bound by the law”. The court also sought an affidavit from Ola stating it would abide by the court judgments.

“The main problem is not rape. It is the switch from diesel to CNG. It will cost drivers ₹50,000,” says Vijay Panjwani, a Supreme Court lawyer who appears for the Central Pollution Control Board. “Every *kaali-peeli* taxi has made the switch in Delhi; so have all autos. It will apply to everybody in the National Capital Region,” he adds.

Cab aggregators, off the record, say it will cost drivers more – in the range of ₹60,000 to ₹90,000. They would be unwilling to make that investment and may well ask the app companies to fund part of it. That would imply significant expense.

It remains to be seen how app-based aggregators would respond and handle the court's observation. In the US, where Uber is facing resistance from some cities, it has adopted an aggressive approach. Take the case of New York City. The city council planned to limit Uber's addition of drivers since it was studying the impact of for-hire vehicle services on conges-

tion. Uber launched a high-decibel campaign – ads targeting Mayor Bill de Blasio said many potential jobs are at stake. The company added a “de Blasio” feature in its app – a click of the button showed “No Cars”! The city, in July, ate humble pie, abandoning its plans.

Can a similar feature work in Delhi? As of now Uber appears happy with low-decibel marketing. On July 28, a day before the Delhi High Court refused to provide Ola interim relief, Uber came out with a press statement, a “response” to the diesel ban. “We urge the government to explore solutions that balance the right to livelihood of tens of thousands of drivers while creating a favourable environment that supports a transition to cleaner fuel alternatives and more efficient transportation models,” it said.

Meanwhile, in the middle of regulatory exchanges, three stakeholders appear to be delighted. Investors, who continue to flock in; drivers, who can now earn much more; and, of course, riders can reach home from their offices in a sedan at the price of an auto rickshaw. ♦

@Goutam20





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# Chairman's Speech at Cairn India's

Good Morning Ladies and Gentlemen,

On behalf of the Board of Directors, I am delighted to welcome you all to the Ninth Annual General Meeting of your Company.

Thank you for joining us today.

The oil and gas sector plays an important role in the Indian economy as the sector is one of the largest contributors to the Government of India's revenues. Numerous resource rich countries offer useful lessons for India to translate resource wealth into broader economic development. Given their significant economic linkages, natural resources sector can be used as a platform for socio-economic development.

The United States of America offers an excellent example. Its oil production growth in 2014 was highest in more than 100 years. U.S. is redefining the global energy landscape. Such turnaround in hydrocarbon sector offers constructive lessons for energy import dependent countries like India.

Our nation is blessed with significant untapped oil and gas resources. However, the sector needs encouragement to maximize this potential. We need policies that are tailored to reflect and respond to India's status of an oil and gas importer. Investment climate and governance are key drivers for investments. A stable and predictable investment regime and a consistency in policy will help enhance confidence besides attracting domestic as well as foreign investments in the oil and gas sector.

An oil and gas regime that integrates these philosophies, will not only spur domestic exploration and production activities, it will significantly reduce our dependence on expensive imports.

**Your Company's role in achieving Energy Security for the Nation - a strategic perspective**

The Indian economy is highly dependent on oil and gas imports. During last fiscal, over 78% of oil and over 36% of gas consumption of India was met by imports at a cost of over US\$ 110 billion. Given the growth projections, this demand supply gap is expected to grow. International Energy Agency's World Energy Outlook 2014 indicates that India's annual net fossil fuel import bill will be over US\$ 500 billion in 2040. Clearly, this has serious ramifications for the Indian economy.

It was thus heartening to learn that the Hon'ble Prime Minister of India called upon all stakeholders to increase the domestic production of oil and gas to reduce import dependence from 78 % to 67% by the year 2022. Our Prime Minister emphasized cooperation as a means to achieve energy security in India, a vision, we also share.

As one of the largest crude oil producers in India, your Company assumes a very important and responsible role in reducing the dependence on oil imports. Over the last many years, Cairn India has played a pivotal role in meeting the country's energy needs. For instance, in FY2015, Cairn India's operations reduced the Nation's crude oil import bill by over Rs. 38,500 crores (over US\$ 6 billion).

You will be happy to learn that during FY2015, your Company made a significant gross contribution to the Government exchequer – Rs. 19,047 crores (US\$ 3.1 billion) thereby making your Company the single largest private sector contributor from the hydrocarbon sector. We look forward to an encouraging business environment and policies from a progressive

government to maximise the potential of the sector, which in turn will help enhance our efforts and contribution to nation building. With this larger context, let me now talk about your Company's performance. After a relatively stable oil price at around US\$ 100 per barrel, the price came down sharply, during the period starting June 2014 and continues to remain low.

However, your Company's inherent strengths and proactiveness helped it report a resilient performance. We reshaped our strategy which will not only help us face the present downturn, but will also enable us to emerge as a progressive, growing and even more efficient business in future.

## Our Assets

Our oil and gas fields, including Rajasthan, are assets of national importance contributing over 27% of India's domestic oil production in the last fiscal. During the year, the Rajasthan block also witnessed an increase in commercial production and sales of natural gas as our core fields continue to perform well. The block has significant potential and we are committed to maximize economic recovery to enhance stakeholder value. FY2015 saw many firsts for the Rajasthan block.

Your Company executed the largest exploration and appraisal programme till date in a year by drilling 34 wells. Nine out of 12 exploration wells drilled during the year encountered hydrocarbons.

Similarly, your Company started polymer injection in Mangala field in Rajasthan. Mangala Enhanced Oil Recovery (EOR) project is amongst the largest polymer flood EOR programmes anywhere in the world. This indeed is a significant achievement for your Company and is a testament of your Company's strong capability and technical expertise. In addition, the year saw successful completion of ASP (Alkaline-Surfactant-Polymer flooding) pilot at Mangala, debottlenecking and connection of Mangala Processing Terminal to the national grid.

Your Company received regulatory approval for the development plan to enhance production at Raageshwari Deep Gas field. Natural Gas in the Rajasthan block represents a good opportunity and we are well positioned to leverage this prospect.

Coming to our other producing assets, both our offshore blocks improved their performance during the year. They remain excellent examples of what Cairn India can accomplish through its prudent reservoir management practices and innovative application of technologies. Ravva block boasts of a recovery factor of approximately 50%, compared to general recovery rate of around 30% in similar kind of fields across the world.

You will be happy to learn that through application of high-end technologies, Ravva block saw an increase in oil production in the 20<sup>th</sup> year of its operations.

## HSE and Community engagement

Your Company is committed to maintain the highest international standards of Health, Safety, and Environmental performance. The health and safety of our employees and contractors remains at the center of everything we do. All our producing sites are compliant with internationally accepted environment, health and safety standards. The company has maintained an impressive Health Safety and Environment record over this year, as in the previous years. Our Ravva asset, Raageshwari Gas Terminal and Cambay block received awards under various categories from the Directorate



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Regd. Office address :101, First Floor, C Wing, Business Square, Andheri Kurla Road, Andheri (E), Mumbai – 400 059. Telephone: +91 22 40902613, Facsimile: +91 22 40902633, [www.cairnindia.com](http://www.cairnindia.com)



# 9<sup>th</sup> Annual General Meeting



General of Mines Safety as well as from various industry associations. With expanding scale of operations, we will continue to accord even greater importance to our HSE standards and strive for continuous improvement. The company received the 'Institute of Public Enterprise Excellence Award' in the development sector for contributing to the society at large.

This is a testimony of our continuing efforts towards empowering local communities in our operational areas. Through our engagement programmes, we touch and have positive impact on around 700,000 community members. We continue to expand the coverage of our community partnerships through strategic, wider and more inclusive programmes.

I am happy to share that despite the fall in oil prices, which impacted revenues, your Company remained focused on its drive to continuously improve efficiencies and minimize operating costs. Thus, we were able to pay the highest dividend in the Company's history during the year, amounting to approximately 45% of annual consolidated net profit.

## Corporate Merger

In line with the objective of simplifying the group structure, on 14<sup>th</sup> June 2015 Vedanta Limited and Cairn India announced a merger between the two companies. The Boards of Vedanta and Cairn India have unanimously recommended the merger, which we are confident will benefit the shareholders of both the companies.

This is a significant milestone in your Company's journey. Not only will this merger de-risk earnings through increased diversification from exposure to a larger commodity mix, it will also help garner benefits of increased economies of scale. You will get access to Vedanta's tier-one metals and mining assets, which are well-invested, low cost and have a long life. We are also committed to sustain and enhance the Cairn India Brand and maximize its potential. This merger offers long term sustainable value enhancement for all shareholders.

## The path ahead — Technology will continue to play a key role in Cairn's growth

Continual investment is a key element of our growth strategy. We are committed to strategic investments in the sector to help increase domestic production of oil and gas. The adoption of technology and the innovative application of techniques has been a cornerstone of Cairn India's successful strategy for many years.

You will be happy to learn that your Company was the first Indian company to deploy latest unconventional drilling techniques that are being used in North America. This includes drilling of horizontal wells in complex geology – to maximise recovery over the economic life of fields. Going forward, early and innovative technology infusion will continue to remain a key element of our growth strategy.

It will play a major role in the development of the Barmer Hill formation in Rajasthan and increasing gas production at the Raageshwari Deep Gas field. Given their significant growth potential for business, both Barmer Hill Formation and Raageshwari Deep Gas field are a priority for us.

We have an excellent suite of world-class assets and we will continue to operate our assets efficiently, execute the strong pipeline of projects and focus on growing our oil and gas portfolio.



We will continue to strengthen operational efficiencies to improve overall costs and follow a Sustainable Development Model that focusses on Environment, Safety, Communities and best in class Governance Practices.

## Acknowledgements

I would like to welcome Mayank Ashar, who joined Cairn India as Managing Director and Chief Executive Officer in November 2014. A veteran in oil and gas sector, Mayank has held top leadership roles in global organizations and brings with him a wealth of experience spanning over 3 decades. I am confident that Mayank will play an important role in shaping our business.

As I conclude, on your behalf, I would like to thank all the employees of Cairn India for their strong focus, commitment and contribution to the success of your Company. The leadership team is supported by a talented and dedicated set of professionals who continue to make a difference and create value for the company. The support of the Government of India, State governments, ONGC and our other joint venture partners, business partners and local communities has played a significant role in our success. On behalf of all of us, I thank them for their collaborative approach and constant support.

I remain confident that your Company will play an increasingly crucial role in reducing our Nation's dependence on costly imports and thereby enhance energy security for the Nation and play a transformational role in the nation's development and in the process, deliver long-term value for shareholders.

On behalf of the Board of Directors and the employees of Cairn India, I once again thank you for your enduring support.

Navin Agarwal  
Chairman, Cairn India Limited

July 21, 2015

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# THE RUPEE VENTURES FORTH

Wealthy Indians have begun investing in venture capital funds for the first time, a development that will help Indian start-ups immensely. By TASLIMA KHAN



AJAY THAKURI

Funds dominated by Indian investors

KAE CAPITAL  
STARTED IN: 2010

BLUME VENTURES  
2011

INDIA QUOTIENT  
2012

ORIOS VENTURE  
2014



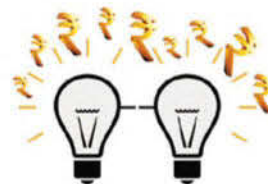
**S**udhir Sethi, founder of IDG Ventures India, spent most of his childhood overseas as his father was in the Indian Foreign Service. Returning to India, he worked for two decades in computers – his employers included HCL and Wipro – before starting his investment career in 1998 with Walden International India, the first Silicon Valley-based venture capital (VC) firm to set up an Indian arm. Though Walden has funded numerous Indian start-ups, its investors, or limited partners (LPs) as they are called in VC jargon, remain predominantly people and companies based outside the country – especially endowment funds, pension funds and large banks. It is the same with IDG, which Sethi joined in 2006, as well as the other big players in the Indian VC sector – Sequoia Capital, SAIF Partners, Accel Partners, Helion Advisors. All of them are dominated by foreign LPs.

The latest India-focused fund IDG is raising, however, is different. Though unwilling to reveal the proposed fund size, Sethi confirms it will have a significant contribution from investors within India, spread across eight cities. These even include a Mumbai-based *itar* (traditional perfume) manufacturer! “I’m a desi guy now,” says Sethi.

IDG is not alone. In the past three years – and for the first time – a clear trend of Indian participation in venture funding of start-ups has become visible. No doubt this is still small – a mere three per cent of the total. It is also confined to family firms of high net worth individuals (HNIs), rather than financial institutions as in markets like the US. “Other than the Small Industries Development Bank of India (SIDBI), most institutions in this country don’t understand either venture capital or start-ups,” says Karthik Reddy, Managing Partner at VC firm Blume Ventures.

Still, a beginning has been made. Average assets under management (AUM) of HNI family firms are between ₹200 crore and ₹250 crore, though the highest is around ₹5,000 crore.

Industry insiders maintain the Indian reluctance was not due to any shortage of investing funds in the country, but simply lack of awareness. The increasing media coverage of start-ups and their funding, however, has finally made investors aware that start-ups can be looked at in the same way as any other asset class, such as bonds, mutual funds or land. “Putting money in a VC fund is much like investing in mutual funds because these funds diversify your investment – and hence your risk – across several start-ups,” says Sasha Mirchandani, co-founder of VC firm Kae Capital and the association of angel investors, Mumbai Angels Network. “It is much



## Fund Bonanza

**VC firms which have raised funds recently:**

**Sequoia Capital**  
**\$740 million**

**SAIF Partners**  
**\$350 million**

**Accel Partners**  
**\$305 million**

**VC firms in the process of raising funds:**

**Nexus Venture Partners**  
**\$400 million**

**Helion Advisors**  
**\$250-300 million**

**Kalaari Capital**  
**\$275 million**

**Blume Ventures**  
**\$60 million**

**Seedfund**  
**\$60 million**

**IDG Ventures**  
**Not disclosed**



**“ONE OF THE BIG REASONS WHY  
SOME COMPANIES MOVE OUT  
OF INDIA IS THAT THEIR INVESTORS  
ARE OVERSEAS AND INFLUENCE  
THEM INTO DOING SO”**

**SUDHIR SETHI**, Founder, Chairman &  
Managing Director, IDG Ventures India

less risky than investing in a single start-up.”

### Likely Impact

Indian start-ups have already attracted billions of dollars from global funds. But substantial Indian investment is bound to boost local start-ups even further and make it still easier for them to get money. “Why should we go to the US if we can get enough capital in India,” says Mirchandani. The kind of start-ups being promoted, however, is likely to stay the same, with the technology

reliant ones enjoying a distinct advantage. “Only the sources of capital are changing,” says Rehan yar Khan, a well-known angel investor who set up the ₹300 crore VC firm Orios Venture Partners last year, with funds drawn entirely from Indian investors.

The first fund in India which tapped only Indians was Blume Ventures Fund I, which raised \$25 million in 2011. It was not an easy task. “We had to convince investors we are here to last at least 20 years as an institution,” says Reddy. The money has been since deployed across 65 start-ups. Mirchandani’s Kae Capital, which started around the same time, has no doubt drawn funds from Sequoia Capital and SAIF Partners, but also from the likes of Deep Kalra, founder of MakeMyTrip.com, Anupam Mittal of Shaadi.com and Naveen Tewari of InMobi, in their individual capacities. So too India Quotient, begun in 2013 by Anand Lunia, former Managing Partner at VC firm Seedfund, has drawn investments from Times Internet, Ronnie Screwvala’s Unilazer Ventures and SIDBI, as also from overseas funds such as Omidyar Network which operates an India arm.

How successful have VCs using Indian funds been so far? It is still early days, but Blume Ventures has already had a few successful exits such as ZipDial and TaxiForSure. ZipDial was acquired by Twitter and TaxiForSure by Ola Cabs in the early months of this year. Again, around 25 per cent of the start-ups Blume invested in have managed to attract follow on funding. Blume is now raising a fresh \$60 million fund, 40 per cent of which will come from Indian investors. So too India Quotient is raising \$25 million in a new fund, much higher than its first fund of \$5 million.

What sets apart a number of the Indian VC funds from their overseas counterparts in India is also their willingness to invest in start-ups at the business-plan stage, even before these have begun earning revenue. Typical investments are around \$200,000 to \$250,000. Until now, while Series A and subsequent funding for successful start-ups had been growing, pre-revenue funding – which is obviously more risky – was hard to come by. Entrepreneurs had to largely use their own funds or turn to personal sources. With this gap starting to close, industry sources believe, the funding ecosystem for start-ups in India will be complete.

Growth in the number of Indian LPs may also stem the trend of Indian start-ups shifting their headquarters overseas after a few years. “One of the big reasons why some companies move out of India is that their investors are overseas and influence them into doing so,” says Sethi of IDG Ventures. Further, Indian LPs will help not only start-ups but Indian VC firms as well, increasing their deal flow. “With Indian investors coming in, the dollar investor will also be prompted to put in more,” Sethi adds. It will also assist in finding the right start-ups





Orios Venture Partners'  
**Rehan yar Khan (L)** and  
Blume Ventures' **Karthik Reddy**

RACHIT GOSWAMI

to back, since Indian LPs would be people in close touch with premier educational institutions.

Indian investment in start-ups is set to further increase with the Securities and Exchange Board of India (SEBI) having eased the norms for their shareholding and disclosure in early June, making it easier for them to list on the bourses. It has also set up an 18-member committee headed by Infosys Chairman Emeritus N.R. Narayana Murthy to recommend a new regulatory framework for start-ups and alternative investments.

### Larger Funds Untouched

The larger funds, however, remain untouched by this development. "Domestic LPs don't apply to us as our association with foreign LPs has been very strong over the past 15 years," says Mayank Khanduja, Vice President, SAIF Partners. But these funds too have been booming, with the dollars pouring in (see *Fund Bonanza*).

**"OTHER THAN THE  
SMALL INDUSTRIES  
DEVELOPMENT BANK  
OF INDIA, MOST  
INSTITUTIONS IN INDIA  
DON'T UNDERSTAND VC  
OR START-UPS"**

**KARTHIK REDDY,**

Managing Partner, Blume Ventures

The biggest among them, Sequoia Capital, which has been in India since 2006, launched its \$530 million India-focused fund IV in May 2014. In April this year, it topped this with an additional \$210 million, making it a \$740 million fund. A month earlier, in March, SAIF Partners closed its India Fund V at \$350 million. Again in March, Accel Partners India announced a \$305 million Accel India Fund IV. Nexus Venture Partners is raising a \$400 million fund called Nexus Opportunity Fund. "One of the reasons VC firms are raising more funds is because we want to stay longer in the companies where we have invested,"

says Sandeep Singhal, co-founder of Nexus Venture Partners. ♦

@KhanTaslima

How a few companies are laying the foundation to make India a hardware product nation.

By VENKATESHA BABU

# Playing Hardware Hardball

**ANJAN KUMAR**  
CEO, Greendzine (Irrway)  
**Putting traffic policing on fast track**







**L**ast year, Mysore witnessed an inspiring partnership between policing and technology. As tourists poured in from India and around the world during the *Dusherra* festival, overflowing the thoroughway of the city of palaces, tourists and residents were greeted by khaki-clad cops zipping past in a never-before-seen trendy three-wheeler, guiding tourists and managing traffic congestions with equal ease.

At the centre of the city police's efficient handling of the situation was the battery-powered personal mobility device developed and built by Greendzine Technology, a Bangalore-based tech start-up founded by former TCS engineer N. Anjan Kumar. Irrway, a far cousin of the more well-known Segway, costs between ₹40,000 and ₹80,000 – a fraction of the ₹3.5 lakh price tag of the entry-level US-made product. The price point and the efficiency of Irrway have not only made the Delhi, Bangalore and Chennai police sit up, but hotels, resorts, IT parks and up-market townships are also looking at it with equal zeal.

Like Kumar, Abhishek Latthe and Apurva Shetty had set their eyes on the stars to find success on ground. The two 26-year-old electronics engineering graduates set up Sensegiz in February 2013. Today, the Belgaum-based company has two subsidiaries in the US and Ireland, which handles its sales and marketing, and ships its two indigenously-built products – Star and Find – to over 50 countries, including the US and Japan.

Star, priced at ₹7,000, is a wearable smart tech product, which can be clipped to clothing or worn as a band. It triggers automatic alarms on a paired smartphone to let a loved one know if the user falls or experiences a medical emergency. It also has a panic button, and can track fitness and sleep quality, apart from controlling simple phone functions. Find, the other product, is a simple Bluetooth-enabled tracking device that costs ₹1,500. The company has sold more than 12,000 units of Find in the past year and expects a similar response to the recently-launched Star.

Greendzine and Sensegiz are part of an emerging breed of home-grown start-ups designing and manufacturing IT hardware, a segment in which India lacks sorely, despite a promising start way back in the 1950s and, later, a second coming in the '80s.

## 10 REASONS WHY PRODUCT COMPANIES ARE THRIVING

**ECOSYSTEM:** India has the third-largest start-up ecosystem in the world

**3D PRINTING:** Advent of 3D printers and scanners means experimenting is now easier and affordable

**GROWING LOCAL MARKET:** A large market creates local champions who can expand overseas

**LOWER CAPEX:** Cloud computing, SaaS and open-source architecture have lowered capital expenses

**PLAYING AROUND:** Platforms, including Raspberry Pi and Arduino, have fuelled experimentation

**TALENT POOL:** Indian services companies are strong in embedded software and IC design, which can be tapped by product companies

**RISK APPETITE:** Having tasted success in services, a number of entrepreneurs believe they can succeed in hardware too

**RISE OF E-COMMERCE:** It has brought opportunity for players making hardware in areas such as robotics and logistics

**MENTORSHIP:** Emergence of industry bodies such as iSpirt and TiE has helped product companies thrive

**FUNDING:** There is no shortage of angel investors who are interested in product companies

**MOHAMMED HUSSAIN  
NASEEM**

CEO, GetActive

**Getting active with fitness  
and sleep tracker bands**


DEEPAK G. PAWAR

Though India's start-up ecosystem still favours the country's \$146 billion software services sector, and product manufacturing is considered a foolhardy option, there is optimism among industry observers. Experts say the start-up ecosystem has been witnessing green shoots in design-led innovation over the past two to three years and may see rapid growth by 2018.

The central government's Make in India initiative and a spurt in interest shown by angel investors and venture capitalists to fund tech hardware start-ups might just give the much-needed boost to the industry. Though venture funding into hardware tech start-ups is abysmally low, with a recent report pegging the figure at around \$40 mil-

lion in the past year, entrepreneur-turned-angel investors are keeping a close watch on the developing success stories in this space.

However, to compete with the best in the world, India has to emerge out of the prototype phase into mass manufacturing of technology-driven hardware. That said, as setting up of infrastructure to scale up manufacturing takes time, India must, meanwhile, establish itself as a product innovation hub, despite a few failed attempts. And, if Information Technology Minister Ravi Shankar Prasad is to be believed, the Centre is ready to travel the distance. "When it comes to technological innovations and manufacturing we will see a few

failures along the way, but we have to be patient. Only then will we taste success," Prasad said at an *India Today* event recently.

So, as India takes steps towards becoming a 'product nation', instead of remaining buried under a generic name – as the world's back office or an IT and ITes services hub – the country will need to support individual efforts like that of Abhinav Verma of LiveBraille, as well as team players like Samay Kohli and Akash Gupta of Gurgaon-based Grey Orange Robotics, or Sagar Apte and Deepak Thomas of CariQ, which operates out of Pune.

**More Kids Play Hardball**

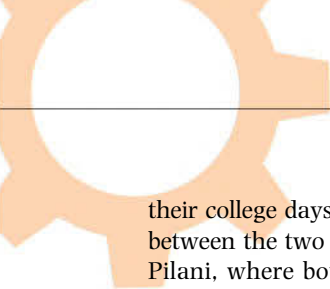
Verma, 20, is not just another engineering college dropout, but has won many awards as a social innovator with LiveBraille – a 24-gm electronic travelling aid for the blind that costs just ₹2,000. The battery-operated portable device uses sensors to communicate the distance of objects through vibrations and helps the visually challenged navigate the world better.

Sharing a common interest is not uncommon between two friends. However, Thomas and Apte decided to make a meaningful contribution to India's aspirational lifestyle needs with CariQ. The two automobile enthusiasts left their jobs at US technology firm PubMatic and built two prototypes of a plug-in device that connects to the Internet to equip your car with intelligent features. They went in for mass production in October 2013 after raising money from several angel investors, with two variants: the GSM SmartPlug and Bluetooth SmartPlug, which cost ₹6,500 and ₹4,000, respectively. The USB device tracks parameters such as coolant temperature, service alerts and engine load, and alarms the driver if it detects any anomaly.

The story of the founders of Grey Orange Robotics is about following one's passion. It was not planned. But product development was the only thing the duo could think of even in







their college days. The partnership between the two incubated at BITS Pilani, where both were studying mechanical engineering. It was Kohli who took the lead, with an indigenously-built humanoid robot, the AcYut in 2007. Soon, he and Gupta were a team. They represented India in robotics competitions across 13 countries, winning the gold at the RoboGames in San Francisco in 2009.

But, they had no idea that one day they would build robots that would replace manual labour to bring in more efficiency and minimizing errors in retail, logistics and ecommerce. In February, Grey Orange bore fruit, initially in the robotics education space, only to move away into the robotics products space by December the same year, aided by the e-commerce boom. "Grey Orange would not exist if not for the rise of e-commerce in India," says Kohli.

The other fruit in the product hardware space, Mango Man, has also shown the world how Indian companies can take the fight to global majors with quality products. The company, founded by Sai Srinivas Kiran G. and Shubh Malhotra in 2013, has put up a stiff competition to Google's Chromecast and Apple TV in the domestic market with its flagship Teewe, an HDMI dongle that allows consumers to connect their computers and mobile devices to a television. The streaming device is compatible with Android, iOS, Windows, Mac, Linux, and Chrome, and is available for ₹2,000, compared to its competitor's price tag of ₹3,000. Mango Man is also developing music streaming and home audio devices.

Another device that is doing well is Ezetap, a mobile payment solutions start-up founded by Abhijit Bose and Sanjay Swamy. The company has raised several rounds of funding and has sold over 20,000 devices

across India, South East Asia and Africa. "Given the requirements and challenges in India, if you win here, you can win anywhere. We released a card reader at a price point which none of our global competitors have been able to match," says Bose, who wants to take on the likes of a Square in the US, once he scales up operations in India.

Confidence is high among Indian IT hardware manufacturers like Manish Patel, CEO of the Mumbai-based Mswipe, a point-of-sale device company. "Earlier, software and hardware operated in silos. They are now getting integrated. India may not be good at mass manufacturing, but we have the ability for highly-complex-low-volume work," says

Patel. Mswipe, which has raised an undisclosed amount from Matrix Partners, Axis Bank and DSG Consumer Partners, has launched three products between 2012 and June 2015. The first mobile POS solution was a card reader. Then came the EMV Chip and PIN-compliant Wisepad™ and, finally, SmartPOS, an Android phone that can be used to make card payments. Its customers include Corporation Bank, Ratnakar Bank, Shamrao Vithal Cooperative Bank and Axis Bank. Mswipe is also present in West Asia, the US and Southeast Asia through partnerships.

This list of product innovations is not exhaustive, but what may surprise many is the range of offerings across categories. "What we are seeing here is not vertical growth, but a broad-based foundation from where India can establish itself as leading player in the IT hardware space. The



**SHREEKANT PAWAR**  
CTO, Diabeto  
**Smart device to track  
diabetes with smartphones**



## THE EARLIER HARD NUTS

### THE INITIAL RIGOUR

**1. In 1950**, Prasanta Chandra Mahalanobis and two of his students, Samarendra Kumar Mitra and Soumyendra Mohan Bose, started designing calculators. By 1955, the team had developed India's first analogue computer to solve linear equations at the Indian Statistical Institute (ISI) in Kolkata. The machine was built from material collected from war surplus depots and scrap markets, and certain parts of the machine were cast at the ordnance factory in Cossipore, Kolkata.

**2. In 1958**, the ISI and the Department of Electronics and Telecommunication Engineering at the Jadavpur University indigenously built a transistor-based second generation computer, the ISIJU-1.

**3. In 1959**, India's first full-scale electronic digital computer, TIFRAC, was built under the careful watch of Dr. Homi J. Bhabha by Rangaswamy Narasimha, who held an MS in electrical engineering from California Institute of Technology and a doctorate in mathematics from Indiana University, US, and his team of engineers, at the Tata Institute of Fundamental Research (TIFR) in Mumbai.

### THE HARDCORE '80S

**1. In 1976**, HCL started manufacturing computers. It became a major player in microcomputer manufacturing as mainframes were gradually phased out after the exit of IBM in 1978. During the 1980 elections news agency UNI collaborated with HCL to instantly analyse the results - a first-of-its-kind computer application in India.

**2. In 1980**, Wipro, a consumer goods major since 1945, diversified into IT, and established itself as a tech hardware major by the end of the decade, manufacturing CT scan, ultrasound and x-ray systems, PCs and laptops, among others. In 2013, it sold its hardware business.

**3. In 1985**, Infosys created two separate hardware units. Infosys Digital Systems rolled out the Electronic Telex Machine and Electronic Keyboard Concentrator for Indian Post and Telegraph Network. Infosys Manufacturing Systems produced numerical control machines and systems.

sheer variety of innovations is encouraging," says an industry source.

### Lost Opportunities

In the past there have been several attempts to make India a robust electronics hardware manufacturing hub, but without much success. However, the pioneering work at the country's premier space research organisations, the indigenously-built rockets and satellites, its space programme or its nuclear capabilities, are a case in point to India's talent pool and what it could have achieved at a fraction of the cost of what developed nations spend on research and development.

In 1955, India's first analog computer was built at the Indian Statistical Institute in Kolkata, and six years later the first digital machine was developed at the Tata Institute of Fundamental Research in Mumbai.

Between 1961 and 1978, however, IBM went on to capture over 80 per cent of India's market share by catering to the country's burgeoning hardware needs, as it tried to catch up with technological advancements in the West, neglecting its own research initiatives. The much-touted IBM 1620 and IBM 7044 found place in the Indian Institutes of Technology. Refurbished models were assembled and part manufactured in Indian units and then phenomenally high annual rentals were charged. For example, the IBM 1401, which was sold at \$1,200 in the US, was rented out to Indian institutions at \$20,000 a year.

As the IT giant shut shop in 1978, emerging Indian companies started dabbling in the hardware manufacturing space setting up R&D units. The 1980s saw the emergence of Infosys, Hindustan Computers (now, HCL Technologies) and Wipro, with notable contributions to hardware manufacturing, only to move away to the more lucrative software services sector by 1988. What remained of the product business was negligible.

Source: *The Outsourcer - The Story of India's IT Revolution* by Dinesh C. Sharma







See interview with Samay Kohli & Akash Gupta at [businesstoday.in/greyorange-founders](http://businesstoday.in/greyorange-founders)

## The IT Services Lure

The \$146-billion Indian IT industry has grown at a quick pace. From \$5.7 billion in 2000, the IT services sector is estimated to earn \$110 billion-112 billion in 2015/16 from exports alone, according to industry group Nasscom. Today, the IT industry contributes about 9.5 per cent to the country's gross domestic product (GDP) and has provided over three million people with high-paying jobs. And, over time, Indian companies emerged as global giants.

In the first 10-12 years of the dot-com boom of 1997/2000, most Indian companies worked in areas of embedded software, integrated circuit (IC) design and firmware to help international players build products, but kept away from the products segment. And, with good reason. IT services was a lucrative business. Capital required was minimal and the segment did not carry undue risks. Executing orders was more stable than trying to innovate, and process innovation was easier than product innovation.

However, now that the IT services sector has become mature, a number of experienced veterans as well as hungry start-ups led by young minds have started experimenting in the hardware space. The initiatives may still be wrapped around software and, in some cases, services, but what is interesting is that product innovations in hardware is becoming a norm rather than an exception.

According to Nasscom, India has the third-largest and fastest-growing start-up ecosystem in the world with over 800 technology companies cropping up every year. A number of hardware start-ups are among them.

Mohammed Hussain Naseem, co-founder and CEO of 2mpower Health



**SAMAY KOHLI & AKASH GUPTA**

Co-founders, Grey Orange Robotics  
Serving "Butlers" to Japan

SHEKHAR GHOSH

Management Services, attributes it to "a huge mind shift".

"Appetite for risk taking has gone up considerably," he adds. Naseem, a

GE and IBM veteran, sells GetActive wearables designed and developed by an Indian company, which helps people track their fitness. He says a

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number of factors have come together to make it propitious for product innovation in the country. But hardware design and development is still a tough challenge to crack.

## The Soft Underbelly Of Hardware Manufacturing

To understand why product hardware is hard, meet Rohan Shravan, the CEO of Notion Ink. In December 2010, Shravan launched Adam, one of the first tablets on the Android platform, which was well received by the global media for its polished looks, unlike the crude Chinese tablets. There were even comparisons with Apple's iPad and Notion Ink was poised to take off.

However, when the units were shipped, it came as a disappointment on multiple fronts, including build quality, absence of the latest Android OS iteration and controversies related to shipping. Shravan, who has built the company with his own funds, says: "It is easy to criticise something. Remember, in India, there was no proper computer numerical control tooling, plastic injection moulding and there was nobody to handhold a hardware start-up. Unlike a software or a services startup, it is capital-intensive. You have to build and sell a product before you make your first rupee. There was no mentorship. The challenges were enormous."

Apte of CarlQ agrees: "There are no prototyping labs, no testing facilities and the mistakes you make can be very expensive. If an iteration of a product doesn't work, it has to be just thrown away. It is not a piece of code which can be rewritten."

Skanray Managing Director, Vishwaprasad Alva, too, believes hardware devel-

opment in India is not for the faint hearted. Skanray manufactures X-ray machines that cost a third of what is charged by its multinational competitors. Says Alva, a veteran of GE and Kirloskar Healthcare: "I used to have close to a 100-member product development team at Kirloskar Healthcare and we did some good work in developing indigenous technologies. However, the success of the services industries meant that it took away my best talent. Today, of my original team, more than 90 per cent are in services sector. India's success in services has been a curse and a double-edged sword."

Sudheer Reddy, the CEO of Jay Robotix, believes lack of access to capital has also hindered growth of product hardware companies in India. Blaming venture capitalists, Reddy says: "They are ready to fund the 100th iteration of an e-commerce idea, but will not back a 'risky' hardware start-up. Where are the product hardware funds and accelerators for this segment of companies?"

Also, when product hardware

companies are discussed, most people think of them as hardware manufacturing, which is a different story altogether, points out Pinkesh Shah, Director of Product Leadership Institute. Shah says China is way ahead in electronic manufacturing services. "Apple does not manufacture its phones in America. The iPhone is, however, designed, developed, marketed and branded in the US. So, India can have successful product hardware companies without necessarily always having to manufacture them here, though it would be good if we did."

He, however, says: "Unlike earlier, what has changed now is that we are ready to offer an integrated bundle which includes hardware, software and services."

## The Changing Terrain

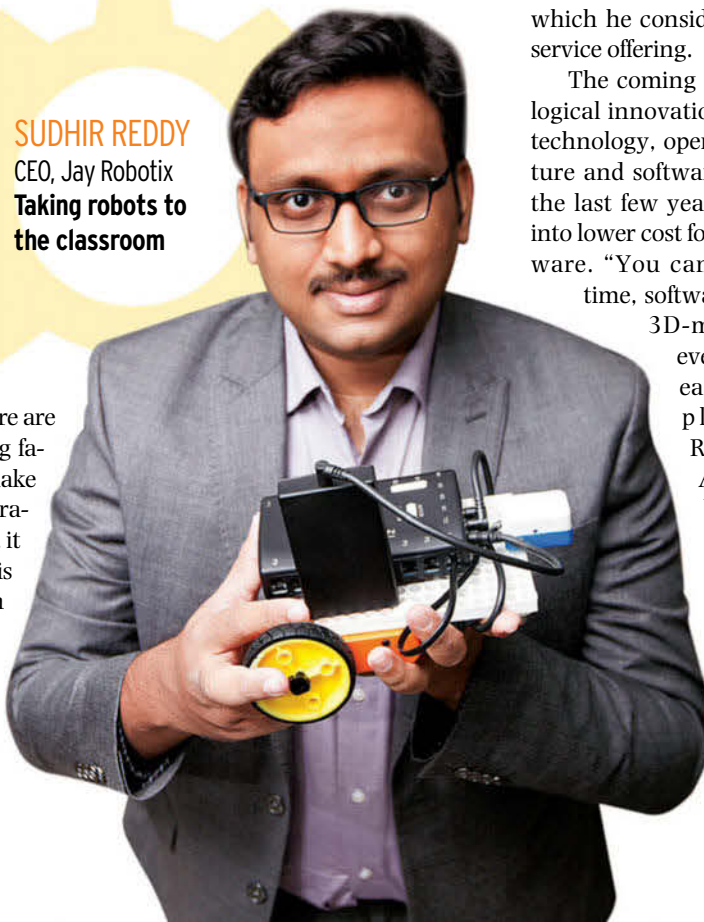
Vishal Gondal, 38, is the right person to turn to when it comes to the changed scenario that has made Indian start-ups tackle product hardware successfully. Gondal started Indiagames before cashing out and selling it to Disney, and now makes GoQii, a wearable device which he considers a fitness-as-a-service offering.

The coming of several technological innovations, such as cloud technology, open-source architecture and software as a service, in the last few years, has translated into lower cost for developing hardware. "You can just rent server

time, software and you could

3D-model things, or even 3D-print things, easily. Experimental platforms like Raspberry Pi and Arduino have boosted opportunities and confidence. The playing field is a bit more level today for Indian companies," says Vishal.

**SUDHIR REDDY**  
CEO, Jay Robotix  
**Taking robots to the classroom**







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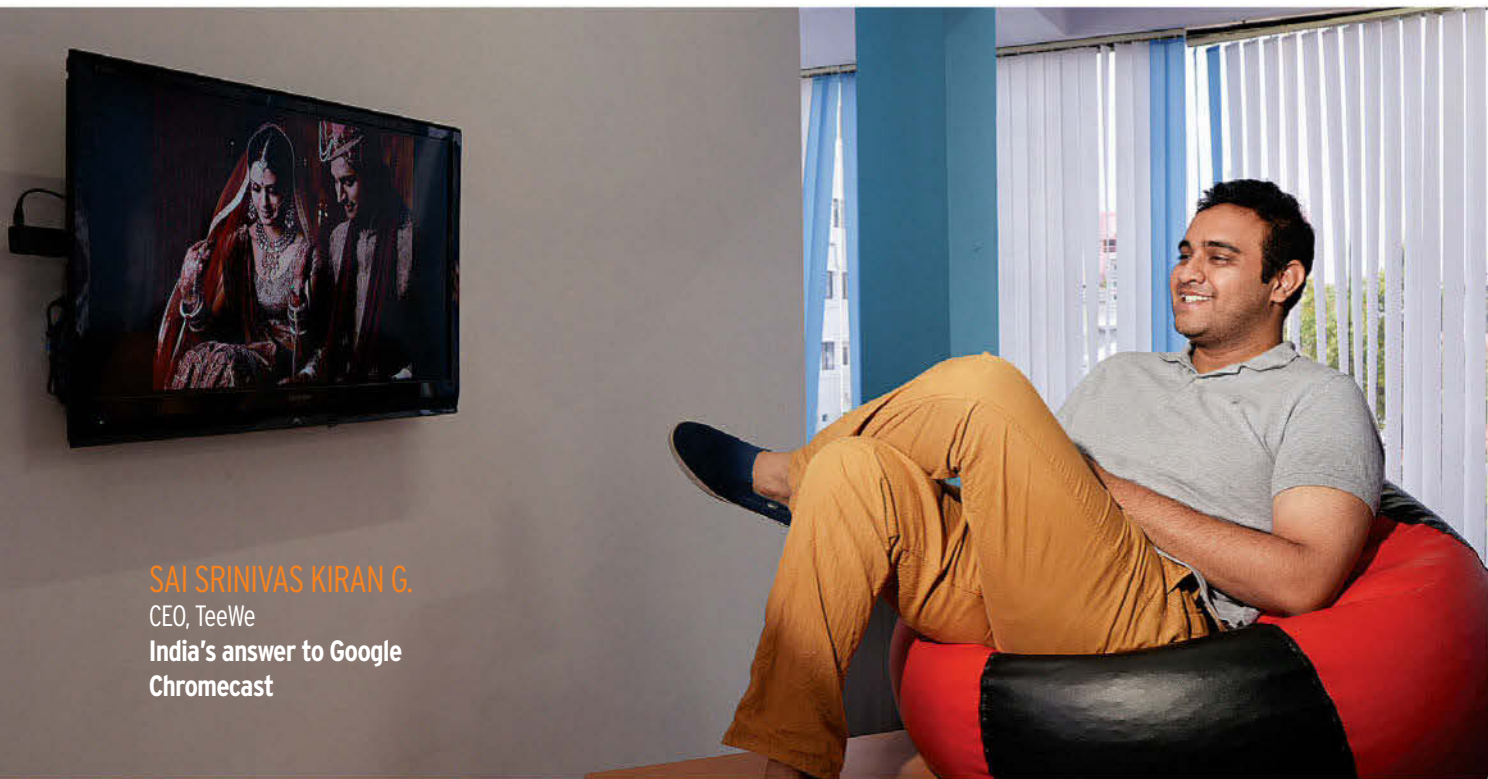
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PRESENTS



September 19, 2015



**SAI SRINIVAS KIRAN G.**  
CEO, TeeWe  
India's answer to Google  
Chromecast

DEEPAK G. PAWAR

Investments by well-heeled angels and select venture capitalists have eased the capital access issue as well, but not fully, says Apte. Mentorship of organisations, such as iSpirit and TiE, which have championed their cause, seems to have also boosted the confidence of product companies.

While India does not have a robust EMS (electronics manufacturing services) base, which can support mass manufacturing, a number of maker labs have emerged. These help in rapid prototyping, fast experimentation, tooling, laser cutting, mould making and product validation. 3D printing has further boosted the whole process.

A growing domestic market, the capability to take higher risks, rise of Internet of Things, software as a service, cloud technologies, open source architecture, 3D printing, improved access to capital, mentorship and industry bodies advocating their cause, have played an important role to boost product hardware companies

in India. Says Lathhe of Sensegiz: "India has always done well in applied innovation. Now Indian companies are building IP, too, and 90 per cent of our sales come from international markets."

### Future Unicorns

Verma of Livebraille says it is only a matter of time before Unicorns emerge from the product hardware ecosystem in India. "We will have our own Flipkarts and Olas in the next few years." The CTO of Diabeto, a medical device to track health parameters, Shreekant Pawar, says that hardware which had been ignored for long in India is getting its mojo. "Doing hardware is seen as sexy."

Naseem of 2mpower says government should play a role in enabling the success of product hardware companies as this could lead to manufacturing. "Whether it is South Korea, Taiwan, China, Singapore or Malaysia, governments have played a proactive and positive role. If the new government with its Make in

India initiative gives a push, there is no reason why we cannot build brands out of India in this space."

Sanjay Swamy, Managing Partner of Prime Venture Partners, who has led and now invests in start-ups, says: "Venture capitalists from around the world now realise that hardware, as part of an overall solution, is no longer a liability. Instead, it could well become a competitive differentiator for a company. While this is still nascent in India, I expect to see more action on the hardware front. I wouldn't be surprised if dedicated funds to invest in hardware-centric start-ups crop up in India in the near future, even as existing VCs take measured bets in the space."

For a country accustomed to success only in services, the next few years are poised for a boom in hardware innovation with the new breed of Indian start-ups conquering not only the domestic market but also taking the fight to foreign shores. ♦

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**Path-breaking research:**  
Bugworks CEO Anand  
Anandkumar with his team

NILOTPAL BARUAH





# India's Drug Warriors



Indian companies have joined the global hunt to discover new antibiotics. The good news is that they are steadily moving ahead. **By E. KUMAR SHARMA**

**I**t is turning out to be a serious health scare. With bacteria fast developing resistance to existing antibiotics, we may soon reach a stage where a simple bruise may prove fatal. What is making things worse is that no new antibiotic has been discovered for bacteria that have developed resistance to some currently available antibiotics. This seems set to change.

In India, a bunch of bravehearts, knowing well that drug discovery is 'high risk, high reward' game, is doing extensive research to discover the next big antibiotic. They know that there are no clear timelines for drug

discoveries. They know that the failure rate is high. But they are passionate about their work. If things go as planned, a new antibiotic for multidrug-resistant infections based on a made-in-India compound will hit the market by 2023.

"We have four programmes and hope to reach proof-of-concept in the target population by 2018. We could then, it not earlier, out-license the molecule to a global company for

**\$500** **MILLION**  
Amount a company has to spend to develop a new drug and launch it in the market

## “WE HAVE FOUR PROGRAMMES AND HOPE TO REACH THE PROOF-OF-CONCEPT IN HUMANS IN THREE YEARS”

**RADHA RANGARAJAN**, CEO, Vitas Pharma



milestone payments and royalties as it takes it up for further development,” says Radha Rangarajan, the CEO and co-founder of the Hyderabad-based Vitas Pharma. Such out-licensing is a common practice in the pharmaceutical industry, as further development of a molecule, till the time it hits the market, is a very costly affair. The risk of failure, too, is high.

The nine-member Vitas is working on developing the next-generation antibiotic for multidrug-resistant infections. These infections kill lakhs of people globally. The problem — a result of misuse of antibiotics — is so acute that even simple infections that were easily treatable in the past are becoming life-threatening (See *Antibiotics: A Short History*).

Vitas has got seed funding from the Indian Angel Network and two grants from the Biotechnology Industrial Research Assistance Council. It also has a research collaboration with Biocon. The drug is at the toxicology study stage (in which scientists look at the adverse effects in living organisms), though Rangarajan is hopeful that next year the company will be able to file for an IND (investigational new drug) application with the US Food and Drug Administration (USFDA), which could give the product QIDP status. QIDP, or Qualified Infectious Disease Product, is a fast-track ap-

## IT'S A LONG ROAD

The various stages of drug discovery take more than a decade

**PRE-DISCOVERY:** 5,000-10,000 compounds are tested

**PRE-CLINICAL TESTING:** Involves shortlisting of about 250 compounds; lab and animal testing. The first two stages take three to six years.

**CLINICAL TRIALS PHASE 1:** Initial testing in a group of 20-100 healthy volunteers

**CLINICAL TRIALS PHASE 2:** Testing in a group of 100 to 500 patients

**CLINICAL TRIALS PHASE 3:** Testing in a group of 1,000-5,000 patients to show safety and efficacy. Clinical trials take six to seven years.

**FDA REVIEW:** Filing of new drug application with the USFDA, which takes up to two years to approve a drug

**MANUFACTURING:** Production of the new medicine

**POST-MARKETING SURVEILLANCE:** Monitoring the drug in the larger population to detect side effects

proval programme of the USFDA for new antibiotics. “Radha and her team have been working a lot in this space. I extended my support as it is important for India to do something in this area,” says Biocon Chairperson and Managing Director Kiran Mazumdar-Shaw.

In Bangalore, Shaw’s home town, a 15-people team of Bugworks has been working on drug-resistant and hospital-acquired infections since January 2014. “Our product is at an early stage but the results look exciting, though we are still some time away before we can say that we have a strong chemical compound,” says CEO Anand Anandkumar. “By 2019, we hope to reach the stage of early proof-of-concept in humans,” he says. He says they are also working on bio films, a chemical for coating biomedical devices so that these do not catch infections and spread them on to patients.

There is no fixed timeline for approval as it depends upon the product and the USFDA policy for the therapy segment it belongs to. Though the average time taken for drug discovery is 10 years (See *It’s a Long Road*), in case of new antibiotics, after Phase II, it could take three to five years (three for clinical development and two for approvals), as are under the QIDP programme.

What makes these developments important is that almost no big cash-

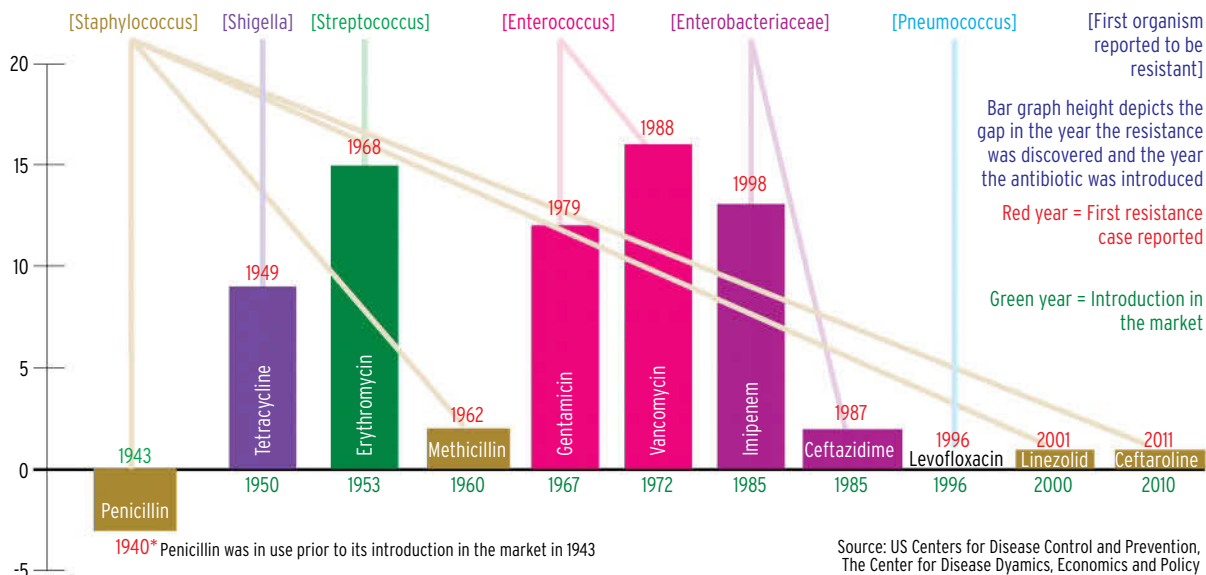
Source: Pharmaceutical Research and Manufacturers of America







## ANTIBIOTICS: A SHORT HISTORY



rich Indian pharmaceutical company is investing in basic research in this field. “It is difficult for generic companies, with 24 per cent EBITDA margins, unlike the 40-50 per cent margins that innovator companies earn. On top of that, the government wants to impose price control,” says a senior executive at a leading pharmaceutical company. Even worldwide, few companies are working on antibiotics, as they are not as profitable as, say, drugs for cancer and diabetes. This is because a course of antibiotics lasts just five days while medicines for diabetes and hypertension have to be usually consumed for life and, therefore, turn in more profits. The total global market for antibiotics is estimated to be worth \$40 billion.

This is not to say that Indian pharmaceutical companies are not doing basic research or have given up on new drug discovery. For instance, Sun Pharma Advanced Research Company is working in oncology, ophthalmology, dermatology and respiratory segments. It is working on new drug delivery systems and two



RACHIT GOSWAMI

new chemical entities (molecules), Sun k706 (for leukaemia) and Sun 597 (for dermatology). Both are at the pre-clinical stage. Glenmark, which has always seen itself as a drug discoverer, is doing research in pain, inflammation and oncology segments. Among the leading Indian companies, Wockhardt is arguably the only one focusing on the antibiotic space, where it has three compounds. In May this year, it said the USFDA had granted WCK 4873, from its new drug discovery programme, QIDP status. This is the third product from Wockhardt to get this status.

“There is a need for mission-oriented research in antibiotics with stronger commitment from the phar-

**“THERE IS A NEED FOR MISSION-ORIENTED RESEARCH WITH STRONGER COMMITMENT FROM THE PHARMA SECTOR”**

K.V. SUBRAMANIAM, President, Reliance Life Sciences

maceutical sector. A starting point could be making this a national priority, with the government partnering with some cash-rich pharmaceutical companies," says K.V. Subramaniam, President, Reliance Life Sciences. On why Reliance Life is not working in this field, he says, "We are focused on biological research. If there are opportunities from a biological standpoint, we will certainly look at them." Reliance Life Sciences is developing novel therapeutics for treatment of cancer, inflammation, and cardiac and neurology disorders.

Globally, though, there are signs of renewal of interest in antibiotics, with drug majors such as Merck and Roche re-entering the space. For instance, last September, the USFDA granted QIDP status to Merck's Relebactam, which is for treating complicated urinary tract infections.

Among the bigger Indian players, Dr. Reddy's, where Vitas' Rangarajan used to work earlier, is also looking at the field through Aurigene, an independent subsidiary based in Bangalore. Aurigene, which offers drug discovery services to global companies, has in its pipeline products that boost the immune system, which is one of the ways of fighting drug resistance. These are at the pre-clinical stage. The company is working on two anti-infective assets. Aurigene CEO C.S.N. Murthy says the company is doing this work on its own and hopes to get to the stage of early proof-of-concept in human in two years. It will then take a call whether to out-license it or develop it further on its own.

Then there is Cadila Pharmaceuticals, which has tied up with the UK-based Helperby Therapeutics. "Big Pharma has all but left the playing field in favour of more lucrative treatments for long-term conditions and it has been left to fledgling drug discovery companies such as Helperby to try to fill the void," Professor Sir Anthony Coates, Chief Scientific Officer, Helperby, had said

## GLOBAL VIEW

Some MNCs have also got into the act

Some global drug makers are also working on new molecules for antibiotics. For instance, GlaxoSmithKline has discovered a compound for dealing with respiratory tract and skin & soft tissue infections. It is in Phase II of clinical trials.

Merck, known as MSD outside the United States and Canada, has found a compound, relebactam (previously called MK-7655), for treatment of complicated urinary tract infections, abdominal infections and hospital- and ventilator-acquired bacterial pneumonia. It is in Phase II clinical trials.

In January this year, Swiss drug maker Roche said it had entered into a licence agreement with Meiji Seika Pharma and Fedora Pharmaceutical to develop a compound for increasing the ability of some antibiotics to fight bacteria.



in July 2014. Helperby "has discovered the world's first antibiotic resistance breaker, which is currently in development under license by Cadila Pharmaceuticals," he said. An antibiotic resistance breaker is combined with an obsolete antibiotic to rejuvenate it and make it active against highly-resistant bacteria. Cadila is taking the compound through further clinical trials.

The money, too, is flowing in, though it may not be enough. "We

have raised \$750,000 through angel funding and are in talks with venture capital firms and a large pharmaceutical company to raise a million dollars. The \$1 million should get us to the animal proof-of-concept stage. After that, we will need another \$5 million to take our assets to the human proof-of-concept stage," says Anandkumar of Bugworks. "We have three assets that look interesting, though we can put money in any one at a given point in time," he says. He adds that a lot of companies are also looking even at a pre-clinical licensing deal due to the growing threat of superbugs, strains of bacteria that have become resistant to antibiotic drugs.

Even the government is pitching in. Anandkumar says they have received two grants from the Department of Biotechnology with a total ticket size of ₹90 lakh, or \$150,000, over a two-year period. However, this is much less than what is needed. According to a study by the Tufts Center for the Study of Drug Development, the discovery of a new drug is estimated to cost \$2.6 billion. But those working in this field say it is not that high. "Since the failure rate is more than 93 per cent, companies load costs of all failures against one success. But I still think you need \$500 million from inception to the time the drug is fully out in society," says Anandkumar. Rangarajan of Vitas Pharma says "the cost of early clinical development varies depending on whether it is a big pharmaceutical company or a small biotech player. For antibacterials, this work can be done for less than \$10 million depending on where the trials are conducted, the infections chosen and the time taken for regulatory approvals."

No matter what the costs are, it is important for humanity's survival that these companies succeed. ♦

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# THE FUTURE OF FARMING

Information and communication technologies may just usher in the second green revolution in India.

By SARIKA MALHOTRA

**K**ishor Jagtap, Project Manager at the M.S. Swaminathan Research Foundation (MSSRF), is working on a novel initiative in rural Maharashtra. His team is working with Digital Green, an international non-profit development organisation, to spread the use of clean technologies among women farmers in the Wardha and Yavatmal districts of the state.

MSSRF rolled out the Digital Green model – video-based demonstration of the best farm practices – in 2013 across 30 villages in these two districts. Buoyed by the initial response, the outfit has scaled up the programme, reaching out to almost 3,300 women farmers in some 60 villages in the region. “There is a sense of identification. The fact that they can see women farmers like themselves being featured in these videos makes them believe that they too can adopt best practices and benefit from them,” says Jagtap. “Also, these model farming techniques are shared very clearly, narrated through a story in a step-by-step manner in Marathi, which makes it easier for them to replicate on their farm.”

Today, Digital Green reaches 7,645 villages across Rajasthan, Karnataka, Madhya Pradesh, Andhra Pradesh, Telangana, Maharashtra, Odisha and Bihar. It has already made and disseminated 3,782 videos. Rikin Gandhi, CEO, Digital Green, says that they essentially work with agencies already training farmers. “We then serve as a trainer of trainers to build the capacity of their field professionals and community-level intermediaries to produce and share locally produced videos. The communities are both creators and consumers of knowledge products such as digital videos.”

Indeed, Digital Green’s initiative is one among the several underway in India to promote low cost, sustainable and organic agricultural practices among farmers. All this is planned with the extensive use of information and communications technologies (ICTs). The efforts are geared towards





**Harnessing technology:** Video production of women farmers sowing paddy seedlings at Thane district in Maharashtra. The MSSRF and Digital Green initiative records best farm practices to spread the use of clean technologies

RACHIT GOSWAMI

decreasing the dependence on chemical fertilisers and pesticides, while also reducing input cost and ensuring the farmers get more yield per acre of cultivation. “This also helps improve the quality of soil and dependence on water intensive chemical-based farming,” says Gandhi.

Wardha and Yavatmal, for instance, are rainfed areas and the farmers grow cotton, soyabean, *toor dal* and *chana*. Farmers in the region are heavily dependent on rain and chemical fertilisers and pesticides. Here, one of MSSRF’s key focus has been on promoting sustainable agricultural practices, seed management, pest and nutrient management and other post harvest best practices. “Over time, farmers have started to understand the adverse impact of using excessive chemical fertilisers and pesticides on soil fertility and crop’s harvest and nutrition, and have now started using alternatives such as organic compost etc.,” says Jagtap. And the impact is visible. The cost of cultivation has gone down in the project area by 20 per cent. The input cost of soybean, traditionally around ₹10,000 per acre, has now plunged to ₹7,000 to ₹8,000 per acre while for cotton it has gone down from ₹12,000 to ₹8,000-₹9,000 per acre. In addition, judicious use of chemical fertilisers and pes-



ticides has improved the water retention capacity of the soil. "This year, despite a long dry spell in the monsoon period, the crops have survived and are still standing," says Jagtap.

## Multiple Challenges

Rajat Wahi, Partner, Management Consulting, KPMG, says that Indian agriculture is facing multiple challenges. "On one hand there is stagnant acreage and yields. In addition, water stress is taking a toll with per capita water availability likely to fall year on year," he says. "Also, unsustainable usage of inputs, especially inputs application skewed towards urea is leading to soil fatigue and lower yields". Soil nutrition depletion is becoming a cause of concern and "so the use of clean technology in the context of India's agriculture is becoming even more relevant," adds Wahi.

Clearly, experts believe the time has come for large-

duction of water and fertiliser usage by up to 40 billion cubic metre and 1.5 million tonnes, respectively, according to industry estimates.

Already, innovative companies are building solutions to improve small and marginal farmers' access to timely and relevant information. Mobile phones, with their growing penetration of rural India, are becoming the fastest and most cost effective way to disseminate clean technology. Leveraging the mobile platform is Ekgaon, a Delhi-based technology and management services company. The company, through its OneFarm advisory services, is reaching out to farmers in Madhya Pradesh, Chhattisgarh and Tamil Nadu. Vijay Pratap Singh Aditya, CEO of Ekgaon, explains that farmers have customised need for information based on the soil type, local ecosystem and crop. Small farmers do not have access to latest agro-technology and hence adopt farm practices



Farmers checking weather advisory on their phones at Rajawas village, Jaipur

scale adoption of clean technologies. Such technologies can be both basic – such as drip irrigation, rainwater harvesting and natural pesticide use – to more sophisticated – such as precision agriculture and reprocessing technologies. Experts believe that no matter what the clean technology is, ICTs would play a pivotal role in disseminating them to more than 55 per cent of India's population which is dependent on agriculture.

"As ICT becomes more accessible to the farmer, with the penetration of mobile networks and through the Digital India initiative, the potential coverage and benefits are expected to become more significant for the agriculture sector," says Wahi. It is estimated that mobile and smartphone-enabled information services alone can reach up to 67 million farmers by 2020. It would result in an additional \$8 billion revenue for these farmers and a re-

which are usually not optimal, leading to soil depletion, excess use of fertilisers and water. "Agricultural inputs such as pesticides and fertilisers impact the soil health and affect ground water or water bodies. However, the risk of that can be reduced through timely farm advisory services which can reduce the use of fertilisers, pesticides while promoting a very rationalised and appropriate use of the same," says Aditya.

OneFarm advisory service is based on facilitating information on 'when I need' delivery model, thus handholding the farmers during the cropping season. A farmer is charged ₹150 for a crop in a season and is provided services such as weather forecast, crop management, soil nutrient management, disease alert, and market prices in local languages on their mobile phones. The advisory is customised for every farmer. Interactivity is enabled in the



system to monitor usage of advisory by the farmers – a farmer confirms using advice provided by sending an SMS. “Our impact studies show that the services have improved livelihoods of farmers by helping them reduce agri-input costs by up to 30 per cent and increase productivity by 15 per cent, thus cutting down on wastage at every step,” says Aditya.

## Betting on Mobile Apps

With smartphone sales surging, mobile apps too are expected to playing a vital role in spreading awareness about clean technologies in agriculture. Karnataka-based Jayalaxmi Agrotech Pvt Ltd is developing apps to bridge the information gap among farmers. “Due to the information gap, farming has become ‘input intensive’ and ‘less knowledge intensive’. Illiteracy and language diversity are major bottlenecks in information dissemination,” says Anand Babu, co-founder of Jayalaxmi Agrotech.

The company has developed 30 mobile apps for agricultural crops (such as pomegranate, banana, potato, onion, etc.) and even for animal husbandry, and these apps are being used by 20,000 farmers since their launch last year. “Our applications are crops specific. Farmer can choose a crop of interest and download on the android phone either from Internet or from peer to peer transfers. This makes the app very light weight and hence can work on any basic android phone, says Babu. “These apps have audio visuals and are designed to break the literacy barrier. Once downloaded, they can work offline and hence there is no recurring data or Internet cost.” While smartphone penetration is good in rural areas, Internet penetration is still quite low. Hence, they get very few downloads from Internet. Maximum downloads come from farmer to farmer transfers.

Once downloaded, the farmer gets information about the varieties of a crop, seasons to grow them in and the optimum quantities of fertiliser, water and pesticides to be used. Babu says that 90 per cent of farmers are not aware of fertiliser dose calculation procedure it leads to erratic use of chemical fertilisers spoiling the soil fertility. “The app has inbuilt intuitive fertiliser dose calculator. It recommends the optimum use of fertilisers. It also helps farmers in measuring important elements such as sunlight, altitude, etc using their mobile.” The apps also educate farmers on symptomatic diagnosis of crop dis-

## THE GOVT STEPS IN

The Indian government too is waking up to the potential of information and communication technologies (ICTs). It is keen to use them extensively to reach out to the nine crore farm families. It has, in partnership with the states, zeroed in on a host of ICTs to introduce clean technologies in rural India. These include Internet, touch screen kiosks, agri-clinics, private kiosks, mass media, Kisan Call Centres, and integrated platforms in the departmental offices.

However, the government is most enthused by mobile telephony. With over 38 crore mobile telephone connections in rural India, officials believe it is the most effective medium to ensure the spread of clean technologies. It is trying to leverage mobile messaging in a big way. An SMS portal was launched in July 2013 and since its inception nearly 210 crore messages have been sent to farmers across the country.

eases and managing pest emergence along with early precautions. As a result, overall usage of pesticides has come down.

According to a preliminary survey conducted by the company on app users, overall agri-input cost was pared by 14 per cent and productivity increased by 17 per cent. Indeed, superior quality of sugarcane has been reported by some of the sugar factories in North Karnataka region (where they have highest number of app users). “Our analytics platform tracks the farmer app usage patterns,” says Babu.

Interestingly, these ICTs are also introducing farmers to new crops. They were not being grown earlier due to lack of information. For example, in Belgaum and Bagalkot districts of Karnataka farmers predominantly grew sugarcane but things are gradually changing with the growing popularity of the apps developed by Jayalaxmi Agrotech. “Despite friction between farmers and sugar factories, farmers were not able to switch to other crops due to lack of knowledge,” says Babu. “Since we launched our agriculture apps, we have been noticing a gradual shift. Several farmers in two districts are not just downloading other crop apps but have also started growing them.”

Jayalaxmi Agrotech’s apps are reaching one new farmer every eight minute, according to Babu. Clearly

no agri-extension programme can ever spread at this rate. No wonder then, experts believe that a second green revolution in India will be facilitated by ICTs and revolutionise Indian agriculture. Even in the case of precision agriculture, which uses modern technologies such as geolocation and remote sensing, ICTs will play a key role in disseminating best practices. “Karnataka State Agriculture and Horticulture Department has 10,000 plus field staff who are equipped with smart phones. If they include our agriculture mobile app dissemination as a part of their agri-extension programme, and even if each staff transfers the app to three farmers a day (through Bluetooth), 30,000 farmers across the state will become digitally literate every day. This will lead to the next green revolution,” sums up Babu. ♦

@sarikamalhotra2



Sanjay Mehta, MD of Teleperformance India, with employees in Gurgaon. He believes the fabric of HR needs to change



PHOTOGRAPHS BY VIVAN MEHRA



# THE COMPANY THAT KILLED

# HR

Why Teleperformance,  
a global outsourcing firm,  
decided to drastically  
remodel its people function.

By CHITRA NARAYANAN

**T**hree years ago, Sanjay Mehta, the suave Managing Director of Teleperformance India, decided to do something fairly radical for the company of over 5,000 employees. He closed down the Human Resource (HR) department.

HR practices have always come in for a fair bit of scrutiny. Take the way Accenture recently belled the assessment cat. It dumped the statistics-driven bell curve performance appraisal system terming it unfair. But it's rare that a company actually bumps off the whole HR department itself. More so when it is a people-centric BPO business.

Well, to be fair, Teleperformance did not kill the important tasks that the HR function does – it just totally rewired the HR structure.

The fabric of HR needs to change, believes Mehta. When there is an overdrive of process, it kills experience, he says. This is why the Indian arm of the \$3.7 billion global outsourcing firm decided to take a hard look at its people practices. Mehta describes how there was a yawning gap between the demands and expectations from the HR function. For instance, talent retention was a big challenge in an industry marked by high attrition levels, led primarily by a young team with average age of 18 to 25 years. “There was a gap between the expectations and delivery to nurture talent in the organisation. In our industry, retention of the talent is just as crucial as acquiring the right

kind of talent from the available pool,” he says.

The company began introspecting on how it could rewire its HR. “What does HR do? Manage talent and also take care of administrative processes like payroll and so on,” says Mehta.

So much like the suggestion of management guru Ram Charan, who, in a compelling *Harvard Business Review* (HBR) article written in 2014, had advocated that the HR function should be split into two. Teleperformance ruthlessly engineered the divide.

It handed over the payroll function to finance. And the role of the HR function was redefined as talent excellence guardians. This included acquisition, engagement, care and retention of employees.

“We rewired HR to talent excellence in 2012 prior to this article. There was no personal advice or external advice. Just seemed the right thing to do basis employee centricity to advance employee experience,” says Sanjay Mehta.

Now came the task of finding a team of people to handle the task of talent management. Only somebody who had been through the operations of Teleperformance, and had been an agent himself could understand the needs and issues of the employees, it was felt. So, a Teleperformer who was in the thick of operations – Amandeep Singh Arora – was handpicked and brought in as Vice President-Talent Excellence in 2012.

Arora describes how he had been with TP India

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**Amandeep Singh Arora** (standing) with employees. Arora was handpicked and brought in as Vice President-Talent Excellence in 2012

for almost 13 years, starting out as an agent, and then working across functions, including in the training department. He was senior manager for operations when he was chosen to front-end talent both retention and acquisition. "I had experience of doing 90 per cent of the tasks that our organisation does," says Arora.

His brief was simple: as somebody who had lived, practised and felt what the agents did in the organisation, he had to map out their needs and aspirations. "Essentially, I was putting all the journey I had in the organisation on a new canvas," says Arora.

So how did he and his team of seven (five handpicked from operations) re-engineer it? "There was nothing special really that we did," says Arora. "What we did was proper listening to understand what our agents wanted, what are their concerns, what do they look forward to."

## Listening Hard

Today, as all scores show that both employee engagement and productivity have risen multifold, Arora feels the biggest contributing factor was the way they set about providing avenues for people to listen to each other.

Town halls that much feted and talked about engagement tool were junked. As Mehta points out, like everybody else Teleperformance too had earlier held town halls but soon found out that nobody really shared serious grievances during such assemblies.

So in its place personalised CEO chat sessions were arranged. Mehta would meet employees in small batches of 15 to 20 people. Forty sessions were held last year (2014) and about 900 of the 5,000-odd employees got to chat and share their wants and aspirations.

But even this was not deemed enough. So in a clever twist, Teleperformance used its core strength call cen-

tre operations to create a standalone channel for its employees. You could call it a call centre for its own employees.

With the employee care (e-care) ticket channel, the lines were opened for all its 5,000 employees across three sites and four offices to log in and voice whatever they felt. "It was a real-time pulse check of what people wanted," says Arora.

Six thousand tickets came in last year and ranged from complaints, suggestions, fresh ideas on issues ranging from integrity, salary, food, travel, facilities and so on. "From ideas on training needs to basic hygiene issues, we started getting a lot of feedback," says Arora.

Managed like a mini call centre for employees, the e-care ticketing system was connected to the intranet of the organisation, where employees could log-in to 'My zone' and post an e-care request. A round-the-clock system, e-ticketing is managed by a team of eight whose responsibility was to provide first resolution within 24 hours of a ticket being raised, and case closure in 72 hours.

A daily report (Voice of Internal Customer Report) is prepared and shared with the MD (Mehta), CFO and heads of various departments, so everybody is in the loop and listening in directly to employees.

So what have been the learnings from rewiring the HR at Teleperformance? Arora says while listening was key, the other big learning was not to create unnecessary processes for the sake of processes. Instead, understand what the business is all about and work to optimise it.

As Mehta sums up, HR systems should be the icing on the cake, but if the cake is not there, then where is the fun. ♦

@ndcnn

# Taking on the **Goliaths**

**A. MAHENDRAN**  
Founder, Global Consumer  
Products Pvt Ltd

**"Building  
brands, scaling  
brands is what  
excites me"**





## FMCG veteran Arumugham Mahendran has big ambitions for his start-up that will compete with the likes of Nestle and Cadbury. By VENKATESHA BABU



he headquarters of Global Consumer Products Pvt Ltd (GCPL) is located in a new, yet-to-be-finished multi-storied complex in an old, central part of Bangalore. The office location is an apt metaphor for the ambitions of the company's founder, Arumugham Mahendran, an old hand in the fast-moving consumer goods industry who is building a new FMCG company from scratch.

Mahendran has impressive credentials over a three-decade-long career in the FMCG sector. He started Transelektra Domestic Products Ltd, which popularised the Good Knight and Hit brand of pest-control products, before selling it to Godrej Group and running it for them. He led the Godrej Group's joint venture with the US consumer goods company Sara Lee, the maker of Bryl creams and Kiwi polishes. He helped set up Aadhaar Retailing, a JV between Future Ventures and Godrej Agrovet, and was also on its board. And he ran Godrej Consumer Products Ltd from July 2010 till June 2013, during which period its revenues tripled to ₹6,000 crore, mainly from integrating some other Godrej group companies but also from organic growth.

Clearly, Mahendran knows how to build and grow FMCG brands. And that's what he enjoys the most, especially when the brands are his own babies. "I have never believed in

### QUICK FACTS

#### Global Consumer Products

**STARTED:** December 2013

**FOUNDER:** Arumugham Mahendran

**BUSINESS:** Foods and beverages; has already launched chocolates

**PLANS:** To launch fruit juices, packaged water, health drinks, ready to eat/cook products, snacks

**TARGET:** ₹1,250 crore revenue by 2020

**FUNDING:** \$50 million by Goldman Sachs and Mitsui Global Investment

#### GCPL'S PRODUCTS AND ITS MAIN RIVALS

**CHOCOLATE:** Cadbury (70% market share), Nestle (16%), and others including Amul, Ferrero, Hershey

**FRUIT JUICE:** PepsiCo's Tropicana, Dabur's Real and Hector Beverages' Paperboat

**DRINKING WATER:** PepsiCo's Aquafina, Coke's Kinley and Bisleri

working for somebody," he says. "Even when I led several companies in the Godrej Group, it was always as a partner and never as an employee. So in that sense I have always been an entrepreneur, an 'intrapreneur' maybe, having stakes in all the companies I have helped build and run. Building brands, scaling brands is what excites me."

Mahendran, a qualified chartered accountant, set up GCPL six months after leaving Godrej Consumer. His great track record soon attracted global investors. Goldman Sachs and Mitsui Global Investment put in \$50 million (₹315 crore) in GCPL in early 2014. While doing market research and planning the company's product portfolio over the next year, Mahendran built a team to lead the company. Anuradha Narasimhan, a Britannia veteran, was brought in as head of sales and marketing, Kamal Kumar Aggarwal was hired from Ferrero to head human resources and finance, while Ajay Kumar came from Cadbury to head R&D.

But why did Mahendran part ways with the Godrej Group? In fact, his decision to quit Godrej Consumer had surprised many at the time. He insists it was not that his relations with the Godrej Group had soured and points out that he remains on the board of group company Godrej Nature's Basket Ltd. The reason does not lie with Godrej Consumer but







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with Godrej Hershey Ltd, a joint venture of the Indian conglomerate and one of the world's best-known chocolate makers. Mahendran led this JV from May 2003 to October 2012 and played a key role in either buying or building the JV's local brands like Nutrine chocolates, Jumpin juices, and Sofit energy drinks. While running the JV, Mahendran felt frustrated that Hershey wasn't introducing its best-known brands like Hershey's Chocolate bars, Almond Joy, Mounds, Drops, Bliss, Kisses, and Nuggets into the country. "I felt that Hershey's at that point wasn't showing adequate urgency in bringing their brands into the fast-growing Indian market," he says.

So when Hershey decided to buy out Godrej in September 2012, Mahendran made up his mind to enter the segment independently, with chocolates being the first segment GCPL entered. It launched the LuvIt brand in May this year. "The chocolate market in India is estimated at ₹7,000 crore and is growing at a healthy 20 per cent a year," he says, justifying the decision to enter the segment.

Launched only in South India for now, LuvIt has nine variants and 14 stock keeping units (SKUs in industry parlance) and is aimed at the 'mass-premium segment' targeting the 15 to 30 years old. With alluring names like Dairy Rich, ChocWich, Caramelicious, Crazy pops and Chocopops, LuvIt products are priced between ₹5 and ₹45. But LuvIt will have to compete with established market giants like Mondelez's Cadbury, Nestle's KitKat, Ferrero Rocher and Amul. Mahendran remains unfazed. "The market is so big and growing at such a pace, that there is room for everybody. I am confident of taking our share," he

says. Mahendran says because of his past relationships with both conventional and modern trade, LuvIt has been rolled out by 150 distributors. "Our aim is to stabilise this first in South India, before launching it across the country over the next six to 12 months."



**JESSIE PAUL, Founder and CEO, Paul Writer Strategic Advisory**

**"Chocolate requires limited shelf space and is an easy impulse purchase... [But] I am not able to identify a differentiator for the product in terms of positioning, pricing or distribution"**

But taking on established giants such as Nestle and Cadbury won't be easy. Jessie Paul, who runs marketing advisory firm Paul Writer Strategic Advisory, points out that food and beverages is a growing sector in India, and so is a good space to invest in. "Most new successful launches, however, have been those that have an Indian twist like MTR, Maiyas, Hector Beverages (Paperboat), and even ITC Food's Bingo," he says. Paul adds that GCPL's advertising has positioned the LuvIt chocolate brand towards young adults rather than kids, and the celeb endorsement has helped it gain visibility. "Chocolate requires limited shelf space and is an easy impulse purchase, which is why perhaps they chose it as their first product. [But] I am not able to identify a differentiator for the product in terms of positioning, pricing or distribution. Once the beverages business kicks off, they will have a large enough portfolio of snacks to fight for distribution."

Mahendran, however, sounds confident that the product will prove to be the differentiator and says that GCPL has already built a good distri-

bution network. To keep costs low, GCPL also has pursued an asset-light model where it works with partners for manufacturing and focuses its attention on distribution and brand building. "However, we have helped source the best global technology for our manufacturing partners," says

Mahendran.

After chocolates, GCPL is now readying a portfolio of products to unveil over the next few quarters. It is planning to launch fruit juices (concentrate, nectar and pulp), packaged drinking water, flavoured milk, health drinks, ready-to-eat/cook products including noodles, and a variety of snacks. It is already selling packaged drinking water in Chennai and parts of Andhra Pradesh under 'Cherio' brand, and will slowly roll it out elsewhere. Mahendran says all beverages of the group will be sold under the 'Cherio' brand.

GCPL is aiming at a turnover of ₹1,250 crore by 2020. The company is also open at making acquisitions to accelerate growth. "If there are some brands that fit into areas we want to be in, we will be the first bidders," he says. The targets, no doubt, are ambitious, and it remains to be seen whether Mahendran can pull off the difficult task of building another bouquet of successful brands. The odds seem to be in his favour. "What I do best is build great teams, help build brands." ♦

[@venkateshababu](#)



# Is it Time to Bid Adieu

By BAKUL DHOLAKIA

## Leverage Potential of Employees

For times immemorial, organisations have endeavoured to get the best out of the people working with them. But now, performance appraisal is all about performance management. It has become one of the most difficult and tricky terrains for managers, worldwide. Systems have evolved as a holistic developmental tool for managing the performance of people in an organisation. The use of quantitative tools to get an objective view of the performance of an individual also came into the picture.

Then, in 1994, Herrnstein and Murray came up with their seminal work: *The Bell Curve: Intelligence and Class Structure in American Life*. They argued that intelligence is measurable across racial, language and national boundaries, and is one of the most important factors related to the economic, social and overall success of a country. They said it was not possible to manipulate IQ and, therefore, future success manipulations were unlikely.

Soon, it was adopted

across the globe. The bell curve demanded organisations to classify employees under three categories: high, average and low performers. While there were significant advantages of its use, there were disadvantages, too. The model suggested that high performers will be further motivated and continue to improve if they were given incentives such as stock options, performance bonus, paid holidays, etc. This, in turn, would make the average performers aspire to be part of the high performer category and with the help of training modules, improvement programmes, etc., it will increase the overall productivity and ensure accountability across the organisation. The bell curve was appropriate for an organisation with a large workforce, but could not be effectively implemented on a handful of people. The doubt about the fairness of the classification also loomed large.

The context in which it was introduced was very different from what it is now. Today, generations

that were subjected to this system are very different in terms of aspirations and ambitions, psychological make-up and mind-set, and value system. The times when employees were considered as a factor of production have also evolved to a time when employees are acquired and retained to help them realise their potential for growth and performance. Earlier, there were sufficient examples where employees would be categorised in a lower category despite very good performance. If this happened once, it could be a one-off incident, but if it happened repeatedly then it would result in enhanced levels of anxiety and frustration, and would become counterproductive for the organisation.

Some organisations realised the negative impact of the system and did away with it. Like all systems, implementation was key to the success or failure of the bell curve. Paucity of time on the part of the manager and little understanding about the staff led to failed implementations because

everyone wants to get over with the process. Sincerity and developmental assessment is what is required. This would ensure any such system of classification works. It is important to have classification, but that should not mean we place people in them to make it look complete. It seems the time has come when you need to have more categories instead of the existing three: high, average and low performers, and a real-time approach to putting each employee's performance on record as and when it happens. Any performance management system has to have both rewards and penalties, but should ascertain and achieve a productive outcome, as against a mix of productive and counterproductive, or under productive, outcomes. The underlying principle has to be about leveraging the potential that employees bring to the organisation and making the best use of it. That will come only with a positive productive view to performance assessment. ♦

**Bakul Dholakia** is Director General, International Management Institute, New Delhi



# to the Bell Curve?

By ADIL MALIA

## No-bell: An Obituary



**I**t is high time that the corporate Rip van Winkle wakes up to write an obituary to the bell curve. And those who successfully do it could receive the much-coveted corporate 'No-bell' Prize!

This debate is the outcome of what exactly happens when a statistical tool introduced to check the robustness of a process is maniacally pursued by its protagonists – beyond a point the process and its purpose gets forgotten and the tool pretends to be the original process. And, as a result, this annual ritual sacrifices many deserving executives.

If there is any one process that has alienated and mispositioned HR managers vis-a-vis their business colleagues and rest of the organisation, it is the bell curve process. The misguided arguments of the protagonists in favour of the process would leverage around the following logic: Companies cannot afford to adopt absolute performance rating systems when the markets they operate in have a relative performance system; In absence of

a viable alternate system there is a need to continue with the old devil; Bell-curve is the best and the fairest system to distribute rewards and compensation; and, every organisation needs a logical tool to explain away their reward distribution philosophy and the bell-curve has a statistical normal distribution logic supporting it.

For the uninitiated, statisticians call bell-curve, a 'normal distribution' curve. The model assumes that we have an equivalent number of people above and below the average and that there will be a very small number of people – two standard deviations above and below the average. In corporate application, it effectively means that if the final performance ratings of all employees were plotted on a graph and if that graph threw up a bell like parabola shape, the logical conclusion would be that overall a fair, normal and robust performance rating exercise was undertaken. But that is where the Achilles' heel pains.

Managers have, over a period of time, allowed the bell curve test to masquerade itself as the sole purpose of the performance management process.

Strong prosecution arguments, however, back the plea for capital punishment to this rogue tool.

First, we are in the knowledge era. The bell curve performance is more suitable for classical industry workers whose operational performances could be accurately measured by outputs. Knowledge performers are high-quality input drivers.

Second, we live in VUCA (volatility, uncertainty, complexity and ambiguity) times where nothing is normal. Goals shift, strategies evolve, new challenges emerge and employees move from projects in quick succession to cope with dynamic market challenges. How can a performance rating distribution pattern follow a normal curve, which is otherwise suitable for a sub-normal business climate?

Third, employee performance has to be decou-

pled from its compensation or rewards distribution agenda. Performance review in VUCA times has to focus on development, coaching and performance enhancement of employees.

The forced ranking process results in capricious rankings, power struggles among managers and unhealthy competition among colleagues. It not only diminishes the value of top performers, but also pushes away mid-level performers into the bottom level, making them look like 'losers'.

Mathematical constructs have limited application to human behaviour, more so, when it has a developmental agenda with an emotional anchorage.

The bell curve applied to people performance creates more problems than what it strives to solve, including motivation and unfairness. The new world has no space for a rusted tool of the past. Let us bury it and on its tombstone let us write an epitaph:

"B.Curve, Rest in Peace. Forever. We are preparing for the normals of the new world!" ♦

# BATTLING THE DOWNTURN



Valuable lessons: Marshall Ma taking a class





## EXECUTIVE SUMMARY

*The 2008 global financial crisis resulted in many unexpected and dramatic challenges for the CEO of EasyFinance. Leading one of the best Chinese finance training companies, not only did Marshall Ma have to cope with a significant slowdown in revenue growth, he also had to deal with increasingly low morale among his management team who had just experienced four years of fast growth and were not used to operating in a downturn. In the midst of flat revenues and shrinking margins, how could Marshall and his partners retain, motivate, develop, and empower their key team members? The management team knew it would have to deal effectively with this challenge if EasyFinance was to have any chance of returning to growth when the economic cycle turned again in its favour.*

**By S. RAMAKRISHNA VELAMURI and XIN FU**

**P**rofessional training companies began emerging in China in the 1990s. The first group was from overseas, subsidiaries of large multinationals – most of their clients were also multinational companies. Language and price barriers made the foreign training companies inaccessible for local Chinese companies. This fostered a group of small local training companies. Though their quality and price were initially much lower than those of their foreign counterparts, by 2000 some of the top Chinese training companies began to compete against foreign rivals. Low entry barriers and high gross margins made this industry one of the most competitive in China.

Guo Yan and her friend Lu Linping established EasyFinance in 2004. Both were professional trainers and had considerable experience as finance managers in multinational companies. They believed a company specifically focused on finance training would serve a niche market with strong potential that had been neglected by both Chinese and foreign training firms. The former lacked advanced training skills and international perspectives while the latter lacked in-depth knowledge of the Chinese market and the country's finance and taxation policies. The founders priced their company's services above other

Chinese training firms but below those offered by international companies. Business picked up quickly and before long their courses were considered the best in China. Other competitors emerged after 2007, but none was big enough to threaten EasyFinance until 2009.

Guo Yan's husband, Marshall Ma, joined EasyFinance a year after launch as the third partner. He took responsibility for management issues so that Guo Yan and Lu Linping could focus on course design and delivery.

### Product and Marketing Strategy Reaps Rapid Rewards

EasyFinance's training model required trainers to invest more time in class design and preparation. Therefore, the company could not rely on freelance trainers

as many other Chinese training companies did, because they would not dedicate the time and effort needed to adapt their content and course delivery method. In its marketing, EasyFinance emphasised the company, not the individual trainers. The partners believed this would build the company's brand, and would make it easier to provide training services at a larger scale in the future.

EasyFinance enjoyed rapid growth in the four years following its 2004 launch. Its sales revenues almost doubled every year, and it became the leading brand in the niche finance training



market. EasyFinance had revenues of RMB 13.5 million for 2007. It attracted 2,646 participants to attend 121 open seminars in six major Chinese cities. Among participants, 63 per cent were from foreign or joint venture companies, and many were *Fortune* 500 companies. EasyFinance also offered 118 company-specific programmes, which accounted for about 40 per cent of revenues.

As 2008 began, the partners were projecting that annual revenue growth would again double. They planned to continue brand building efforts and hoped to offer career development and profit sharing for staff. To achieve these long-term goals, the partners decided to increase investment in talent development, brand building, and IT.

### Managing and Recruiting Talent

Marshall considered people development his first priority. He spent a considerable amount of time to recruit, develop and retain team members. Marshall also sought to optimise

in order to prepare for rapid growth.

### Economic Crisis: The Unexpected Problem

When the global financial crisis began in September 2008, it took about a month before EasyFinance felt the effects on its business. The partners agreed that aggressive expansion was no longer wise and halted further staff recruitment, except for trainers.

In November, traditionally the peak training season in China, EasyFinance's revenues nosedived – over 60 per cent of clients said they would delay, reduce or cancel their training programmes. Business was anaemic in the last two months of 2008, and the company failed to reach its revenue target of RMB 27-30 million for the year; instead annual income was RMB 25 million.

EasyFinance responded to the economic crisis by changing to a more conservative growth strategy and set "survival" as its goal for 2009.

A major concern for Marshall Ma was how to motivate trainers when their schedules were not full. If the company did not provide an attractive platform and incentive system, they would leave and could set up a new rival training company

the efficiency, capacity and competitiveness of the organisation.

Expecting business would double again in 2008, the partners decided to further expand the team and improve organisational competencies. EasyFinance recruited more than 30 people in 2008, across all departments. That summer, Marshall implemented key compensation structures for sales, administration and training staff. "We know our business relies heavily on our people, so we really do not want to underpay our staff. This is one of our general principles," said Marshall.

In the first nine months of 2008, EasyFinance achieved its objectives in terms of business development and organisational expansion. It became an Association of Chartered Certified Accountants (ACCA)-registered Continuous Professional Development (CPD) provider, and an Institute of Management Accountants (IMA)-registered Continuing Professional Education (CPE) provider. An HR manager and a finance manager were hired in mid-2008,



Cost control and new course development were its top priorities. Previously it had a no-discount policy, but knowing the importance of cash flow in a downturn it began to sell discounted course packages to clients if they agreed to pay the whole package price in advance. It nearly doubled the number of public seminars (to 400)

in nine cities in 2009. Marshall decided to increase prices slightly, although the sales team strongly recommended a price reduction of 30 per cent. EasyFinance was unable to maintain its premium pricing for company-specific courses.

### Transformation of Customer Profiles and its Consequences

The economic crisis had not only created frustration and lowered staff morale; it also led to unexpected challenges in business operations.

During the first half of 2009, EasyFinance's client base changed from multinationals to state-owned and



local private companies, as a government stimulus programme had spurred these companies to invest more in training. This brought more complexity to the way EasyFinance sold and delivered its programmes. Compared to multinational companies, most state-owned and local private companies had far less experience in training. They were unwilling to pay a premium for quality yet had very high expectations regarding results. Convincing new clients to buy a training programme took more effort, as did servicing them. Marshall feared his team members would lose their confidence and interest in their jobs.

Another concern was the competency of the middle managers. Most were under 30 and had difficulties performing in such a difficult situation. Marshall found he had to be deeply involved in the daily operations of each department.

Marshall was also concerned about how to motivate trainers when their schedules were not full. If EasyFinance did not provide an attractive platform and incentive system, they would leave, and could set up a new training company and become competitors.

## 2009: The Silver Lining

By the summer of 2009, it was clear the situation was not as dismal as had been expected. EasyFinance did not lose much of its business volume. Supported by the sales and marketing department's tremendous efforts, its first half sales revenues were only slightly lower than in 2008. Trainer recruitment was also positive. The company also had 11 trainers.

In surviving the crisis, Marshall realised that the core competitiveness of EasyFinance was its team. The young, efficient, and professional individuals with a strong desire to grow had a long-term commitment to the company. The stability of the team kept EasyFinance ahead of its competitors.

## 2015 Updates

The global financial crisis in 2008 was an important turning point for EasyFinance. First, business growth slowed: the compounded annual growth rate for sales revenue dropped from 140 per cent in the period from the company's founding in 2004 through 2008, to 12 per cent between 2009 and 2014. The sales revenue of 2014 was about RMB 46 million. Second, EasyFinance's clients' profile shifted permanently from multinationals to state-



*What lessons can we learn from EasyFinance? Post your comments at [businesstoday.in/casestudy-easyfinance](http://businesstoday.in/casestudy-easyfinance)*



[businesstoday.in/casestudy](http://businesstoday.in/casestudy)

*The best response will win a Harvard Business Press Pocket Mentor. Previous case studies are at*

owned and local private companies. This change brought EasyFinance more diverse and dynamic training demands. Marshall thought team competency was the bottleneck threatening future business growth, so he invested more resources in talent development.

In the ensuing three years, Marshall realised that while team competency was important, it was not the only thing needed. The traditional organisational structure was also a drag on potential growth.

Said Marshall: "Initially, our sales representatives communicated with clients to learn their training demands and reported them to supervisors; then the supervisors reported to the sales manager and the sales manager spoke with the trainer team who

then more or less customised and delivered the training project. This chain was quite long and errors were possible at every step. It also meant that junior staff would never have a chance to learn how to make decisions. More importantly, the trainers had no incentive to customise their training products to satisfy customers' needs. We needed a new structure to shorten the communication chain, reduce the margin for error, provide an opportunity for junior staff to grow, and to align the interests of the trainers, sales team and clients."

Marshall designed a communication platform named the "cloud"; it was a messaging group that included all trainers and the managers in finance, logistics as well as himself. Sales supervisors and representatives were put

in charge of collecting clients' demands and then sales supervisors sent the information to the "cloud". All trainers and functional heads could respond to these demands freely. A temporary project

team was then formed to address specific demands. All communication within the "cloud" was transparent. Finally, all sales staff and trainers would get a proportion of the project profit as a reward.

Signs off Marshall: "With this structure, we no longer need standardised talents with similar skill sets. People with different core competencies will find different resources in the cloud and everyone has the chance to grow and succeed in this structure. I hope it will help EasyFinance break the bottleneck of talent development and realise future business growth." ♦

*This case was written by S. Ramakrishna Velamuri, professor of entrepreneurship, and Xin Fu, doctoral candidate at CEIBS, with editing support from Janine Coughlin.*



## If EasyFinance has to scale, organisation design and capability building should be top priorities

The founding team of EasyFinance and its CEO Marshall Ma certainly demonstrated great entrepreneurial abilities in coming up with a business model that took advantage of the emerging finance training market, positioning themselves in a segment that was between global players and local players and coming up with two offerings for two client groups – public seminars and company-specific programmes. The growth in revenue between 2004 and 2008 clearly validates that they got their core model right. In fact, they were able to manage the 2008 crisis quite well.

Unfortunately, building an organisation calls for a lot more than just entrepreneurial fervour. To begin with, Marshall Ma never had a clear handle on what problem he was trying to solve on the organisation and people front. He seems to have taken a simplistic view that

**GANESH  
CHELLA**

Founder of Totus  
Consulting

*“It appears to me that the design of the EasyFinance organisation and its pivotal roles did not support its strategy”*

hiring more people, paying them more money and training them would solve all his problems. Because his problem was ill-defined, his solutions were not helping him build a sustainable organisation.

From available data, it appears to me that the design of the EasyFinance organisation and its pivotal roles did not support its strategy. Because the design was not aligned to its strategy, it did not have the right capabilities to achieve scale, align roles to the needs of clients and facilitate effective internal collaboration across departments to deliver client value.

Instead of paying attention to some of these structural issues, Marshall Ma ended up focusing on things like morale and motivation.

Here are a few areas of organisation

design that seem to warrant urgent attention:

◆ Sixty per cent of EasyFinance business seems to have come from public programmes and 40 per cent from company-specific programmes. All of us understand that selling public seminars is very different from selling company-specific programmes. While the former will call for B2C sales capabilities, the latter will call for consultative selling given that each client would like their programmes to be customised to meet their specific needs. This will bring up the need for building consultative selling capabilities within the organisation instead of trying to have layers of sales employees trying to act as mere messengers. While Marshall recognised that he had a problem in this area, his solution of creating a communication platform was certainly not going to solve it. The capability gap needs to be addressed.

◆ Given the growing volumes across both segments and the resultant pressure on trainers, I am not sure if Marshall recognised the need to determine the need for centralisation and standardisation. For example, I see the need for a strong central team to work on content creation. This is in line with his philosophy of the company's brand standing out. This would also de-risk the firm from potential attrition.

◆ As the firm was hiring more and more trainers and wanted them to be in-house, I see the need for standardisation of trainer styles and training delivery methodologies.

◆ Marshall may also need to examine if there is need to build the capability for handling large accounts.

◆ For a service business it is important to establish flat process-based teams rather than hierarchical and functional teams. This will ensure that everyone adds value to the business and does not create bureaucracy.

If EasyFinance has to scale, organisation design and capability building will need to be the first port of call.





## EasyFinance must focus on the premium market without dropping prices

Managing operations in times of volatility and downturn is a challenge in general but particularly so in function that are not generally perceived to be “core” of the organisation. Thus in any downturn, the first budget to be slashed would be the training budget, apart from the other austerity measures (like slashing travel budgets) that corporations undertake. However, Ma should look at this as an opportunity to examine the business model on how he would like to diversify the risk and ensure that there is a stable core that is giving adequate margins. There is another challenge in the EasyFinance model – it focuses on the corporate brand rather than the individuals who deliver the training programme. This means that there could be no “stars” on the trainer list that can outshine the EasyFinance brand. This also means that there has to be significant standardisation in the delivery processes so that the customers get a common feel at the end of each training programme.

The challenges before Ma are two-fold. How does he insulate the company from global volatility? A part of the answer has naturally been found in the local market with significant customisation. But this component is required to maintain stability in the business in the light of global volatility. So Ma, while retaining stability, has to reach out to the markets to grow – and growth in this business comes significantly from the vibrancy of the market. It is important to ensure that there is a continuous and dynamic offering of programmes to suit the concerns of the time.

The second challenge is: how does Ma actively participate in the international segment of the market and maintain his brand premium? The idea of not offering discounts on the public seminars, and instead increasing the price was a smart move – this will help in continuing the optics that they are indeed a premium company, while the pricing on a specific case could

vary depending on the client, without denting too much on the brand perception. However, Ma has to regain the market in public seminars. If we look at the numbers, it is clear that while revenue from public seminars has fallen to a third after the downturn, revenue from company-specific seminars has fallen by half, broadly indicating the type of volatility and stability in the respective markets.

As EasyFinance recovers from the downturn, its biggest challenge would be to regain the public seminar market and increase the share of international companies in its internal pie. At any given time, Ma possibly has to ensure that at least 40 per cent revenue comes from international companies while maintaining about 30 per cent from state-owned corporations and the rest from other companies.

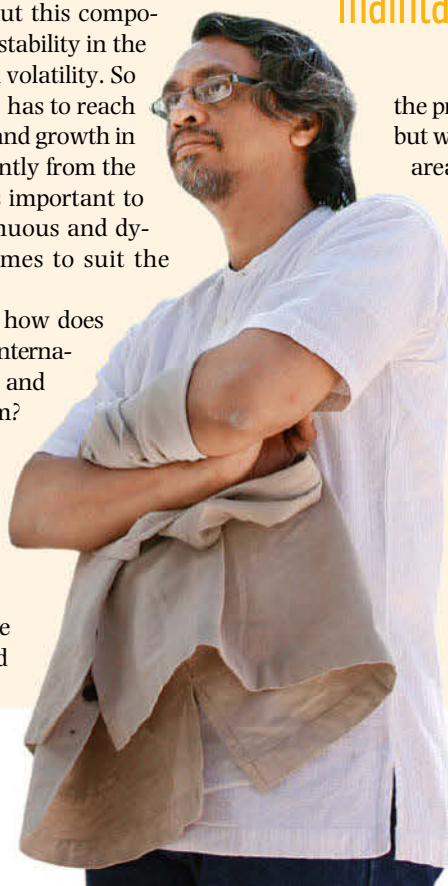
At this time, he needs to concentrate on

**M.S. SRIRAM**

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Centre for  
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“The challenges before Ma are two-fold: How does he insulate the company from global volatility? How does he maintain his brand premium?”

the premium market without dropping prices, but with some aggressive marketing. This is an area where Ma could possibly get speakers whose profile could be larger than the EasyFinance brand, so that the joint brand equity of EasyFinance and the speaker attracts more audience. Ma needs to urgently regain this market, not lose on the pricing and continue to make the presence of EasyFinance felt. For this, there has to be a smart choice of themes and speakers to ensure that EasyFinance continues to be a relevant training outfit, with compelling themes even in situations of downturn where companies are still willing to invest in knowledge resources. That continues to be the challenge of EasyFinance. ♦





# SMALL LEVELLER

Has technology really levelled the playing field between small and big companies? A power-packed panel in Bangalore debated the subject with gusto. **By ALOKESH BHATTACHARYYA**

Unexpected afternoon rains washed the city of Bangalore clean of dust and grime on July 31, but also brought with it the usual after-rain-effect – traffic jams. Yet, people flocked to hotel Vivanta by Taj in Whitefield, the IT hub situated in Bangalore's eastern fringe, to participate in a fascinating roundtable discussion organised by *Business Today*, on how Cloud and SaaS technologies are levelling the playing field between

SMEs and big companies. In a world where technology is finally allowing the small fry to play with the big boys on almost equal terms, this was certainly an apt topic. And the line-up of panellists *BT* had put together was also the most appropriate.

Leading the way was Bharat Goenka, Cofounder and Managing Director of Tally Solutions, the maker of the eponymous accounting software that is almost ubiquitous in small companies. Then there was Anant R.

Koppar, a serial entrepreneur who founded Kshema Technologies earlier, and is now Chairman and CEO of KTwo Technology Solutions, a health-care solutions provider. Bringing in a unique perspective was Aravind Melligeri, Chairman and CEO of Aequs, which provides precision machining, sheet metal fabrication and other services to companies like Airbus, UTAS, Eaton, Bosch, etc. Rajesh Jagtiani, CEO of Think7, brought in a two-dimensional aspect through run-





**Brainstorming session:** Vivek Kulkarni, Founder & Chairman, Brickwork India; Rajesh Jagtiani, CEO, Think7 Business Systems; Aravind Melligeri, Chairman and CEO, Aequs; Anant R. Koppar, Chairman and CEO, KTwo Technology Solutions; Bharat Goenka, Co-founder and Managing Director, Tally Solutions; Venkatesha Babu, Deputy Editor, *Business Today*

Engineering, a company he founded earlier. “The first day we spent \$45,000 to buy software, and \$20,000 for an SGI computer,” he said. “Today you don’t need to own such powerful computers. It will probably be on Amazon (cloud services).” Melligeri’s argument was that as SMEs try to go global, cloud-based SaaS (software as a service) applications will take away the geographic barriers and enable them to compete globally with big companies.

Brickwork’s Kulkarni, too, was in favour of cloud and SaaS technologies. His argument was that earlier people would pay ₹32,000 for a desktop and ₹18,000 for software. But such software would be loaded with features, most of which would not be used. Plus, the software would be upgraded, so companies had to upgrade their systems and pay again. “Right now, this is all available on the cloud,” he said. Kulkarni added that companies can use cloud services on data centres that are the size of football fields in America, and used the example of lodging rental company Airbnb, which uses Amazon’s data centres, as an example to drive home his point.

Think7’s Jagtiani started by saying that India itself is not a level playing field, and referred to a report that said just about 260 companies among 20,000 surveyed had more than 60

per cent of the profits. “When we started Think7, we realised it’s not about cloud or not. Today, it’s more about trust in business,” he said, adding that the timing for cloud technologies is perfect for India. More than 90 per cent of Think7’s customers are on the cloud, and they are all SMEs.

KTwo’s Koppar proffered views from the IT solutions providers’ angle, saying that providers need to understand that these technologies were there 30 years ago as well, and that cloud is only a new name. He agreed that for the provider, cloud and SaaS have given a level playing field. “I can put up a solution on the cloud and ask clients to use it,” he said. “Ten years ago, we did not have this level playing field.” At the same time, he warned that the tag of affordability with cloud solutions might not last forever. “At this point, cloud may be cheap; later it may become expensive. So, it is better to go with your own systems and software.”

Security on the cloud was another issue that was hotly debated. Jagtiani said security was well taken care of by companies like Amazon and Microsoft, while Kulkarni pointed out several instances of data residing in cloud having been hacked and private data accessed by unauthorised and unscrupulous people.

The evening ended with an engaging Q&A session between the audience and the panellists, which took the discussion beyond the stipulated time. By that time, the skies had also cleared up and a cool wind replaced the muggy conditions in the city.

The roundtable was sponsored by Reliance Commercial Finance, which is also the sponsor of the *BT* Best SMEs Awards. Reliance Commercial Finance is presented by Reliance Capital Ltd. ♦

@alokeshb

ning a company that makes software for auto manufacturers, and also having an auto components company owned by the family. And bringing up the rear was Vivek Kulkarni, former IT & Biotechnology Secretary of Karnataka, who founded Brickwork Ratings, an SME ratings company. The panel was moderated by Venkatesha Babu, *BT*’s Deputy Editor.

The discussion started with Goenka making clear that he didn’t believe moving applications from desktop to cloud would help. “In the long run, it is going to add cost,” he said. “It is about whether you can create connected applications. How can SMEs connect to each other, connect to the supplier, customers, lending sources, to banks for transactions and payments... So, connectivity will become the most important leveller.” He added that some of those levelling advantages will reside in the cloud, some in offices, and some in devices.

Disagreeing with him was Melligeri, who started with an example of how he started with Quest



# All About Windows 10

Microsoft's Windows 10 is available for free upgrade for existing Windows 7, 8 and 8.1 systems. But is it worth an upgrade? **By NIDHI SINGAL**

## What's Good

**Start up time:** With Windows 10, your machine powers up within seconds. Everything seems to launch at a blazing fast speed. While the Windows 8 start up time was much quicker than Windows 7, Windows 10 is even better. And this isn't just restricted to powering on the device, but also while launching any program or simply browsing the files.



**Start menu is back:** If you have ever used Windows operating system (OS) prior to Windows 8, you will instantly feel at home. Thankfully, Microsoft has decided to bring back the Start menu where you can access all your software and search drives. Live Tile dominated the user interface (UI) on Windows 8, and it is very much present here. You can, however, get rid of it by unpinning the app tiles from the Start menu. Even the settings and power options that were difficult to access on Windows 8 are now back in the Start menu. A new search bar added to the task bar that runs a search on the web and Windows works seamlessly. Overall, Windows 10 is intuitive and easy to use.

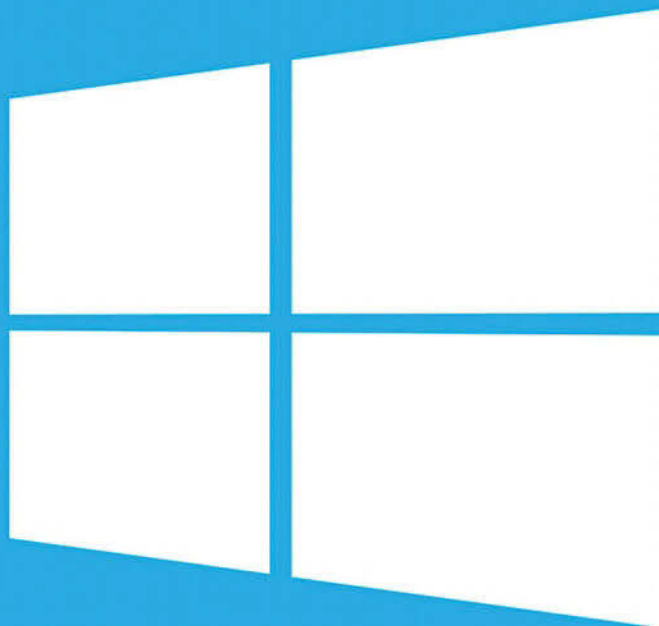
**Multiple desktops:** Microsoft has introduced multiple desktops to Windows 10. Easy to access, it gives you more space to organise data. You can also easily switch between the desktop – one desktop can

be for work, other for home, and you can even have one for kids (if they are using the same machine).



**Microsoft Edge browser:** I have been using a Windows machine for a long time, but my default browser wasn't Internet Explorer. With Windows 10, the company has replaced it with the Microsoft Edge browser. The web pages load much faster now. It also has a feature of scribbling a note on the web page screen.

**Aero Snap:** Windows 10 also gives access to use multiple apps side by side on the same screen.





Dragging an app to either the left or the right side of the screen automatically resizes it into half screen space. Instantly, the other app thumbnail appears and clicking on the same resizes it to the second half of the display.

**Action centre:** Windows 10 has an action centre that notifies you of new emails, system information, apps, etc. It also gives you access to tablet mode, all settings, battery saver, virtual private network, Wi-Fi and airplane mode. It is an easy way to access the latest notification and basic settings.

**Across platforms:** I tested Windows 10 on a hybrid and realised that the desktop mode is slightly different from the tablet mode. Under the desktop mode, the Windows key comes in to play. You have a complete desktop at your disposal. One can easily switch between the desktop and tablet mode from the bottom right menu, under action centre. Microsoft also plans to bring a similar interface for Windows 10 smartphones.

Windows 10, the auto-update cannot be stopped. The software periodically checks for system and app updates, and downloads and installs them. The only option you have is to select when to restart the system after updating so that you don't lose the data you had been working on. However, this feature is accessible in Windows 10 for businesses only.

**Configuration needed:** IF YOU USE Windows 7 (32-bit or 64-bit) or Windows 8/8.1 (32-bit or 64-bit), you can upgrade to Windows 10. But you need 1GHz processor or faster, 1 GB RAM for 32-bit, or 2 GB RAM for 64-bit Windows 10. The hard disk should be at least 16 GB for 32-bit and 20 GB for 64-bit, the graphics card DirectX 9 or later and display 1024x600 pixels or higher.

**Availability:** STARTING JULY 29, Microsoft began the rollout of Windows 10 OS in a phased manner. Those who had registered for the reservation list have already started getting the updates. One

# Windows 10

## What's Bad

**Cortana:** With Windows 10, Microsoft has introduced voice assistant software Cortana, which, the company claims, understands the context and answers accordingly. While this is one of the best features on Windows 10, it isn't going to be launched in India straight away. Cortana will be first made available to insiders (developers with Microsoft) in coming weeks. It will be available for consumers once the localisation has been done.



**Automatic updates:** Until now, you had an option to turn off the automatic update features and update the system only when you want to. But now, with

can also download it from <https://www.microsoft.com/en-us/software-download/windows10>.

**Should I upgrade?** HONESTLY, WINDOWS 10 is a much better OS than any of its predecessors. And you also have the option to downgrade if you are unhappy. But before upgrading, do take a backup of your data and also make sure to read the experience of others using the same machine.

**How to downgrade:** IF YOU ARE unhappy with Windows 10 and want to downgrade to the older OS, do it within one month of updating. Also, do backup all the data else you might end up losing some. The old version is stored in 'Windows.old' folder. You can get started by clicking on 'Recovery' (from settings > update & security > recovery) and selecting go back to 'Windows 8.1 or Windows 7'. Simply follow the instructions to downgrade your system. This process is quick and will not take more than 15 minutes. Also, avoid running any disk cleaner software during this period as it might remove your previous Windows backup files. ♦



**BAG IT OR JUNK IT:**  
Overall experience  
of the Moto G 3rd  
gen scores over its  
competition with better  
specifications

**RATING:** 4.5/5

**PRICE:** ₹12,999

**PLUS:** Water resistant,  
camera

**MINUS:** Heats up

# Excellence Redefined

Motorola's Moto G (3rd generation) isn't about specifications but the user experience. **By NIDHI SINGAL**

**F**ocused on enhancing the user experience, Motorola has upgraded its new Moto G with some necessary features. It has continued with the same five-inch HD display, with Gorilla Glass 3 protection, offering decent viewing angles. The textured back provides a good grip. The rear panel is removable, housing two micro SIM slots and a microSD card slot. Both the SIM slots are 4G LTE enabled. However, the battery has been sealed and is non-removable. One noteworthy feature the new Moto G has is the IPX7 certification, which makes it water resistant.

With every brand having a custom user interface, Motorola has continued with the stock Android OS, giving the new Moto G a snappy feel. Yet, the company has added few features that come in handy. The Moto Display shows the notification and time as soon as you pick up the phone, eliminating the need to turn on the display first. This feature was first found on the Moto X and is now a part of Moto G as well. Quick Capture activates the camera with a flick of the wrist and Chop Twice activates the torch light by making a chopping gesture. Moto Migrate prompts you to migrate your data from the old device to the new one.

Motorola has also enhanced the imaging experience by adding a 13 MP rear camera and a 5 MP front facing camera. As per the company claims, the rear has got the same sensor used in Nexus 6. It did a good job at capturing images in well lit surroundings, but it isn't the best snapper in low light. The front-facing camera was decent for capturing selfies. The smartphone also captures full HD videos.

Overall, the new Moto G manages to handle basic tasks, such as web browsing, downloading apps, watching videos on YouTube and playing games without any lag. The device did slightly heat up after a long gaming session. The phone is powered by 1.4 GHz quad-core Snapdragon 410 chipset and is paired with 2 GB RAM. The phone comes with 16 GB onboard storage and supports expandable memory. The 2470 mAh battery lasted me a day with average usage. ♦



# A Flagship Killer?

The OnePlus 2 smartphone is being touted as the '2016 Flagship Killer', but falls a bit short of expectations. **By NIDHI SINGAL**

**O**nePlus One was a fine piece of hardware. When launched a year-and-a-half ago, it packed in all the high-end specifications and features at half the price of flagship devices. The success paved the way for OnePlus 2, which sounded even more promising with the latest processor on Qualcomm 810 chipset, 4 GB RAM, Type C charging port, a fingerprint scanner, better camera and a bigger battery. It has the best specifications at half the price of the flagship smartphones, but not all is well.

OnePlus 2 has 64 GB internal memory, of which 54 GB is user accessible. Its 5.5-inch full HD display has great viewing angles. The sunlight legibility has been improved and everything appears to be sharp and crisp. It continues to have a sandstone finish rear, which is removable, giving access to two nano-SIM slots. The volume keys have been moved to the right panel, just above the power key. The speaker grills are placed at the bottom along with the charging port. OnePlus has also added a notification toggle that switches between all notifications, priority interruptions or no interruptions. The side panel is

made magnesium alloy. A fingerprint scanner has been added on the home button below the display, which works seamlessly.

Without increasing the megapixel count, OnePlus has improved the camera optics on board. The 13 MP camera is paired with optical image stabiliser, laser auto focus and dual LED flash. It captured images quickly and the results were sharp and offered natural colours. Low-light imaging was also decent. But there isn't any gallery app on the Oxygen OS. You have to access images from the camera app only. Also, the interface isn't user friendly. The Oxygen OS isn't impressive and lacks basics such as support for exchange email. While OnePlus 2 manages most of the basic tasks with ease, the side panels and the top front of

the phone tends to heat up after a few minutes

of watching YouTube videos or playing games. The 3300

mAh battery on-board doesn't last long. It takes more than two hours to charge and doesn't even last a full day. ♦

[@nidhisigal](#)



**BAG IT OR JUNK IT:**  
Has its share of low points, which can be fixed with software updates

**RATING:** 3.5/5

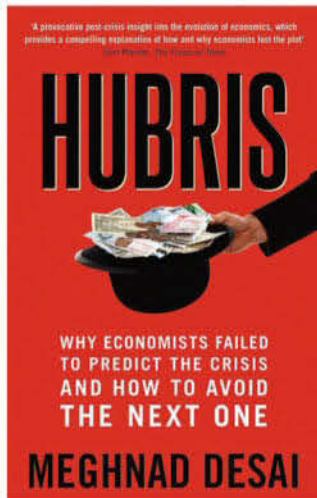
**PRICE:** ₹24,999

**PLUS:** Display, camera

**MINUS:** OS, battery, heats up

# A Self-assured Critique

Meghnad Desai has written a remarkable book on the state of the economics discipline and of the world economy. By SANJAYA BARU



## **Hubris: Why Economists Failed to Predict the Crisis and How to Avoid the Next One**

By Meghnad Desai

PAGES: 304

PRICE: ₹399

Collins Business

The book is an important contribution to contemporary economics as well as the history of economic thought

**T**he economics profession has been in disrepute ever since the transatlantic economies slipped into a crisis and pulled global growth down. China, the best performing economy of the past decade, has not yet produced a Nobel Prize winner in the discipline, while Europe, home to so many Nobel laureates in economics, is unable to stabilise itself. Clearly, there is something as wrong with the economies of the West as with their economics.

Meghnad Desai, Emeritus Professor of Economics at the London School of Economics, member of the House of Lords, and a regular face on Indian TV, has written a remarkable book on the state of the economics discipline and of the world economy. It is a critique of the self-assuredness of a discipline in crisis.

Desai's argument is simple. Economics, or rather 'political economy', as the discipline was originally called, developed as an intellectual attempt at understanding the way goods and services are produced, traded and consumed, and incomes are generated and distributed. It was a study of the practical world. Yet, in seeking to be regarded a 'science', economics not only became far too mathematical in exposition but also mechanical in its understanding and interpretation of human behaviour and social organisation. Relevance to an understanding of the real world was sacrificed at the altar of technique.

The first 200 pages offer a tour de force of the evolution of modern economics, and Desai writes for the lay reader, with the exception of chapters four and five that only trained economists may find more accessible than others. The hero in Desai's narrative is Joseph Schumpeter, the celebrated author of *The Theory of Economic Development*, who understood the significance of innovation and technological progress to economic development. Schumpeter's theory, that development progresses in long cycles of expansion and contraction of economic activity, was statistically validated by the Russian economist/statistician Nikolai Kondratieff, who discerned a 40-year cycle – two decades of growth followed by two decades of slowdown – that explained the ups and downs of western economies from the end of the 18th century through to the middle of the 19th.

Desai sees the global economic slowdown following the Lehman collapse and the transatlantic financial crisis in 2008 as the beginning of the downswing of a Kondratieff cycle, after the 1992-2007 boom period. Hence, his prognosis for economic growth over the next decade: things will go down before going up again.

What makes the current cycle different from the four cycles of the 19th and 20th centuries is the rise of China and other Asian economies. Can growth in these economies, and the innovation cycle in the US lift the global economy up? The prognosis for Europe is bleak, but there is hope for Africa.

The only weakness in Desai's argument is an inadequate appreciation of the role of public policy. Can policymakers learn from the past and intervene so as to modulate the impact of Kondratieff and other shorter-term (Juglar and Kitchin) cycles? It is possible that Desai would suggest that economic policymakers must first relearn their economics if they have to come up with relevant solutions.

Desai's book is an important contribution to contemporary economics as well as the history of economic thought that many will greatly profit from reading. ♦

*The reviewer is Director for Geo-Economics and Strategy at the International Institute for Strategic Studies*





# Marketers have been sent on a wild goose chase

**H**ave marketers in India been chasing a mirage? Is the bottom of the pyramid (BoP) market a myth? Is our jugaad mindset, being celebrated as an advantage, actually a handicap? In his second book *India Reloaded*, scheduled to launch mid-September, **DHEERAJ SINHA**, National Head of Planning at Grey (a WPP group company), boldly puts the cat among the pigeons. Sinha argues his case compellingly, juxtaposing numbers with rich, fascinating anecdotes, forcing you to stop in your track and think. Excerpts from a conversation with **CHITRA NARAYANAN**:

**In your book you say India is not really a mass market place. That sounds counterintuitive.**

Yes, we went on a wild goose chase. If you look at the numbers: 350 million middle-class consumers, 500 million under the age of 25 big numbers were thrown, which kicked up the euphoria. But if you cut to the real numbers, there are just 50 million people who own cars. There are 600 million people who have no access to toilets or drinking water. So the size of our middle class

cannot be all that large. If you look at brands that have been successful, they are the ones that have not stripped down their products to appeal to the BoP customer. The poor customer wants an upgrade in his or her lifestyle. What I am suggesting is a real investigation of the size of the market and slightly more upgrade market thinking rather than mass market thinking. The belief that we can strip down a car and poor people will lap it up, that is not going to happen.

**But so much money has been invested by marketers on BoP? Is that a mistake?**

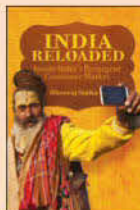
Just do a research on small town India and the youth there are saying that if the size of my dreams is big

then why shouldn't the size of my mobile phone be big. That segment is driven by desire, by aspirations. So the conversation about stripping down products for the BoP segment needs rethinking. I am not a fan of frugal engineering.

**While reading your book it appears that Indian consumers go for "safe" and are risk averse.**

The mindset is that if you are selling more you are good. Which means from the consumption perspective, we are a market for relevance. Most consumers here are at the stage of their first or second experience of consumption. They are buying their first car, first flat screen and the thinking is that we would much rather go with things the world has experience with. If you look at any category, the top three players have 60 to 70 per cent of market share. We are more lopsided at the top and challenger brands are not doing so well. I think one of the solutions for challenger brands is to go for scale. ♦

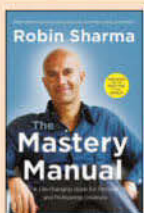
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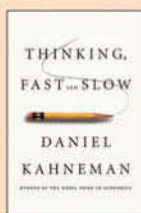
**India Reloaded**  
by Dheeraj Sinha

Westland  
PRICE: ₹495  
PAGES: 222

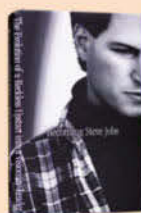
## BUSINESS BESTSELLERS\*



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



**Thinking, Fast and Slow**  
By Daniel Kahneman  
Penguin  
Price: ₹499



**Becoming Steve Jobs**  
By Brent Schlender  
Hodder and Stoughton  
Price: ₹699



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

\*Top books by sales for July 19 to August 1, 2015; Includes only books released after July 1, 2014; Information provided by [amazon.in](http://amazon.in)

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Formulations PH(1)  
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**Description:** Must have knowledge on  
Plant Head- Solid Oral & Oncology



**Sukhvarsha Management services Private Limited**  
Sr. Manager - Finance  
**Location:** Chennai  
**Job ID:** 15989711  
**Description:** To prepare and develop an  
annual budget, To provide support on  
sourcing finance for Business, To ensure



**Sungard Solutions India Private Limited**  
Senior Manager Networks  
**Location:** Maharashtra, Pune,  
WestendCenter  
**Job ID:** 17048697  
**Description:** Responsible to be a hands on  
manager of a team that supports a global  
network 24/7/365.



**UnitedHealth Group**  
Deputy Manager - Accounting  
**Location:** Noida  
**Job ID:** 17202606  
**Description:** This position requires the  
candidate to have a very good understanding  
of accounting.



**Sognare Hrc**  
Business Head  
**Location:** Mumbai  
**Job ID:** 17266308  
**Description:** Head the Mumbai location  
and take responsibility of the location,  
Manage Profit & Loss of the location.



**Sapient**  
Director - Program Management (Agile  
Leader)  
**Location:** Bengaluru / Bangalore  
**Job ID:** 17207866  
**Description:** Manage large, complex  
projects/programs of 50+ people to an  
acceptable level of risk by balancing scope,  
time, cost and quality.



**ABC Consultants Private Limited**  
Sr. Sales Manager  
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**Description:** Manage end-to-end client  
relationship including pitching,  
negotiation, contracting, billing / invoicing,  
payment collection, campaign activations,



**Adroit Learning and Manpower Private Limited**  
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**Polaris Financial Technology Limited**  
PM - Project Manager  
**Location:** Thane  
**Job ID:** 17260657  
**Description:** Prospect should have experience working on Fixed Bid Development projects and handled a team



**Infogain India Private Limited**  
Developer-ORPOS  
**Location:** Noida  
**Jobs ID:** 17265538  
**Description:** Hands-on experience on Oracle Retail Point of Sale application and tourframework and design patterns.



**EMC Corporation**  
Tech Support Engineer II  
**Location:** Bengaluru / Bangalore  
**Job ID:** 17110582  
**Description:** Applies general systems level technical expertise to standard to moderately complex systems level customer issues.



**Tech Mahindra Limited**  
Java+CQ5  
**Location:** Noida, Pune  
**Job ID:** 17267486  
**Description:** Good experience in Java/J2EE along with Adobe CQ5 and exposure Digital Marketing Platform.



**Replicon**  
iOS Developer  
**Location:** Bengaluru / Bangalore  
**Job ID:** 15876141  
**Description:** Responsible for many phases of the software development lifecycle including technical research, requirements analysis etc.



**Atlas Systems Private Limited**  
Oracle DBA - L1/L2/L2 Support  
**Location:** Bengaluru / Bangalore  
**Job ID:** 17234041  
**Description:** Experience of managing multiple Oracle 10,11g standalone and RAC production databases.



**Akshay Software Technologies**  
Tridion-SE  
**Location:** Mumbai  
**Job ID:** 16842703  
**Description:** At least 3+ years hands on development/implementation experience in SDL Tridion 2011 or higher, Tridion Templates development.

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Marketing Manager

Location: Mumbai

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**Description:** Experience in Marketing: Handling ATL and BTL activities, Should be from Financial Services background.



## Triangle Simulation Pvt Ltd

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Location: Mumbai

Job ID: 17255229

**Description:** Provide sales and administrative support involving efficient handling of top and confidential agreements.



## Genie Consultants Private Limited

Territory Manager

Location: Chennai

Job ID: 17262147

**Description:** Marketing, Space Selling, Banking, Insurance, Newspaper, TV, Telecom, Hard-core sales ppl- Direct sales experience is added advantage.



## Aparajitha Corporate Services Limited

Marketing Manager

Location: Chennai

Job ID: 17121205

**Description:** Good in communication, Travel to client place if needed, Development and Result oriented person.



## Quinnox Consultancy Services Limited

Pre Sales Lead

Location: Mumbai

Job ID: 16984495

**Description:** Responsibilities include creating and managing pre-sales collateral and managing sales pipeline.

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**Servocraft HR Solutions Private Limited**  
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**Job ID:** 17128010  
**Description:** Preparation of bank statements and payments received for distribution to the Finance Administrator for lodgement preparation and posting of



**TIBCO Software India Private Limited**  
Accounts Payable  
**Location:** Pune  
**Job ID:** 17253715  
**Description:** Manage supplier invoices (using Oracle and 170 Mark View), Knowledge of Expense reports/claims processing.



**Exl Service.com India Private Limited**  
Associate / Senior Associate - Accounts  
**Location:** Bengaluru / Bangalore  
**Job ID:** 17252485  
**Description:** Responsible to perform variety of accounting functions related to Contract Administration - Order Processing new contracts.



**Stringz**  
Finance Executive  
**Location:** Cochin / Kochi / Ernakulam  
**Job ID:** 17254958  
**Description:** Knowledge and Experience in Payroll Management, Knowledge and Experience Computation of Income Tax of Personnel's.



**Capgemini Business Services India Limited**  
Accounts Payable (P2P)  
**Location:** Chennai  
**Job ID:** 17259947  
**Description:** Should have good experience in Accounts Payable (P2P) (payments, Vendor Management, invoice processing).



**Give India**  
Account Executive  
**Location:** Mumbai  
**Job ID:** 17239910  
**Description:** To ensure proper data entry and maintenance of records for payroll and support to day to day activity of the



**dEEVOiR Consulting Services Private Limited**  
Sr. Associate - Accounts Payable  
**Location:** Mumbai  
**Job ID:** 17248394  
**Description:** Strong knowledge of best practice Accounts Payable processes, including digital imaging and workflow

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**Vinita Gupta**  
CEO, Lupin

## Healthy Appetite

**VINITA GUPTA**, CEO of Lupin, and the eldest daughter of founder D.B. Gupta, orchestrated a major acquisition in the US on July 23. With the \$880 million acquisition of GAVIS Pharmaceuticals and Novel Laboratories, Lupin will now have its first manufacturing plant in the US. It also positions itself as the fifth-largest pharma company to have filed generic drug marketing applications with the US FDA.

US-based Vinita, who handles Lupin's international business and acquisitions, was elevated to her current post in September 2013. "We are looking at more acquisitions in the near future after digesting the current one," she told *Business Today* a couple of days after acquiring GAVIS, founded by India-born scientist Dr. Veerappan Subramanian. Though the company had sales of only \$96 million in 2013/14, its drug pipeline has great potential and that was what made Lupin pay the premium, says Vinita.

**Ashish Bahuguna**  
Chairman, FSSAI

## In Safe Hands

**ASHISH BAHUGUNA** is the new head of Food Safety and Standards Authority of India (FSSAI). The former agriculture secretary will have a plateful of issues, including the never-ending Maggi row, to deal with. As H.G. Koshia, Commissioner of Gujarat Food and Drugs Control Administration, puts it: "There is a lot of expectation from him given his stature." Sceptics point out to the challenges since health is a state subject and direct interventions has its limitations, especially in the diverse Indian context.

PANKAJ NEGI





## New Growth Formula

He always considered GlaxoSmithKline Pharmaceuticals “a doyen of the Indian pharma industry”. No wonder, **A. VAIDHEESH** quit Johnson & Johnson to join the UK-based company as VP, South Asia, and MD, India. Some industry observers look at the appointment with suspicion, trying to figure out why his predecessor, Hasit Joshipura, decided to step down or why wasn’t a GSK insider promoted to the post. Vaidheesh, however, has his job cut out with GSK’s ambitious growth plans for and commitment to India. And, given that he has the backing from CEO Andrew Witty, it might be a smooth ride.



**A. Vaidheesh**  
MD, GSK Pharma

## Challenging Call

For over two months when the office of the Telecom Regulatory Authority of India (TRAI) Chairman was lying vacant, things almost came to a standstill. The government recently appointed bureaucrat **R.S. SHARMA** to head the regulatory body, and get moving on some key stalled issues. In March, TRAI released a consultation paper on net neutrality seeking responses from stakeholders. It will now have to give its recommendation on the matter to the Department of Telecommunications following which a new policy on net neutrality will be drafted. The regulator also has the tough task of balancing the demands of telecom operators and OTT (over-the-top) players. Sharma has, in the past, played an instrumental role in implementing the Aadhaar project and designing the ambitious Digital India programme.

**R.S. Sharma**  
Chairman, TRAI



SHEKHAR GHOSH



**Rohit Ohri**  
Chairman, FCB Ulka

## Greener Pastures

Adman, **ROHIT OHRI** is all set to don a new role as the Group CEO and Chairman of FCB Ulka. Ohri’s gameplan at the Interpublic Group’s advertising agency will be to give it the much-needed facelift. Taking businesses to the next level is something that Ohri excels in, say his industry colleagues. When he took over as the CEO of Dentsu Asia Pacific four years ago, it was a small agency largely servicing Japanese brands. He not only enriched the agency’s client portfolio, but with acquisitions of creative boutiques, such as Taproot, also made Dentsu a formidable creative force.



Full interview with Jawahar Goel at [businessday.in/dishtv-goel](http://businessday.in/dishtv-goel)



VIVAN MEHRA

India's first DTH service provider, Dish TV, has started making profits after a long wait of 11 years. The Chairman of the ₹2,733-crore company, **Jawahar Goel**, tells **Ajita Shashidhar** about the company's challenging journey. Edited Excerpts:

## ***“I was constantly apologetic to shareholders”***

### ***Were you prepared for such a long gestation period?***

No businessman will knowingly get into a business with such a long gestation period. We were a victim of policy paralysis. We were subject to all kinds of taxes. Over 35 per cent of our revenue was paid as taxes. Also, TAM never reported the weightage of DTH. We didn't get high carriage fee from broadcasters that cable companies got. I was constantly apologetic to my shareholders as I wasn't able to give them good enough returns.

### ***Did you ever want to get out of the business?***

There was no going back after investing so much in the business.

### ***The DTH industry has been registering robust***

### ***growth. Has the delay in third and fourth phases of digitisation helped?***

Digitisation will always be a slow process. For third and fourth phases, no cable company has the wherewithal to invest. In Phase I and II, most DTH companies overestimated conversions. We invested just 10 to 15 per cent more than we usually do. I can't really attribute our growth to the delay in digitisation. We grew more due to our efforts to expand the market.

### ***Will 4G be a threat to DTH companies?***

I don't think so. I am in the business of 'push content' while 4G will be more about 'pull content' (user-generated content). When it comes to 'push content', DTH can offer content for as low as 50 paise per day. ♦



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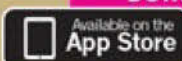
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"RBI may cut rates if rains remain good, there are no global shocks"



Illustration: RAJ VERMA



A low-down on how your funds  
performed in 2014/15.

By TANVI VARMA



A

fter being in stupor for years, the Indian stock market gained ground in 2014, owing to the election of a majority government at the Centre. From March 2014 to March 2015, the Bombay Stock Exchange (BSE) Sensex rose from 22,400 to 28,500. Although this translates into a gain of 25 per cent, mutual funds that invest in stocks did better. As our latest edition of annual mutual fund rankings by *Valueresearch* shows,

they beat all asset classes, with large-cap funds delivering an average return of 31 per cent, large- and mid-cap funds 43 per cent and multi-cap funds 48 per cent. The outperformer was the mid- and small-cap category, which returned 67 per cent, followed by tax planning funds (47 per cent).

Among sector funds, pharmaceutical funds topped with 67 per cent returns. Infrastructure funds were close behind with 52 per cent returns as the government's thrust on building infrastructure pushed up stocks in the sector. Banking funds followed with 41 per cent returns owing to reduction in interest rates by the Reserve Bank of India

## THE BEST OF THE LOT

We bring you top five funds from each category along with their rating scores and returns (in %)

### Equity: Banking

| Scheme Name   | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| ICICI Prudential Banking and Financial Services Fund - Regular Plan | 0.91         | ★★★★★  | 1          | 52.07  | 28.57  | 18.76  | -       | <b>2.67</b>       |
| Reliance Banking Fund   | 0.49         | ★★★★★  | 2          | 49.61  | 23.02  | 17.27  | 21.36   | <b>2.34</b>       |
| Religare Invesco Banking Fund                                       | 0.47         | ★★★★★  | 2          | 46.43  | 22.51  | 15.24  | -       | <b>2.98</b>       |
| R*Shares Banking ETF  | 0.45         | ★★★    | 3          | 43.89  | 22.69  | 15.18  | -       | <b>0.22</b>       |
| Goldman Sachs Banking BeES Fund                                     | 0.33         | ★★★    | 3          | 43.46  | 21.50  | 14.19  | 18.44   | <b>0.54</b>       |

### Equity: Infrastructure

| Scheme Name   | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| Franklin Build India Fund                                     | 1.60         | ★★★★★  | 1          | 84.95  | 36.68  | 20.16  | -       | <b>2.92</b>       |
| Religare Invesco Infrastructure Fund                          | 0.78         | ★★★★★  | 1          | 76.63  | 26.52  | 12.29  | -       | <b>3.05</b>       |
| Kotak Infrastructure and Economic Reform Fund - Standard Plan | 0.37         | ★★★★★  | 2          | 62.75  | 21.46  | 11.66  | -       | <b>2.61</b>       |
| Canara Robeco Infrastructure Fund - Regular Plan              | 0.36         | ★★★★★  | 2          | 65.97  | 20.54  | 12.43  | -       | <b>2.99</b>       |
| Birla Sun Life Infrastructure Fund                            | 0.34         | ★★★★★  | 3          | 54.64  | 22.24  | 9.48   | -       | <b>2.51</b>       |

### Equity: Large & Mid Cap

| Scheme Name   | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| SBI Bluechip Fund                                     | 0.53         | ★★★★★  | 1          | 48.30  | 27.22  | 15.00  | -       | <b>2.39</b>       |
| ICICI Prudential Indo Asia Equity Fund - Regular Plan | 0.47         | ★★★★★  | 1          | 45.98  | 24.42  | 16.29  | -       | <b>2.71</b>       |
| L&T Equity Fund                                       | 0.43         | ★★★★★  | 2          | 48.21  | 22.92  | 15.48  | -       | <b>2.26</b>       |
| BNP Paribas Equity Fund                               | 0.42         | ★★★★★  | 2          | 53.40  | 26.37  | 17.57  | 18.06   | <b>2.62</b>       |
| Religare Invesco Dynamic Equity Fund                  | 0.40         | ★★★★★  | 1          | 35.88  | 24.05  | 13.44  | -       | <b>2.91</b>       |

Data as on March 31, 2015; Source: Valueresearch

**Equity: Large Cap**

| Scheme Name  | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|--|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| Axis Equity Fund   | 0.48         | ★★★★★  | 1          | 34.30  | 23.49  | 13.39  | -       | <b>2.32</b>       |
| UTI Equity Fund  | 0.46         | ★★★★★  | 2          | 43.29  | 23.51  | 16.31  | 18.43   | <b>2.20</b>       |
| JP Morgan India Equity Fund                                  | 0.39         | ★★★★★  | 1          | 44.35  | 22.19  | 14.28  | -       | <b>2.56</b>       |
| Religare Invesco Business Leaders Fund                       | 0.37         | ★★★★★  | 2          | 43.81  | 22.43  | 13.07  | -       | <b>3.02</b>       |
| ICICI Prudential Focused Bluechip Equity Fund - Regular Plan | 0.33         | ★★★★   | 2          | 36.29  | 21.82  | 15.72  | -       | <b>2.19</b>       |

**Equity: Mid & Small Cap**

| Scheme Name                                       | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| Franklin India Smaller Companies Fund             | 0.57         | ★★★★★  | 1          | 77.23  | 41.12  | 23.71  | -       | <b>2.45</b>       |
| SBI Magnum Midcap Fund                            | 0.42         | ★★★★★  | 2          | 64.11  | 38.03  | 21.36  | 19.04   | <b>2.54</b>       |
| Mirae Asset Emerging Bluechip Fund - Regular Plan | 0.41         | ★★★★★  | 1          | 70.38  | 36.18  | -      | -       | <b>2.50</b>       |
| BNP Paribas Midcap Fund                           | 0.37         | ★★★★★  | 1          | 66.94  | 33.60  | 22.93  | -       | <b>2.83</b>       |
| JP Morgan India Mid and Small Cap Fund            | 0.34         | ★★★★★  | 2          | 81.61  | 36.77  | 23.14  | -       | <b>2.54</b>       |

**Equity: Multi Cap**

| Scheme Name   | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| Franklin India High Growth Companies Fund               | 0.93         | ★★★★★  | 1          | 73.45  | 35.04  | 19.50  | -       | <b>2.45</b>       |
| Tata Ethical Fund - Regular Plan                        | 0.76         | ★★★★★  | 1          | 47.25  | 25.97  | 16.67  | 19.31   | <b>2.97</b>       |
| L&T India Value Fund                                    | 0.71         | ★★★★★  | 2          | 70.68  | 31.13  | 18.01  | -       | <b>3.03</b>       |
| Mirae Asset India-China Consumption Fund - Regular Plan | 0.59         | ★★★★   | 1          | 45.22  | 26.78  | -      | -       | <b>2.77</b>       |
| BNP Paribas Dividend Yield Fund                         | 0.51         | ★★★★   | 1          | 54.86  | 25.19  | 17.77  | -       | <b>2.82</b>       |

Data as on March 31, 2015; Source: Valueresearch

(RBI). But the sector was plagued by the underperformance of PSU banks owing to their high non-performing assets. Returns from technology funds were slightly subdued (33 per cent) compared to others owing to the cyclicity of rupee earnings and investors' preference for other high-beta sectors. Funds that invest in the fast-moving consumer goods companies delivered 26 per cent returns.

However, investors must understand that these returns average out over the long run and they must invest based on their risk profile and investment objective. For first-time investors, large-cap diversified equity funds are the best, as they have lower volatility. Further, they should stay neutral about short-term market movements and continue to invest systematically for the long term. Investing through the systematic route and diver-

sifying across asset classes is the best way to deal with market volatility.

Debt funds also gave double-digit returns as the RBI cut interest rates by 50 basis points from eight per cent in December 2014 to 7.50 per cent. Fall in interest rates and yields is good news for bond investors as interest rates and bond prices share an inverse relationship; a fall in interest rates leads to a rise in bond prices, increasing net asset values of income funds. However, of late, some volatility has returned to the market due to global sell-off in debt markets, including in India, concerns over increase in US interest rates and uncertainty about monsoon and, hence, inflation. These have led to an increase in bond yields.

Hence, it may be prudent to invest in these funds based on your risk profile and objective. In-



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**Equity: Tax Planning**

| Scheme Name                                   | Rating Score | Rating | Risk Grade | 1 Year | 3 Year | 5 Year | 10 Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| Axis Long Term Equity Fund                    | 0.84         | ★★★★★  | 1          | 62.03  | 35.36  | 23.41  | -       | <b>2.46</b>       |
| ICICI Prudential R.I.G.H.T. Fund              | 0.84         | ★★★★★  | 1          | 59.01  | 33.12  | 22.98  | -       | <b>2.97</b>       |
| SBI Tax Advantage Fund - Series II            | 0.59         | ★★★★★  | 3          | 58.53  | 32.57  | -      | -       | <b>2.93</b>       |
| IDFC Tax Advantage (ELSS) Fund - Regular Plan | 0.48         | ★★★★★  | 1          | 54.45  | 29.02  | 17.35  | -       | <b>2.88</b>       |
| BNP Paribas Long Term Equity Fund             | 0.42         | ★★★★★  | 2          | 56.73  | 27.99  | 18.48  | -       | <b>2.89</b>       |

**Debt: Liquid**

| Scheme Name                           | Rating Score | Rating | 3-Month | 6-Month | 1-Year | 3-Year | Expense Ratio (%) |
|---------------------------------------|--------------|--------|---------|---------|--------|--------|-------------------|
| JM High Liquidity Fund                | 1.23         | ★★★★★  | 2.15    | 4.38    | 9.03   | 9.25   | <b>0.23</b>       |
| Tata Money Market Fund - Regular Plan | 1.23         | ★★★★★  | 2.14    | 4.35    | 8.99   | 9.30   | <b>0.35</b>       |
| Indiabulls Liquid Fund                | 1.22         | ★★★★★  | 2.11    | 4.34    | 9.01   | 9.24   | <b>0.31</b>       |
| Sundaram Money Fund - Regular Plan    | 1.20         | ★★★★★  | 2.13    | 4.33    | 8.98   | 9.23   | <b>0.12</b>       |
| Axis Liquid Fund - Institutional Plan | 1.20         | ★★★★★  | 2.13    | 4.34    | 8.99   | 9.21   | <b>0.07</b>       |

Data as on March 31, 2015; Source: Valueresearch

vestors with a short-term horizon of less than six months could invest in ultra short-term plans. For an investment horizon of six months to one year, they can look at short-term income plans. For a medium-term horizon of one year and more, accrual funds (that focus on interest payouts) could be a suitable investment. Investors with a longer horizon of more than three years can invest in duration funds, which gain from capital appreciation as well as earn interest income.

We bring you a detailed analysis of how funds in each category fared in 2014/15.

**EQUITY FUNDS**

Returns from the large-cap equity category have been in line with the rise in the Sensex with top performers delivering between 30 per cent and 40 per cent. Out of 83 schemes in the category, two-thirds beat the 27 per cent returns given by the Nifty for the year ended March 2015. The worst-performing fund equity returned 14 per cent. Axis Equity Fund, the top performer, returned 34 per cent, followed by UTI Equity Fund and JP Morgan India Equity Fund, which returned 43 per cent and 44 per cent, respectively. These are closely followed by Religare Invesco Business Leaders Fund and ICICI Prudential Focused Bluechip Fund. JP Morgan Equity Fund, Religare Invesco Business Leaders Fund and LIC Nomura Growth Fund are the new entrants in the top 10 list this time.

Large & mid-cap funds, which invest 60-80 per

cent money in large caps and the rest in mid-caps, did better than the large-cap funds and returned 43 per cent on an average. Top-rated funds in the category, SBI Bluechip Fund (highest score), ICICI Prudential Indo Asia Equity Fund and L&T Equity Fund, delivered more than 45 per cent. BNP Paribas Equity Fund, SBI Magnum Multiplier, Franklin India Flexi Cap and The Prima Plus returned in excess of 50 per cent. Religare Invesco Dynamic Fund is the new entrant in the top 10 list this year along with Tata Equity Opportunities Fund.

Mid-cap and small-cap funds have done wonders to investors' portfolios. These invest in mid-cap and small-cap companies, which are more volatile than the large-cap companies. The risk paid off in 2014/15. The category gave returns of 66 per cent, much more than the 50 per cent rise in the CNX Midcap Index and the 52 per cent spike in the CNX Smallcap Index. Franklin India Smaller Companies Fund has been consistently featuring among the top 10 in the category. It returned 77 per cent during the year. In terms of returns, DSP Black Rock Micro Cap fund beat the rest with a return of 98 per cent. JP Morgan India Mid and Small Cap Fund, a new entrant in the top 10 list, gave returns of 82 per cent. These have done exceedingly well over the last five years, returning more than 20 per cent every year. Some of the last year's top 10 players, IDFC Premier Equity, SBI Emerging Businesses and Axis Mid Cap, have slipped this year. However, they continue to do well.



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**Debt: Ultra Short Term**

| Scheme Name   | Rating Score | Rating | 3-Month | 6-Month | 1-Year | 3-Year | Expense Ratio (%) |
|---|--------------|--------|---------|---------|--------|--------|-------------------|
| Taurus Short Term Income Fund - Regular Plan                    | 1.34         | ★★★★★  | 2.23    | 4.61    | 9.75   | 10.04  | <b>0.69</b>       |
| Taurus Ultra Short Term Bond Fund - Regular Plan                | 1.26         | ★★★★★  | 2.34    | 4.69    | 9.58   | 9.85   | <b>0.24</b>       |
| Franklin India Ultra Short Bond Fund - Super Institutional Plan | 1.19         | ★★★★★  | 2.46    | 4.88    | 9.90   | 10.08  | <b>0.30</b>       |
| Religare Invesco Credit Opportunities Fund                      | 1.15         | ★★★★★  | 2.21    | 4.49    | 9.45   | 9.64   | <b>0.50</b>       |
| DWS Ultra Short Term Fund                                       | 1.06         | ★★★★★  | 2.29    | 4.65    | 9.57   | 9.77   | <b>0.40</b>       |

**Debt: Short Term**

| Scheme Name   | Rating Score | Rating | 3-Month | 6-Month | 1-Year | 3-Year | Expense Ratio (%) |
|---|--------------|--------|---------|---------|--------|--------|-------------------|
| Birla Sun Life Treasury Optimizer Fund - Regular Plan | 0.63         | ★★★★★  | 2.56    | 6.57    | 12.37  | 10.70  | <b>0.35</b>       |
| Franklin India Low Duration Fund                      | 0.58         | ★★★★★  | 2.48    | 4.97    | 10.11  | 9.93   | <b>0.73</b>       |
| Franklin India Short Term Income Plan - Retail Plan   | 0.55         | ★★★★★  | 2.65    | 6.18    | 11.79  | 10.44  | <b>1.54</b>       |
| Birla Sun Life Medium Term Plan                       | 0.50         | ★★★★★  | 2.67    | 6.15    | 11.89  | 11.17  | <b>1.56</b>       |
| DWS Low Duration Fund                                 | 0.41         | ★★★★★  | 2.11    | 4.62    | 9.66   | 9.10   | <b>0.86</b>       |

**Debt: Income**

| Scheme Name                                      | Rating Score | Rating | 3-Month | 6-Month | 1-Year | 3-Year | Expense Ratio (%) |
|--|--------------|--------|---------|---------|--------|--------|-------------------|
| ICICI Prudential Long Term Fund - Regular Plan   | 1.13         | ★★★★★  | 2.77    | 10.60   | 19.93  | 13.12  | <b>0.94</b>       |
| UTI Dynamic Bond Fund                            | 0.70         | ★★★★★  | 2.46    | 7.79    | 14.58  | 11.01  | <b>1.07</b>       |
| Franklin India Corporate Bond Opportunities Fund | 0.64         | ★★★★★  | 2.57    | 6.02    | 11.81  | 10.59  | <b>1.80</b>       |
| Franklin India Income Opportunities Fund         | 0.62         | ★★★★★  | 2.66    | 6.17    | 11.83  | 10.41  | <b>1.67</b>       |
| UTI Income Opportunities Fund                    | 0.45         | ★★★★★  | 2.48    | 5.70    | 11.37  | -      | <b>1.70</b>       |

Data as on March 31, 2015; Source: Valueresearch

Multi-cap funds have a wide mandate. They invest without any sector or market-cap bias and so have more room for stock selection than others. The average category returns are 48 per cent. Tata Ethical Fund and Mirae Asset India-China Consumption Fund continue to be in the top 10, returning 47 per cent and 45 per cent, respectively. The top fund in the category is a new entrant, Franklin India High Growth Companies Fund, with a score of 0.93 and returns of 73 per cent. Dividend yield funds also fall in this category as they invest in companies with different market capitalisations. BNP Paribas Dividend Yield Fund returned 55 per cent during the year. Birla Sun Life Advantage Fund replaced last year's top performer, Birla Sun

Life Equity Fund. Most other funds continued to be in the same slot as last year.

Tax-planning funds, also known as equity-linked savings schemes, are eligible for income tax deduction under Section 80C of the Income Tax Act (up to ₹1.5 lakh). The category delivered average returns of 47 per cent in 2014/15, comparable to many large-cap, mid-cap and multi-cap funds. In the category, Axis Long Term Equity maintained its top slot with a score of 0.84 and a low risk grade. It returned 62 per cent. Its closest followers are ICICI Prudential R.I.G.H.T. Fund, SBI Tax Advantage Fund - Series II and BNP Paribas Long Term Equity Fund – they all returned around 59 per cent. While Quantum Tax



**Debt: Gilt Short Term**

| Scheme Name  | Rating Score | Rating | 3-Month | 6-Month | 1-Year | 3-Year | Expense Ratio (%) |
|--|--------------|--------|---------|---------|--------|--------|-------------------|
| SBI Magnum Gilt Fund - Short Term Plan                           | 1.69         | ★★★★★  | 2.75    | 7.67    | 13.20  | 10.37  | <b>0.86</b>       |
| IDFC Government Securities Fund - Short Term Plan - Regular Plan | 1.23         | ★★★★★  | 2.62    | 6.92    | 12.56  | 10.93  | <b>0.45</b>       |
| Religare Invesco Gilt Fund - Short Duration Plan                 | 0.76         | ★★★★   | 2.08    | 4.91    | 9.30   | 10.42  | <b>0.50</b>       |
| Tata Gilt Short Maturity Fund - Regular Plan                     | 0.54         | ★★★★   | 2.38    | 6.00    | 11.15  | 9.36   | <b>1.59</b>       |
| ICICI Prudential Short Term Fund - Gilt Plan - Regular Plan      | 0.54         | ★★★★   | 2.24    | 6.22    | 11.76  | 8.71   | <b>0.73</b>       |

**Debt: Gilt Medium & Long Term**

| Scheme Name   | Rating Score | Rating | 3-Month | 6-Month | 1-Year | 3-Year | Expense Ratio (%) |
|---|--------------|--------|---------|---------|--------|--------|-------------------|
| Sundaram Gilt Fund - Regular Plan                                       | 0.41         | ★★★★★  | 2.43    | 8.20    | 12.63  | 14.75  | <b>2.56</b>       |
| SBI Magnum Gilt Fund - Long Term Plan                                   | 0.40         | ★★★★★  | 3.63    | 13.22   | 21.34  | 12.77  | <b>0.95</b>       |
| Birla Sun Life Gilt Plus - PF Plan                                      | 0.28         | ★★★★★  | 2.72    | 11.84   | 20.27  | 11.63  | <b>1.39</b>       |
| Tata Gilt Mid Term Fund - Regular Plan                                  | 0.17         | ★★★★★  | 2.89    | 10.00   | 16.72  | 11.68  | <b>1.10</b>       |
| ICICI Prudential Gilt Fund - Investment Plan - PF Option - Regular Plan | 0.17         | ★★★★★  | 2.98    | 12.08   | 20.31  | 10.66  | <b>0.81</b>       |

Data as on March 31, 2015; Source: Valueresearch

Saving Fund and Franklin India Tax Shield Fund fell out of the top 10 list, three new funds – BNP Paribas Long Term Equity Fund, IDFC Tax Advantage Fund and Birla SunLife Tax Relief 96 Fund – got a five-star rating this year.

Among sector funds, banking funds are being featured for second time in our annual mutual fund rankings, which is purely a function of their emergence in the last couple of years. The category delivered average returns of 41 per cent. The top performer, ICICI Prudential Banking and Financial Services Fund, returned 52 per cent. It is followed by Reliance Banking (49 per cent) and Religare Invesco Banking Fund (47 per cent). There has been a big divergence in performance of banking stocks with the overall banking index up 42 per cent in 2014/15, but the PSU Banks rising just 25 per cent. This can be attributed to volatility in interest rates and rising NPAs of government-owned banks.

Infrastructure funds have turned around in the last two years owing to the impetus the sector has got from the government. The 52 per cent category returns in the last one year made up for the three-year return of 17 per cent. However, on a five-year basis, the category has returned only seven per cent compared to 11 per cent a year rise in the Nifty. Franklin Build India Fund has scored the highest in the category again with 85 per cent

returns and lowest risk grade. It is the only fund that has managed to deliver 20 per cent a year on a five-year basis. The other fund with five-star rating in the category, Religare Invesco Infrastructure Fund, has moved up to the second place from fifth last year, returning 77 per cent. Kotak Infrastructure and Economic Reform Fund and Canara Robeco Infrastructure Fund returned above 60 per cent, though on a relatively higher risk base.

**TOP HYBRID FUNDS**

Hybrid equity-oriented funds delivered 37 per cent returns on an average. Known as balanced funds, they invest majority of assets (65 per cent) in equities and the rest in debt. These funds are taxed like equity funds (gains after one year and dividends are not taxed). The debt portion provides cushion when stock markets fall. That is why returns from these funds are less volatile than those from pure equity funds. The best performer, Tata Retirement Savings Fund, delivered a return of 58 per cent. It is a new entrant in the top 10 list. SBI Magnum Balanced Fund, Tata Balanced Fund and L&T India Prudence Fund returned 44 per cent, 53 per cent and 46 per cent, respectively. HDFC Balanced Fund continues in the top 10 list, followed by ICICI Prudential Balanced Fund and ICICI Prudential Balanced Advantage Fund. Franklin India Bal-

**Hybrid: Equity-oriented**

| Scheme Name                                   | Rating Score | Rating | Risk Grade | 1-Year | 3-Year | 5-Year | 10-Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| SBI Magnum Balanced Fund                      | 0.58         | ★★★★★  | 2          | 43.64  | 26.30  | 14.39  | 17.66   | <b>2.48</b>       |
| Tata Balanced Fund - Regular Plan             | 0.57         | ★★★★★  | 2          | 53.16  | 26.24  | 17.60  | 19.33   | <b>2.45</b>       |
| L&T India Prudence Fund                       | 0.55         | ★★★★★  | 1          | 45.83  | 24.43  | -      | -       | <b>2.93</b>       |
| ICICI Prudential Balanced Fund - Regular Plan | 0.40         | ★★★★★  | 2          | 38.61  | 23.45  | 17.21  | 16.58   | <b>2.46</b>       |
| HDFC Childrens Gift Fund - Investment Plan    | 0.39         | ★★★★★  | 2          | 37.36  | 22.67  | 19.46  | 17.29   | <b>2.50</b>       |

**Hybrid: Debt-oriented Aggressive**

| Scheme Name  | Rating Score | Rating | Risk Grade | 1-Year | 3-Year | 5-Year | 10-Year | Expense Ratio (%) |
|--|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| Escorts Opportunities Fund                             | 1.11         | ★★★★★  | 1          | 33.33  | 16.71  | 11.61  | 9.15    | <b>2.50</b>       |
| Birla Sun Life Monthly Income Plan II - Wealth 25 Plan | 0.44         | ★★★★★  | 2          | 27.09  | 15.74  | 11.66  | 10.42   | <b>2.36</b>       |
| UTI CCP Balanced Fund                                  | 0.34         | ★★★★★  | 3          | 27.95  | 16.46  | 12.21  | 11.86   | <b>1.92</b>       |
| UTI CRTS 81 Fund                                       | 0.33         | ★★★★★  | 2          | 19.68  | 13.94  | 12.12  | 11.03   | <b>1.76</b>       |
| Tata Young Citizens Fund - Regular Plan                | 0.32         | ★★★★★  | 3          | 33.15  | 16.41  | 11.99  | 12.99   | <b>2.73</b>       |

Data as on March 31, 2015; Source: Valueresearch

anced Fund and Birla Sun Life 95 Fund are back in the top 10 list, albeit with a little higher risk rating.

Hybrid debt-oriented funds invest a bigger chunk of investor money in debt and the rest in equities. They are called aggressive or conservative depending upon their allocation to equities. Among funds with a higher allocation to equities, Escorts Opportunities Fund has the highest score of 1.11. On a relatively lower risk base, the fund gave returns of 33 per cent. It is followed by Birla Sun Life Monthly Income Plan II - Wealth 25 Plan, which returned 27 per cent (with equity allocation of 25 per cent). Conservative funds were not too far behind, with ICICI Prudential Child Care Plan - Study Plan - Regular Plan, scoring the highest with a return of 31 per cent, followed by SBI Magnum Monthly Income Plan (19 per cent) and Franklin India Monthly Income Plan (22 per cent), albeit with relatively higher risk. Some conservative funds are better known as Monthly Income Plans. They invest just 15-25 per cent money in equities. They pay regular dividends but are not obliged to do that under the law.

**TOP DEBT FUNDS**

Liquid funds gave an average return of nine per cent, with top performing ones returning 9.2 per cent. As money market rates continued to be attractive, these returns are in line with those given by many ultra short-term funds. This category is

least affected by interest rate movements. Among liquid funds, JM High Liquidity Fund and Tata Money Market Fund have been rated five-star. They returned nine per cent each.

Ultra short-term funds delivered average returns of nine per cent, in line with the performance of liquid funds, owing to the short maturity of their underlying portfolio. The average maturity of ultra short-term funds over the last 12 months has been six months to one year, which makes it ideal for a similar investment horizon. Taurus Short Term Income Fund scored the highest with a return of 9.75 per cent. It qualified as an ultra short-term fund due to the tenure of papers held by it. There is an interesting candidate in the list, Religare Invesco Credit Opportunities Fund, a credit opportunities fund that has a portfolio of an ultra-short term fund. It returned 9.5 per cent.

Short-term funds delivered 10.5 per cent, better than liquid and ultra short-term funds, owing to the longer maturity of their underlying portfolios. The more the duration of a portfolio, the more the fund benefits from interest rate movements. These funds typically invest in debt papers. The average maturity of these papers in 2014/15 was between one year and 4.5 years. The best performing funds in this category are Birla Sun Life Treasury Optimizer Fund and Franklin Short Term Fund (12 per cent returns). Birla Sun Life Medium Term Plan also did well with 12 per cent returns.



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read all scheme related documents carefully.

## Hybrid: Debt-oriented Conservative

| Scheme Name   | Rating Score | Rating | Risk Grade | 1-Year | 3-Year | 5-Year | 10-Year | Expense Ratio (%) |
|---|--------------|--------|------------|--------|--------|--------|---------|-------------------|
| ICICI Prudential Child Care Plan - Study Plan - Regular Plan  | 2.02         | ★★★★★  | 2          | 31.31  | 19.14  | 14.93  | 13.47   | <b>1.43</b>       |
| SBI Magnum Monthly Income Plan - Floater                      | 0.96         | ★★★★★  | 1          | 18.52  | 12.37  | 10.17  | -       | <b>2.76</b>       |
| IDFC Asset Allocation Fund - Conservative Plan - Regular Plan | 0.62         | ★★★★★  | 1          | 17.27  | 11.89  | 9.60   | -       | <b>0.75</b>       |
| Franklin India Monthly Income Plan                            | 0.55         | ★★★★★  | 3          | 22.44  | 13.64  | 10.24  | 9.68    | <b>2.26</b>       |
| Canara Robeco Monthly Income Plan - Regular Plan              | 0.49         | ★★★★   | 2          | 19.04  | 12.32  | 10.17  | 12.16   | <b>2.55</b>       |

Data as on March 31, 2015; Source: Valueresearch

Debt income funds had a volatile year. In spite of this, they have given decent returns. The category average is 13 per cent with the top performing fund, ICICI Prudential Long Term Income Plan, returning 20 per cent. Many returned less than nine per cent, too, as they took conservative bets during the interest rate downturn. Dynamic bonds funds, which play on duration, did well during the period. They benefited from interest rate volatility. In the category, UTI Dynamic Bond Fund gave returns of 15 per cent.

Falling interest rates also benefit gilt funds. The 10-year government bond yield fell from 8.5 per cent at the end of 2014 to 7.7 per cent in January 2015. As a result, long-term gilt funds delivered 17 per cent returns on an average. The best performing fund in the category, SBI Magnum Gilt Fund, returned 21 per cent, followed by Bir-

la Sun Life Gilt Plus (20 per cent). Sundaram Gilt Fund, the new entrant in the top 10 list (it was in the short-term gilt fund category last year), returned 13 per cent on a relatively low-risk base. The fund's three-year performance (15 per cent returns) is better than that of its peers. IDFC G-Sec Funds are missing from this year's top 10. BNP Paribas Gilt Fund and Reliance Gilt Fund are the new entrants in the top 10 league with a superior performance of 19 per cent. The short-term gilt fund category returned nine per cent on an average with a few funds delivering more than 10 per cent. SBI Magnum Gilt Fund and IDFC Government Securities Fund returned 13 per cent each. The top 10 list in this category is more or less similar to last year's. ♦

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## VALUERESearch RANKING METHODOLOGY

There are 15 fund categories considered for this study. These have been ranked on the basis of risk-adjusted returns.

**RISK:** To calculate risk, monthly/weekly returns were compared with monthly risk-free returns for equity and hybrid funds; for debt funds, weekly risk-free returns were considered. State Bank of India's 46 to 90 days term deposit rate, which is 5.5%, was assumed as the risk-free return. For months/weeks that the fund had underperformed the risk-

free return, the magnitude of under-performance was added. This was then divided by the category average to get a risk score, which was ranked with those of other similar funds, and a relative risk score assigned.

**RETURNS:** Monthly/weekly returns of each fund (adjusted for dividend, bonus or rights) were compared with the monthly/weekly risk-free return to get the fund's total returns in excess of the risk-free return.

The monthly average risk-adjust-

ed return was then divided by the average category return for the return score. In case of negative category average, the risk-free return was used as the benchmark. The returns were then ranked with other funds of the same type and a relative return score assigned. All return estimates assumed reinvestment of dividend adjusted for bonus or rights.

Finally, a composite risk-return score was obtained by subtracting the risk score from the returns score.



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# How They Clicked

Top fund managers share their investment strategies and outlook.



**Pranav Gokhale**  
Fund Manager, Religare Invesco Mutual Fund

“Industrial stocks have witnessed re-rating over the past 18-24 months. Any further gains will now have to be backed by earnings growth”

## Religare Invesco Infrastructure Fund(G)

### Top holdings by industry (%)

|                                 |       |
|---------------------------------|-------|
| Power Generation/Distribution   | 15.16 |
| Engineering - Construction      | 11.35 |
| Telecom Service Providers       | 6.59  |
| Gas Transmission/Marketing      | 6.54  |
| Cement & Construction Materials | 5.86  |

### Top holdings by companies (%)

|                                 |      |
|---------------------------------|------|
| Power Grid Corporation of India | 8.12 |
| Idea Cellular                   | 6.59 |
| Bharat Forge                    | 4.67 |
| Larsen & Toubro                 | 4.31 |
| Gujarat State Petronet          | 4.21 |

**Fund objective:** Our strategy is to identify companies with strong fundamentals, healthy balance sheet, high return ratios and strong cash flow generation abilities that can emerge stronger as the cycle improves.

**Calls that worked:** Our bottom-up stock picking has helped us. The focus on healthy balance sheets has helped us avoid many accidents.

**Calls that didn't work:** A few investments in the utilities sector did not work. Aggressive bidding by these companies in the coal auctions hurt their financials. But we still find inherent value in some of these companies and remain invested.

**Preferred sectors:** Government-led capex in sectors such as roads, power transmission and logistics would drive growth for infrastructure companies. Industrial capex will be slower to recover.

**Outlook on the infrastructure sector:** The investment cycle will be slow to recover as capacity utilisation is low (60-70%). Data indicates a pick-up in ordering and tendering but this will take time to translate into sales and profit growth.





**Anoop Bhaskar**  
Head-Equity, UTI MF

“Investors can expect returns of 12% to 14% over the next few years”

**Fund objective:** The fund invests at least 70% in large cap and up to 30% in mid- and small-cap stocks. The aim is to achieve consistent returns

#### UTI Equity Fund(G)

##### Top holdings by industry (%)

|                                 |       |
|---------------------------------|-------|
| Bank - Private                  | 17.40 |
| IT - Software                   | 12.16 |
| Pharmaceuticals & Drugs         | 8.80  |
| Refineries                      | 5.96  |
| Cement & Construction Materials | 5.64  |

##### Top holdings by companies (%)

|                           |      |
|---------------------------|------|
| HDFC Bank                 | 6.24 |
| Infosys                   | 5.40 |
| ICICI Bank                | 4.47 |
| Tata Consultancy Services | 4.26 |
| Reliance Industries       | 3.43 |

through an established process.

**Calls that worked:** Our bets in the mid- and small-cap segment were critical in delivering strong numbers. We had invested into Sun Pharma

Advanced research four years ago, and the stock has moved from ₹60 to ₹440 in the last 18 months. In oil and gas, we invested into BPCL and IOC four-five years ago, which did very well when peers were investing into heavyweights like Reliance Industries and ONGC.

**Calls that didn't work:** We had some small-cap names like Bilcare, which lost 90% of its value.

**Preferred sectors:** We are overweight on automobiles and cement. The cement sector is poised to benefit from the infrastructure boom over the next five to seven years. We have lower exposure to metals due to uncertainty in China but we are positive on coal.

**Outlook:** Valuations are fairly robust and a normal monsoon should translate into above-average festival season. Investors can expect returns of 12% to 14% over the next few years.

**Fund objective:** To offer a healthy mix of Indian equities and Asian leaders (ex-Japan). The Indian part of the fund is managed as a flexi-cap fund and seeks to benefit from diversifica-

#### ICICI Pru Indo Asia Equity Fund-Reg(G)

##### Top holdings by industry (%)

|                         |       |
|-------------------------|-------|
| Bank - Private          | 19.93 |
| Pharmaceuticals & Drugs | 8.49  |
| Tyres & Allied          | 5.63  |
| Shipping                | 4.94  |
| IT - Software           | 4.40  |

##### Top holdings (%)

|   |       |
|---|-------|
| Eastspring Investment Asian Equity Fund - Class E | 24.75 |
| HDFC Bank   | 7.53  |
| Dr. Reddy's Laboratories                          | 5.84  |
| Apollo Tyres                                      | 5.63  |
| ICICI Bank  | 5.28  |

“Improving macroeconomic fundamentals and a stable government could see equities deliver reasonable returns over the next 3-5 years”

**S. Naren**  
CIO, ICICI Prudential AMC



tion across sectors. This combines the merits of targeting higher returns from mid-cap companies and the relative stability of large caps.

**Calls that worked:** Select picks in private sector financials and smaller-sized banks boosted performance.

**Calls that didn't work:** Investments in some metal companies have not yet played out. However, over the next one year, we expect these investments contributing positively.

**Preferred sectors:** We are overweight on financials and technology. A cyclical revival could eventually happen. Consequently, cyclical sectors like infrastructure and financials could do well in the long term. Also, the technology sector, which has been hurt by the rupee's rise against the euro, is likely to benefit because we believe that the local unit is not likely to continuously appreciate against the European common currency.



**Shreyash Devalkar**  
Fund Manager - Equities, BNP Paribas MF

“Companies create wealth, not markets”

**Fund objective:** To generate long-term capital growth from a diversified and actively managed portfolio of equities. Our investment philosophy of focusing on the BMV (Business – Management – Valuations) frame-

#### BNP Paribas Long Term Equity Fund(G)

##### Top holdings by industry (%)

|                           |       |
|---------------------------|-------|
| Telecom Service Providers | 16.44 |
| Bank - Private            | 15.72 |
| IT - Software             | 8.80  |
| Pharmaceuticals & Drugs   | 7.82  |
| Others                    | 5.46  |

##### Top holdings (%)

|               |      |
|---------------|------|
| Idea Cellular | 7.92 |
| Bharti Airtel | 7.55 |
| HDFC Bank     | 7.07 |
| CBLO          | 4.66 |
| Infosys       | 3.59 |

work to select companies for our portfolio has helped deliver consistent performance.

**Calls that worked:** Over the last one year our stock selection in various sectors including consumer, energy,

financials, healthcare and industrials has been good.

**Preferred sectors:** We are positive on private-sector banks, telecom, and companies benefiting from low crude oil prices. Private-sector banks having superior asset quality are best placed to benefit from revival in growth. The telecom sector is expected to benefit from multifold growth in data usage. Falling crude oil prices are expected to benefit some companies in the oil and gas sector as well as consumers of crude derivatives. We are underweight on metals and mining, IT and FMCG sectors.

**Outlook:** The positive impact of structurally positive steps taken up by the government is slow and the earnings growth recovery will also be gradual. At current valuations the market appears expensive, but we are focused on investing in high-growth companies to generate superior returns.

**Fund objective:** The hybrid fund is run largely from a bottom-up perspective. It runs on a fixed equity-to-debt allocation of 75:25. The debt part is managed dynamically. The equity part is managed as a multi-cap strategy with at least 40% in large caps. The balance is mid and small caps.

**Calls that worked:** For the year ended June 2015, equity contributed 85% to total returns. The top attributors were Ramkrishna Forgings, Eicher Motors and Sundaram Clayton.

**Calls that didn't work:** Excluding the negative attribution from benchmark stocks we were underweight on, the worst attributors were GMDC, cash and Tata Motors.

**Preferred sectors:** Health care and consumer discretionary. The former is driven by the US patent cliff and reasonably attractive Indian and rest of the world business. Consumer discretionary is a pro-cyclical view and a

We are underweight on materials and utilities owing to growth concerns and leverage issues”

**R. Srinivasan**  
Head - Equities, SBI MF



#### SBI Magnum Balanced Fund-Reg(G)

##### Top holdings by industry (%)

|                |      |
|----------------|------|
| Finance - NBFC | 8.82 |
| Bank - Private | 8.55 |
| Unspecified    | 6.89 |
| IT - Software  | 6.54 |
| Auto Ancillary | 4.55 |

##### Top holdings (%)

|                                |      |
|--------------------------------|------|
| HDFC Bank                      | 4.44 |
| SBI Premier Liquid-Direct Plan | 4.33 |
| 08.32% G01 - 02-Aug-2032       | 3.56 |
| 08.28% G01 - 21-Sep-2027       | 3.53 |
| P&G Hygiene & Health Care      | 3.13 |

function of disparate stock picks.

**Outlook:** We are underweight on materials and utilities owing to uncertainty over global growth, in particular the volatility in China, and leverage issues.



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\*At present the annual average of investment in equity shares of domestic companies by the scheme is below 65% of the investible funds and The scheme is classified as Non-Equity Oriented Fund for the purpose of taxation. The scheme will become an equity oriented fund when the annual average of investment in equity shares of domestic companies exceeds 65% of the investible funds. Investors are requested to refer to the SID of the scheme for tax implications.

<sup>#</sup> Referred as PE Based Valuation Overlay to Net Long Equity Allocation in the Scheme Information Document of the Scheme.

**Mutual Fund investments are subject to market risks,  
read all scheme related documents carefully.**





**Manish Banthia**  
Fund Manager, ICICI Prudential AMC

“The shorter-term rates have already fallen and this could be an opportune time to invest in funds with three years and above maturity profile”

#### ICICI Pru Long Term Income Plan-Reg(G)

##### Breakup of portfolio (%)

|                               |       |
|-------------------------------|-------|
| Cash and Cash Equivalent      | 0.83  |
| Others                        | 33.75 |
| Power Generation/Distribution | 4.87  |
| Unspecified                   | 60.56 |

##### Top holdings (%)

|                          |       |
|--------------------------|-------|
| 08.60% GOI - 02-Jun-2028 | 40.55 |
| 08.30% GOI 2040          | 21.37 |
| 08.30% GOI - 31-Dec-2042 | 18.33 |
| 08.83% GOI - 12-Dec-2041 | 6.43  |
| 08.24% GOI -15-Feb-2027  | 2.42  |

**Fund objective:** To generate capital appreciation by dynamically managing duration based on the in-house Current Account model and yield levels of government securities (G-Secs).  
**Calls that worked:** In 2013, when the current account index was in the

negative territory, we maintained an underweight stance on duration. This helped the fund, as during the June-to-December 2013 period bond yields shot up. In 2014, when the index began improving, the fund increased its duration, which aided performance.

**Investment:** More than 84% is invested in G-Secs while 10% is in AAA and equivalent corporate securities and 5% in CBLO and current assets.

**Outlook:** Deflationary forces are strong all over the world, and in any deflationary environment the preferred asset class to invest in is fixed income with focus on higher duration. India could be a huge beneficiary of this and inflation will be low in coming months. Also, credit growth is low and banks can invest incremental deposits into gilts rather than lend to already distressed companies. This has the potential to improve the demand-supply dynamics for G-Secs.

**Fund objective:** To generate regular income via dedicated investments in gilts while preserving capital.

**Calls that worked:** Last year was good for long-term fixed-income funds as 10-year government bond yields fell from 8.5% to lows of 7.7%. Yields have since risen back due to

#### Sundaram Gilt Fund(G)

##### Breakup of portfolio (%)

|                          |       |
|--------------------------|-------|
| Cash and Cash Equivalent | 2.17  |
| Other                    | 14.53 |
| Unspecified              | 83.30 |

##### Top holdings (%)

|                                  |       |
|----------------------------------|-------|
| 08.24% GOI - 10-Nov-2033         | 26.61 |
| 08.83% GOI - 25-Nov-2023         | 21.65 |
| 08.05% Gujarat SDL - 25-Feb-2025 | 11.68 |
| 08.28% GOI - 21-Sep-2027         | 11.62 |
| 08.17% GOI - 01-Dec-2044         | 10.63 |

“India is better buffered to face any global volatility due to the highest-ever forex reserves and comfortable current account deficit”

**Sandeep Agarwal**  
Fund Manager (Fixed Income), Sundaram MF

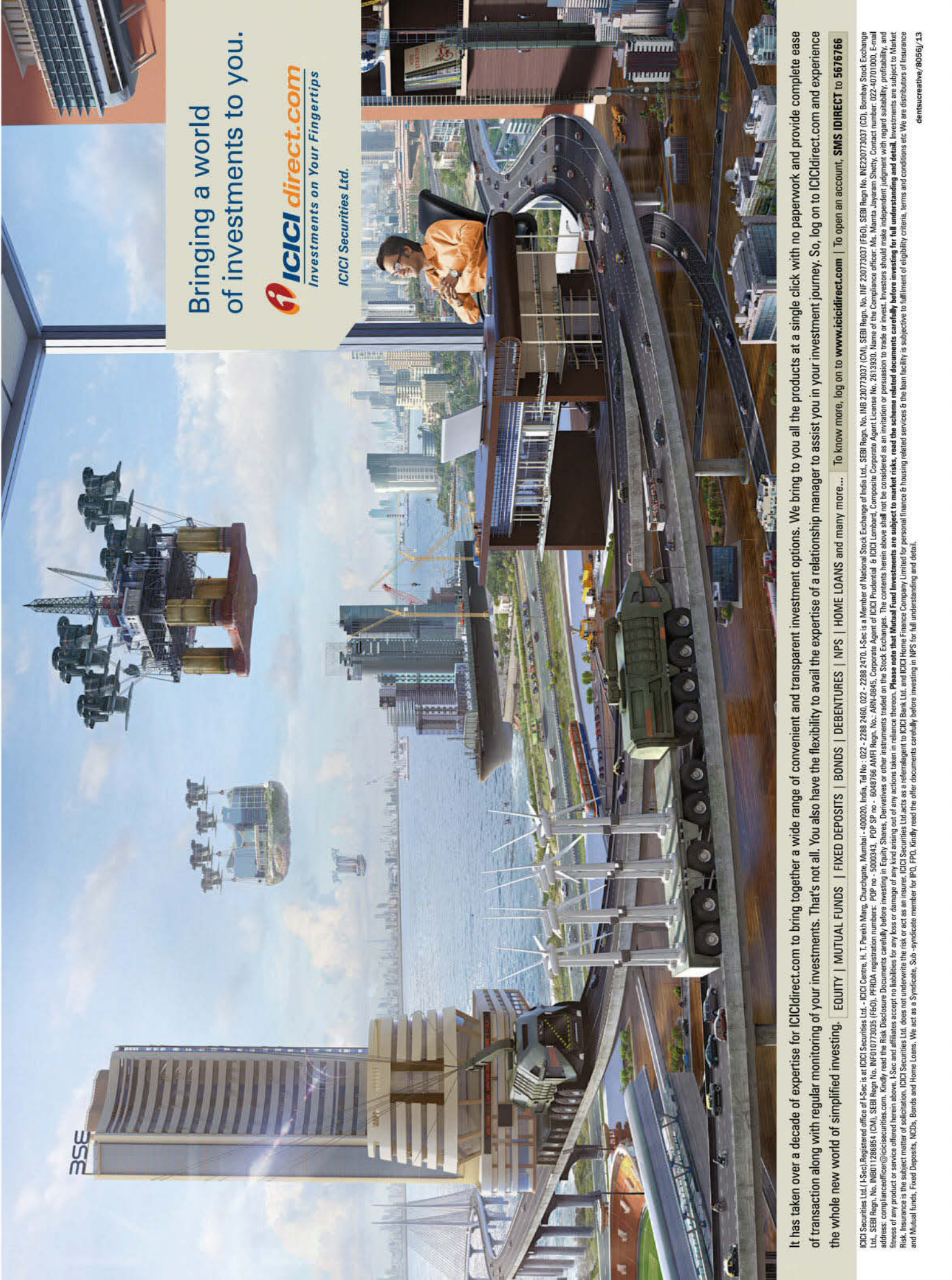


various global factors as well as concerns over domestic inflation. This resulted into spreads widening on longer-duration bonds (15-30 years) compared to the 10-year benchmark bond. We anticipated this and reduced our exposure to longer-maturity bonds, which worked well in terms of reducing volatility and giving investors better risk-adjusted returns.

**Calls that didn't work:** We could have made higher allocation to long-maturity bonds initially when yields on long bonds were at peak. However, with our mandate to deliver competitive returns with low volatility, this was not the most suitable option.

**Outlook on interest rates:** We expect the RBI to cut rates by another 25bps some time in the current financial year, most likely in the later part of the year. Long-term investors should stay invested as it's not the time to exit fixed-income funds.





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# FINANCIAL PLANNING in Nine Steps

You can get what you wish for by making the right investments.  
You just need to get your priorities right. By TEENA JAIN KAUSHAL

**Y**ou are young and healthy. You want to splurge on the latest mobile phone, an expensive watch or a large screen TV. Saving is not your priority and financial planning is not on the top of your mind. Well, the biggest mistake most youngsters make today is to not talk about their finances and investments. Remember, the more you delay things, the more you will have to save monthly later on. For example, if you are 20 and want ₹5 crore by the time you are 60, you will have to save just ₹4,207 a month for the next 40 years, assuming the rate of return is 12 per cent. If you are 25 then you will have to almost double your savings, i.e., ₹7,698 every month for the next 35 years. It is, therefore, important to understand the need of saving regularly from the beginning. Here are a few tips on how you can manage your finances better.

## 1. IDENTIFY YOUR GOALS

Before you start investing, always ask what do you want to save for. Is it for your retirement? Is it for putting your children through college? Is it for buying a house? Experts say identifying goals help people in contributing regularly towards their goals. Aimless investing sometimes prompts people to break their investments and use it for less important things. For example, the money which you have been using to build a house should never be used for buying a car. Goal-oriented investments also help in making the right choices. For example, if you are young, you could invest a large portion of your savings in equities. Past performances indicate that equity tends to perform better than all other asset classes in the long run.

## 2. MAKE A BUDGET

You should have an estimate of your monthly expenses. How much your family spends on



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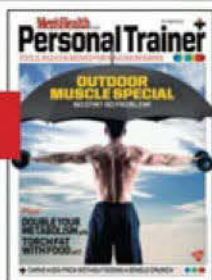
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groceries? How much is spent on your childrens' school fees? How much goes in entertainment, etc.? The best way is to prepare an excel sheet and list down all your monthly expenses. There are various apps that help you track your budget. Once you figure out how much your monthly expenses are, you will find yourself in a better position to invest your money.



## 3. CREATE AN EMERGENCY FUND

Emergencies, such as a job loss or an accident, come unannounced. You need to maintain a contingency fund for such situations. The thumb rule says that you should set aside at least six months of your take home salary as an emergency fund. The next question is where to invest. You can park your emergency funds in those liquid assets that can be turned into cash quickly without the loss of principal. You can put some portion in savings accounts linked to fixed deposit or liquid funds. It is also advisable to put around 10 to 15 days monthly expenses as cash at home to meet emergencies, such as floods, sudden hospitalisation, among other things.

## 4. BUY INSURANCE

When an earning member of the family dies, the whole family suffers a setback. It is, therefore, important to buy a life insurance policy. The question is how much cover should one have. The ideal figure, say experts, is at least 10 times the annual salary. This will give the family a cushion of 10 years to adjust to the new financial reality. For example, if your annual salary is ₹10 lakh, the cover should be at least ₹1 crore. Similarly, considering medical inflation is as high as 15 to 16 per cent, you need a health insurance policy with an adequate cover.

## 5. START EARLY

Starting early has many advantages. If you do that, your money gets more time to grow. Each

gain generates further returns called compounding, which can grow money exponentially over time. For example, if you start saving ₹5,000 per month at 20 and earn 12 per cent returns annually, you will have ₹5.94 crore when you retire at 60. But if you start at 30, you will be able to accumulate just ₹1.76 crore. The 10 additional years that you give your money to grow can do wonders for your financial well-being.

## 6. DIVERSIFY YOUR PORTFOLIO

Do not invest all your money in one basket. Invest in a mix of products so that your portfolio is not affected if one asset class is down. For example, don't put all your money in gold. Gold has given just six per cent over the last five years. Similarly, if you invest all your money in real estate, you might face difficulty in liquidating money.

## 7. SAVE FOR RETIREMENT

One common mistake people make is not saving for retirement. The attitude that you are too young to think about retirement or your kids will support you needs to be changed. You should start saving for retirement as early as possible to benefit from compounding. Never withdraw from Employees' Provident Fund, or EPF, unless it is very important as you save it for your retirement. Open a Public Provident Fund, or PPF, account and also invest in equities.

## 8. FIGHT INFLATION

It is important to understand the impact of inflation on your financial goals. Inflation reduces your purchasing power substantially. Assuming a seven per cent inflation, ₹1 lakh today will be worth ₹13,000 after 30 years. Ignoring inflation means you will save much less than what you will need years down the line. If you spend ₹50,000 every month at 30, you will need ₹3.81 lakh a month at 60, assuming annual inflation rate of seven per cent. You have to invest in such a way that you beat inflation, i.e., earn returns that are at least a couple of percentage points above the inflation rate.

## 9. CONTROL DEBT

Pay your credit card and other pending bills on time. The interest rates on credit cards are very high. So instead of piling up, get rid of the debt first. ♦

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# HAS GOLD HIT

Gold prices have dropped over the past two years, but investors should

**O**ver the past four years, gold has given an annualised return of only 6.5 per cent to investors. The yellow metal was at ₹25,100 per 10 gram on July 22, 2015 against ₹18,250 on July 22, 2010. Gold funds have been the worst-performing asset class over the past year compared to equity and debt (See *Lagging Behind*). The precious metal has also underperformed all other asset classes over the past three- and five-year periods.

In dollar terms, the price of gold was \$1,100 per ounce on July 20, a five-year low, compared to its high of \$1,900 in September 2011. According to Naveen Mathur, Associate Director for Commodities and Currencies at Angel Broking, the fall can be largely attributed to the brightening prospects of a rise in US borrowing cost in 2015 for the first time in nearly a decade. Federal Reserve Chairwoman Janet Yellen has reiterated that outlook for the US labour market and economic conditions favours a rate hike this year. A rise in interest rates will increase yields of US government bonds, which will attract more investors to debt and reduce demand for gold.

Further, as gold shares an inverse relation with the dollar, any positive economic news out of the US will buoy the greenback, pulling the yellow metal lower. For perspective, between June 2014 and April 1 this year, the US Dollar index rose 23 per cent, dragging the price of gold down.

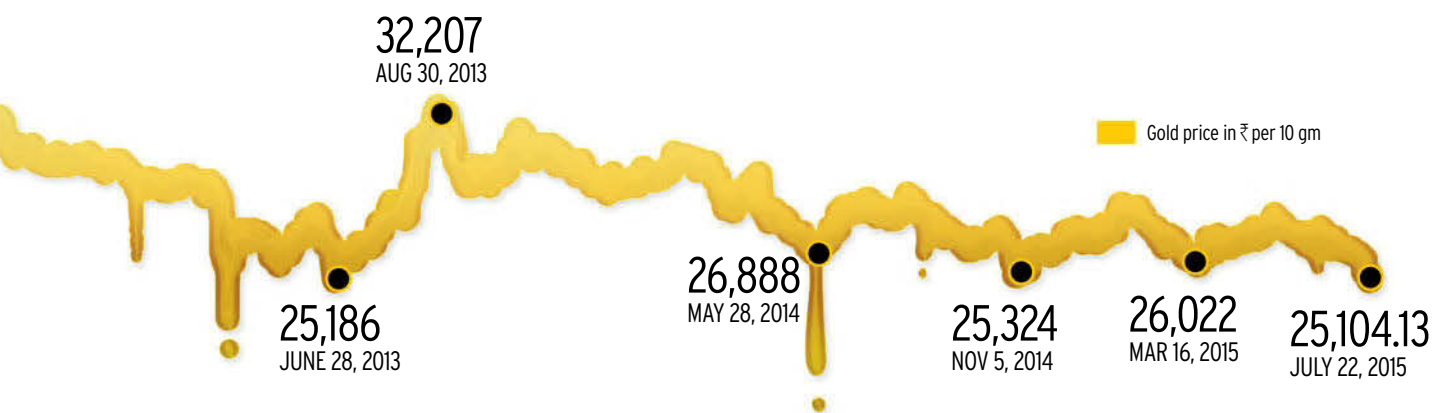
Gold's safe-haven appeal has also been hurt after the resolution of the Greece debt crisis. "In addition, risk as-

sets have started doing well, owing to the large amount of liquidity infused by global central banks," says Chirag Mehta, Fund Manager-Commodities, Quantum Mutual Fund. Globally, due to projection of strong economic growth and plenty of cheap money, people are investing in risky assets such as equities. Since fears about recession seem distant, people are not investing in gold and so investment demand remains bleak. This can be seen in the SPDR Gold Holdings, the world's largest gold-backed exchange-traded fund (ETF), which dropped to the lowest since August 2008.

Although demand and supply of physical gold has not changed much globally, demand in India, the largest consumer of gold, has been somewhat sluggish owing to a lull in wedding season and poor rains curbing appetite. Also, Indian investors have turned cautious after the Shanghai Gold Exchange selloff and weak demand in China. "India's gold import has declined 16 per cent to ₹46,000 crore during the first three months of the current financial year from ₹54,800 crore a year earlier," adds Mathur.

However, a number of measures in the Budget 2015 pertaining to gold will support demand. The budget proposed a gold monetisation scheme that will replace both the gold deposit and gold metal loan schemes. The new scheme will allow depositors to earn interest by monetising their gold stocks. Indian gold stocks are estimated to be over 20,000 tonnes, most of which is neither traded nor monetised. Further, there is a proposal to develop an





# THE BOTTOM?

wait some time before investing in the yellow metal. By TANVI R. VARMA

alternate financial asset in the form of Sovereign Gold Bond, which will carry a fixed rate of interest and can be redeemed in cash in terms of the face value of gold at the time of redemption.

Is the worst for gold over? Several factors support the case for gold. According to a report by the World Gold Council (WGC), an analysis of the gold price movement in comparison to a US rate hike (the largest fear) found that gold may perform reasonably well in a positive rate environment. It indicates that gold is hurt only when real rates nudge higher than four per cent, which seems unlikely for some time to come. Also, these fears have already been priced in. Gold's correlation with other assets is important, too. Its low correlation with many other assets makes it a good asset for investors to hold in their portfolio.

According to Mehta of Quantum, gold is trading closer to its cost of production (lower than \$1,200 per oz). Also, demand from India and China is expected to be strong, which should support prices. Mehta suggests

investors to allocate 10 to 20 per cent of the portfolio towards gold and finds the current price attractive to invest in the precious metal. In spite of the current turmoil, gold has returned over 14 per cent CAGR over the past decade, which is on a par with other assets or even more, he adds.

Mathur of Angel expects gold prices to drop in coming months as prospects of a US rate hike will keep investors wary and push the dollar higher. Further, low inflation,

weak commodity prices and strong equities are other factors that could keep gold under pressure. "Retail investors may wait for six months to buy at attractive levels of ₹24,000 to ₹23,500 per 10 gm," he adds.

However, analysts expect 2015 to likely mark the end of the bear market. The last few months of the year may see a modest recovery, with more meaningful gains likely in 2016. If you are looking at gold as an investment and not for consumption, consider investing in ETFs as it is the most efficient form of buying gold. ♦

## LAGGING BEHIND

Gold has been the worst-performing asset class among other mutual fund categories

| FUND TYPE               | ONE-YEAR RETURNS (%) |
|-------------------------|----------------------|
| Equity Mid & Small Cap  | 32.6                 |
| Hybrid Equity           | 17.62                |
| Equity Large Cap        | 13.34                |
| Gilt Medium & Long Term | 11.9                 |
| Income Funds            | 10.3                 |
| Hybrid Arbitrage        | 8.22                 |
| Equity International    | -4.78                |
| Gold                    | -11.16               |

Source: Valueresearchonline.com

Data as on July 24, 2015

@vtanvi

Illustration: AJAY THAKURI



# Coping with Change

We give tips to make sure that your shift to a new city goes off smoothly. By SHOAB ZAMAN



**T**here is an old adage that all gains come at a price. To make the most of career opportunities, one should always be open to shifting cities, a process that can be cumbersome.

Shifting a city requires a person to take care of many things. For some, it is important to stay near their workplaces, while those with children would like to find a place that has good schools. And most important, one has to take care of a lot of financial business such as bank accounts and insurance policies. We bring you tips for a smooth transition.

## HOMework

Rumi Ambastha, who works as a brand consultant, shifted from Mumbai to Bangalore after marriage. "The cost of living changes when you shift. The mode of commuting also changes. These may have a huge impact on your quality of life," she says.

Do some research in advance. Find out where other people in the office generally reside. As cities are growing faster, the amenities are getting stretched. Hence, an important question should be, how is the water and power supply system in the city? One must also find out about public transport options in the city.

Also, browse real estate websites to check rentals in the city. If you are having problem with the research, an alternative can be shifting either as a paying guest or in a service apartment for some time. That will give you time to understand the city and plan accordingly. Amit Kumar Roy, Chief Agency Officer, AEGON Religare Life Insurance, who recently shifted to Mumbai, says: "In the beginning, a temporary accommodation is strongly recommended as the house should be near schools

## Follow These Guidelines to Avoid Headache

- Send off for a copy of your credit report to make sure it is accurate and up to date
- Work out how much credit you need to buy essential things for your new home and find out the best way to borrow
- Draw up a budget to make sure you borrow what you can afford to repay
- Make a list of all the necessary documents and institutions where the address has to be changed

## Important Things to Remember

- 1 Clear all pending expenses with an acknowledgement from the people concerned. Examples are electricity and telephone bills, house rent, dues of the local kirana shop, annual maintenance contracts for AC/TV/fridge, children's school fees
- 2 Closure of bank accounts/ shifting the accounts to the new city
- 3 Arrangement for other investments (share trading, real estate)
- 4 Transfer certificate from child's school
- 5 Arrangement for shifting the gas connection
- 6 In case of inter-state shifting, getting a no-objection certificate from the transport office for car registration

where children can get admitted."

## PREPARE

This stage involves the maximum work. Here, one has to do things such as short-listing movers and packers. Also, one can make a list of

all items in the household and then decide if one wants to sell something and buy a new one in the new city.

Before finalising movers and packers, ask about their policy on damage to goods caused during transit. Buy insurance for expensive things that you will transport, especially the electronic equipment.

Make a list of all electronic equipment. Get in touch with the dealers to find out if they have a service centre in the new city. Ideally, get everything serviced before shifting. Plan out how much time is required to dismantle the fixtures.

Banks & credit cards: Our lives are intertwined with the banking system. Mohan Jayaraman, Managing Director, Experian Credit Information Company of India, says: "When you change home, tell your lenders in good time so that your credit account details can be kept up to date. Get a copy of your credit report so that you do not forget accounts you haven't used in a while."

He suggests that instead of applying for several separate credit accounts, take one loan, at a competitive rate of interest, for all requirements. This way your credit report will not show a lot of searches (you can see who all have searched for information about you).

## THE SHIFT

While shifting, mark the boxes correctly. Make a checklist of which item has been kept in which box.

Also, take possession of the house well in advance so that you get the chance to get the repairs done if there is a need. In some cities, and in particular societies, the rental contract has to be signed and approved by the society before it allows the tenant to shift. So, plan accordingly. ♦

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# “NPA pain will last for just one or two quarters”

**Ram S. Sangapure**, Executive Director, Punjab National Bank, speaks with **Teena Jain Kaushal** on monetary policy and why banks' growing personal loan portfolio may not be a cause for concern. Excerpts:

**The Reserve Bank of India (RBI) has cut repo rates by 75 basis points since January but its benefit has not been fully passed on to the customers. Why?**

Many banks have now reduced their base rate by between 25 and 50 basis points after the RBI cut, and in a developing economy, there is usually a lag between the announcement of a monetary policy and the actual transmission. This time lag in the Indian context is a little longer than in developed economies, and to reduce this time lag, the RBI is coming out with new policies to fix the base rate itself. The base rate formula is one of the hindrances in the immediate transmission of policy initiatives into reality. If the base rate is reviewed and the formula is straight then probably the time lag, which today is about four to six months, might come down to one to two months, or even less than that.

**Is it the right time for home loan transfer?**

Most banks are offering home loans at the base rate now, with one or two exceptions who are offering at a little higher rate. So it does not make much sense in shifting from one bank to another. The base rate of most banks is between 9.89 and 10.25 per cent. Shifting will benefit the customers provided the gap is larger. If there is at least a 50 basis points gap then it makes sense. If the difference is 25 to 50 basis points, it doesn't make any sense to shift.

**Growth in home loans has slowed down. The builders say they are waiting for further rate cut by banks...**

The interest rate is an important factor in one's decision to buy a house. Reality prices are also an important factor. If prices are very high then even if we give loans at a very low interest rate, the buyer may not buy from that builder. So there is something called realistic pricing for housing products. It also depends on the purchasing power of the customers. If their income keeps growing then they don't mind paying one per cent higher and will go and buy the house immediately. So it also depends on economic development.





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**There has been a sharp increase in personal loans. Is it a matter of concern?**

It all depends on people's income. If they need money today and have the potential of earning higher income going forward then the banking industry has no fear in giving a personal loan. The problem comes when the economy slows down and prospects of earning more come down. Then if the personal loan goes up, we have a problem in recovering that amount. But in ordinary conditions, if the economy is growing, we have no worry if the personal loan portfolio is growing. If the economy slows or is not growing at the expected level and the disposable income of the people is not growing, then if we give personal loan and there is a fear that the loan may not be returned by the customers, the bank's concern increases.

**There has been a sharp rise in loans against property (LAP). What are the reasons?**

Such loans increase under two conditions. One, when a person is in a really distressed condition. He is not able to raise funds either for consumption or investment purposes then he will fall back on this kind of loan facility. Second, when he is actually expanding his business. If he feels there is going to be a shortfall in the investment then he can use his house as an investment source. He can pledge it to the bank, get a funding and start his unit. So such loans increase in two scenarios: during the distressed period and when the economy is booming. We have to see under which condition it is increasing. If it is increasing under the distressed condition then banks become more cautious while giving such loans.

Last year (2014), our LAP portfolio did quite well, growing by about 30 per cent. Before that we were not focusing on these areas actually. There are two products in LAP. One is LAP and another is lease rentals. Big malls owned by big builders are let out to small retailers. So builders have leased out that property, and what we do is once the lease out has happened then we lend to the builder based on the lease agreements. That is also an LAP and future receivables. This segment is particularly for commercial properties. Both have been rising in the recent past.

**Is the rise also because people find LAP much cheaper**

**than personal loans?**

Absolutely right. If it is a personal loan without any security then the rate of interest is going to be on a higher side. If they are taking an LAP, the rate of interest is relatively on a lower side. So if people want a little higher amount then they prefer to go for an LAP. They don't mind paying a little higher rate of interest for small personal loans.

But if the amount is substantial, paying even a one per cent higher rate of interest on that huge amount is going to be a substantial outgo for them.

**How much is the difference in rates?**

We charge between 15 and 16 per cent for completely unsecured personal loan. If it is a salary account, we reduce the rate of interest. For salaried employees, the personal loan rate of interest is 12 to 13 per cent. Different banks have different rates of interest.

**The RBI allowed banks to become brokers for insurers, but no bank has shown any interest so far. What are the reasons?**

Most banks have their own joint ventures (JVs) in insurance. So that's their own baby. We have a JV with MetLife, so we can't go with someone else when we have our own JV and subsidiary doing that business. Even if the Insurance Regulatory and

Development Authority decides that banks can go with more than one insurance partners, most banks are not in favour of that. It is not compulsory, it is an option.

**What are some of the concerns for the banking industry?**

It is the high level of NPAs. I think we will have that pain for one or two quarters. After that the situation will be under control fully. Now also it is under control. But maybe after one or two quarters the situation may improve considerably. Public sector banks have invested huge funds in infrastructure. Once the economy starts picking up and these stalled projects are revived, public sector banks will do better than the other banks. During the period our NPAs went up, we have provided for that. Our profit has shrunk as we are taking out money from profits and providing for NPAs. Once the economy starts improving, we will take it back. ♦

@Teena\_Kaushal



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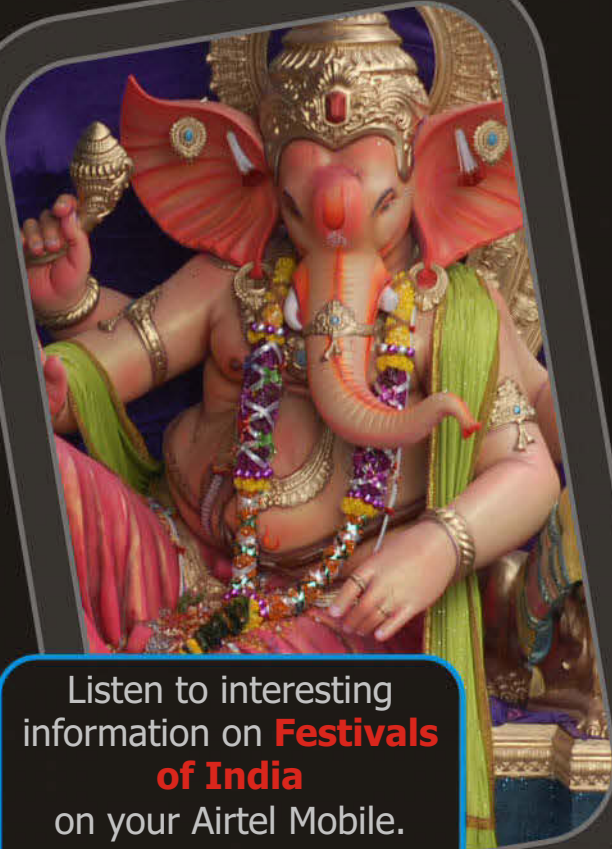
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