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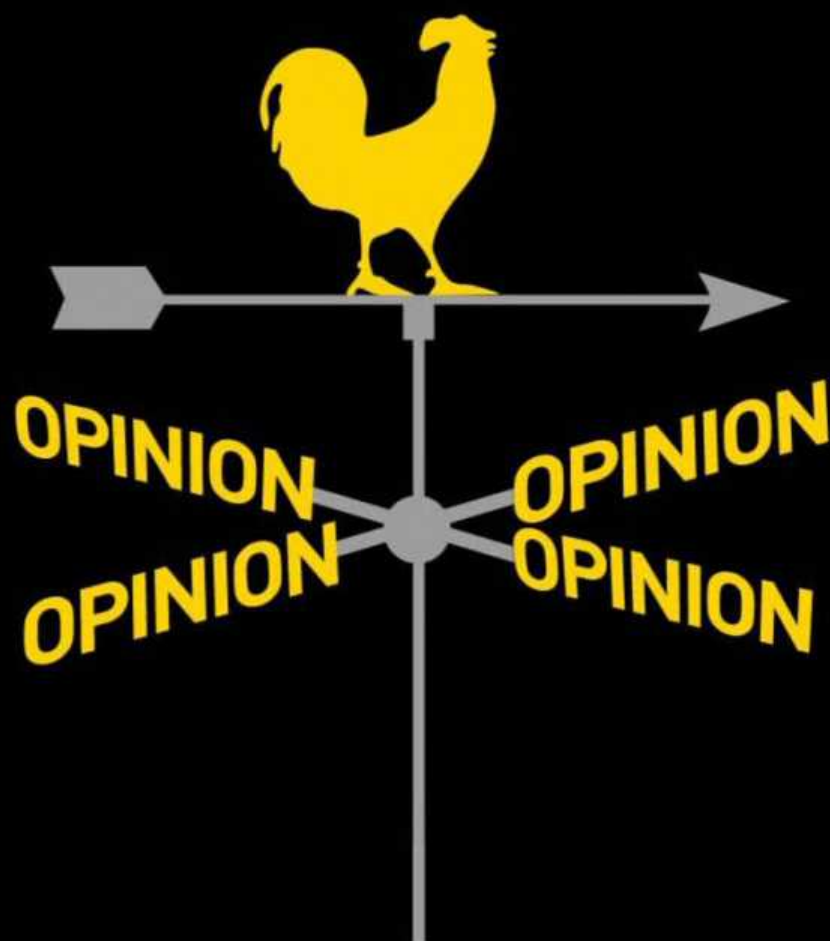
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Jharkhand

PREPARING FOR THE BIG LEAP

The state, once a benighted area, is now prepared to reach the pinnacle of development, both industrially and socially, under the able leadership and guidance of Chief Minister Shri Raghubar Das.

Jharkhand Chief Minister Shri Raghubar Das has plans to take the state to the pinnacle of development. Already, the World Bank has ranked the state third among all states of country in Ease of Doing Business. The government has not only launched a new industrial policy, but has backed it up through expansion of overall infrastructure and has plans that will soon make the state power surplus.

The government wants to use the bounteous mineral deposits of the country – 40 percent of all minerals of the country – in developing industry that will have long term developmental effect on the health of the state.

JHARKHAND REACHES FOR THE SKY

INDUSTRIAL INITIATIVES

The top themes of Raghubar Das's government are: (1) regulatory mechanisms and reform (2) encouraging investment (3) emphasizing CSR (4) performing bureaucracy (5) strengthening infrastructure of the state.

In his attempt to turn the economy around Sri Raghubar Das's government has entered into agreement with Rail Ministry and Coal India for developing two rail lines and 10 new sidings in the command area of the Central Coalfields Limited. It shall facilitate movement of people and freight as six railway projects will benefit. In this regard the state government has formed a JV company with the Rail Ministry and Coal Ministry where the state government own a minority stake of 10 percent. Similarly the state government has signed a JV with the public sector company NTPC for revamping and augmenting capacity of the Patratu Thermal Power Station where the state government will hold 26% shares. It will set up 4000 MW (800MW*5) using 1,850 acres of land and its first phase is likely to be completed by 2019-20 generating 2400 MW and the second phase will be over by 2024 after the installation of 1600 MW capacity. Voicing his vision Mr. Das said "Jharkhand will become self-sufficient in next five years". Apart from undertaking renovation of the power station the NTPC will be supplied water, coal along with land being provided by the state government. A plethora of initiatives support the resolve of Sri Raghubar Das to put Jharkhand on the map of industrially advanced states of India. An MOU was signed with National Mineral Development Corporation for proposed mega steel plants. With the announcement of its policy on food

processing industry MOU's worth Rs. 700 crore was signed. The "Make in India" programme will not succeed unless Jharkhand makes similar strides in all related spheres. If Jharkhand is the next related emerging industrial hub of the country the associated corollary of adequate thrust for corporate social responsibility had to be pushed to higher level. To impart pace and momentum to CSR the state has set up a Jharkhand CSR Council with the intent of developing backward areas in partnership with corporate houses.



Shri Raghubar Das, Hon'ble Chief Minister along with Shri Narendra Modi, Hon'ble Prime Minister

IN CONVERSATION WITH

SHRI RAGHUBAR DAS

Hon'ble Chief Minister, Jharkhand

■ How do you plan to utilise the huge mineral wealth of the state, translating onto welfare?

Approval has been given for power plants, mega steel projects, collieries, food processing units, with simplified rules and guidelines. The state will be a heaven for prospective investors, what with the initiation of the Comprehensive Labour Management System (CLMS) in place. Licensing of workers, registration and renewals can all be done online. With the basics in place, the government has entered into a joint venture with the Rail Ministry and Coal India for developing and two rail lines and 10 new sidings for movement of people and freight. An MoU has been signed with the National Mineral Development Corporation for proposed mega steel plants.

I have instructed officials to expedite forest clearance for railways, national highways, collieries and other priority infrastructure projects. The government is committed to make Jharkhand an industrially advanced state of India.

■ Jharkhand has 34 percent of the country's coal reserves. How do you plan to make the state self sufficient in power?

We have a JV with the public sector NTPC for revamping and augmenting capacity at the Patratu Thermal Power Station to set up 4000 MW – five phases of 800 MW each – on 1850 acres of land. The first phase of 2400 MW is expected to be completed by 2019-20,

while the rest will have been implemented by 2024. Jharkhand will be self-sufficient in power in the next five years, thereafter it will become power surplus.

However, Jharkhand is committed to also tap its huge resources in developing a huge base of clean and renewable energy. The state has about 300 days of sunshine, a great solar power potential. With 6.8 lakh acres of forest-free land the estimated potential can generate 18000 MW of renewable energy. Solar parks will be set up on non-productive government land, on canals and on canal banks. Ventures working in the field of renewal energy resources will get the status of an industry.

■ Your steps to ensure a corruption-free government?

The 'Jan Samvad Kendra' has been set up A grievance redressal mechanism where any individual can lodge a grievance/complaint, related to any government officer, employee or department. After processing, the complaint would be forwarded to respective department for action. The nodal officer has to reply within a particular time frame on compliance and action taken. This will be reviewed weekly by a senior officer. For cases in which resolution is not found even then, I am holding a monthly 'Seedhi Baat' to take up these outstanding issues.

I have ordered for departmental action against several officials of the Jharkhand State Electricity Board, including the current chairman and the ex-officio member (Finance) for irregularities committed in Swarnekha Hydro-Electric Project, Sikidiri Phase 1 and 2. I have also ordered blacklisting of the company in question.

STANDING AT 3rd AIMING FOR THE TOP

Jharkhand bags 3rd place in Ease Of Doing Business as per the rating of the World Bank. Chief Minister Mr. Raghubar Das said that it is the result of comprehensive efforts & coordination among different departments of the Govt. that the World Bank has recognized Jharkhand's endeavours. He laid stress on speeding up developmental work in Jharkhand to put it in the line of developed states. Under Ease of Doing Business various reforms are in process in departments related with industrial development. Keeping in touch with it, the Chief Minister inaugurated single window system Advantage Jharkhand. Moreover, the CM also dedicated Jharkhand Industrial Park Policy 2015, Jharkhand Feed Processing Industry Policy 2015, Jharkhand Food Processing Industry Policy 2015 & Jharkhand Export Policy 2015 to the people. Jharkhand, which has an overall 3rd rank, is 100 percent compliant with the labour regulations. Jharkhand's Labour Department is the only one in the country to score 100% on all four parameters studied in this assessment across all 7 processes. The state also topped the chart in carrying out environmental inspections.

Quantifying the structural changes, the state government has initiated nearly hundred reforms to simplify and rationalize rules to make sense and provide directional thrust by making IT a more pervasive in the government and society at large. It is hoped that such technological innovation will bring transparency, more participative and democratic functioning with accountability by blurring information asymmetry and altering the rules of the game. The cascading effects will translate into expanding job opportunities for the skilled and unskilled manpower, improve wages and create a far more conducive skill ecosystem.

Under the reform programme, timeline has been delineated for project approvals, simplified rules and guidelines for information and direction have been provided. Barriers to investment have been identified and suitable measures to overcome them have been devised with special reference to labour, land, water, and environment. Procedural simplifications around such contentious issues have turned Jharkhand into a heaven for prospective investors. In this regard a

Comprehensive Labour Management System (CLMS) has been put on the portal to enable entrepreneurs and investors to access services like licensing, online returns, and registration of workers including registration, renewal of licensing and other services such as compliance with labour laws.

To extend social security benefits to unorganized workers the government of Sri Raghubar Das has initiated the process of Shram Shakti Pehchan Campaign to register and issue them unique identification cards. Many beneficial schemes for the workers have been initiated on the International Labour Day by the CM who himself was an industrial worker.

The Jharkhand government is soon to launch a portal for registration under Shop and Establishment Act offering the gateway to online registration, issuance of compliance certificates and a labour manual that details inspection process under standardized formats. Innovation follows imitation pathway and the state of Jharkhand on the pattern of Madhya Pradesh has instructed its state Pollution Control Board to list "green industries" operating in Jharkhand so that they can be given one-time consent for all time operations. Doing away with the cumbersome process of regular renewal of permission will help at least 500 green industries to operate with no legal constraints. Other departments undergoing radical reforms are Labour, Commercial Tax, Forest and Environment, and Jharkhand State Pollution Control Board. 'Reforms by intent and design are an on-going activity and facilitated with simplified rules and guidelines' said, an official. Such steps are easing the process of doing business in Jharkhand and are in tandem with the central government's initiative to publish the ranking of performing states. Such massive transformations will catapult the rank of Jharkhand in the centre's Best Performing States list which will be prepared in line with international norms and even foreign investors will be guided in a easy-to-follow grading system before embarking on investing in the state.



Solar power for 'empowered' Jharkhand

DISTRICT COURT KHUNTI BECOMES FIRST OFFICIAL COMPLEX IN THE STATE TO BE POWERED SOLELY BY SOLAR ENERGY

In order to tap the vast potential of clean and renewable energy the government of Jharkhand under Sri Raghubar Das is taking steps to give thrust to its policy by way of tax incentives and other sops to encourage investors to start up such ventures in the state. Further the state government will accord industry status and facilitate project linkage and support. Mr. S. K. G. Rahate, principal secretary, Department of energy, said: With almost 300 hundred days of abundant sun-light the state has tremendous potential to tap its potential. It will help in contributing significantly in achieving national target of 1 lakh megawatt at the time of introducing the draft Jharkhand State Solar Power policy, 2015.

A solar park is coming up in Dumka on a large, concentrated land of 300-500 acres. The Government has promised to extend all facilities such as water, road, grid connectivity, power evacuation system, besides land. The policy seeks to encourage small private solar plants. Such plants can also come upon private land taken on lease. For government provided land such investors can circumvent the bidding process and overcome the time-barrier of setting up the project. The incentives offered to such investors are tariff fixation by JSERC and sign the PPA for sale of power to any private company locally or even outside the state. The intent of the solar policy is to attract investors to exploit the potential of generating renewable energy. Jharkhand Renewable Energy Development Agency (JREDA) is the nodal agency mandated with the responsibility to interface with prospective investors. The policy's time horizon of five years seeks to tap private sector players for setting up solar power projects and generate 2,500MW of solar power by 2020 in a phased manner to bridge the energy deficit. A red-carpet welcome awaits all such investors in the solar photovoltaic power generation.



Championing the Future of Governance in Jharkhand: Role of "JAN SAMVAD" the brain-child of the Chief Minister, Jharkhand, Sri Raghubar Das

It is an initiative by the Chief Minister of Jharkhand, Mr. Raghubar Das, who is ably supported by his team of seasoned, senior and capable civil servants to harness the prowess of IT to proactively manage governance with transparency and bring in greater accountability in various departments. Beginning May 2015 till October it has received innumerable public complaints (toll free no 181) pertaining to the entire spectrum of government interface with public on development and non-developmental issues. The process is marked by momentum, pace and trajectory because each case is heard, effectively shaped into meaning units and allocated to concerned department's nodal officer for speedy redressal. The progress and compliance is reviewed every week and once in a month The Chief Minister himself reviews the grievances/complaints through "SEEDHI BAAT".

SHIFTING THE PARADIGM OF GOVERNANCE

"SEEDHI-BAAT" is an attempt to ensure that the Chief Minister is 'being there' with citizens and offers an alternative forum for grievance redressal when conventional means fail. Mr. Raghubar Das's physical presence in the "SEEDHI-BAAT" plays a signal role in conveying moral solidarity, commitment, concern, empathy and sensitivity to the average citizen. The Jan-Samvad and Seedhi Baat has restored faith in the people that the present government is sensitive, approachable and accessible and not far from them. The zero tolerance on corruption has made the officials more sensitive to the rights and needs of the people.



JHARKHAND: beckoning tourists to discover its mystery

Blessed by huge natural endowments the prospect of Tourism is abundant and therefore the need to attract international tourists to bring in foreign exchange and also ensure visitors satisfaction is high. Successful operations of tourist organizations will result in increased foreign exchange earnings, employment generation, tax revenues and profits. Successful realization will call for mediating divergent set of interests.

As per the Government of India's data Jharkhand has emerged as one of the hottest tourist destination in the country registering 3.34 crore visitors. It has catapulted Jharkhand among the top ten destinations in the country. Enthused by the response the Jharkhand government has initiated a New Tourism Policy that seeks to encourage several forms of tourism encompassing adventure, sports, religious circuits of Hindus, Buddhists, and Jains, and historical sites. To fetch investments the government is offering tax exemptions and incentives in infrastructure development.

The Principal Secretary Mr. Avinash Kumar elaborated on the new tourism guideline saying: "The guidelines are covering tourism companies and hoteliers and they have to be stringently adhered to." The policy boosts safety and infrastructure besides setting up a specialized Tourist Security Force, conversions of colonial buildings and dak bungalows into tourist rest-houses, and star-rated wayside amenities. Jharkhand tourism policy caters to all segments of tourists beginning budget pack baggers to rich, from

honey-mooning couples to adventure lovers, nature enthusiasts, bird-lovers, and pilgrims. It is aiming to enhance tourist in-flows as well as create employment. Culture tourism is taking another important stride with the state

government proposing to join hands with Indian Council for Cultural Relations (ICCR), the Sangeet Natak Academy, Zonal Regional Cultural Centres and other cultural organizations with the intent and purpose of organizing cultural fairs and events of national and international standards for tribal artisans and artistes to exhibit their unique heritage. Tourist Information Centres at airports, railway stations and other commercial outlets will also display and sell the handicrafts. In its bid to involve the villages, rural tourism promotion is also on the anvil. Village Tourism Committees are proposed to be set up across the state. To begin with, such rural tourism centres near established tourist circuits are being taken up as model ventures. A tourism official said, "Notified villages will not be charged luxury or commercial tax." Besides promoting eco-tourism the state tourism department is also planning to launch a massive initiative to popularize the tribal Chhau dance form to make brand Jharkhand invincible attraction for tourists.

In order to attract the adventure-minded tourists the Tourism department is preparing to launch adventure tourism in a big way. Its promotion of adventure tourism is a graphic illustration of the natural endowments like hills, water-falls, flora and fauna. Matching rising demand for adventure tourism the department is bracing up to launch a full scale package of adventure tourism. As a result of the initiative the department is preparing an area wise master plan identifying trekking routes, spots for rock climbing, boating, and kayaking. Such an initiative will attract bulk of adventure enthusiasts and significantly impact local employment.



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Vol. 24, No. 24, for the fortnight November 23 to December 6, 2015. Released on November 23, 2015.

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● Printed & published by Ashish Kumar Bagga on behalf of Living Media India Limited. Printed at Thomson Press India Limited, 18-35, Milestone, Delhi-Mathura Road, Faridabad-121007, (Haryana). Published at K-9, Connaught Circus, New Delhi-110 001. Editor: Prosenjit Datta ● Business Today does not take responsibility for returning unsolicited publication material. All disputes are subject to the exclusive jurisdiction of competent courts and forums in Delhi/New Delhi only

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From the Editor

The Food Tech Bubble

Readers of a certain age who are interested in dining out would remember the time, barely half a decade ago, when they waited eagerly for the annual restaurant/eating out directories brought out by big newspapers in every city. Delhi had two prominent volumes – the Times Food Guide and the HT City Eating Out Guide. Similar volumes were found in almost all cities. They contained restaurant/takeaway listing, expert snapshots by the newspaper's food columnists, and some useful information like average price for a meal for two, etc.

These directories were fairly popular even a few years ago. But today, few people I know use them anymore. Most depend on Zomato, Foodpanda or other food tech start-ups that provide the information digitally, and often even help in ordering and delivering the food. Some offer good discounts if the food is ordered through their platform. The annual printed guides business used to be nice while it lasted, but most newspapers did not see the shift to digital listings much the way most of them also missed the fact that classifieds were moving to the Net. By the time they woke up, food tech entrepreneurs had taken the lead.

Zomato, which is the most prominent of the food start-ups, was not the pioneer, though. I think a site called Burpp was actually the first off the block, but it lost its way. Zomato, which secured good funding from investors, went on an expansion spree, picking up similar food listing start-ups around the world. It did nine acquisitions in 2014/15.

Foodpanda, backed by Rocket Internet, had a different model in the sense that it started off with a delivery model instead of a listing model à la Zomato. And while it was slower to grow in India than Zomato, Foodpanda is a pretty serious player around the world.

Several other entrepreneurs also identified the food tech space as the big new opportunity. The food services market in India is expected to reach a size of \$78 billion by 2018, and the sheer size of the opportunity means at least a couple of players can hit pay dirt. Meanwhile, angel investors and venture capitalists, who missed out on investing in Zomato, backed other entrepreneurs with same or similar ideas. At last count, an estimated hundred food start-ups were operating in the country.

Over the last few weeks, stories of problems cropping up in the sector have been coming out almost every day. Zomato had to lay off 300 people and may be sacking a few more soon. TinyOwl, another start-up, had to scale back operations in four cities. Foodpanda itself has seen a management churn. Lots of other start-ups in the space have closed down. Investors, too, are getting jittery.

In a way, the problems of the food tech start-up space is just an early warning sign of what is likely to happen in many other e-commerce segments. Easy money allowed a lot of half-baked start-ups to kick off. Young entrepreneurs fuelled by enthusiasm did not do proper cash flow or market competition analysis before going on expansion spree. When they burnt through their initial cash, they were often left with no option but to close down.

Senior Editor Goutam Das looks at how the bubble is bursting in the food tech space in our cover story on page 52. The food tech industry and the diamond industry might seem to have nothing in common. But in both cases, the troubles started because the players became too ambitious. Senior Assistant Editor Sarika Malhotra travelled to Surat and Mumbai to bring out the inside story of the biggest downturn in the Indian diamond industry. It is on page 68.



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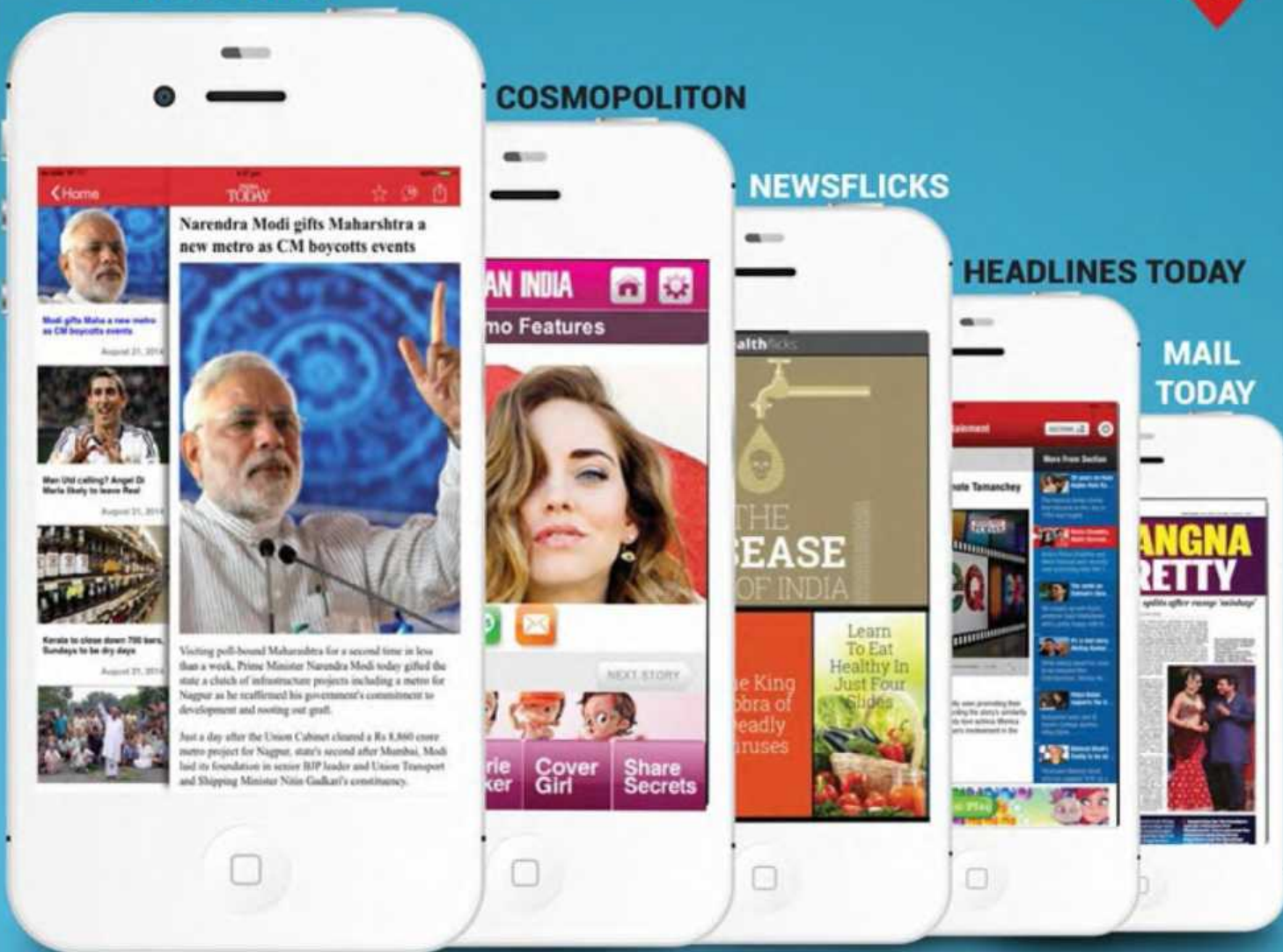


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Reinventing with Changing Times

This refers to your special issue on India's Best B-schools (November 22, 2015). First of all, I really enjoyed reading the entire issue. It's a great compilation of articles. It is, indeed, true that the only way an academic institution remains premier and relevant is if it changes itself with time. Also, the interview with Dean of the Wharton School of the University of Pennsylvania, Geoffrey Garrett, is fascinating. I could relate to many of his comments since I graduated from Wharton in

2009, and have been teaching in their first-year Executive MBA class (as an alum) since then. Indeed, business schools are becoming more global in both their nature and educational content and trying to reinvent themselves with changing times. This change is not a choice anymore, it's a necessity in this interconnected world, and Wharton is at the forefront of embracing this change. Kudos to the *Business Today* team for bringing out such a lovely issue.

Prasenjeet Ghosh, US

All About CSR

This refers to your feature on infrastructure (*Built to Last*, November 22). It is reported in the media that "over 6,000 companies are required to spend on corporate social responsibility. But two-thirds have defaulted and there is no penalty." The social responsibility on companies must be looked at from a different angle – for the benefit of the society as a whole. To encourage it, a deduction of such expenditure must be allowed under the provisions of the Income Tax Act. It will

definitely boost the economy.

Mahesh Kumar, New Delhi

E-comm. Talent

This refers to your article on human resource (*The Great Talent Exodus*, November 22). It is quite interesting to see young, raring-to-go graduates opting for e-commerce companies. Back in the day, students would make a beeline for big, multinational companies. Anything less used to be considered mediocre. More power to e-commerce companies and to students making brave, interesting choices.

Manini Chatterjee, Kolkata

Mindful Eating

This refers to your article on start-ups (*Freshlicious!*, November 22). Though there has always been a cut-throat competition in the food industry, in the present scenario, packaged food units have comparatively succeeded in achieving the target. Seeing at its pace of growth, Yummade.com may reach its voracious eaters in 25-30 cities by 2020. And I hope this start-up bubble does not burst!

Abhinav P., New Delhi

Send all your comments to: editor.bt@intoday.com

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Railways raises ticket cancellation fee by 100 per cent.

This is ridiculous. The railway minister must rethink on this. At least Sleeper Class and Second Class seatings should be spared.

- **Milind Shah, @milindshah2006**

Innovation in packaging can boost exports: Nirmala Sitharaman.

But that is Made-in-China strategy. I would rather recommend Made-in-Japan strategy. - **Sunny, @SD203**

Nestle India relaunches Maggi noodles, begins market rollout.

It has been targeted due to vested interest. There are many who don't care about the SOP of administration. - **NM, @NiharMohanty3**

Rising food prices to hit rural India in 2016.

Why doubt? The rising salaries, wages and charges in all areas will definitely end up in price rise. - **E.J. Thomas, @EJTHOMAS6**

SpiceJet offers fare starting at ₹499 under Diwali sale.

But please let us know about surcharges also. - **Soumya, @singhsoumya85**

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DECEMBER/6/2015
VOLUME 24/NUMBER 24

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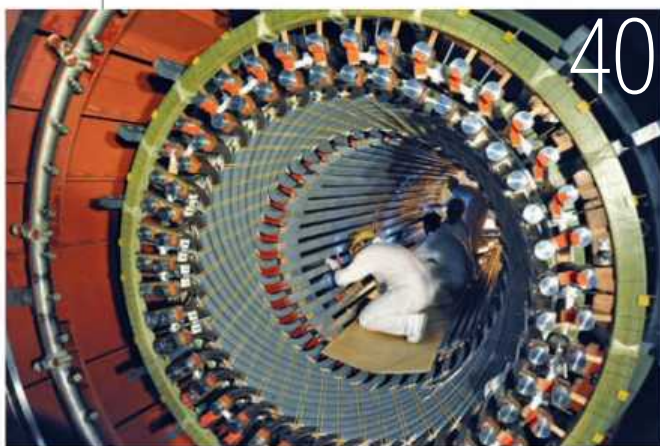
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An IMPACT Feature

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PERSPECTIVES

Maggi Returns, But the Road Ahead Won't Be Easy

Marketing gurus are confident that Maggi will surely bounce back but the going will be tough.

businesstoday.in/maggi-nestle

All That Glitters Is Not Gold

Government recently announced its sovereign gold bonds. But is it a marketing gimmick to raise money from public?

businesstoday.in/sovereign-gold

NEWS

snapdeal MOTORS

Snapdeal Launches Automobile Platform

Snapdeal Motors will invite customers to browse through various automobiles, avail test drives, and choose from a host of financing options.

businesstoday.in/snapdeal-auto

Bankruptcy Law Reform Panel Suggests Establishment of Insolvency Regulator

A draft Bill to consolidate the existing laws relating to insolvency of companies, limited liability entities, and unlimited liability partnerships into a single legislation.

businesstoday.in/bankruptcy-law

Government Plans to Enhance FIPB Clearance Limit to ₹5,000 crore

Sectoral caps in key sectors may also be enhanced to address the issue of fragmented ownership faced by foreign investors.

businesstoday.in/fipb-hike

BT COLUMNS



Is US Drugs Regulator Shifting Its Focus to APIs and Injectables?

E. Kumar Sharma says that the US drug regulator's warning letter to Dr. Reddy's Labs, related to its API manufacturing units in Andhra and Telangana, has led to a slide in the shares of the company.

businesstoday.in/alchemy



Who Am I?

Mahesh Nayak finds a serious identity crisis in the Indian mutual fund industry.

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POINT - COUNTER POINT

To say that everyone is responsible for the defeat in Bihar is to ensure that no one is held responsible. It shows that those who would have appropriated credit if the party had won are bent on shrugging off responsibility for disastrous showing in Bihar.

Open letter signed by **L. K. Advani**, **Murli Manohar Joshi**, **Yashwant Sinha** and **Shanta Kumar**

We welcome any guidance and suggestions of the seniors.... The Party has been very fortunate to have been led by Shri Atal Bihari Vajpayee and Shri L. K. Advani for decades. They had set a healthy precedent of the party collectively taking up responsibility for victories and defeats.

Response signed by **Rajnath Singh**, **M Venkaiah Naidu** and **Nitin Gadkari**



Indiabulls

MONEY IN THE BANK

After failing to get a banking licence in India, the Indiabulls group – through India Bulls Housing Finance – has taken a 40 per cent stake in the UK-based OakNorth Bank for \$100 million. Indiabulls' founder Sameer Gehlaut plans to take another 10 per cent in the bank as personal stake, subject to regulatory clearances.

THE JEWEL IN THE CROWN

A group including an Indian businessman and a Bollywood actress plans to sue Queen Elizabeth 2 in order to get back the Koh-i-Noor diamond. It plans to use the common law doctrine of

“trespass to goods”



5 MINUTE MAGGI

Shortly after being reintroduced,

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packs of Maggi noodles were sold out on Snapdeal in a flash sale.

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Nov 28 - 10PM
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Dec 1 - 7 PM
Dec 2 - 12 PM
Dec 4 - 8 PM
Dec 6 - 5 PM



Nov 21 - 11PM
Nov 22 - 4 PM
Nov 25 - 4 PM
Nov 29 - 4 PM



Dec 5 - 10 AM
Dec 6 - 8 AM



Nov 21 - 11 PM
Nov 22 - 11 PM

30 TUG OF WAR

WHAT: Twenty-first session of the Conference of the Parties (COP21)
WHEN: November 30, Paris
WHAT TO LOOK FOR: Coinciding with the 11th session of the Meeting of the Parties (CMP11) to the Kyoto Protocol, the heads of states and governments will meet to present the stance of their respective countries towards reducing carbon emissions. The meeting is usually a tug of war between developed and developing countries over who should pay for the cost of reducing carbon emissions.



20 STANDING UP FOR WOMEN

WHAT: Women in the world summit
WHEN: November 20, New Delhi
WHAT TO LOOK FOR: Women changemakers from among activists, CEOs, entrepreneurs, peace lovers, and firebrand dissidents...and men who support them. Among the speakers will be Ambassador Samantha Power, US Ambassador to the UN; Obiageli Ezekwesili, Co-founder of Transparency International; Human Rights activist Lynsey Addario, Talk show host Tina Brown; actress and activist Cate Blanchett and Bollywood actress Madhuri Dixit.

20 TAXING ISSUES

WHAT: Conference on BEPS: Big Change in Global Taxation – Impact on India
WHEN: November 20, New Delhi
WHAT TO LOOK FOR: CFOs, financial experts, auditors and CEOs will come together to discuss the impact of BEPS (Base erosion and profit shifting) on taxation across countries; the higher compliance burden and specific impact on developing countries due to a more aggressive tax planning by MNCs.

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MINING OPPORTUNITIES

WHAT: Indian Mining Industry: A Landscape of New Opportunities
WHEN: November 19, New Delhi
WHAT TO LOOK FOR: With states acquiring new powers under the new Mining Act provisions, they now have a critical role in the industry. The conference aims to identify new mining opportunities at the domestic and international level amidst a gathering of industry leaders and experts, mining ministry officials and bureaucrats.



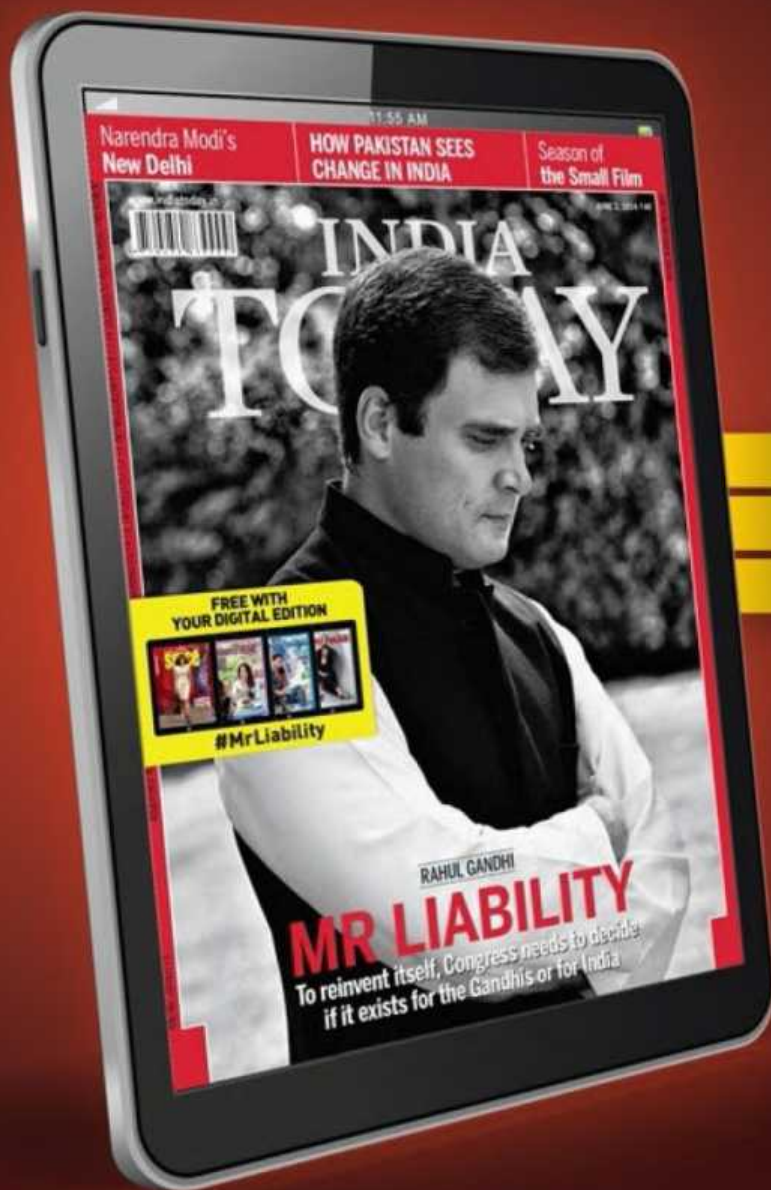
16 BUILDING A DIGITAL INDIA

WHAT: Information, Communication and Technology: Developing the Nation Digitally
WHEN: November 16, Goa

WHAT TO LOOK FOR: Knowledge exchange between stakeholders from areas such as governance and urban development, smart cities, education, health and BFSI. Participants include the Chief Minister of the State of Goa, officials from Ministry of Communication and IT, Government of India, officials from IT Department of various state governments, besides CEOs from the private and public sector.



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24 Paris climate talks:
India's bold bet

26 Will UDAY help
discoms reduce debt?

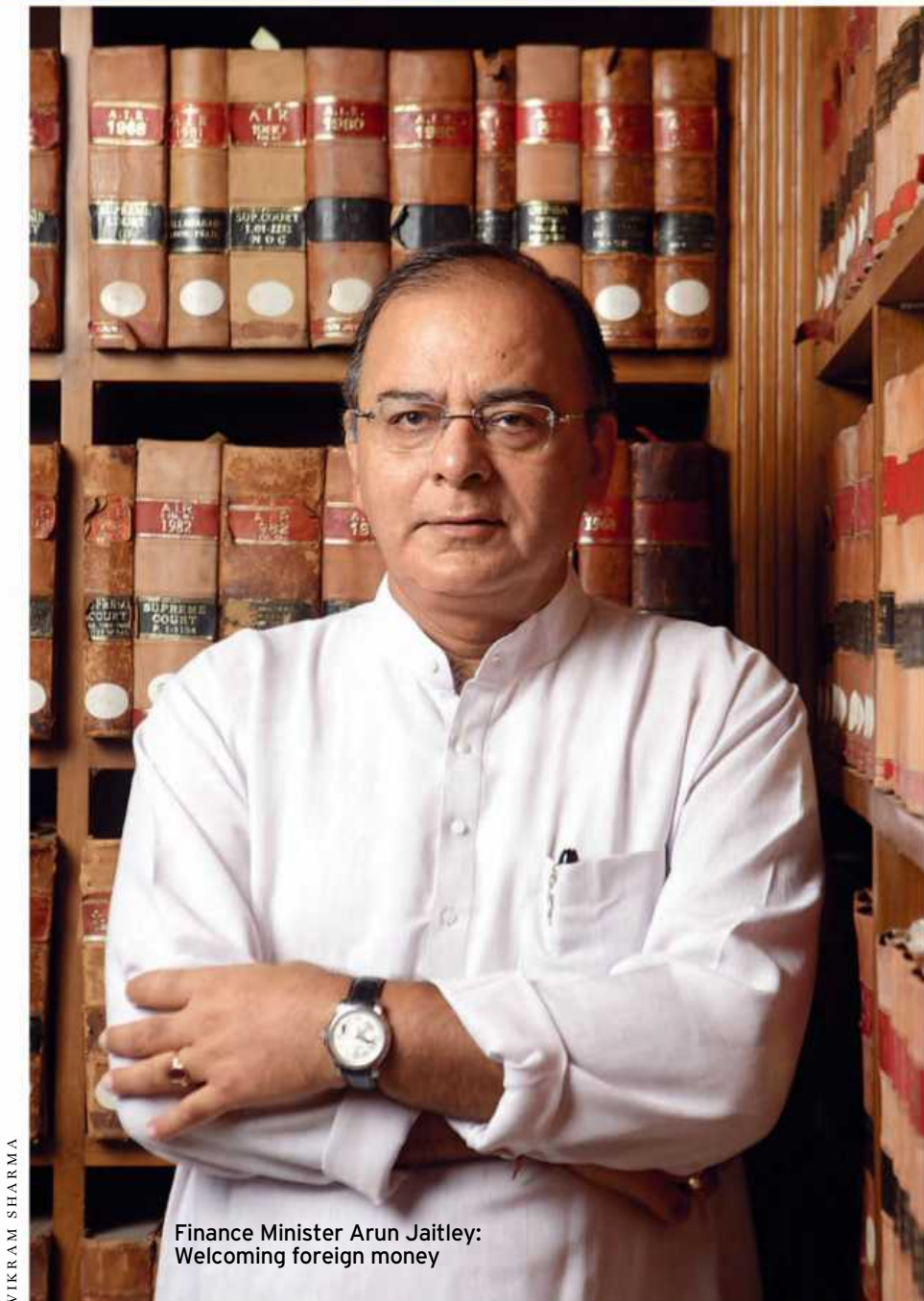
Betting On Foreign Funds

New FDI rules will improve the ease of doing business but may not lead to a rush of fund inflow.

By JOE C. MATHEW

Coming soon after the Bharatiya Janata Party's debacle in recent Bihar elections, and just before Prime Minister Narendra Modi's visit to Britain, it was only natural that the latest review of India's foreign direct investment (FDI) policy should be tagged to either or both of these developments.

While these could have influenced the timing of the decisions, the changes — increase in FDI caps in a few areas, bringing of more sectors under the automatic approval



Finance Minister Arun Jaitley:
Welcoming foreign money

VIKRAM SHARMA

route, opening up of new areas and easier rules in some — have been long in the making and will definitely boost investor sentiment. It is, though, doubtful whether the changes, which impact 15 sectors and cover 32 points or areas related to foreign investments, will result in opening the “flood gates” of fund inflows into India.

Take the case of the defence sector, where the government has allowed up to 49 per cent FDI under the automatic route. It has also increased the limit for portfolio and foreign venture capital investment in defence manufacturing from 24 per cent to 49 per cent. Clearly, the move has made it easy for foreign defence companies to do business in India. But has it created an attractive business proposition? Experts say unlikely. The biggest hurdle to the entry of private companies in the defence sector, they say, continues to be the country's Defence Procurement Policy. Unless that becomes conducive enough, global defence players may not commit big-ticket investments in the country.

However, the reforms in the real estate sector seem to have a better chance of succeeding. The relaxation in thresholds related to floor area and capital investment could attract funds into smaller projects. Easier norms for exit and repatriation of investment before completion of the project should also make foreign investors happy. Removal of the lock-in period for investments in hotels & resorts, hospitals, special economic zones, educational institutions, etc, could also attract foreign funds into these segments. So, the norms will certainly help the cash-strapped real estate players, though it is too early to suggest that they will lead to a revival of the sector, which is troubled by land acquisition rules and sluggish demand.

The third important sector that has seen a series of amendments is broadcast. News broadcast companies

THE NEW REGIME

REAL ESTATE

Restrictions of minimum 20,000 square metres floor area, capitalisation of \$5 million removed

DEFENCE

No government approval required for foreign investment up to 49%

BROADCASTING

FM radio operators, news channels can get 49% FDI, after government approval

PLANTATION

100% FDI allowed in coffee, rubber, cardamom, palm oil and olive oil plantations

BANKING

Full fungibility of investment in private banks. FIIs, FPIs, QFIs can invest up to 74%

SINGLE BRAND RETAIL

30% local sourcing requirement to kick off from opening of first shop, not the date of investment

CIVIL AVIATION

Along with scheduled air transport service/domestic scheduled passenger airline, regional air transport service will also be eligible for foreign investment up to 49% under the automatic route

RAISING THRESHOLD FOR FOREIGN INVESTMENT PROMOTION BOARD APPROVAL

Limit increased from ₹3,000 crore to ₹5,000 crore

LIMITED LIABILITY PARTNERSHIPS (LLPs)

No government approval needed for 100% FDI in LLP firms

ESTABLISHMENT AND TRANSFER OF OWNERSHIP AND CONTROL OF INDIAN COMPANIES

No government approval needed for investment in automatic route sectors by way of share swap

can now have up to 49 per cent foreign ownership, but after government approval. Non-news TV channels can get up to 100 per cent FDI through the automatic route. The changes can trigger consolidation in the industry but will not be enough for any fresh investments, at least for now, say experts.

Similarly, the decision to allow 100 per cent FDI in the plantation sector, particularly coffee, rubber, cardamom, palm oil and olive oil, may also get a lukewarm response unless it is followed by politically-sensitive decisions such as reforms of land use and labour laws. It is precisely for these reasons that the tea plantation sector, where 100 per cent FDI is allowed since 2002, has not seen any major foreign investment.

The decision to introduce full fungibility of foreign investment in the private banking sector is also being seen as an attempt to ease the norms for doing business in the country. It is not expected to have a major impact on investment inflows.

While none of these reforms is expected to result in a rush of new investments, easing of conditions in general, such as 100 per cent FDI in limited liability partnerships, and raising of the threshold of investments cleared by the Foreign Investment Promotion Board from ₹3,000 crore to ₹5,000 crore, have been widely welcomed.

By creating more space for FDI, the government is preparing itself to face the possible exodus of hot money from the country if the US Federal Reserve increases interest rates in December. Though India is not in a position to stop such outflows, it can definitely try and create more investment avenues for foreign money and hope for the best.

To that extent, the latest revision in FDI norms will definitely help.♦

@joecmathew

DRIVE A HARD BARGAIN

Mutual emission reduction commitments and financial support to developing countries are crucial to the success of the Paris climate talks. **BY JOE C. MATHEW**

India has a unique position among the 196 countries that are meeting in Paris on November 30 for the annual United Nations Climate Change Conference. It has a gigantic voluntary emission reduction commitment, given its relatively low per capita carbon emission.

The country has an estimated \$2.5 trillion plan to reduce greenhouse gas emissions per unit of GDP by 33-35 per cent from the 2005 levels and it hopes to do that by 2030 if things go according to plan. This is despite the fact that the per capita carbon emission (per tonne per person) in India is just 1.6 as against 16.4 in the United States and 7.4 in the European Union.

By voluntarily proposing a near impossible task, India is at the risk of losing face when it comes to honouring its commitment. The only way to avoid that is to make it clear that the proposal means nothing until there is sufficient financial and technical support to implement it.

There is a rationale to do it too. The climate change talks began in 1992 with an understanding that the industrialised or developed countries would – as they are the source of most greenhouse gas emissions – do the most to cut emissions on home ground. It was also agreed under the United Nations Framework Convention on Climate Change (UNFCCC) that developed nations would support climate change activities in developing countries by providing financial support for action.



RAJWANT RAWAT

Time to take a stand:
Environment Minister Prakash Javadekar

Over the years, leading polluters have tried to reduce their greenhouse gas emissions, but they are still way above levels in India. For instance, China, United States and the European Union account for approximately 55 per cent of the annual global emissions. India has a 5.7 per cent share, but its population and development needs make it more difficult to scale down emissions than most of the developed countries. Despite the odds, India remains active in climate change negotiations through voluntary commitments. This is primarily because the country is also one of the most vulnerable to adverse

BY VOLUNTARILY PROPOSING A NEAR IMPOSSIBLE TASK, INDIA IS AT THE RISK OF LOSING FACE WHEN IT COMES TO HONOURING ITS COMMITMENT

effects of climate change.

A recent World Bank report *Shock Waves: Managing the Impacts of Climate Change on Poverty* says that in the next 15 years, an additional 100 million people, mostly in Africa and South Asia, could get pushed into poverty due to the adverse impact of climate change on agriculture and public health with more frequent disease outbreaks. Almost 45 million of these additional poor will belong to India. This report was intentionally released just ahead of the UNFCCC meet to underscore the need for emission control measures. The World Bank

dioxide by 2030, through greater forest and tree cover.

While the objectives are laudable, the fact remains that even if India meets its commitments it still does not insulate the country from the perils of climate change, a global phenomenon. For the World Bank prescribed solutions to work, the emission reduction and mitigation targets of the major polluters should be much greater than that of India.

Emission reduction commitments and financial support to developing countries are both integral to the success of the Paris talks. Indeed, unless the negotiating parties agree

to common and differentiated responsibilities, the agreement will not be comprehensive, balanced, equitable and pragmatic.

India has very little left to trade off in the Paris negotiations. It should have started off by offering less, and raised its commitment gradually on the basis of reciprocity. Now, having lost that chance, it

should take a clear position that the implementation of these targets solely depends upon the international financial and technical help it receives and the level of commitments others make.

Fulfillment of these commitments also means huge business opportunities. India alone needs to spend \$834 billion on mitigation activities while its estimates for implementing adaptation actions in agriculture, forestry, fisheries infrastructure, water resources and ecosystems is \$206 billion. In energy sector alone, the investment will be about \$7.7 billion.

The developed countries may not be the ones to be worst hit by changes in the climate. But they may benefit the most from the money spent on climate change adaptation and mitigation efforts. ♦

LEADING POLLUTORS

Developed countries rank way above India when it comes to carbon emissions on a per capita basis

Country	Co2 Emissions Per Year (Billion Tonnes)	Share In Global Annual Emissions	Co2 Emissions Per Capita (Tonnes / Person)
CHINA	9.86	28.6	7.1
UNITED STATES	5.19	15.1	16.4
EUROPEAN UNION	3.74	10.9	7.4
INDIA	1.97	5.7	1.6
WORLD	34.5	100	4.9

Source: Emission database for global atmospheric research

prescribed solutions of rapid, inclusive and climate-smart development, together with emission reduction efforts that protect the poor constitute the core of India's voluntary commitment formally known as the Intended Nationally Determined Contributions (INDCs). These actions will form the basis of negotiations on the new international agreement on climate change in Paris.

Seen from this context, India's INDC is highly ambitious and reflects the serious socio-economic threat it faces from climate change. It aims to develop India's renewable energy capacity from the current 36 gigawatt (GW) to 250 GW or approximately 40 percent of the total energy production by 2030 (its current share in India is just 13 percent). Similarly, it wants to create an additional carbon storage and absorption capacity for 2.5 to 3 billion tonnes of carbon

OVER THE YEARS, LEADING POLLUTERS HAVE TRIED TO REDUCE THEIR GREENHOUSE GAS EMISSIONS, BUT THEY ARE STILL WAY ABOVE LEVELS IN INDIA

@joecmathew



RAJ VERMA

More Carrot, Less Stick

The new scheme to clean up the mess in discoms is not stringent enough. By ANILESH S. MAHAJAN

THE PLAN LOOKS PERFECT AT FIRST GLANCE BUT THE FATE OF SIMILAR SCHEMES MAKES ONE SCEPTICAL ABOUT ITS EFFICACY

On November 6, Power Minister Piyush Goyal announced a scheme for turning around power distribution companies, or discoms, reeling under a combined debt of more than ₹4.2 lakh crore. Under the scheme, called the Ujwal DISCOM Assurance Yojana (UDAY), the states will take over 75 per cent debt of their discoms and, in return, get leeway to borrow more. For the other 25 per cent debt, the discoms will issue bonds. The government has thrown in other sops too — such as more funds and coal — for states that opt for the scheme, start selling power at market rates, depoliticise decision-making in the sector and bring transmission & distribution (T&D) losses under control. The target is to reduce national

T&D losses from 28 per cent to 15 per cent in the next three years, leading to savings of ₹57,523 crore by 2019.

The plan looks perfect at first glance but the fate of similar schemes in the past makes one sceptical about its efficacy. The biggest drawback, say experts, is lack of disincentives for states that go back on their promises. The only deterrent is that they may have to forfeit their claim on funds under the Integrated Power Development Scheme (IPDS) and the Deen Dayal Upadhyaya Gram Jyoti Yojana. Last year, the Cabinet had approved ₹44,011 crore for the IPDS; for the latter, the government has a pool of ₹39,275 crore.

A similar scheme, the Financial Restructuring Plan, or FRP, was launched by the UPA government in 2011/12 when the debt of discoms was ₹2.4 lakh crore. But losses of the eight states that opted for it rose instead of falling. Some of them, such as Rajasthan, Uttar Pradesh, Tamil Nadu and Haryana, have now been put on notice by the Reserve Bank of India, which has said that banks will not lend more money to their discoms. However, unlike the FRP, which was for 10 states, UDAY is open to all the states whose discoms are in losses (around 22).

In the FRP, the states were asked to take over 50 per cent outstanding short-term liabilities, whereas the discoms were asked to issue bonds, backed by their state governments, for the rest. After this, banks were allowed to give discoms additional loans. The states were also asked to rationalise tariffs.

In UDAY, the states will take over 75 per cent debt of their discoms as on September 30, 2015, over two years—50 per cent this year and 25 per cent next year. This additional debt will not be included in their fiscal deficit numbers for these two years. They will issue ordinary bonds to fund this debt. The idea is to reduce interest payments as state loans carry a much lower rate (8-9 per cent) than the 14-15 per cent that the discoms pay. CRISIL has predicted savings of ₹12,000 crore a year on this account alone, though this can impact banks' margins by 8 per cent. Unlike the FRP, under which corporate bonds were issued, the states will this time be allowed to issue non-SLR (statutory liquidity ratio) bonds and state development loans. Non-SLR bonds are not eligible for banks' SLR holdings and so are in lesser demand.

Among the top debt-ridden states, only Tamil Nadu is in a position to take more debt comfortably. For Rajasthan, the worst-hit,

with cumulative losses of more than ₹81,000 crore, any additional borrowing could be a nightmare as its fiscal deficit is already 3.5 per cent of state gross domestic product. The states are yet to come out with a response to the scheme. The toughest call is to how to pay the principal on these bonds when they mature.

The central government, of course, can breathe a little easy as annual losses of distribution companies are gradually coming down. In 2011/12, the losses were ₹76,877 crore. This year, they are expected to be ₹60,000 crore.

Still, implementation will be the key. Like

the FRP, the new scheme also requires states to rationalise tariffs within the next three years. But will the states do it, especially as power has become a central issue in assembly elections? This year, for instance, Punjab did not increase tariff despite losses by distribution companies. It goes to polls in February 2017. The Chief Minister of Uttar Pradesh, Akhilesh Yadav, has already said that UDAY is an effort to help banks, not to provide electricity to the poor, hinting at another round on

politics on this. Uttar Pradesh also goes to polls in early 2017.

Also, in the eight states that opted for the FRP in 2012, the gap between average revenue and average cost of supply is ₹1.40 per unit. Even if UDAY does well, the states will be able to bring down the gap to only 70 paise a unit by the end of 2017/18. That is why Goyal is pushing the companies to reduce the cost of generation by 35 paise per unit by more rationalised use of coal. But there is no road map for this.

So, all in all, the plan will stay on paper if it is not backed fully by the states. ♦

ABOUT UDAY

1. The scheme will rework the ₹4.3 lakh crore debt of discoms. It will also encourage states to bring down T&D losses and power subsidies
2. State governments can take over 75 per cent of this debt and issue bonds to pay lenders
3. This extra borrowing will not be added in states' fiscal deficit numbers
4. States have to push discoms towards operational efficiency improvements
5. The scheme is optional

GOVT IS ALSO PUSHING DISCOMS TO REDUCE THE COST OF GENERATION BY 35 PAISE PER UNIT BY MORE RATIONALISED USE OF COAL

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Stand up for your health.



✓ Touch Control for Up/Down movement



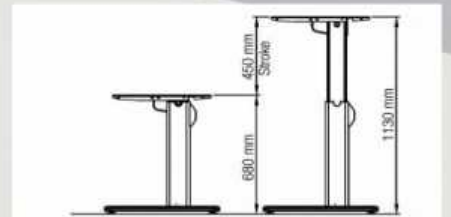
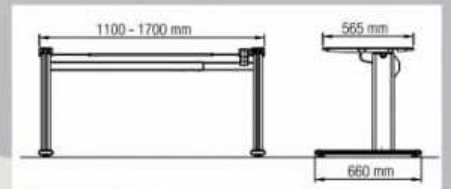
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✓ Base Leveller



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Height adjustable table legs that gives you the flexibility to work sitting down or standing up, **improving productivity and boosting your health.**



Smart Lift - Manual

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The Narendra Modi government is all set to give a big boost to defence spending. An estimated ₹25,000 crore will be sunk in over the next seven to eight years with a number of deals being put on the fast track. There's more for the defence sector. The foreign direct investment cap has been raised from 26 to 49 per cent and there is a push for indigenisation. Indeed, these moves are intended to ensure that the country's defence preparedness is on track.

DEFENDING INDIA



1

As many as 18 contracts were inked in 2014/15 – after the new government took over – with foreign vendors, including those from the US, Russia, Israel, Germany, France and the UK. The items procured included missiles, rockets and simulators

Graphic by **Ajay Thakuri** Text by **Niti Kiran**

The Shopping List

Some deals inked/proposed by the present government



Cleared new military modernisation proposals worth over **₹12,000 crore**



The government has cleared an **\$8-billion** plan to build India's most advanced warships

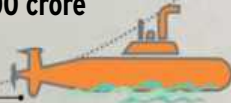
Boeing receives order from India for **22 Apache** and **15 Chinook** Helicopters for **\$2.5 billion**. It is the biggest defence contract signed by the NDA government after coming to power



The Defence Acquisition Council (DAC) granted **₹1,800 crore** for digitisation of **25 firing units** of the Pechora surface-to-air missile system



The DAC also cleared the long-pending **₹1,500 crore** project to purchase two deep-submergence rescue vessels



Some deals inked/proposed by the previous government



The UPA II government had issued RFI (Request for Information) for the six-submarine project towards the end of its tenure



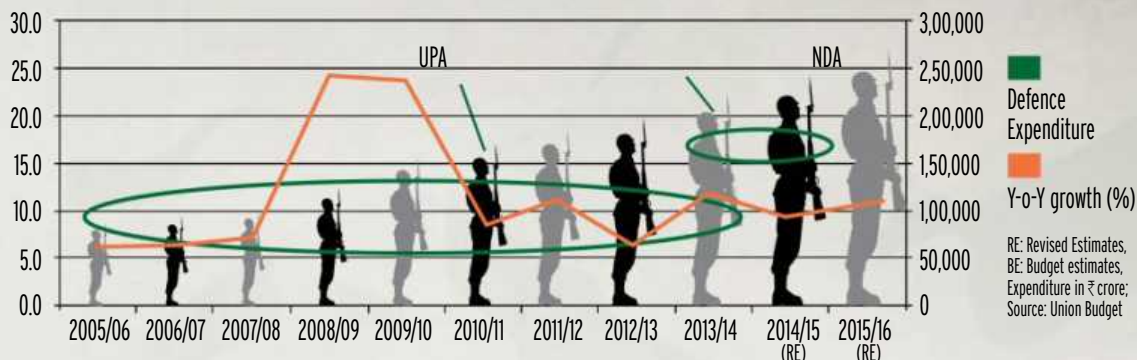
Cleared **₹65,000-crore** Mountain Strike Corps comprising 40,000 soldiers along the disputed border with China



Inducted **C-17 strategic airlift** aircraft and basic trainers for the air force

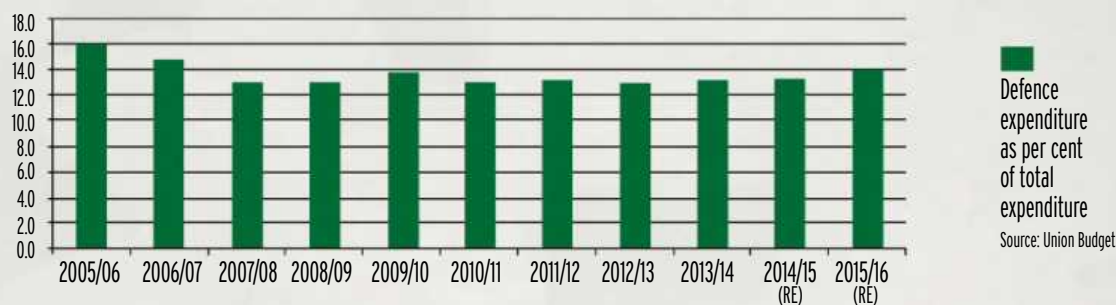
2

Defence expenditure has been growing steadily over the past decade, first under the United Progressive Alliance and now under the National Democratic Alliance government...



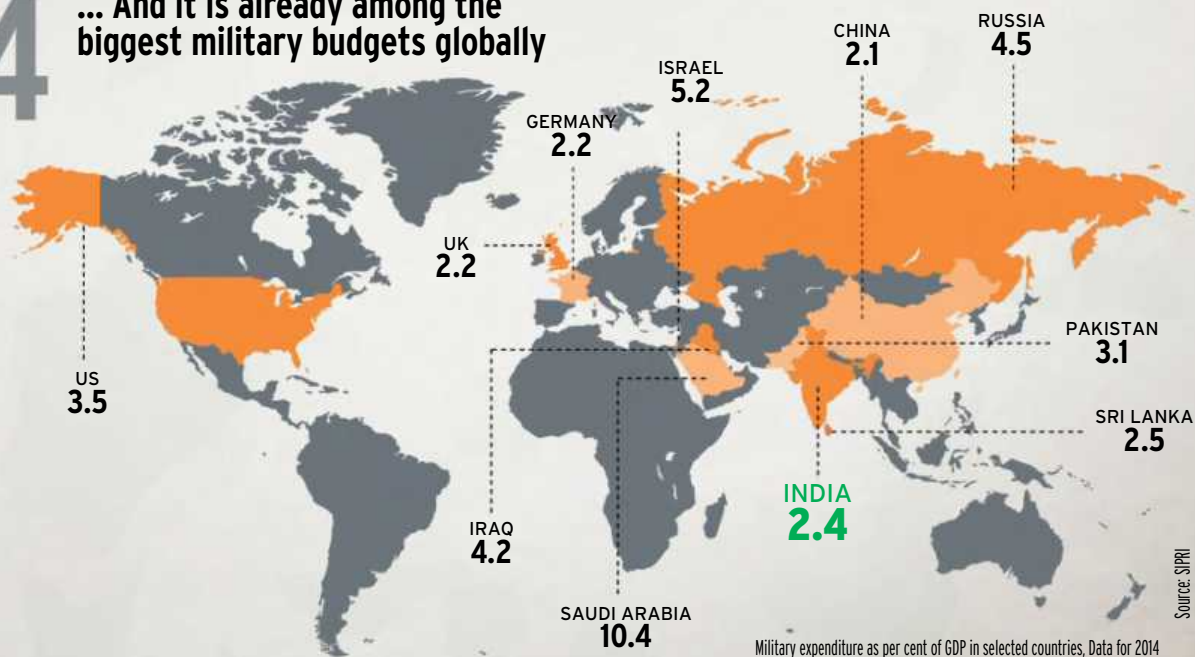
3

... Accounting for a double-digit per cent share of the overall Central government budget...



4

... And it is already among the biggest military budgets globally



WHAT'S TRENDING

Social Media for Fitness

How social apps are motivating folks to get off the couch and get fit.

By **TUSHAR KANWAR**

It may seem anecdotal, but ask just about anyone who's had a serious fitness regimen about the role of social motivation, and you'll hear stories of running partners, gym buddies and well, even the odd story or two of the pretty girl responsible for staying committed. Yet, finding a fitness partner, one who shares your goals and schedule, is becoming increasingly difficult these days. A recent study from the University of Pennsylvania suggests that health buddies on fitness-focused social networks and apps may have the same effect. Think about it: folks using these apps and sites are there for the same reason you are... and seeing updates on your timeline that others are exercising is a great reminder to make time in your

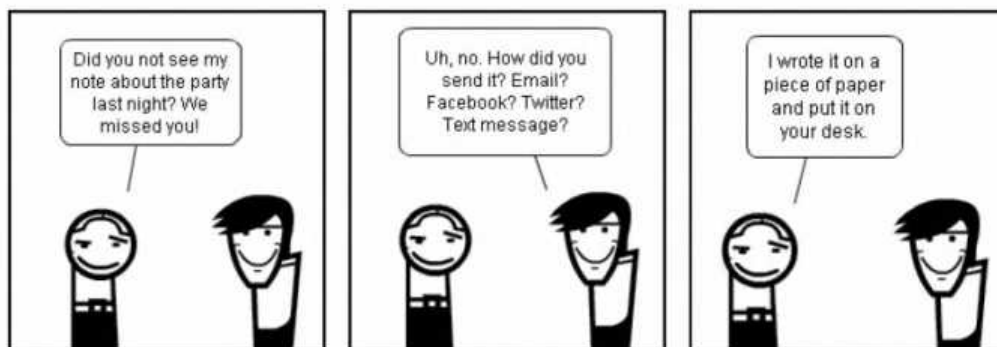
AJAY THAKURI



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Social Media Complexity



day as well. You know, like having a training partner... only multiplied by a hundred!

Take the RunKeeper app for instance, which lets you track a variety of activities using your phone's GPS – not just running, as the name would suggest – and a bunch of other data such as your calorie intake and heart rate, if you have compatible gear. Once you've got it up and running, you can add friends from your contacts, Facebook or e-mail and comment on their activities and their workout stats right from within the app. Best of all, it has an active community in many cities and the app even lets you find new running friends based on your location, or search for people who are at the same fitness level as you. You could also try Runtastic, which adds aerial maps, graphs and dashboards to visualise your daily runs, and show off your running accomplishments on the social network of your choice.

As you start getting serious about your fitness tracking, consider the Fitocracy social network. Much like other social networks, Fitocracy has profile pages and walls where you can post status updates, and even has groups to segregate different activities, say a running club or a gym group. What it does differently is that it gamifies your workouts – for each workout you record, you earn points that help you level up, much like in a

role-playing game. You can also earn points and achievements by completing related milestones/quests, such as pushing yourself to run a kilometre in say under six minutes. What I really liked about Fitocracy is that it does not discriminate against any form of exercise, and lets you log all types of exercise, from brisk walks to lifting weights to yoga and martial arts!

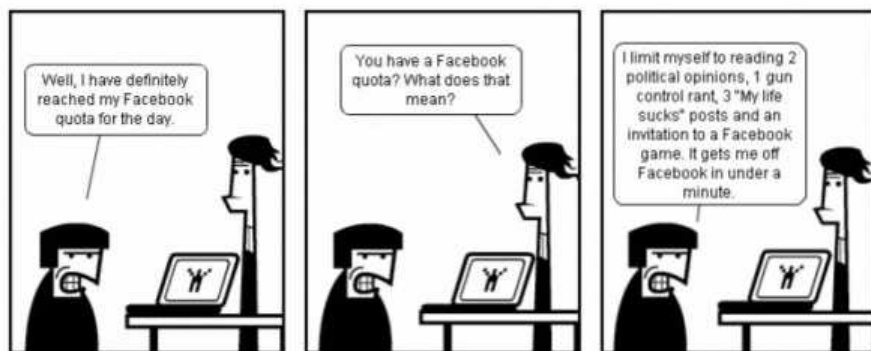
Then there is Pact (previously known as GymPact) which takes a rather unique approach to keep you honest to your morning gym routine. Pact hits you where it hurts most... your wallet! When you set up the app, you are asked to make a pact by putting money into your account and setting how many days you want to work out. If you miss a day, you forfeit money from your account, which gets divided among those who stayed true to their pact. It's punishing, but completely fair.

Bear in mind that while the social motivation may help you shed those kilos, some of these apps and networks lead to over-sharing information far too easily, and you may end up bombarding your social timelines with your fitness updates (I'm looking at you, Runtastic). Ensure you scour the privacy settings with some caution, but that pretty much goes without saying about anything on social media these days. ♦

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LISTENING POST

Placement Portal



UK-based professional networking site LinkedIn has

introduced a new service called 'Placements' in India, which helps students and freshers in finding their first job. The free desktop and mobile-friendly portal is aimed at "making the placement process easier, transparent and more efficient". According to LinkedIn, with this portal, students can browse and apply for jobs, attend preliminary interviews and also accept or reject job offers. Recruiters can post jobs, view and shortlist candidates and also make offers. The portal has been developed by LinkedIn India's product development team and India is the first market to pilot this product. DY Patil, FMS Delhi and PESIT are among the 14 colleges that have already adopted the pilot, a statement by LinkedIn said.

Twitter Hearts



Twitter has changed the star-shaped icon for 'Favourites' to a heart-shaped button and is now calling it 'Likes'. "We want to make Twitter easier and more rewarding to use, and we know that, at times, the star could be confusing, especially to newcomers. You might like a lot of things, but not everything can be your favourite," the social networking service said in a blog post. The popularity of 'hearts' on its video streaming app Periscope was another reason for the change on Twitter and also on its video sharing service Vine. Though the move was initially not taken positively by users, Twitter claims it has seen a six per cent increase in 'Like' activity in just the first week of its introduction.

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Recoup Specialists

A five-month-old start-up is lending a helping hand to patients just discharged from hospital.

By E.KUMAR SHARMA

On November 5, Hema Ramakrishna, 44, a resident of Vijayawada, was relieved. She was told that her husband, Ramakrishna Rao Raparla, 50, bed-ridden with poor orientation and alertness for the last four months, would be soon given oral feed. It was on July 5 that Raparla, who works in a construction-related business, had fallen sick. He was diagnosed with encephalopathy, a disease which affects the brain.

Raparla spent 40 days in the intensive care unit of a hospital in Hyderabad. After he was declared out of danger, one of the doctors suggested that he be shifted to SuVitas, a transition care facility in the city that takes care of people recovering from serious medical conditions. This is because hospitals are equipped to treat people who are critically ill but helping patients recover after a major treatment is



not their forte.

Raparla was shifted to the SuVitas facility on September 7. Relieved that he will now be given oral feed, his wife tells *Business Today* that while he still cannot speak, his condition has improved. "He makes eye contact now," she says, adding that he understands what he is told and is able to even make unhappy sounds to express his displeasure. She intends to continue the treatment at SuVitas till December,

by which time, say doctors, he could be on a recovery path.

Raparla is among the 52 people who have used the SuVitas facility in the last five months that it has been in operation. SuVitas, which calls itself a provider of in-patient transition care facilities for those who have undergone treatment for serious ailments but have not recovered enough to go home, combines protocol-based care plans with personalised attention in a



SuVitas Co-founder Bipin Pendyala (on the chair) with a patient, A.S. Prakash Rao, at the Hyderabad facility

A. PRABHAKAR RAO

home-like environment. SuVitas combines “Su” (Good in Sanskrit) and “Vita” (Life in Latin).

SuVitas, says Bipin Pendyala, the Co-Founder and Managing Director, comes between hospital and home care. “What is offered is a range of services, including physiotherapy,” he says. SuVitas also offers occupational therapy, which involves helping the patient get back to doing his or her routine activities like dressing and self-feeding. It also has a

speech therapist who customises treatment as problems may involve inability to speak, swallow or read. It also offers psychological treatment for those recovering from neurological conditions.

Capex Intensive

But then, how will SuVitas differentiate itself from home health care providers which may emerge as a competition? After all, several players such as Dabur and Portea

AT A GLANCE

NAME: SuVitas

SPACE: Transition health care delivery.

LAUNCHED IN: June 2015.

PROMOTERS: Dr. Ramesh Byrapaneni, Sateesh Andra, Managing Partner at Ventureast Tenet Fund; and Bipin Pendyala.

USP: Calls itself the first organised player in the transition care segment

KEY CHALLENGE: Creating awareness and building trust. Raising funds

have emerged in this segment in the last 18 months. Medwell Ventures, too, has a home health care arm. In October, even Apollo Hospitals set up a home health care company.

Pendyala says home health care providers complement their work by taking care of patients after they are taken home. Also, transition care, unlike home care, involves use of several equipment and aids that are expensive and, therefore, difficult to use at people's homes.

Funding Facts

SuVitas was founded with seed funding of ₹5 crore by three people — Pendyala, Dr. Ramesh Byrapaneni and Sateesh Andra, Managing Partner at Ventureast Tenet Fund. Half of this has been used as capital expenditure.

Though Pendyala is careful not to discuss costs in detail, he says just the physiotherapy equipment costs ₹50 lakh. The money needed to add a 50-70 bed facility is ₹5 crore, half of which is capital expenditure, he says.

Plus, there is a health-care team that includes physicians, nurses, therapists, dieticians and paramedics. Typically, a 60-bed facility has a team of five physicians, 24 qualified BSc/MSc nurses, 10 physio/occupational/speech therapists, two dieticians and two counsellors. Then there are about 35 paramedics, including ward boys. Plus, there are separate finance, administration, marketing and reception teams. This, says Pendyala, sets a transition care player on a different plane than a home health care provider.

In the home health care delivery model, a trained nurse/physiotherapist/helper visits the patient at home. This person is equipped to address some of the patient's needs but may not be best placed to provide the comprehensive care needed immediately after hospitalisation, especially in critical conditions like neurological cases. This, says Pendyala, is provided under all under one roof at a transition care facility with its multi-disciplinary team of doctors, physiotherapists, nurses, dietitians and counsellors, aided in some cases by sophisticated equipment.

SuVitas is looking to enter Bengaluru and Mumbai in 2016. It is aiming to have 2,000 beds in the next four years for which it will need around ₹120 crore. Currently, it is in talks to raise ₹10-15 crore.

It was launched in June with a monthly revenue of ₹5 lakh but in October it earned ₹25 lakh per month. It hopes to get to ₹60 lakh per month by March 2016 and ₹300 crore per month in four years.

Not far from where Ramakrishna is recovering is A.S. Prakash Rao, a 75-year-old retired government employee diagnosed with Parkinson's disease, a condition of the nervous system marked by muscular rigidity



VIVAN MEHRA

"All these models of health care delivery (like transition care and home health care) that are coming into the Indian health care ecosystem are positive from the patient's perspective "

VISHAL BALI

Co-founder & Chairman, Medwell Ventures

and slow and imprecise movement. The condition of patients with the disease deteriorates progressively. "We can slow the process of deterioration," says Dr. Vijay Janagama, Medical Director at SuVitas. This, he says, can be done by ensuring that medication is administered on time and physio/activity sessions are coordinated keeping in mind the patient's medication and diet. Sheila Addanki, the Care Coordinator who has looked after Rao since he was admitted on September 24, says he has better control now, his mood swings have reduced, his mobility has improved, and he is able to connect better.

However, does all this make transition care a good space to be in? Yes, say a lot of experts. A key reason is the need. Typically, tertiary

care hospitals or super-specialists like, say, Apollo, Fortis and Max, focus on providing critical care and saving lives. Therefore, once the patient becomes medically stable, they prefer to discharge them as soon as possible and give the bed to another critically-ill patient. But at this stage, the patient may not be normal and in many cases may be unable to do everyday chores. For instance, in case of a stroke or a paralytic attack, the hospital may address the main problem through medication or surgery, but the patient will still face after

effects like inability to talk, eat or move. In such a case, he would need skilled nursing care and regular physiotherapy, besides proper nutrition and emotional support. This is where players such as SuVitas come into the picture.

Vishal Bali, Co-founder & Chairman of Medwell Ventures, which runs Nightingales Home Health Services, says, "All these models of health care delivery (like transition care and home health care) that are coming into the Indian health care ecosystem are positive from the patient's perspective. These have permeated the western world and have done phenomenally well there." He feels these are becoming increasingly relevant for India, where most hospital beds are taken up by those with acute conditions.

What about the cost for patients? Hema Ramakrishna, whose son is doing MBA in Vijayawada, says, "It has cost us a lot but is certainly not more than his health."

She was, in fact, reluctant to have her husband photographed as she did not want anyone to see him go through this phase. "I want people in Vijayawada to see him return hale and hearty." ♦

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FOR MANAGING TOMORROW

ALL DRESSED UP,

... nowhere to go. That is the painful reality of power equipment manufacturers, who increased capacity when the sector was booming.

By ANILESH MAHAJAN

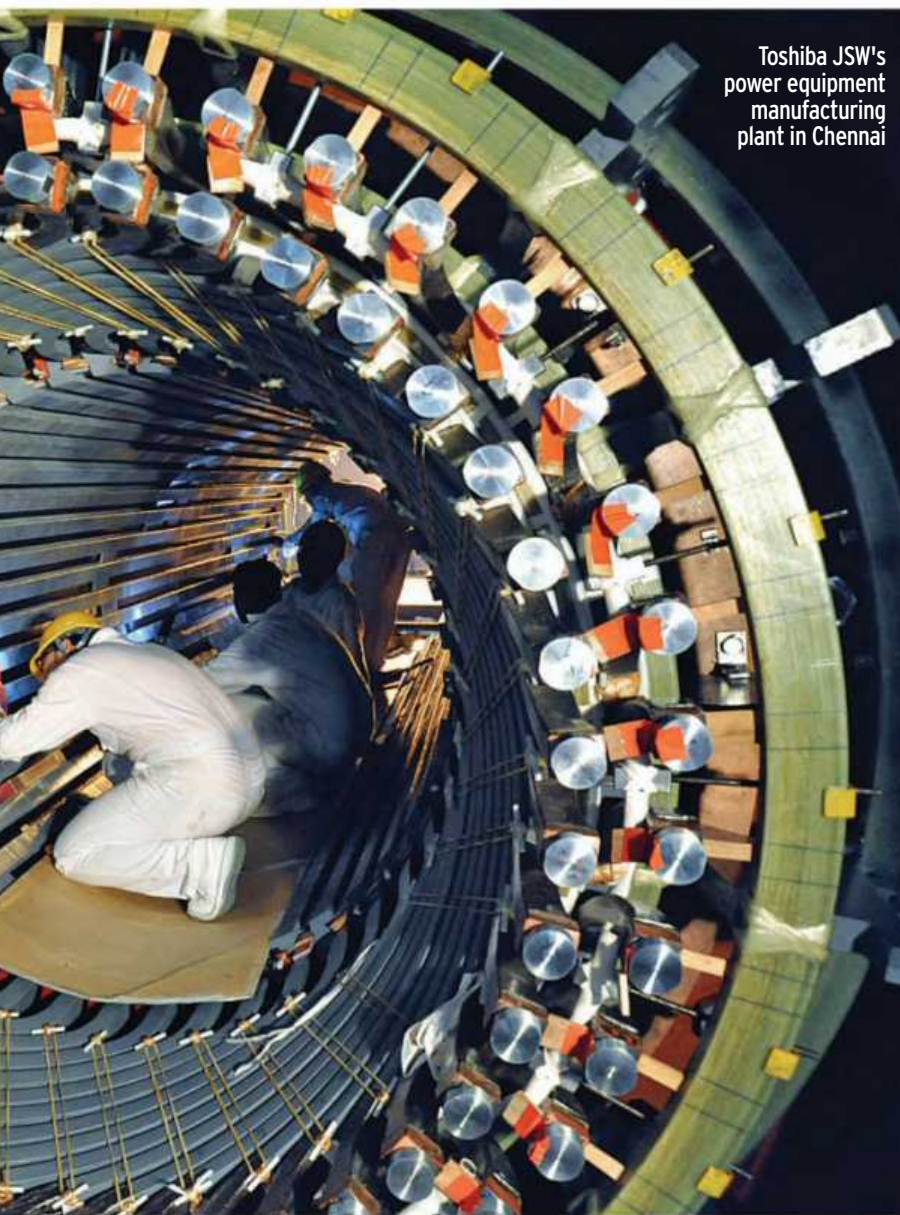
The only thing Yoshiaki Inayama can do is wait and watch. Toshiba JSW Power Systems India, or TJPS, of which Inayama is Managing Director, has decided to abandon plans to expand its power generation equipment manufacturing capacity in Chennai from 3,000 MW to 6,000 MW. Reason: There are not enough orders.

Some PSU companies are being told to step on the gas by the government, but private power players are just not willing to join in. And with few power plants coming up, equipment manufacturers are twiddling their thumbs. "In the current scenario, we are waiting for recovery to happen before we invest further in capacity expansion," says Inayama.



36 GW is India's annual indigenous but only **18 GW** worth orders

AND...



Toshiba JSW's power equipment manufacturing plant in Chennai

power equipment manufacturing capacity, are expected in 2015/16

TJPS is a joint venture (JV) between Japanese company Toshiba and Sajjan Jindal's JSW Energy and JSW Steel. The JV was floated in 2008 to manufacture power generation equipment; capacity came into play in 2012. It has invested more than ₹800 crore, and is executing three projects of government-owned NTPC. These are steam turbine generator island projects – for 3 x 800 MW Kudgi Super Thermal Power plant, 2 x 800 MW Darlipalli Super Thermal Power Project and 2 x 660 MW Meja Thermal Power project. In September 2015, it bagged an EPC contract from UP's PSU generator UPVUNL to set up a 660-MW plant in Harduaganj in UP.

But beyond these and some other stray projects, there isn't much action. The order books of most equipment manufacturing companies are drying up.

Last year, Indian power companies ordered equipment for generating 12,000 MW electricity – of which most came from NTPC and state agencies. This year, orders might rise to around 18,000 MW. If that sounds like a lot, here's a dose of reality. Even if orders are placed for 18,000 MW, that will still be half the 36,000 MW power-generating equipment that the industry can produce in a year. Of this, 20,000 MW lies with one player, market leader Bharat Heavy Electricals (BHEL), whose order book has remained flat for over two years – ₹1,01,018 crore in end-FY15 compared to ₹1,01,500 crore in end-FY14.

For that matter, even Chinese equipment players such as Shanghai Electric, Dongfang, Harbin and others are struggling. They have queued up for orders at several states, but have not managed a response yet. In the 11th five-year plan, thermal generation capacity of 48,540 MW was commissioned. Of this, equipment for 18,187 MW was imported from Chinese manufacturers. In 2013, the power ministry's watchdog, the Central Electricity Authority (CEA), asked all state and Central govern-



VIVAN MEHRA

“In the current scenario, we are still waiting for recovery to happen before we decide to invest further in capacity expansion”

YOSHIAKI INAYAMA Managing Director, Toshiba JSW Power Systems India Pvt. Ltd

ment-owned power generation companies to incorporate a condition that companies getting orders for boilers and turbine generators will set up indigenous manufacturing facilities. Thereon, the order books of Chinese players dried up.

However, their exit has not helped the indigenous manufacturers. “Most of the companies are run-

ning at 25 to 30 per cent capacity,” says the CEO of a top power equipment manufacturing company. “If reforms don’t happen quickly, most companies might run out of breath.” He adds that most companies in the sector are also present in other verticals such as transmission and distribution (T&D) equipment and railway. “The generators are opting for debt

restructuring. If things don’t improve for us soon, we may also queue up at banks,” he says. No wonder Inayama is willing to wait and watch. One suspects he and his peers don’t have much of a choice.

From Powerful to Powerless

Today’s situation is a big comedown from the heydays of power, in the

THE IMPORTANCE OF BEING NTPC

State-owned National Thermal Power Corporation, or NTPC, is India’s biggest electricity producer, generating about one-sixth of India’s power. Expansion by NTPC plays a key role in fortunes of the country’s power equipment manufacturers. Till the first week of October, NTPC had added 8,450 MW power generating capacity in the twelfth five-year plan (2012/17), and company officials are hopeful that in the pending two years it will exceed the target of 11,290 MW. NTPC spent ₹23,239 crore on expansion in 2014/15, as against the planned capital expenditure of ₹22,400 crore. During the current fiscal, the power giant is

also expecting to surpass its capital expenditure target of ₹23,000 crore by roughly 10 per cent.

In the past one year, NTPC has changed its stance and decided to expand organically rather than acquiring more plants. “We will acquire plants only from state-owned generation companies, not from the private players,” says a top official from the PSU. The company, which has more than 23,000 MW capacity under construction and nearly 9,500 MW capacity under bidding, is on path to have a 128-GW capacity by 2032. That would be music to the ears of equipment manufacturers.



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	TOTAL BORROWINGS		ORDER BOOK SIZE	
	2013/14	2012/13	2013/14	2012/13
TOSHIBA JSW POWER SYSTEMS PVT. LTD**	1,262.0	746.0	1,010.0	800.0
L&T - MHI BOILERS PVT. LTD*	617.2	1,005.0	7,698.0	9,041.0
THERMAX BABCOCK & WILCOX ENERGY SOLUTIONS PVT. LTD	427.2	301.2	0	0
ALSTOM BHARAT FORGE POWER LTD^	401.0	112.0	NA	NA

*Cumulative order book size

**Order book in the given financial period

^The company is setting up three power plants for NTPC

Figures in ₹ crore; Source: MCA

period starting 2006/07, when India started adding more than 10 GW generating capacity per year, and then took this to 20 GW. It was a time when GDP growth was going great guns, and all other growth metrics were booming. Private power companies like JSPL, Adani Power, Reliance Power and Tata Power jumped in with gusto, and made big plans to set up power plants. That promised a great future for indigenous power equipment companies like BHEL, Thermax, L&T, BGR and Bharat Forge. These companies formed joint ventures with international biggies and ramped up capacity like nobody's business, investing an estimated ₹5,000-7,000 crore in aggregate. As a result, these companies today have a cumulative capacity for manufacturing 16,000 MW of power-generating equipment.

But by the time these capacities had come up, the power sector had nosedived due to issues like fuel shortage, dip in domestic gas production, coal scam, bad contracts, poor financial structuring and the subsequent era of policy

paralysis. Finally, in July 2013 came a Presidential Directive asking Coal India to sign fuel supply agreements (FSAs) for 78,000 MW of capacity to be commissioned by March 31, 2015. There is no commitment for fuel for any plant beyond this. All these factors combined to deflate the enthusiasm of private investors. "I don't want to build plants if I am bombarded with



all these problems," says Rajiv Rattan, Chairman, RattanIndia Group, and promoter of RajivRattan India Power Ltd – erstwhile Indiabulls Infrastructure and Power. As a result, today, power equipment manufacturers are stranded with huge unused capacities.

At this point, orders are only coming from either NTPC or generators from states such as Telangana, Uttar Pradesh and Kerala.

Take Thermax. The Pune-based company joined hands with US-based Babcock & Wilcox (B&W) in 2012 to manufacture super-critical boilers in Maharashtra. But the company has not got even one order from India so far. It has only executed three projects sourced by B&W from the international market. "The JV made investments of ₹800 crore, and is making losses of ₹100 crore every year. We have little option but to wait for the reforms to happen," says M.S. Unnikrishnan, CEO & MD of Thermax. "We have to service our debt from next year, and have to do it from our parent

"In the next three years, I don't see private players coming into play; I only expect them to come in the second half of the next five year plan, not before that"

RATHIN BASU Country President, Alstom India and South Asia



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company's cash."

Then, Alstom has a 5,000 MW capacity JV with Bharat Forge, at Sanand in Gujarat, which was commissioned this year. It has landed three EPC contracts from, again, NTPC for three power plants, with seven units aggregating 660 MW. "In the next three years, I don't see private players coming into play," says Rathin Basu, Country President, Alstom India and South Asia. "I only expect them to come in

exponentially adding power generation capacity could turn into a nightmare. The government's objective is to take India's power generation capacity from the current 276 GW to 600 GW by 2022 – of which 70 per cent would be from traditional fuels such as coal and gas, and the rest from new and renewable fuels.

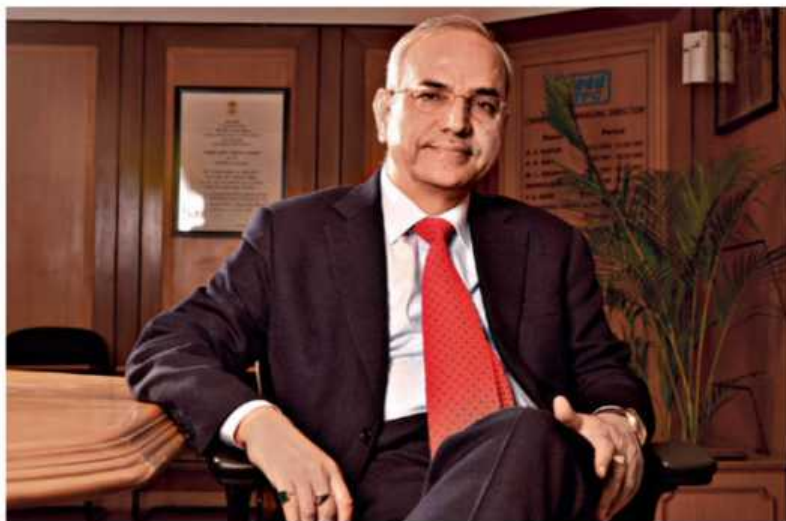
Meanwhile, another facet is playing out – instead of action on the ground, much of the action is hap-

gest that Tata Power and ICICI Bank are in talks to set up a joint venture to buy stranded or distressed power plants.

There are enough other power plants on sale to choose from, but not all are finding buyers, despite the government's assurances of better coal availability. (Coal supply is crucial to most power plants because 62 per cent of India's power plants are coal-based.) BGR Energy Systems Ltd is looking for buyers for its stakes in two BGR-Hitachi joint ventures. Each JV can manufacture 3,000 MW turbines and boilers annually. BGR has majority stake in both companies, but till date, has not found a buyer.

Then there are those who do not necessarily want to sell, but aren't willing to invest more either. "I can easily scale up my second phase of the Amravati plant, but I am not in a hurry to do it," says Rattan of RattanIndia Group. "I need a good PPA, and insulation from imported coal prices along with clarity on availability of coal."

Rattan's company is developing 5,400 MW of coal-based thermal power projects in two locations



"When private players are not adding capacities, it is more important for NTPC to go ahead and add new plants"

ANIL KUMAR JHA Chairman and Managing Director, NTPC

the second half of the next five year plan, not before that."

NTPC's new Chairman and Managing Director, Anil Kumar Jha, is clear about the company's role. "When private players are not adding capacities, it is more important for NTPC to go ahead and add new plants," he says. Noble intentions, but despite its strength (see box *The Importance of Being NTPC*), NTPC can't be expected to carry the industry forever. The fear is that if the private players don't join in quickly, the government's dream of

pening in the deals market.

Deal Play

In August last year, Adani Power announced acquisition of Lanco Infrastructure's 1,200-MW plant in Udupi for ₹6,000 crore. In November, it sealed a deal with Avantha to buy a 600-MW Korba West power plant for ₹4,200 crore.

The year ended with Tata Power's announcement about acquiring a 540-MW thermal plant from Ideal Energy for an estimated ₹3,500 crore. Industry sources sug-

(2,700 MW each) at Amravati and Nashik in Maharashtra. "I have all the clearances for water, environment et al; in fact, the railway line for the second phase is also ready. But I need more visibility of regulated returns before I build the second phase," he says.

Says the CEO of another power generation company: "In the past, private players have burnt their fingers. It could be because they signed wrong contracts or quality of decision making was bad, but today India has 46,000 MW of stranded (power

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“We have little option but to wait for reforms to happen. We have to service our debt from next year, and will have to do it from our parent company’s cash”

M.S. UNNIKRISHNAN CEO & MD of Thermax

generation) capacity, and in many cases the payments of the equipment manufacturers are stuck.”

Banking on the Minister

If you’re wondering what – or who – is pushing NTPC and other state power generators to set up power plants, it is Union Power Minister Piyush Goyal. The survival of equipment manufacturers will depend on how efficiently and effectively Goyal can execute power reforms. Indeed, the central government has come up with a plan to clear the books of power distribution companies. It could boost power demand and should come as a shot in the arm for equipment companies.

In recent interactions with scribes, Goyal has maintained that his prime focus is to add more renewable capacity and unlock 46,000 MW capacity that is stranded due to lack of long-term buyers, inadequate fuel supply, aggressive bidding for projects and coal blocks, bad contracts, and inability to achieve financial closure.

There is definitely need for much more power. As of March 2015, India’s per capita electricity consumption was only 1,010 units, compared to the global average of 3,000 units. The country still needs to provide electricity to seven crore households, and faces power cuts of more than six hours daily on average. “There is a myth that India does not need more generation capacity,” says Banmali Agrawala, President and CEO, GE South Asia. (GE has a JV with BHEL for gas turbines, but India is not adding any more gas-based



NISHIKANT GAMRE

generation capacity, putting a question mark on the JV’s future.) “There is huge scope for power generation.”

But for that to happen, the distribution end needs to be fixed. Distribution companies of states like Rajasthan, Tamil Nadu, Haryana, Uttar Pradesh and several others are reeling under enormous debt due to non-realisation of correct electricity tariffs and huge pilferage in supplies, and are not in a position to buy enough electricity (read BT’s cover story on the power distribution problem, *The Power Mess*, October 25). “This is the biggest mess around,” says Rattan. “If the balance sheets of

the distribution companies are healthy, they can buy more electricity. If they buy more electricity, the PLF of the generation companies will improve. The improved PLF means addition of generation capacity.”

Since 2013, 10,188 MW worth power purchase agreements or PPAs have been announced, which is equal to the 10,100 MW signed in 2011 alone. This shows the reduced interest of private players in the power segment. The equipment manufacturers are looking at this trend very carefully. “If reforms can push more signatures on PPAs, this would mean more PLF. If average PLF of all capacities reaches 80 per cent, this will kick-start the excitement among the manufacturers,” says a CEO.

The equipment players themselves see action coming back into the market when the government comes out with bids for five UMPPs (ultra-mega power projects) – announced by Finance Minister Arun Jaitley — and Goyal executes his plan to revamp 10,000 MW thermal capacities that are on the verge of retirement. “In this time of ‘Make in India’, the government needs to ensure that existing investments in the power equipment space are better utilised,” says Girish Shirodkar, Partner and Managing Director of the India chapter of US-based Strategic Decisions Group.

All eyes are now on the power minister. ♦

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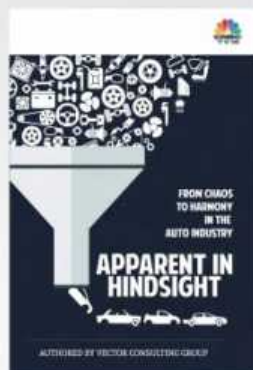




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Despite decades of investment in various enterprise-wide IT solutions, connectivity infrastructure, lean management implementations, a typical tier one auto component supplier continues to suffer from chronic problems of month-end skew in dispatches, sluggishness of production in the first week of the month and frequent expediting and perennial searches for matching components in assembly. OEMs change schedules and distributors complain about high mismatched inventory and low margins. Long days at work and sleepless nights on month-ends, quarter-ends and year-ends are part of the inescapable norm.

All talk of work-life balance is restricted to rosy posters on the wall or are only good for boring speeches. These problems have reached a stage where they are now accepted as "typical" industry issues. If you find yourself complaining, you are most probably a rookie. The only time the rat race ends is when one retires.

This book provides a diagnosis and the answers for the chronic problems in the auto industry using the systems approach of Theory of Constraints. It is based on a decade's experience of the authors in implementing these solutions with phenomenal results in about 20 companies in the auto industry right from OEMs at one end of the spectrum to the unorganized Tier 3 and 4 vendors.

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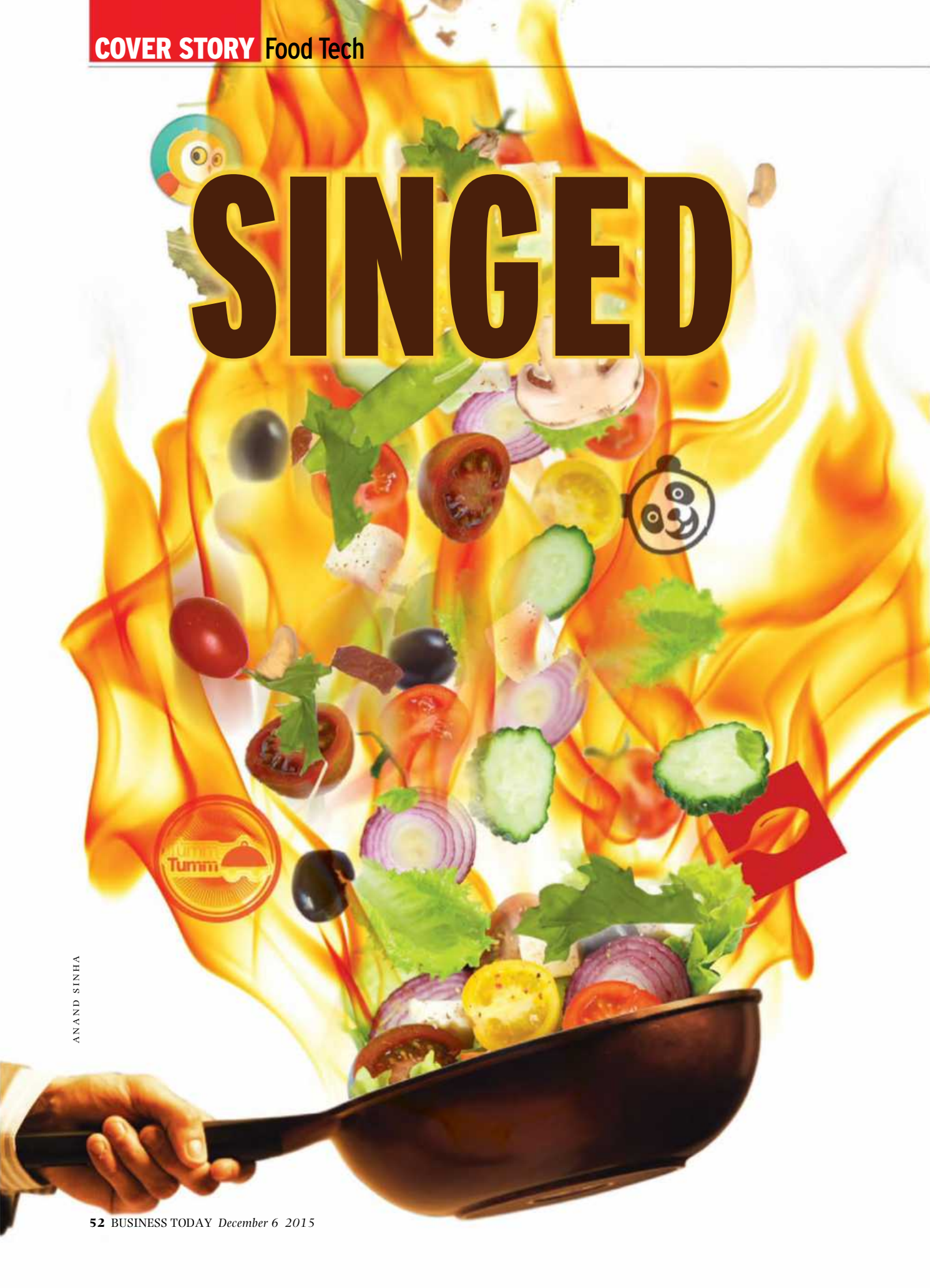
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SINGED



ANAND SINHA

One of the hottest sectors in e-commerce is going through an unprecedented churn. Is this the beginning of the bust? BY GOUTAM DAS

In mid-October, replenishments for the coffee machines in restaurant aggregator TinyOwl's Gurgaon office stopped flowing. Payments to milk vendors had been held back. On October 31, the general managers of the

company were asked to rush to the Mumbai headquarters for a meeting. A town hall was announced on November 2 and then called off just two hours before its scheduled start at five in the evening. If that was not enough to raise suspicions among employees, that very night they received a mail from the HR head announcing that Saurabh Goyal, the 25-year old co-founder of the 21-month old company, would visit the office on the following day – it was to be a dark Diwali for about 40 of TinyOwl's workforce.

"Everyone around the office was getting Diwali bonuses. We got post-dated severance cheques. 'It was nice working with you; move on!' – that was the tone of the message," a former employee told *Business Today*. TinyOwl started its operations in the National Capital Region (NCR) in May 2015 and, soon after, hired 80 people. It took just three months for things to spiral out of control. On August 31, the start-up fired half its workforce. The rest were asked to go on November 3. Goyal cited "tough decisions that had to be taken".

On the same day in Pune, where the company was scaling down operations, things took a nasty turn when around 23 employees held Gaurav Choudhary, another co-founder, hostage for 48 hours demanding settlements. Long after he was freed, Choudhary kept mumbling, "*Mujhe ghar jana hai*" (I want to go home), a staff said. He had to be administered sedatives and may have to undergo counselling for stress and anxiety. The company said the demands made by the agitating employees exceeded the commitments mentioned in the appointment letter.

Gurgaon was surprisingly genteel – something that was not very common in this part of the world where a Maruti executive was killed in 2012 during a labour flare-up in Manesar. "We pressed Goyal to answer questions. But it looked like he would cry," another employee said. "The founders are kids (TinyOwl has four founders aged 23-26 years). They had no clue, no professional experience.

HICCUPS

● TinyOwl scales down operations in four cities; fires staff

● Zomato fires 300; says its revenue hasn't kept up with the growth in its sales team

● Bangalore-based food tech firm Dazo shuts operations

● SpoonJoy merged with grocery and fresh food delivery company Grofers

● Foodpanda runs into execution issues; customers take advantage of its refund policy

● Many small food start-ups are closing down or pivoting to new business models

● Investors on a wait-and-watch mode; may not fund food tech start-ups for next six months

They were running the company like an IIT project," he added.

The layoffs, however, left a sour aftertaste. Not just for the employees, but also for the entire food tech community – a young industry that is trying to revolutionise the way India eats and orders food, primarily through mobile apps. This also exposed a soft underbelly; some of capitalism's worst disease at a micro level – investor pressure, wild business projections, numbers-at-any-cost, a hire-and-fire culture, and broken promises.

To be fair, TinyOwl is not the only company in trouble. The sector is now rife with stories of start-ups which burnt venture money way too fast, but was unable to raise funds any further. Bangalore-based food tech company Dazo shut operations recently. According to Apra-meya Radhakrishna, an investor, the team will venture into a new business. SpoonJoy, another Bangalore start-up with star investors, such as Sachin Bansal and the backing of SAIF Partners, merged into hyper-local grocery and fresh food delivery company, Grofers. The takeover appeared to be a case of 'aqui-hire' – an acquisition primarily done for the skills rather than the products and services the company offered. Grofers absorbed 40 SpoonJoy employees on its rolls, but did not pay anything apart from doling out ESOPs, said Grofers co-founder Albinder Dhindsa.

Smaller start-ups, such as Mealme, Tumm Tumm (Gurgaon), and PotJoy (Mumbai), have either downed shutters, or are experimenting with a new model. Even established players such as Zomato, which had revenues of nearly ₹100 crore in 2014/15, and Germany-headquartered Foodpanda, backed by e-commerce incubator Rocket Internet, have run into rough weather. Zomato fired 300 employees, mostly in the US, shut down its cashless business in Dubai, and restructured its markets into two – full stack (high traffic and monetisation through ads) and enterprise (low traffic and monetisation through



CHOKE POINTS

Food tech start-ups face several bottlenecks

"Me-too" Too many similar start-ups after the same pie; brand recall woes

Scalability Some models are capital-heavy; involve setting up of multiple kitchens

Cash-burn Discounts by food ordering companies making it a battle of the last man standing

Logistics Last-mile delivery costs and time to delivery have become a pain for many

Unit economics Most start-ups are delivering boxes at negative gross margins

Quality Consistency of food is a problem for home-chef aggregators

new approaches such as table reservations). In a blog post on October 16, Zomato CEO Deepinder Goyal wrote: "The next few months are going to be hard for all of us. But we'll stick together, hustle, and not spend time overthinking things or being unnecessarily creative, so that we can get to where we want to be." A leaked mail from Goyal talked about the underperformance of its sales teams. "We have grown tremendously over the past few months and our sales team has more than quadrupled in 2015. The hard reality of this growth, however, is that our revenue hasn't kept up with the growth in our sales team." In e-mail responses to a *Business Today* questionnaire, Goyal, however, played down the letter saying what leaked to the media was one dimensional and was taken out of context. "Every sales team needs pressure to work and the email that I sent out was an internal email that is part of regular conversation that we all have with our teams. There was a lot of context behind that email which was missing in what people read. Internally, people got it. They were actually quite kicked at reading that email and there have been a lot of positive conversations around that email," he said.

The loss of jobs was not about cost restructuring, said Goyal. "We are getting smarter with the effort that we have been putting into our content operations. Almost 40 per cent of the restaurants on Zomato account for over 90 per cent of our traffic. In that light, we have had to rethink our processes to make sure

that the frequency of our data updates goes up in multiples for the top 40 per cent of restaurants. This led to a cut in about 60 per cent of our content teams across the world," he said. (For the full interview, please visit online: businesstoday.in/zomato-goyal).

Zomato's "tremendous growth" over the past two years illustrate the food tech sector's rise. The company quickly ascended to the top of the world's restaurant

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Private Equity, Venture Capital funds in food tech start-ups



discovery platforms, making nine acquisitions between July 2014 and April 2015 – US-based NexTable, Indian firm MaplePOS, Turkey-based Mekanist, Urbanspoon in the US, MenuMania in New Zealand, Lunchtime.cz in the Czech Republic, Obedovat.sk in Slovakia, Gastronauti in Poland, and Cibando in Italy. This frantic bout of inorganic activity ensured Zomato's presence in 23 countries. Zomato's restructuring could be strategic, but that is not the case with most other start-ups.

Now, all of a sudden, one of the hottest sectors of 2015, where marquee investors, such as Temasek, Vy Capital, Sequoia Capital, Accel India, DST Global, Matrix Partners and Kalaari Capital, among others, poured in \$177 million till October-end, appears to be heading for the freezer section.

Are the current woes a precursor to the pricking of the food tech bubble? Or, is it a mere correction? Are the problems more company-specific rather than generic? Possibly, the woes of food tech are a mere symptom of a much larger rot; something that market watchers have been warning of for several months now – a valuation bubble in the Indian tech start-up world, particularly in e-commerce. But, is the current implosion in food tech start-ups the beginning of an end-game?

In 2015, India has seen a surge in investments. According to lobby body Nasscom, there has been 100 per cent growth in the number of private equity, venture capitalists and angel investors in the country. Together, they have pumped in nearly \$5 billion in India-based start-ups, a growth of 125 per cent over 2014. This translates into almost \$100 million of money flowing in every week into start-ups. Today, India has nine unicorns – start-ups with valuations of \$1 billion or more – including Zomato. All this is good news, but market watchers feel most of the investments were guided by the principle of momentum investing, which is leading to flawed valuations. A momentum investor bets on the prolongation of an existing trend and buys stocks that are rising. In a report, valuation and investment banking firm, RBSA Advisors, said that momentum investing is hexing the demand supply curve. "India is experiencing a wave of prefix investing, which involves a market bias for companies with an 'e-' as a prefix or '.com' as a suffix. To keep up with the growth experienced, there is a need for endless innovation to engage and exploit the market. Still, drawing comparisons between the present-day valuation boom and the dot-com bubble infers notable similarities:

TOP DEALS OF 2015

COMPANY NAME	INVESTORS	AMOUNT(US\$M)	DATE
Zomato Media	Temasek, Vy Capital	60	Sep-15
Zomato Media	Sequoia Capital India, Vy Capital, Others	50	Apr-15
Swiggy.com	SAIF, Norwest, Accel India, DST Global	16.5	Jun-15
TinyOwl	Sequoia Capital India, Nexus Venture Partners, Matrix Partners India	16.25	Feb-15
TinyOwl	Sequoia Capital India, Matrix Partners India	7.75	Oct-15
Jugnoo	Snow Leopard Technology Ventures, Others	5	Jun-15
Box8	Mayfield	3.38	Jan-15
Holachef.com	Kalaari Capital, India Quotient, Ratan Tata	3.1	Jun-15

Source: Venture Intelligence

DISCERNING PALATE

Apart from Zomato, a few start-ups raised at least two rounds of funding, starting 2014



ON THE GLOBAL MENU

Companies that received highest fundings in last three years
FUNDING/ TOP ROUNDS



Source: Tracxn

1 BUSINESS MODEL

Restaurant Discovery

Listing of restaurants with details of menu, addresses, phone numbers and user reviews. Zomato



VIVAN MEHRA

ZOMATO FOUNDERS PANKAJ CHADDAH AND DEEPIINDER GOYAL

Zomato is the only Indian food tech company with a valuation of over \$1 billion

extraordinary rates of cash burn, colossal losses, ambitious assurances of steep growth trajectory and feeble due diligence by investors under the fear of missing out (FOMO)," the report said.

RB SA's report "The Great e-Commerce Valuation Crash of 2018" drew up possible endgame scenarios between 2015 and 2018. It predicted that by 2017,

investors will start exiting small players, who will run out of cash and be forced to down shutters. By 2018, "upon going for an IPO, a company's listed price shall not match its valuation at the last round of funding. This is going to cause a major crash where early exits will be lauded and a lot of investors are going to be an unhappy lot". If the food tech quagmire is any indicator, such a catastrophe could occur earlier.

A Holiday in Afghanistan?

Investors are losing appetite. According to a report by YourStory.com, a media platform for entrepreneurs, seven food tech deals worth \$74 million materialised in April this year. In August, the numbers had dipped to five totalling \$19 million. The following month saw only two deals.

Fahad Moti Khan started a food tech company called Khana, a marketplace for daily meals, two months ago in Delhi. Between puffs of cigarette, he recollected a meeting with a prospective investor. The question-and-answer session was short but not so sweet: "Would you explore investments in food tech?" he asked. The answer was brisk and piercing: "You are asking me for a holiday in Afghanistan?"

Even in half-jest the statement touches a raw nerve. The stakes are already very high. According to data from Venture Intelligence, only \$177 million was invested in the food

tech sector in 2015, the cumulative investments are far higher. Zomato has raised \$225 million thus far. And, if you add Foodpanda's investments (the company does not disclose India investment figures, but globally it has raised \$310 million), the overall fund flow in food tech would be over half a billion dollars. Besides, Venture Intelligence



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SHEKHAR GHOSH

EAZYDINER MANAGING DIRECTOR SUE REITZ (CENTRE) WITH HER TEAM

"We are not IT-wallas," she says. The company is mostly run by hospitality industry veterans

data does not include angel investments – there could easily be over 100 food tech start-ups in the country, many funded through angel money. Half a billion is not a small amount. Globally, food tech companies have raised only about \$3 billion in 2015, according to research firm Tracxn.

To add to the confusion, the market is crowded with too many "me-too" companies. Everyone wants a pie because of two reasons: the entry barrier is low and, two, the food services market is a salivating proposition. Sample this: A National Restaurant Association of India (NRAI)-Technopack report pegged the size of the total Indian food services market at \$48 billion in 2013. It is projected to grow to \$78 billion by 2018. The report goes on to list many reasons for this growth: increasing disposable income of the consumer, a larger population of younger people, growth of consumers in Socioeconomic Classifications A and B, widening exposure to new cultures and cuisines, increased propensity of eating outside, growing popularity of delivery services and the emer-

gence of brands.

There is another reason. The biggest disruption, according to some, is happening in the kitchen. Working moms have a guilt that they are not being able to feed their children well. There is pressure on time. That makes it a good time to be in the food tech game – by serving meals at different price points, at the touch of a button. However, food tech is beyond just an app, a kitchen or a bunch of restaurant listings. It is the food business, after all. Scaling up is proving to be an uphill task for most start-ups. Once in the game, it is all about operational excellence. Techie founders who think technology first, and not food, often miss the wood for the trees, and stumble. Of course, there is a significant tech play and it can be more complicated than one imagines before starting up.

"It is about the complexity of operations at multiple levels. If I have to re-order, it should not take more than 30 seconds. What's the optimum level to do this? All this needs time, research and analytics. Yes, it is complexity, but not only of the last-mile. There is complexity of

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Restaurant Aggregation and Food Ordering

Companies not only aggregate restaurants on their platforms but take orders for home delivery. Foodpanda

technology and of partnerships since we are a marketplace. Partners have to be coached in the right way, and hand-held to manage the scale,” said Saurabh Kochhar, CEO India, Foodpanda. The company was itself in the news recently for faltering on execution. Among other things, some consumers started taking advantage of its refund policy. “We will keep finding more issues. We have been solving them one by one,” he added. There were, however, no signs of a war-torn Afghanistan the day this reporter landed up at the Foodpanda office in Gurgaon. The floor was decked up in orange and white balloons and buzzed with employees in ethnic wear. A Diwali party would begin in a few hours; music was in the air, so was the aroma of food.

Currently, there are many flavours to food tech and every business model has its pros and cons. Those who are part of the aggregator model, aggregate restaurants on their platforms and take orders through apps or websites (Foodpanda, Swiggy, TinyOwl, Zomato). Here, delivery is often outsourced. Then there is a chef/home-chef marketplace model where start-ups aggregate home chefs (Holachef, Bite Club, CyberChef). The ‘kitchen-in-the-cloud’ model does not have a physical store. The menu is limited and orders are taken online and delivered from a centralised or distributed kitchen network (InnerChef, Yumist, Eatonomist). Yet another model is ‘ready-to-cook’, where raw ingredients for a recipe are neatly packed and despatched for a consumer to cook (Cook Gourmet). While most food tech start-ups have



SAURABH KOCHHAR, CEO INDIA OF FOODPANDA

Kochhar has been finding and solving issues at the company “one by one”

focussed on delivering food at the customer’s doorstep, EazyDiner, which opened its doors to Delhi in January 2015, does just the opposite. It helps people select and book tables at restaurants.

Among all the business models we have seen so far, the Indian market may not be ready for the ready-to-cook model, while others have their own limitations. The kitchen-in-the-cloud model is capex-intensive because every new neighbourhood the company seeks to serve may need a new kitchen for the food to be served fresh and hot. Many companies are already struggling with the home-chef model, because it involves higher delivery costs food has to be first picked

up from the home chef, brought to a central warehouse, and then finally dispatched to the consumer. Home-chefs are also inconsistent. “Unlike e-hailing or e-commerce, we are dealing with commodities. It is perishable,” said Alok Jain, co-founder of Yumist, and the former head of marketing at Zomato.

The conversation at Starbucks over a cup of double espresso goes on about the culinary habits and its effects on the food tech business. “Every person has his own taste. The dal will differ from every home you pick up. There are issues with food science. Then, if the food is between five degrees and 60 degrees for more than two hours, it will lead to bacteria formation.





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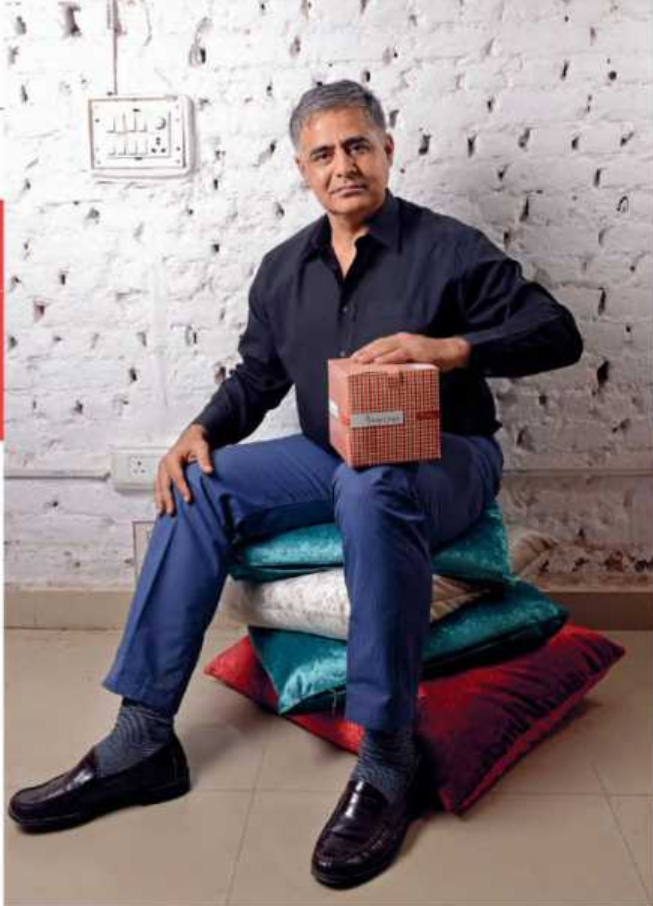
Companies don't have a physical store; orders are taken online and delivered at home.

Eatonomist/ InnerChef/ Yumist



EATONOMIST FOUNDERS ANISHA DHAR (LEFT) AND NUPUR KHANNA
The challenge is to educate customers on its 'healthy gourmet' meals

PHOTOGRAPHS BY SHEKHAR GHOSH



RAJESH SAWHNEY, CO-FOUNDER, INNERCHEF
Sawhney believes companies with bad unit economics will die



YUMIST FOUNDERS ALOK JAIN (LEFT) AND ABHIMANYU MAHESHWARI
Jain and Maheshwari believe that consolidation in the food tech sector is imminent

So, it (home chef aggregator model) is scalable from an excel sheet perspective."

The restaurant aggregator model has the big guys, who are well capitalised. Apart from Zomato that raised \$110 million in 2015, TinyOwl pocketed \$24 million

and Swiggy got \$16.5 million. Aggregator models do appear scalable but is rife with cut-throat competition. Here, there is a Darwinian fight to the finish.

Survive six months. Be a stud!

That brings us back to TinyOwl. The start-up operated in six cities: Mumbai, Bangalore, Delhi NCR, Chennai, Hyderabad and Pune. But the company decided to scale back operations in four of these cities. In a response to a questionnaire mailed by *Business Today*, TinyOwl said that the scaling back was "in line with the current organisational focus" and that the focus was "optimisation of resources across verticals". "This development has been made on a strategic level as a step towards sustainability and growth for the brand in the current

challenging market scenario. While TinyOwl will continue to operate in six cities, the new model will be initially tested in Mumbai and Bangalore," it said. However, there is little clarity on the new model. Nevertheless, the "challenging scenario" can be



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illustrated by how it lost the battle for NCR.

TinyOwl's May launch coincided with Zomato's entry into the online ordering space. But the company, according to Rohan Diwan, co-founder of hyper-local delivery company Quickli, had another "Waterloo moment". Rival and bigger restaurant aggregator Foodpanda started heavy discounting, which included discounts of ₹250 for a minimum order of ₹400. TinyOwl

According to Revant Bhate, Head of Marketing at Pune-based food tech company, Faasos, one needs a bigger heart and an even bigger pocket to look at aggregators. "The excitement around the aggregation model has reduced. Funding in food tech will dry up for aggregators." Aggregators operate at a very low margin. Restaurants, typically, don't agree to commissions of more than 8-10 per cent. So on an order of ₹300, for instance, an aggregator like TinyOwl can earn only ₹30. "Then there is discounting to woo the customer. This makes the unit economics per order difficult," added Bhate.

BUSINESS MODEL

Chef/Home-chef Marketplace

Start-ups promote home-chefs and professional chefs on their platforms. Bite Club



SHEKHAR GHOSH

FOUNDER TRIO AUSHIM KRISHAN, SIDDHARTH SHARMA AND PRATEEK AGARWAL
Investors have quizzed the start-up on differentiation, scalability and delivery

couldn't keep up. "We were packed with Foodpanda boxes. TinyOwl was killed," said Diwan, whose company was engaged by many restaurants for delivery services. Foodpanda is now in 200 Indian cities and, according to its CEO, is growing 30-40 per cent every month. TinyOwl, on the other hand, was perhaps cash-strapped and couldn't discount unlike the super-rich Foodpanda. It raised \$16.25 million in February 2015 and another \$7.75 million in October. This implies that it may have burnt \$16 million in seven months. That is ₹100 crore, or enough money to provide for 12.5 crore Akshaya Patra mid-day meals to children.

Now, investors have realised the limitations of the aggregator model and is on a wait-and-watch mode. "Anyone who can survive the next six months to one year will be a stud," said Avinash Victor, Founder and CEO of start-up MealHopper, adding: "VCs now want to see if we can survive the next six months before funding."

Bubble or Froth?

There is no better person to explain the crisis in unit economics for food tech start-ups than Rajesh Sawhney, founder of a tech start-up accelerator and angel investor to 50 companies. Two of his investments saw star exists – Viki, a video start-up, was acquired by Japanese Internet giant Rakuten for \$225 million in 2013, while Little Eye Labs, a company that built performance tools for app developers, was taken over by Facebook in 2014.

In early 2015, when the delicate aromas of food tech were getting stronger, Sawhney co-founded Inner-Chef with a hybrid model of kitchen-

in-the-cloud and home-chef aggregation. His colourful office in Gurgaon has a poster that defines 'Hangry' – anger fuelled by hunger.

Right now, he is hungry for growth. InnerChef operates in four cities – Gurgaon, Delhi, Noida and Bangalore. He runs three kitchens and, with the \$1.7 million he recently raised, seven more kitchens are expected to go live. Today, he serves between 500 and 700 meals a day, a number he is sure will go up because much of his competition will bite the dust. "Inevitably, consolidation will happen in this market. We shouldn't worry about it. This is the nature of the venture industry, the nature of Internet markets. So companies will pivot, change and merge," he said, adding that the current climate is "not a bubble, but just froth".

The froth is about the poor mathematics by some of the food tech companies. The salt and pepper haired Sawhney, snatched this reporter's notepad to draw up a chart.



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“What happens when people sell meals for ₹50-100? They will bleed because of negative margins.” His premise: assuming that food cost is ₹30, packaging ₹20 and delivery ₹50, there is no way any company can make money. Besides, there are kitchen staff, kitchen rent, technology expenses, as well as marketing costs.

“The companies that are struggling the most are the ones that have gone for the lowest hanging

lao’ (get the app downloads). But, how will the entrepreneur get downloads? He will employ more people, go to 30 markets instead of three, and incentivise consumers with discounts.” In short, start the whole cycle of over hiring and cash-burn.

Many blame investors for FOMO which drives them to invest too soon. But Mukul Singhal, Principal at SAIF Partners, defended the approach.

“The job of risk capital is to take risks and invest early. Five years back, people used to say VCs are risk-averse. Now, we are investing and people say they are in a rush to invest. Some investments will work, others won’t,” he said. Singhal is, however, absolutely certain of what he is up to. When he was asked about what went wrong with SAIF’s investments in SpoonJoy, which went sour, pat came the reply: “It didn’t work out. Everything does not need to be an issue. One thousand people will start, 100 will get funded and one company will make it to the IPO phase.” He also rubbished the idea that the food tech sector can be written off, and drew an analogy from the e-commerce world. “In e-commerce, 2008/09 saw a lot of investments. In 2011/12, nobody was willing to write a cheque to these companies. It was a time for consolidation. But big cheques were back in 2013/14. These are cycles in any investment journey,” he explained, adding: “Food is a

very big sector. If you bring efficiencies to the table, why will you not make money?”

A consolidation, nevertheless, will not be a bad thing. According to Jain of Yumist, a consolidation will “bring sanity”. Vanity metrics will take a back seat – the sort that prioritises number of downloads, growth of 100 per cent every week, a hockey stick curve. “2016 will be the year when we will see founders building real businesses with a focus on the basics, rather than scaling up for the next round of funding,” he said. Basics would mean deeper metrics, including user retention, gross margins and the parallel lines of business one can get into. That should work for both entrepreneurs and their employees. Once the spilling froth is sponged off, you can sip in real beer. Perhaps, many more would drink to a happier Diwali next year. ♦

6 BUSINESS MODEL

Ready-To-Cook

Raw ingredients for a recipe are packed and despatched for a consumer who wants to cook. Cook Gourmet



FOUNDERS DAMANI SINGH KOHLI (LEFT) AND SANNY CHAUDHARY

The business is more scalable than the cooked-food model, the founders claim

fruit ₹50-60 for food. The mindset was to get the numbers, and VCs will fund. That mindset will take them to bankruptcy,” said Sawhney. His rivals such as Yumist, however, do not agree. The company targets the daily meal segment with price points ranging between ₹65 and ₹95. Co-founder Alok Jain thinks that at scale, he can reduce delivery costs per order to below ₹20. They are coming up with a secret sauce “control of the entire supply-chain and use of technology in smart ways” is all they would comment as of now.

But, if companies with bad unit economics are getting funded, shouldn’t venture capitalists be held responsible? Market watchers feel that many VCs have pumped in too much money into too young companies and too early. “Think of TinyOwl and Swiggy. They are two years old,” pointed out Sawhney. “VCs believe in a winner-take-all market, so they pump in money fast and say ‘download

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DIAMONDS & RUST

Why India's diamond industry is facing its worst crisis ever.

By SARIKA MALHOTRA



Seated cross-legged on a mattress behind a low wooden desk, Jayanti Bhai Ramani looks worried. He is one of the 2,500 small diamond traders who work out of Choksi Hall, the diamond trading hub in Surat's Mini Bazaar, and occupy row after row of similar desks.

Before him are the tools of his trade: a lamp, an eye glass, tweezers, a blue velvet tray and a calculator. He has been at it for 20 years, working from 12 noon to 6 pm daily. "Dhanda abhi manda hai (Business is in doldrums)," he says. "Bas paanch taka hee kaam hai (It's down to five per cent of what it was)."

Ramani and his ilk buy diamonds from the 60,000 odd brokers who frequent Choksi Hall and sell them to bigger traders operating from the upper floors, or elsewhere in Mini Bazaar. They examine every diamond brought in, choose the ones they want and the broker gets a commission in the range of 0.5 to 1.5 per cent. Ramani gets to see around 50 packets of diamonds; but from buying three to four packets as he used to earlier, he is now down to one packet a fortnight. Diamonds are not selling – business had been sliding for a while, but became alarming since Diwali 2014 and is now at an all time low. One-carat diamonds, which would have cost ₹21,000 last Diwali, sell for ₹16,000 now. Once, according to insiders, traders like Ramani made around ₹2 lakh per month. "Nowadays, I

earn only around ₹20,000 a month," he rues.

As is well known, Surat is the global centre of the diamond cutting and polishing industry. Around 90 per cent of the 'rough' diamonds mined across the world are sent to Surat. In particular, Surat enjoys a complete monopoly on the smaller and cheaper demands, where the value addition by cutting and polishing is the greatest. It is also the second largest diamond trading hub in India, after Mumbai. More than 800,000 people in this city of 4.5 million are involved in this ₹80,000-crore industry – as 'manufacturers' or 'diamantaires' (as owners of cutting and polishing units are called), as workers in the diamantaires' units, wholesalers, traders, brokers, retailers and jewellery fabricators.

Feeling the Pinch

Of the 5,000 odd manufacturing units, 200 had shut down by September. Most of the others have reduced production and working hours – from 8 am to 8 pm earlier, it is now 9 am to 6 pm. Permanent workers have taken a 15-20 per cent cut in salary, while the reduction of payment for 'piece rate' work is around 10-15 per cent. "Agar market ka yahee haal raha toh koi aur dhanda karna padega (If the market continues this way, we will have to look for some other trade)," says Ramesh Sheta, a small manufacturer. Traders and brokers, small and big, are similarly hit. "The crowd in the lanes of Mini Bazaar has reduced by 50 per cent over the past year," says Babubhai Kathiriya, proprietor of diamond trading company Shreeji Gems, lo-



Diamond traders and brokers sit idle at the diamond trading hub of Mini Bazaar, Surat, awaiting a revival



SARIKA MALHOTRA



cated on the first floor of Choksi Hall.

The problem is not confined to Surat. Miles away, at the Bharat Diamond Bourse (BDB) in Mumbai, which houses offices of around 2,500 diamond related businesses, including that of the Mumbai Diamond Merchants Association, the mood is sombre. Nirav J. Bhansali, Director at Prism Enterprises, a leading diamond manufacturer-cum-retailer, informs that his company has cut down production of loose diamonds by 25 per cent. Inventories have piled up in Mumbai and Surat. "It would be in the range of 18 to 22 months of sales at



A trader examines diamonds brought in by a broker. This is a common sight on the streets of Mini Bazaar

“Using banking credit, manufacturers went on an expansion spree. They kept on increasing production, projecting artificial demand”

Sevanti Shah / Chairman/ Venus Jewels



least,” says Ghanshyam Dholakia, Founder of Hari Krishna Exports, another top diamond conglomerate.

In July this year, a number of diamond trade related associations—the BDB, the Gems and Jewellery Export Promotion Council (GJEPC), the Surat Diamond Association (SDA) and others—met in Mumbai to discuss the problem. A resolution passed at the meeting stated that despite tough times, “there would be no stoppage of import of roughs at this moment as the workforce in factories is the first priority for the trade”. “There have been no firings at all,” says Dinesh Navadiya, President of the SDA.

The motive for retaining all their workers is not entirely altruistic. At the start of the 2008/09 downturn, when business was similarly hit, many manufacturers temporarily shut down their units and laid off workers, only to find themselves short of skilled labour when production restarted after six months. Many workers had taken up alternative careers. “Diamond cutting and polishing is a unique skill that takes time to perfect,” says Navadiya. “We are still 20-25 per cent short of the number of workers we had in 2008.” Before the cuts, depending on their skill and complexity of the jobs they did, workers earned between



₹15,000 and ₹2 lakh a month.

What Went Wrong

On the face of it, the global diamond trade does not seem to be collapsing. Diamond jewellery sales worldwide crossed \$80 billion for the first time in 2014, a 2.9 per cent increase over the previous year, according to *The Diamond Insight Report 2015*. Rough diamond sales went up 12 per cent to over \$20 billion. All the

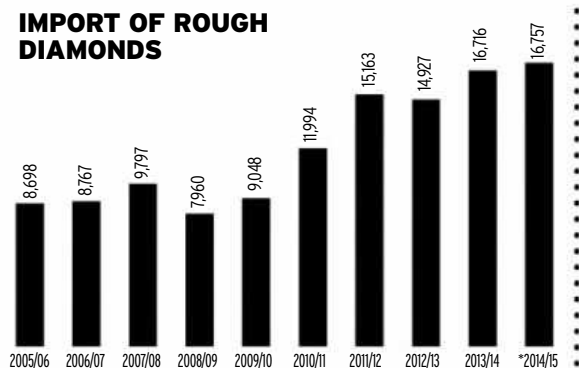
top five retail diamond markets—the US, China, India, the Gulf countries and Japan—grew as well. The biggest, the US market with a share of 42 per cent, grew seven per cent; China, with 16 per cent market share rose six per cent (in local currency); India, with eight per cent share, increased three per cent (again, in local currency); while the Gulf states and Japan, with eight per cent and five per cent share, respectively, rose two per cent each. The compound annual growth rate (CAGR) of the industry from 2009 to 2014 stands at six per cent for polished diamonds and five per cent for diamond jewellery. India imported roughs worth \$16,757 million in 2014/15 and exported cut and polished diamonds of \$23,160 million.

So what explains the paradox? Two main reasons are cited. First, in recent years, Indian manufacturers

Pile-up

While import of rough diamonds has risen substantially since 2010/11, export of polished ones has dipped nearly 25 per cent, creating an inventory glut

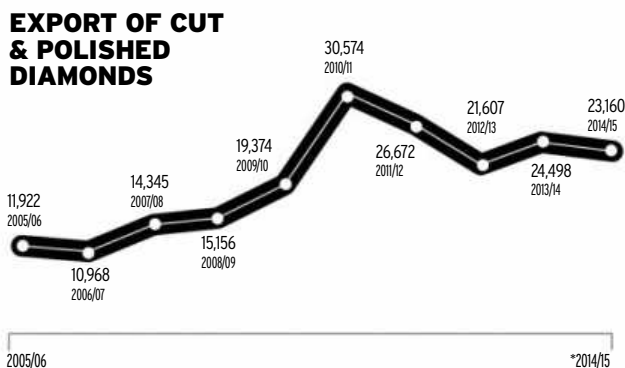
IMPORT OF ROUGH DIAMONDS



Source: Gem Jewellery Export Promotion Council

* provisional numbers

EXPORT OF CUT & POLISHED DIAMONDS



Figures in US \$ million

Where the Diamonds Go

The biggest markets for diamonds cut and polished in India.

	2014/2015 (P)		2013/2014		2010/2011		2009/2010		2008/2009
Hong Kong	9249.25	:	9,030.42	:	8,285.29	:	5,740.97	:	4,861.87
US	6562.57	:	6,170.22	:	4,899.25	:	3,419.62	:	2,961.55
UAE	1990.36	:	3,889.93	:	12,490.98	:	6,175.80	:	3,372.44
Belgium	1851.50	:	1,633.17	:	1,816.88	:	1,340.87	:	1,390.70
Israel	1142.07	:	1,253.69	:	1,139.89	:	790.35	:	748.42
Thailand	617.63	:	697.77	:	403.76	:	288.12	:	282.16

Source: Gem Jewellery Export Promotion Council

US \$ in millions

The Hong Kong market includes mainland China

misjudged the potential of the market. “They went on an expansion spree,” says Sevanti Shah, Chairman, Venus Jewels, one of the biggest sellers of solitaires in the world, with sales of \$362 million in 2011. “Projecting artificial demand, they kept buying more and more roughs and increasing production. This encouraged diamond mining companies to mine more and increase the price of roughs. There was oversupply in the market, which led to the prices of polished diamonds falling and manufacturers bleeding,” Paul Rowley, Executive Vice President, Global Sightholder Sales at De Beers, the world’s largest miner of rough diamonds, agrees: “People in the midstream and downstream (manufacturers and retailers) were growing too quickly, which did not match consumer demand.”

Banks readily went along with the manufacturers’ mistaken estimate, providing the capital for large diamond imports. “It was easy bank finance which enabled the expansion,” says Shah of Venus Jewels. A mid-sized manufacturer in Surat, who does not want to be identified, is more scathing. “The big manufacturers had easy access to credit and kept borrowing more and more to keep availing their credit lines,” he says. “In some cases, they even cooked their books showing inflated imports and exports, and diverted funds to other businesses.”

Martin Rapaport, Chairman of the Rapaport Group, which publishes the Rapaport Report, the diamond industry standard for determining prices, concurs. “It was like giving drugs to children,” he told *Business Today*

during a recent visit to Mumbai. “It got the industry addicted. A drug high is not sustainable. Banks were the main reason the diamond industry over extended itself.” Not surprisingly, many of the loans have since turned into non-performing assets (NPAs) for the banks. (See *Borrowed Largesse*.) Indeed, one of the biggest defaulters of recent times has been from the diamond industry Winsome Diamonds and Jewellery and Forever Precious Jewellery owe ₹3,156.2 crore to 11 banks.

In Surat, a clear divide is also visible between small and big diamond manufacturers, with each group blaming the other. “While we small and medium diamond merchants functioned with due caution, doing business within our financial means, the big manufacturers borrowed wildly and many are now unable to pay back,” adds the mid-sized manufacturer quoted earlier. “But when the big fish default, the business of small manufacturers is also hit.” Some 15 big merchants control more than 40 per cent of Surat’s diamond business, while small and medium diamantaires are innumerable. The big ones in turn charge that too many small timers rushing in caused a glut in the market and led to their present woes.



Global Concerns

The second major reason is that market growth, though continuing, has not been as rapid lately as it was before, especially in China and India. Like Indian manufacturers, Chinese retailers too appear to have misjudged the market. A number of major jewellery chains in Greater China

“If prices of roughs are reduced, it will have a reverse effect on the market. The unsold inventory will crash further and break industry confidence”

Vallabh Patel / Chairman/ Kiran Gems

(including Hong Kong and Macau) went on an expansion drive from 2011. This year, with sales in Hong Kong and Macau falling 24 per cent and overall by six per cent, several stores are expected to shut. Prism Enterprises' Hong Kong sales have dropped 50 per cent. The market slowdown in China is attributed to the problems of its economy and the crackdown on corruption.

In India too, the drive against black money could be one of the reasons for the drop in demand. "India and China are the main consumers of high value diamonds. When they reduce buying and high value goods get stuck in inventory, the cost of production and holding goes up dramatically," says Colin Shah, Managing Director, Kama Schachter. Mehul Choksi, Managing Director, Gitanjali Group, one of the world's largest diamond jewellery makers-cum-sellers, suggests another. "Due to changes in

polished diamond prices have dropped 45 percent, according to data compiled by Rapaport Group. "The value-add of polishing is not reflecting in the prices," says Piyush Mehta, Sales Manager at Blue Star Diamonds Pvt. Ltd., one of the world's leading distributor of roughs as well as manufacturer. Chaim Even-Zohar, Editor and Publisher, *Diamond Intelligence Briefs*, agrees: "Rough selling prices have been totally out of sync with polished prices for the last few years. The industry is hardly profitable. Companies aren't breaking even."

If the diamond industry is still surviving, it could well be because most of it moves on credit and credit lines have not yet closed. Only the miners charge upfront for the roughs they sell; all other stakeholders use debt to fund a large part of their activities. "It is quite normal for companies to work with less than 30 per cent own capital

"After our experience of 2008/09, we know that if we do not take care of our workers in these tough times, they will leave diamond polishing and shift to other work"

Dinesh Navadaiya/ President/ Surat Diamond Association

gold import norms in India, jewellers tried to stock up on gold and did not have enough money left over for diamonds," he says. Whatever the reasons, and despite US sales staying intact, global diamond demand has shrunk around 20 per cent. *The RapNet Diamond Index*, which tracks the average of the 10 best global asking prices of different categories of diamonds, was down by 12.9 per cent for one-carat diamonds on September 1 this year, from a year ago. "If growth countries are affected, everything is affected," says Dholakia of Hari Krishna.

Extent of the Crisis

With miners holding prices and retail shrinking, people in the middle have been affected the most. "If retail falls 10 per cent, wholesale will fall 20 per cent and manufacturing 30 per cent," says Bhansali of Prism Enterprises. "When there is a supply overhang and retailers stop buying inventory following a small drop in demand, it translates into a much sharper drop in the value chain."

Indeed, the average price of cut and polished diamonds have been falling steadily whereas the prices of roughs remain high, making the whole business seemingly unsustainable. The gap between rough and polished diamond prices has been widening. Since June 2011,



and depend on financing for the rest," says Even-Zohar. The global industry's total debt is estimated at \$15.5 billion by *Diamond Intelligence Briefs*, of which 40 per cent is in India. "As India is the world's largest diamond manufacturing centre, it is natural that the lion's share of financing exposure is that of Indian companies," adds Even-Zohar. Another 24 per cent of the debt is in Antwerp, Belgium, a key diamond marketing hub.

"Interestingly, nearly half of Belgium's debt is that of Indian companies' marketing offices there," he says. It also means that if conditions deteriorate further, Indian banks' NPAs will dramatically rise.

Miners versus the Rest

There are sharp differences over whether, given the state of the market, miners should reduce the price of roughs. "Rough diamond prices should come down by at least 20 per cent," says Rapaport of the Rapaport Group. "The rough suppliers need to make sure their clients also make money. By cutting supplies, holding on to diamonds and keeping the price high, they are strangling the market." Even-Zohar is just as emphatic. "The rough suppliers are cynically utilising the conditions," he says. "They are plainly telling their clients that if they're not making

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Borrowed Largesse

Banks recklessly funded the diamond polishers' expansion and are now saddled with NPAs

BORROWER	BANK	GROSS NPA
WINSOME DIAMONDS & JEWELLERY CO. LTD FOREVER PRECIOUS JEWELLERY & DIAMOND LTD	11 Banks	3,156.62
M.B.S. JEWELLERS PVT. LTD	PNB Andhra Bank	280.97 243.13
VARUN JEWELS PVT. LTD	United Bank of India Oriental Bank of Commerce	63.74 49.55
M.B.S. IMPEX PVT. LTD	State Bank of Hyderabad	109.82
J.B.DIAMONDS	Vijaya Bank	92.68
SHRI SAI JEWELS PVT. LTD	United Bank of India Indian Bank	39.85 22.59
M. SONS GEMS & JEWELLERY PVT. LTD	State Bank of Bikaner & Jaipur	13.34

Figures in ₹ crore Source: All India Bank Employees Association's list of wilful defaulters as on March 31, 2013



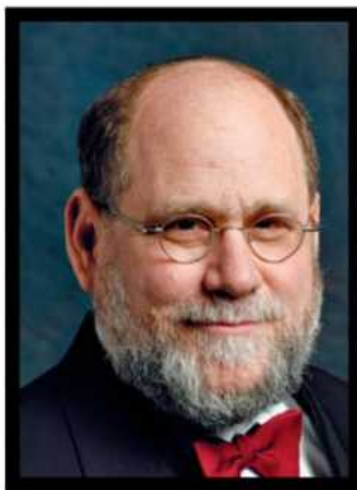
money, they shouldn't buy any more. Indian companies are over-paying for roughs, hoping the situation will get better."

Manufacturers feel diamond miners can afford to be indifferent as they are formidable global players with very deep pockets. A handful of companies led by the South African De Beers and the Russian ALROSA produce around 70 per cent of the world's diamonds by value. But there are also some who argue that it is better to not lower prices. "The price of the unsold inventory will crash further if the prices of roughs go down," says Vallabhbhai Patel, Chairman, Kiran Gems, perhaps the largest manufacturer of polished diamonds. "It will be a double whammy for manufacturers. Reduced prices could lead to panic and break industry confidence." Rowley of De Beers agrees. "We have to make sure the prices of roughs vis-a-vis those of polished diamonds are healthy," he says. "There is no point reducing prices of roughs; rather, we should

reduce production."

De Beers has, in fact, trimmed its production guidance for 2015 to 29-31 million carats from 32-34 million the previous year. It is also making other concessions to its clients – a select group of bulk purchasers known as 'sightholders', the ones who are shown the roughs De

Beers puts on sale 10 times a year in the diamond-rich countries of Botswana, Namibia and South Africa. (Indians make up the largest number of sightholders, which includes the likes of Venus Jewels, Kiran Gems, Blue Star, Harikrishna Exports and the Gitanjali Group. Diamond companies need an average minimum turnover of \$30 million for three consecutive years and average minimum purchase of diamonds worth \$20 million each year to qualify.) After disappointing responses to some of its monthly shows, De Beers allowed them to defer collecting 75 per cent of their purchases. But there was no lowering of its price line.



"The way the diamond business makes money is by selling diamonds, not sitting on them. Members of the industry have to ask themselves: are we in the business of holding diamonds or selling diamonds?"

Martin Rapaport / Chairman/ Rapaport Group

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“There is no import duty on rough diamonds and the lack of fixed prices makes it very easy to transfer funds overseas using purchase of roughs as a cover”

Dheeraj Malhotra/ Partner/ MP Partners



Rapaport lambasts De Beers' intransigence. “Lower prices are not bad for business,” he says. “Maybe they are bad for those who have excess inventory. But once you get over the shock of having to sell cheap, business gets better. The way to make money is to sell diamonds, not sit on them. You buy cheap and sell cheap. That is what happened with gold. Why are people frightened?” Anoop Mehta, President, BDB, recalls that the shock worked in 2008/09. “Both rough and polished diamond prices came down,” he says. “People sold their inventory at a loss and replaced it with cheaper roughs. But they survived.”

Myth and Reality

The diamond industry's crisis is real, but its extent in India is debated by some. They contend that there has always been widespread over-invoicing and fraud in diamond imports and exports, and official figures do not provide the correct picture. India's export of cut and polished diamonds, for instance, jumped from \$19,374 million in 2009/10 to \$30,573 million the following year. They wonder how this was possible considering the biggest market, the US, had not yet recovered from the global downturn. They also point to the ₹15,000 crore fake import



SHEKHAR GHOSH

racket busted by the Enforcement Directorate in January this year, involving a number of diamond companies such as Kanika Gems, Charbhujia Diamonds, Yogeshwar Diamonds and Pulkrit Impex which used half a dozen leading banks to illegally transfer funds overseas.

“One of the reasons for the growing gap between roughs and polished diamond prices in India is over-invoicing,” says Dheeraj Malhotra, Partner at law firm MP Partners. “There is no import duty

on rough diamonds and the lack of fixed prices makes it very easy to transfer funds overseas using purchase of roughs as a cover. Importers have the added advantage of working with letters of credit and bank finance.” The unit price of exported diamonds post polishing will naturally appear low, since a much lower quantity than claimed actually came in for polishing and is subsequently sent out.

Exports, too often, go through a financial maze to make tracking their route, destination and cash transfer involved, difficult. “Many diamantaires have subsidiaries or offices in Japan, the US, Dubai and Hong Kong,” Malhotra adds. “They take credit from banks to import roughs, and then export the polished stones to Japan. The Japanese entity may re-export to the US, from where the diamonds could go to Dubai and thence to Hong Kong. All transactions are on credit from local banks at varying rates of interest. But, if one of the foreign buyers cancels an order or fails to pay due to poor market conditions, it has a ripple effect across the entire chain, especially if the collateral was overvalued in the first place.”

Added Fears

Two other factors, which may well wreak further havoc in future, have added to the woes of Indian diamond merchants. The first is the depreciation of the rupee and, in recent times, the devaluation of the Chinese yuan as well. The rupee has fallen from around 45 against the US dollar in mid-2011 to around 65 at present, a 45 per cent drop, raising manufacturers' and retailers' costs considerably. “In July 2011, I exported a one-carat diamond worth \$24,600 to Switzerland,” says Mukesh Patel, a trader at the BDB. “Today, I'm ready to sell the same for \$13,500, but there are no buyers. Diamonds are giving me negative returns. In any case, I haven't had a single enquiry in the last three months.” On top



SARIKA MALHOTRA

Bharat Diamond Bourse, Mumbai
Sombre mood at the Mumbai Diamond Merchants Association's trading hall



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of slowing demand in China, the lowering of the yuan's value will make diamonds which are all imported more expensive. "Will the Chinese customer be willing to pay more for diamonds or will he seek other options?" Patel asks.

The second is the large scale infiltration of synthetic diamonds, or chemical vapour deposition (CVD) diamonds as they are called, so artfully created that even experts find it difficult to tell them apart from the natural ones. "Itna mixing chal raha hai, eye glass se bhi pata nahi chalta ki asli diamond hai yai synthetic (There's so much mixing nowadays, one can't tell the difference between a real diamond and a synthetic one even through an eye glass," says Choksi Hall trader Ramani. CVD diamonds, which were earlier used only for synthetic purposes, cost 40 per cent less than natural ones. "CVD ne puri market ko khatam kar diya hai (CVD has ruined the market)," adds Kathiriya of Shreeji Gems.

Hoping for the Best

Some in the diamond value chain are still putting up a brave front. The annual India International Jewellery Show in Mumbai, for instance, organised by the GJEPC in August this year, was as glittering as in previous years. "We are already seeing green shoots," said Bhansali of Prism Enterprises at the event. "This show can be a turning point." But GJEPC Chairman Vipul Shah himself was less sanguine. "The shock of 2008/09 was sudden, but the revival was sudden as well," he says. "This time, it has been a gradual fall. Revival will also take a very long time." He does not expect the current festive season to make much difference. "If at all demand rises, it will be a short-term affair, not a solution for the long term."

Analyst forecasts endorse this view. "The overall diamond industry is expected to grow two to three per cent over the next four years," says Neelesh Hundekari,

"GDP/capita growth forecasts indicate positive growth in diamond jewellery across markets. The overall diamond industry is expected to grow around 2-3 per cent annually over the next four years"

Neelesh Hundekari/ Partner, Asia Pacific/ AT Kearney



A number of cases of CVD diamonds being passed off as natural ones were brought to the SDA's notice early this year. At the BDB in Mumbai too, some members involved in undisclosed synthetic diamond trading were suspended in August. Synthetic diamond detectors are available and the De Beers promoted International Institute of Diamond Grading and Research has announced that they will be installed in Surat soon. But,

getting every diamond sample they receive tested will further add to merchants' costs, while procuring authenticity certificates will add to the woes of the brokers.

The BDB has banned CVD diamonds within its premises, but many fear it may well end up on the wrong side of history. "Cultured pearls took over from natural pearls. CVD diamonds could do the same to natural diamonds," says a broker at the BDB. Retailers are already preparing to welcome them. "If CVDs are marketed as 40 per cent cheaper, as green diamonds, and sold with a certificate testifying to their laboratory creation, there will be buyers for them," says Choksi of Geetanjali Group. He even expects the market to rebound in 2017 on the back of CVDs.



RACHIT GOSWAMI

Partner, Asia Pacific, at consulting firm AT Kearney. In 2014, it grew 2.9 per cent. "Consumer preferences are changing fast," says Mehta of BDB. "We are even competing against gadgets now. The consumer is spoilt for choice." Is there no way out? "The only way is to reduce production, which will streamline the supply chain," says Vallabh Patel. But that would mean leaving many diamond workers idle, affecting

their incomes further.

Not only are the miners holding prices, they have largely even stopped the generic advertising they used to engage in, such as De Beers' 'A Diamond Is Forever campaign'. "There is growing angst in the community that the miners who make the maximum profits in the supply chain are not spending much to try and revive the demand," says Shah of GJEPC. Top miners led by De Beers and ALROSA have recently formed an association to drive consumer demand, but whether its efforts will make a difference remains to be seen. ♦

Research Inputs by Niti Kiran

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Baba of All Trades

After its spectacular splash in the food and FMCG markets, Baba Ramdev's Patanjali Ayurved takes a shot at turning noodles desi.

BY SARIKA MALHOTRA

Ramdev (L) and Balkrishna at Gurukul Gaushala farm in Haridwar

Baba Ramdev alights swiftly from a white Mahindra Scorpio at his Gurukul Gaushala farm in Haridwar and strides into a small room, 22 armed security men – he enjoys Z class security – following him. “Noodles are very much

Indian,” he tells *Business Today*. “They are integral to the cuisine of many of our Northeastern states. In the rest of India too, eating *seviyan*, in both sweet and salted forms, is common.” Ramdev is the moving spirit and brand ambassador of Patanjali Ayurved Ltd – though he does not own a single share in it – a company

which has built its reputation on providing Ayurvedic and authentically Indian products. But its 101st product – launched in the country on November 16 – is noodles, traditionally associated with Southeast Asia. “Our noodles are made of *atta*,” he adds. “*Woh to Indian hain. Agar maidey se banaey toh Chinese.* (That is



Healthy Growth

Patanjali Ayurved Ltd. started selling its products through retail outlets only in 2011. Revenue growth since then has been phenomenal.

2011/12
₹454
crore

2012/13
₹849
crore

2013/14
₹1195
crore

2014/15
₹2007
crore

Source: Company & ROC

Indian. If noodles are made of *maida*, they're Chinese.)"

Instant noodles are a ₹5,300 crore market in India, according to Euromonitor, with market leader Maggi from Nestle India enjoying a

63 per cent share. Given the quality problems Maggi has lately been facing, the timing of the noodles foray may be just right for Patanjali, but the move has its share of critics. "It doesn't fit in with the Indian heritage

of all the other products Patanjali offers," says brand expert Jessie Paul. "Also, instant noodles, however pure the ingredients, can't be said to be healthy. It is the first step to brand dilution." Ramdev's close associate,

₹5300 crore*

Size of India's Noodles' Market

(*in 2014, Source: Euromonitor)

Nestle India's Maggi enjoyed a 63 per cent share of the market. It will be a big fight between Patanjali and Maggi to grab market share.



Acharya Balkrishna, who owns over 93 per cent of Patanjali Ayurved, however, insists the company has only catered to popular demand. "People started mailing us morphed images of Patanjali Marie biscuit wrappers with 'Maggi' written on them," he says. "The idea came to us only then. I told Swami Ramdev that people have been sending us such photos. He said, 'People want some such product from us. We should consider their demand'."

Balkrishna also strongly denies that Patanjali's noodles are unhealthy. "The wheat content in Maggi noodles is very little, while ours is a wheat-based product," he says. "We are using rice bran oil, which is far better for health than the palm oil other noodles makers do." Despite higher input costs, Patanjali's noodles will be sold at ₹15 a packet, while those of rivals sell for ₹25. "We never bothered about the cost of rice bran oil," adds Ramdev. Finally, there is the tastemaker, the make-or-break component of instant noodles. "Tastemaker is the key and it has been developed in house," says Ravindra Kumar Chaudhary, CEO, Patanjali Food and Herbal Park and a herbal cosmetics professional, having formerly worked with Emami, Surya Herbal and Shahnaz Husain. "To prepare

the tastemaker, we are procuring fresh peas from Uttarakhand farmers and processing them at our vegetable processing plant at Bajpur. The same goes for the beans and carrots used."

Size Matters

Its promoters are clear that Patanjali Ayurved will not be a listed company. If listed, how Patanjali's market cap will stack up against some of its leading listed rivals in the food and FMCG markets:

COMPANY NAME	MCAP
Dabur India Ltd.	47,681.5
Godrej Consumer Products Ltd.	42,081.4
Emami Ltd.	25,699.5
Colgate-Palmolive (India) Ltd.	25,543.5
Marico Ltd.	25,477.7
P&G Hygiene & Health Care Ltd.	20,066.9
Hindustan Unilever Ltd.	17,0372.2
Gillette India Ltd.	16,111.1
Godrej Industries Ltd.	12,535.7
Bajaj Corp Ltd.	6,325.5
Jyothy Laboratories Ltd.	5,686.9
Patanjali Ayurved*	40,000

All figures in ₹crore; Market cap as on October 20, 2015;

*Patanjali Ayurved market cap estimate by Wazir Advisors at ₹5,000 crore revenue

Source: Ace Equity

Sceptics remain unconvinced. "Even if the tastemaker is being made in house, the noodles are being produced by third parties," says an industry insider who claims to know, but does not want to be named. "When you are cooking in someone else's kitchen, quality trials should be stringent. Standardisation of raw material itself can take months. Water in every Indian locality tastes different, and its impact on taste and quality needs to be gauged. There should be packaging, transportation and shelf life trials. Very few of these steps have been factored in. Faith in Baba can only bring in the first-time buyer." But, if the noodles succeed it will be another big triumph for Ramdev.

Media Star

So far, their success record has been formidable. Ramdev rose to national fame as a yoga guru through his programmes on TV channels – *Sanskar* in 2001 and *Aastha* from 2003. He readily acknowledges the role of the media in his rise. "Patanjali ko bananey mein ek se 10 per cent humara role hai, baaki role media ka hai (My own role in the rise of Patanjali is just one to 10 per cent, the rest of the credit goes to the media)," he says. Earlier, in 1995, when Ramdev was still a little known yoga teacher in

Haridwar, Balkrishna set up Divya Pharmacy – under the aegis of Ramdev's guru, Swami Shankar Dev's, ashram – to make Ayurvedic and herbal medicines. "When Divya Pharmacy was set up, we hardly had the money to pay for the registration," says Ramdev. "For the first three years, till 1998, we distributed the medicines free. From buying the raw materials to grinding and mixing, we did everything ourselves."

The medicines proved so popular that Ramdev and Balkrishna sought to scale and diversify into other products. But that proved difficult since Divya Pharmacy was registered under a trust. At the same time, with Ramdev's popularity soaring, substantial funds began to come in – sizeable loans from the likes of NRIs Sarwan and Sunita Poddar, as well as locals such as Govind Agarwal – which in turn helped to get bank loans. Thus was born Patanjali Ayurved as a private company in 2006, which has since rolled out a range of products – in healthcare, hair care, dental care, toiletries, food and more – at breathtaking speed.

"Product development at Patanjali works on three basic principles," says Balkrishna. "They are: competitive pricing, purity of raw materials used and innovation." Take Aloe Vera juice, one of Patanjali's earliest offerings. Ramdev, in his yoga classes, had been recommending Aloe Vera juice for its health giving properties, but disciples kept complaining that, at ₹1,200 a litre, it was way too expensive. "We reached out to farmers and found Aloe Vera leaves were being sold fairly cheap," says Balkrishna. "It's just that the juice manufacturers were reaping huge profits. We sourced the leaves from farmers in Rajasthan and Uttar Pradesh and were able to sell the juice for ₹150 a litre in 2006. Even today, it costs Rs ₹200 a litre."

Purity is a given for all products – Patanjali has ventured into categories such as *desi ghee* precisely because

Smart Pricing

Patanjali has scored by pricing its products substantially lower than similar ones by rivals. Some examples:

TOOTHPASTE (all 100 gm packs)

Patanjali Dant Kanti



₹35

Colgate Active Salt



₹48

Dabur Red Paste



₹47

MIXED FRUIT JAM (all 500 gm packs)

Patanjali



₹70

Kissan



₹105

Tops



₹95

LIQUID DETERGENT (All 500 gm/ml packs)

Patanjali Somya



₹80

Ezee



₹90

Genteel



₹99

Safewash



₹160



KISHORE BIYANI / FOUNDER AND CEO / FUTURE GROUP

“Patanjali understands India’s heart and soul. In due course, it will be one of the largest partners of the Future Group”

of complaints that most brands in the market were adulterated. Indeed, *desi ghee* has since become the most popular of Patanjali’s products, bringing in ₹442 crore or 36.78 per cent of the company’s total revenue in 2014/15. As for innovation, Patanjali has displayed it with products such as *amla* juice and *amla* candies. “We found farmers in UP’s Saharanpur district

cutting down *amla* trees as there were no buyers for *amla*,” says Balkrishna. “We convinced them not to do so and sell us the *amla* instead.”

Yet another reason for Patanjali’s success is the thrift it practices. “Our profit margins are miniscule because the main aim is not to make profit,” says Ramdev. “Profiting from patients is against the philosophy of Ayurveda, so we aim at minimum



RACHIT GOSWAMI

profit from our health products. Our input costs are low because we source directly from farmers, avoiding middlemen.” Salaries are also modest. “*Humare yahaan crore ki salary paane waala koi vyakti nahee hai*, (There is no one in our company who is paid crores as salary),” he adds. “Most companies have administrative costs of around 10 per cent of their revenue, but in our case it is just

two per cent.”

Big Is Beautiful

Patanjali claims to have earned revenues of ₹2,007 in 2014/15, which puts it on par with some of the top players in the fast moving consumer goods (FMCG) sector such as Procter & Gamble (P&G) Health Care with ₹2,409 crore, Jyothi Laboratories Ltd. with ₹1,504 crore or Emami Ltd. with ₹2,220 crore in the same year.

This was almost double the revenue of ₹1,195 crore in 2013/14. Near 100 per cent growth was also witnessed two years earlier – revenue rising from ₹454 crore in 2011/12 to ₹849 crore in 2012/13. “In comparison, rival companies such as Dabur and Marico are growing at about 18 to 22 per cent annually, while the overall FMCG market for daily use items has been expanding 15 to 20 per cent for the last 20 years,” says Harminder Sahni, Founder and Managing Director of management consulting firm, Wazir Advisors. Not surprisingly, in August this year, global brokerage firm CLSA released a glowing report on Patanjali, titled *Wish You Were Listed*, estimating it to be bigger than Jyothi Laboratories and Emami. Ramdev and Balkrishna expect Patanjali’s revenue to cross ₹5,000 crore in this financial year, and at the rate it has been going, the figure does not seem fanciful. “Once revenues reach ₹5,000 crore, its market cap would be around ₹40,000 crore,” says Sahni.

Initially, Patanjali shunned the

Cash Cows

Revenues from different categories of products in 2014/15

PRODUCT	REVENUE CONTRIBUTION	GROWTH RATE*
 Food	36.78	99.57
 Healthcare	19.13	30.58
 Toiletries	14.56	53.77
 Dental Products	10.93	45.86
 Hair Care	10.78	51.35
 Cosmetics	7.38	40.7

All figures in per cent *Over 2013/14 Source: Company



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conventional distribution network, preferring to rely on its own channels of super distributors, distributors, Chikitsalayas (franchise dispensaries) and Arogya Kendras (health centres which sell Ayurvedic remedies). Once it turned to retail outlets from 2011, revenue began to multiply manifold. In October this year, Patanjali achieved another coup by tying up with the Future Group to sell its products at Big Bazaar and other Future Group stores in 245 cities and towns. "Patanjali understands India's heart and soul and, in due course, will become one of our largest partners," says Kishore Biyani, Founder and CEO, Future Group. "Its competitive pricing is a big attraction. We are creating special and permanent shelf space for some of its flagship products." He expects to start with ₹80 crore worth of supplies per month from Patanjali.

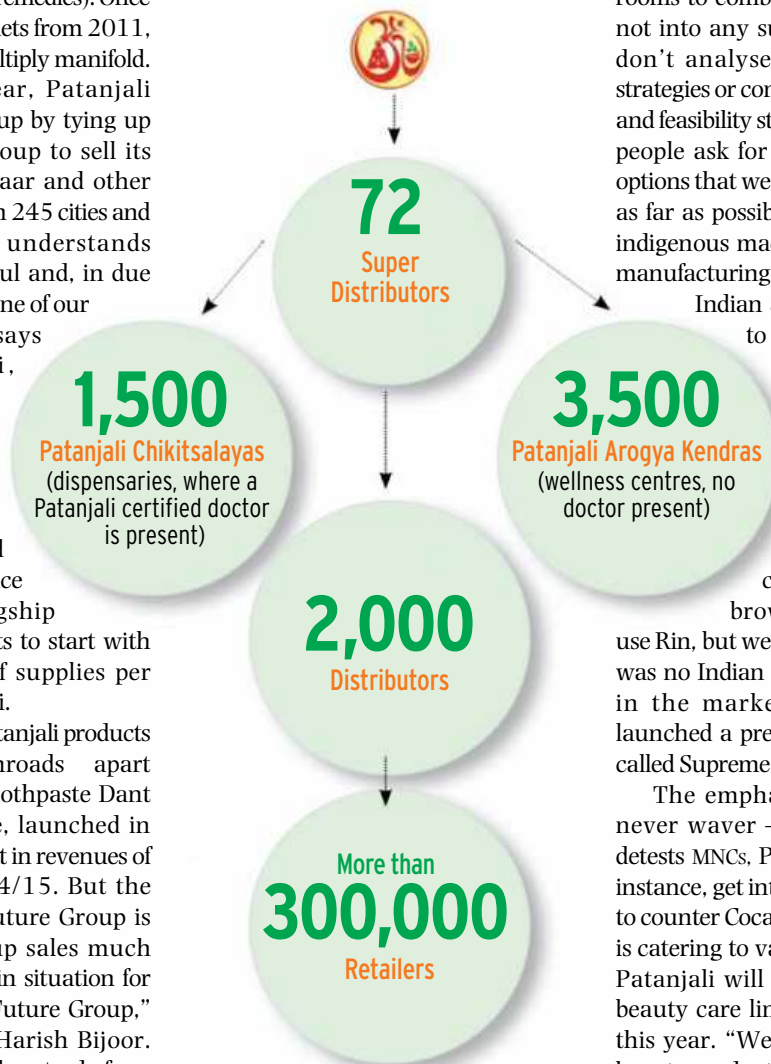
Already, a few Patanjali products have made major inroads apart from *desi ghee*, its toothpaste Dant Kranti, for instance, launched in March 2010, brought in revenues of ₹200 crore in 2014/15. But the alliance with the Future Group is expected to ramp up sales much more. "It is a win-win situation for both Patanjali and Future Group," says brand expert Harish Bijoor. "Patanjali gets a modern trade-face, which it possibly did not have before. The Future Group will give Patanjali fresh customers from a market which might not have opened up to it as quickly otherwise." It will also put the competition on notice. "The first threat will be to home-grown players like Dabur and Emami," adds Bijoor. "Next, it will put top line and bottom line pressures on companies like P&G and Hindustan Unilever."

MNC Hatao

"We do not think about

Spread Far and Wide

PATANJALI AYURVED'S DISTRIBUTION NETWORK:



competition," says Balkrishna. But a little probing reveals that while Patanjali is happy to co-exist with indigenous companies, multinational ones are a different matter. "*Humara ek simple funda hai: MNCs ko replace karna* (We have a simple principle: we want to replace MNCs)," says Ramdev. "We don't want to put anyone down, but we would like to instill *swadeshi* pride so that Indian money does not go out of the country." He is aware that the

competition is gunning for him. "The MNC mindset is such that whenever an Indian does anything, MNCs think we are competing with them," he says. "MNCs are creating special war rooms to combat Patanjali. We are not into any such war rooms. We don't analyse other companies' strategies or conduct market surveys and feasibility studies. It is only when people ask for cheap and healthy options that we try to respond." And as far as possible, he prefers to use indigenous machines at Patanjali's manufacturing units. "If there is no

Indian alternative, we have to use whatever is best suited for the job," he adds. Ramdev recalls how his dream of *Swadeshi* goes back to his early days in the gurukul. "Our clothes slowly turned brownish as we didn't use Rin, but we were hurt that there was no Indian alternative available in the market." Patanjali has launched a premier detergent cake called Supreme.

The emphasis on health will never waver – however much it detests MNCs, Patanjali will not, for instance, get into aerated drinks just to counter Coca-Cola and Pepsi. But, is catering to vanity ethically okay? Patanjali will launch a premium beauty care line called Saundarya this year. "We are not opposed to beauty products but to the illusions fostered by them," says Ramdev. "We oppose the advertisements showing dark women becoming fairer by using a particular product." Indeed, the same applies to products other than those promoting beauty too. "*Lifebuoy hai jahan tandurusti hai wahan* (Where there's Lifebuoy, there's health)," he adds, parroting a popular jingle for Lifebuoy soap. "How can a soap make you healthy? Health comes from healthy eating and working out. We want people to face reality."

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(L) Rakesh Sharma, Marketing Head of Patanjali Ayurved, with Balkrishna at Patanjali Yogpeeth in Haridwar

Patanjali's own advertising was limited in the past, but has increased considerably of late, with ads appearing on general entertainment TV channels (GECs) such as Star and Zee. It is also in talks with The Walt Disney Co. owned UTV channel. The day *Business Today* met him Balkrishna's waiting room was full of GEC representatives. Actor Hema Malini, who reportedly once took yoga lessons from Ramdev, has been roped in to endorse Patanjali's line of maida-free biscuits. A big advertising push is expected soon, with ad agency Mudra drawing up an expansive campaign. With 69 per cent of sales happening in North India, the company is looking particularly hard

at regional Southern channels, apart from considering setting up a distribution hub in the South. "But our ads will remain different in that they only seek to inform the customer," says Rakesh Sharma, Patanjali's Marketing Head. "We won't make false promises or sell dreams."

Lure of National Pride

Every employee at Patanjali dresses in white – white shirt and trousers or white *kurta-pyjamas*. The aura of spirituality is further reinforced by small details, such as the *prasad* every Balkrishna visitor gets before departing – a saffron bag containing a couple of Patanjali products, books on

Ayurveda, a list of Ayurvedic treatments and Patanjali's products to cure common ailments. Working hours are long, but no one seems to mind. The day *Business Today* visited, all senior managers were at work in the rooms even close to 11 pm. "If you work late hours in a corporate set up, HR thinks you are inefficient, unable to complete your work in the stipulated time," says C. P. Nagpal, Head of the Food and Juice Operations at Patanjali, who was formerly with Dabur. "Here it is different. Here we all know we are working for a cause."

The cause also draws applicants in droves, unfazed by the not-so-great salaries provided or the hard work demanded. "For the first time, I feel I'm working for society at large and not just chasing numbers," says Sharma, who came to Patanjali in 2011 with 24 years of marketing experience behind him. Applicants for marketing jobs were milling all over, the day *Business Today* visited, as Patanjali with its rapidly expanding footprint, looked to augment its marketing team. There is talk that from next year, Patanjali will start visiting B-school and engineering campuses for placements.

Though Ramdev has no financial stake in Patanjali, his influence permeates every corner. His portrait – along with Balkrishna's – hangs in every room. Product decisions are taken by Ramdev and Balkrishna together and developed by a core team comprising Ramdev's younger

Owner's Pride

Baba Ramdev does not have a single share in Patanjali Ayurved. The shareholding pattern:

SHAREHOLDING		% STAKE	
Acharya Balkrishna		93.709	
Sarwan Poddar	3.016	Rajat Prakash	0.121
Sunita Poddar	3.016	Govind Agarwal	0.121
		Ram Bharat	0.015
		Muktanand	0.002

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brother Ram Bharat, another close Ramdev associate, Swami Muktanand, and the top management of Patanjali. Decisions about marketing strategy and advertising are usually left to Balkrishna, but here again Ramdev's relentless touring is a vital part of the strategy. He

is. "Gradually, I'll step back," he says. "We would like our principles to be in the forefront." He has even given thought to succession planning. "Globally, corporate houses are run by CEOs, but Patanjali will be run by sadhus and acharyas like Balkrishna and me after we depart," he adds.

says Balkrishna. "It might clash with our goal of providing the best products at the cheapest prices."

Will Patanjali be able to achieve the scale it seeks? "It will need to command a large share of the counter at retail outlets," says Debashish Mukherjee, Partner and Co-head, Consumer and Retail Industries (India and Southeast Asia) at consulting firm AT Kearney. "Managing that for products doing well as well for those not doing so well, is something its competitors have mastered. Patanjali will need to do so too. It will also have to adapt products to different regions."

No doubt, Ramdev and Patanjali – and even Divya Pharmacy – have had their share of controversy. Ramdev's political involvement as well as his comments on matters as diverse as homosexuality and Shah Rukh Khan, have drawn flak. Patanjali also has several ongoing tussles with the Income Tax Department and with the Enforcement Directorate. But Balkrishna believes that the biggest crisis has been

faced and overcome – that was when senior CPI (M) leader Brinda Karat accused Divya Pharmacy of using human and animal bones in its products. "*Humne media aur investigating agencies ko apna unit dikhaya, khul key saare processes dikhaye aur sabke aashanka door hui* (We opened our unit to the media and investigative agencies, showed them our processes and removed their suspicions)," says Balkrishna. "People's trust in us increased rather than being reduced. It brought us a lot of attention and demand for our products shot up." ♦

Research Inputs by Niti Kiran

@sarikamalhotra2



Patanjali store outside the Patanjali Food Park, Laskar Road, Haridwar

travels more than 200,000 km a year, and precisely for this reason keeps himself aloof from the company's day-to-day functioning. "My top priority is yoga and *jan maanas sam-park* (meeting people)," says Ramdev. "A person touring so much cannot be part of an establishment. That requires one to have management and execution skills, and to be present on the premises most of the time." It is Ramdev's vision that has pushed Patanjali towards acquiring scale. "I believe, whatever we do should be done well," says Balkrishna. "Swamiji believes whatever has to be done, should be done big."

Is Patanjali too dependent on Ramdev? He admits that currently it

"We are preparing 500 sadhus to take over. They will run the company the Patanjali way: a corporate structure, with a spiritual culture."

Post healthy instant noodles, many more new products are in the offing. Three more manufacturing units are being set up in Madhya Pradesh, Gujarat and Rajasthan. Nagpal says his team is working on herbal chocolates, *rasgulla*, *idli* and *dosa* mixes and an energy drink called Powervita to rival Bournvita, all of them expected to roll out shortly. But, however large Patanjali gets, it will never fulfil CLSA's hope of being listed on the bourses. "If we have shareholders and directors, they will want to run the company their own way,"



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MOMENT OF RECKONING

Once the poster boy of the Indian auto component industry, Arvind Dham of Amtek Auto is swirling in a financial crisis.

By CHANCHAL PAL CHAUHAN.

VIVAN MEHRA



Amtek Auto CMD, Arvind Dham,
in his corporate office

More than three decades ago, the son of a Haryana irrigation department officer, Arvind Dham, joined the family business of construction, in 1985. But, despite his professional education as an architect, Dham's heart was not in construction. That was also when the government was opening up the automobile industry to the private sector and new entrants such as Maruti Suzuki were hunting for young

entrepreneurs to develop a supplier base for the Maruti 800, its new compact car. Dham, just 24 then, saw an opportunity in the sunrise sector and bagged the contract to manufacture connecting rods under the flagship Amtek Auto.

That love affair with the automotive industry took him on a fairytale journey to manufacture engine rods, flywheel ring gears and transmission forks for companies such as Tata Motors, Fiat and Ford India until 2001/02, when the domestic business fell short of his ambitions. Dham set his sights overseas with an acquisition binge that began 15 years ago, but intensified between 2005 and 2014, resulting in a total of 22 acquisitions in areas such as iron casting, metal forging and machining. German Neumayer Tekfor and Kuepper Group (the two generate revenue of approximately \$1 billion) and the forging and metal businesses of Japanese Asahi Tec were among the largest acquisitions. These units are now cash positive and catapulted Amtek into a large player in the global casting and forging business. They also helped it diversify across geographies and expand its clientele.

Amtek became the world's largest player with a 20 per cent market share in turbocharger housing and 15 per cent in ring gears. Surely, he added marquee clients such as BMW and Daimler; but with mounting liabilities, Dham also found himself in a debt trap that he is now struggling to get out of. On revenue of ₹15,707 crore in its fiscal ended September 2014, Amtek had reported a whopping total debt of ₹17,663 crore. Its cumulative debt now stands at ₹19,000 crore at the group level. Its annual interest outgo of ₹1,900 crore had squeezed the finances enough to make it default on ₹200 crore worth of bonds to JP Morgan in September.

JP Morgan had to limit redemption of two schemes that held Amtek bonds. On September 4, the stock crashed to a 52-week low of ₹25.60,

DEBT TRAP

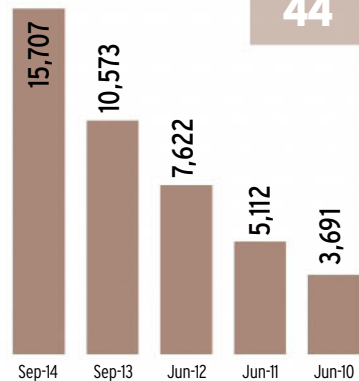
The company has been growing at a steady clip, but has been accumulating debt in the process

AMTEK AUTO LTD

TOTAL INCOME

4-Yr CAGR (%)

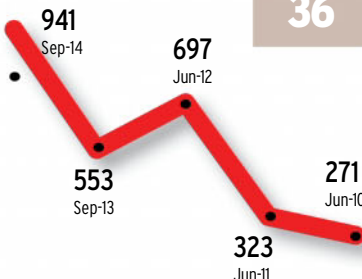
44



PAT

4-Yr CAGR (%)

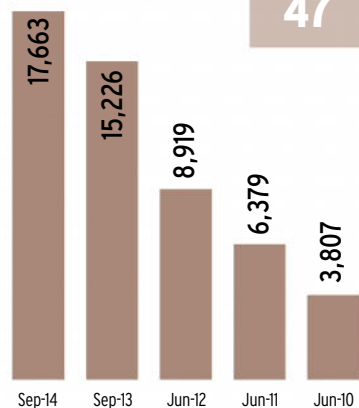
36



TOTAL DEBT

4-Yr CAGR (%)

47



Consolidated data; figures in ₹ crore

almost one-tenth from the price of ₹231 in November 2014. But the biggest hint of trouble came in August, when Amtek reported a net loss (₹157.60 crore) in the April-June quarter for the first time in more than 20 years. It was followed by a face-off with ratings agency Care Ratings on August 7. "The ratings have been suspended as the company has not furnished the information required by Care for monitoring of the rating," Care Ratings had said. The company claims it was in discussion with banks to realign its debt and, therefore, failed to share adequate information with rating agencies. Brickworks Ratings also downgraded its rating from A+ to C.

A fortnight later, the National Stock Exchange and the Bombay Stock Exchange decided to remove Amtek Auto from their futures and options segments. Since expiry dates for the contracts were not far away, the decision created a huge selling pressure. The Amtek Auto stock tanked 37 per cent on August 18.

Just a year ago, Amtek Auto was flying high. The group reported a net profit of ₹941 crore in fiscal ended September, 2014 – a three-fold rise in just three years. Analysts had initiated a 'Buy' coverage on the stock around the middle of 2014. None other than Nomura went bullish on the stock in June 2014 to give a target price of ₹416, more than double the then price of ₹201.

The Reversal of Fortune

Today, Amtek's market capitalisation has slipped from a peak of around ₹6,745 crore (October 30, 2007) to just ₹945 crore (November 13, 2015). You would wonder what changed in a matter of one year, particularly when the domestic automobile industry seems to be on a recovery mode! Surely, the spate of overseas acquisitions and investment in domestic capacity addition added debt to the business and increased interest outgo. But, the domestic growth expectations went awry and



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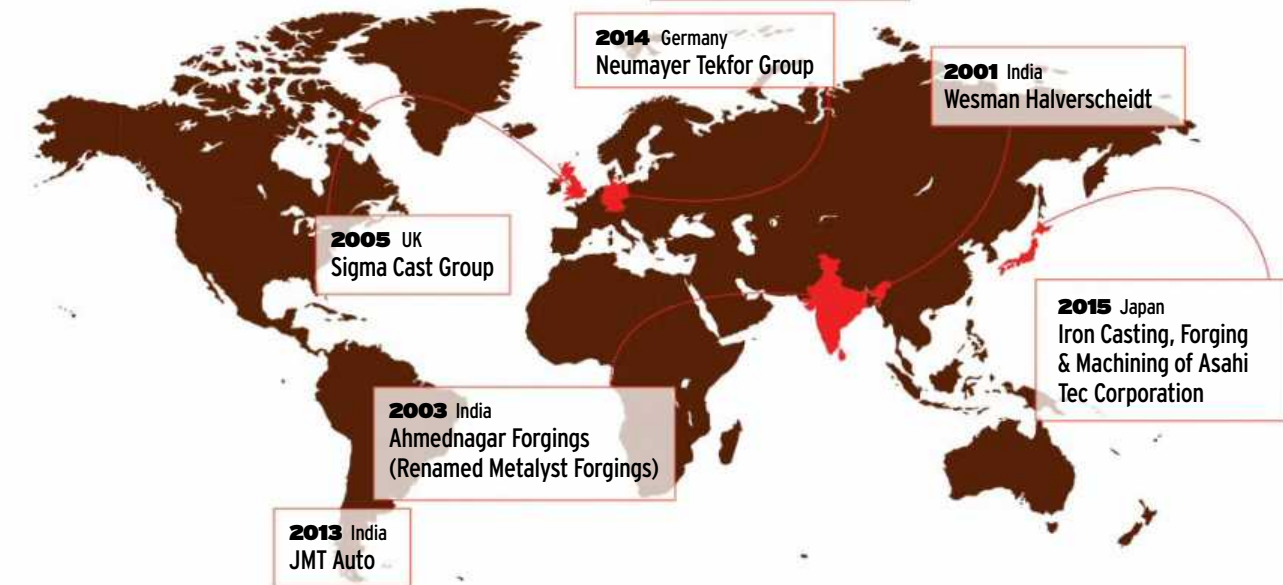
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MAJOR ACQUISITIONS

Amtek has acquired several companies over the years



that, says Dham, led to what he calls a 'cashflow mismatch'.

"There is a misconception that overseas assets are dragging down the Indian business. In most of the businesses we acquired, we have seen rich dividends in terms of increased profits. These are very lucrative assets and people have to be patient for them to perform. If I were to sell all overseas assets, I could wipe out all my debt," claims Dham.

Most growth concerns came from the domestic market even as the overseas business continued to grow. For Amtek Auto, overseas business generates \$2.5 billion revenue, while another \$1.5 billion comes from domestic operations.

The revival of the domestic auto industry has been patchy, with only a handful of players like Maruti, Hyundai and Honda leading growth in the passenger vehicle segment. The two-wheeler market has been under pressure from lacklustre rural de-

mand. Motorcycles, which form about two-third of the segment, failed to grow for several quarters. Scooters, with double-digit growth, have been the saving grace, but they account for just 30 per cent of two-wheeler sales.

In the commercial vehicle segment, only medium and heavy commercial vehicles have been growing, while light commercial vehicles continue to register negative growth with no immediate sign of revival. Tractors, a key segment for Dham, has declined for over twelve months. Construction, another user segment

for Amtek, has also been struggling to grow with real estate market down in the dumps.

Hoping for growth, Amtek had invested ₹5,000 crore in expanding domestic capacities between 2011 and 2014 to become a leading global player in its core casting, forging and machining business. Indeed, Amtek had almost doubled capacities in the crankshaft, flywheel and gear assembly, anticipating strong demand from local manufacturers. But utilisation couldn't reach an optimum level – it is at a mere 50 per cent now. Dham blames sluggish Indian market for the current state of affairs of the company. "We were expecting a high double-digit growth from domestic business from 2014. But segments like LCVs, two-wheelers and tractors have disappointed us," he says.

The Task Ahead

Anticipating the problems, Dham says the management had, in

THE MONETISATION PLAN
Amtek aims to raise
\$1 billion (₹6,500 crore)
to bring down its
debt in the range of
₹12,000 crore over the next
12 to 18 months





March, initiated the process of asking the banks to realign debt. "This is not a restructuring. The repayment of debt is to be realigned to cash flows. The interest payment continues as usual," said Dham. The annual interest payout for Amtek is about ₹1,900 crore. As a part of this realignment exercise, ₹600 crore of the ₹800 crore bonds held by banks will also be rolled over. However, JP Morgan will see a resolution of the issue, Dham added.

Bankers say Amtek Auto is still not a non-performing asset on their books. They are still evaluating a possibility of supporting the company by way of a working capital loan, but that decision will be taken jointly by the lenders in the coming days. Dham says all his customers and bankers have been supportive.

Industry insiders say the auto component business follows the automotive industry in business cycles. Amtek is not alone. Several other local players like Asahi India, Minda Industries and Caparo

Bankers say Amtek Auto is still not a non-performing asset...they are still evaluating a possibility of supporting the company

Industries owned by NRI Lord Swraj Paul are dealing with similar trouble. But their problems are now compounded by slowdown, says Sudam Maitra, who headed purchase for large automakers like Maruti and Tata Motors. "Component makers face the most pressure in a sluggish market. They are squeezed on costs by manufacturers. Only a few players who have a strong asset turnover ratio can manage to sustain by maximising utilisation of their plants. Amtek, it seems, is paying the price for persistent slowdown in our economy and

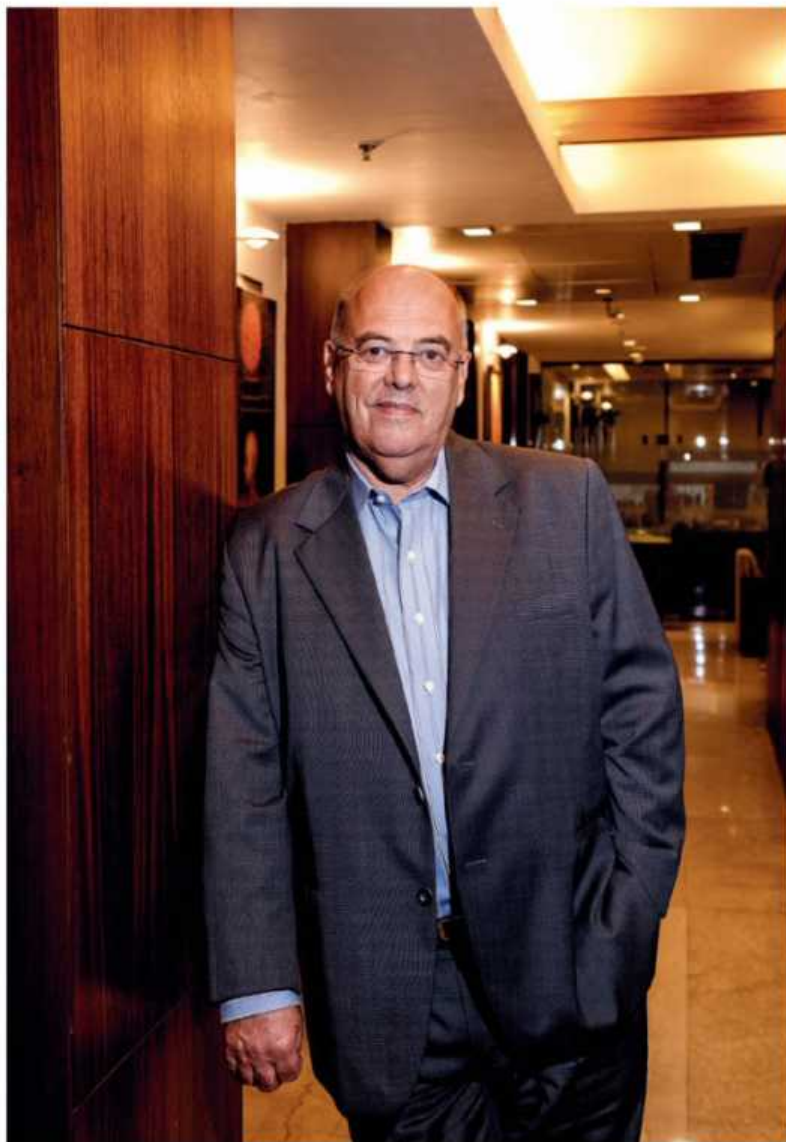
the auto market," he said.

And, though Amtek's clients aren't affected by the crisis at the group yet, they could if things spiral out of control. A Maruti Suzuki executive said the supply of components from Amtek that go into manufacturing engines, and are critical for more than 10 of its models, have remained normal. "We haven't heard of any employee issue or disruptions in Amtek plants, so far," says Kuldeep Janghu, the general secretary of the Maruti Employees' Union.

Former Maruti Suzuki boss Jagdish Khattar, who now operates his own multi-brand car business, says, "For a person to grow so big, the business has to be run professionally. The fact that so many financial people are supporting shows the confidence imposed in him."

Escaping the Debt Trap

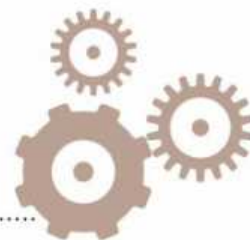
Clearly, Amtek's revenues and profits are insufficient to support its ambitious expansion. Dham has little option but to reduce debt to lessen the



VIVAN MEHRA

JOHN FLINTHAM Global CEO, Amtek Auto

"We have received a large number of enquiries for our overseas units, including Tekfor group, which we brought out of insolvency two years ago. The interest in these has come from trade and financial players around the globe"



interest outgo and bring back the company into profitability.

Dham says he plans to reduce the debt to ₹12,000 crore over 18 months by selling assets worth nearly \$1 billion (approximately ₹6,500 crore). Along with refinancing of debt at lower rates of interest, this would nearly halve the annual

interest outgo to between ₹1,000-1,100 crore.

The strategy is to monetise Amtek's non-core assets and non-automotive businesses such as SMI Amtek Crankshaft, a joint venture company with Sumitomo of Japan, besides selling minority stakes in foreign subsidiaries in the core busi-

nesses, if need be. Dham has roped in Morgan Stanley to identify potential buyers of minority stakes in overseas businesses. And its \$500 million strong German subsidiary, Tekfor, which manufactures shafts, flanges and cam lobes – extensively used in engines and gears – is amongst the first to grab attention from trade and financial players.

Amtek's overseas assets are currently estimated to be worth \$2 billion. "We expect to raise somewhere in the range of \$500-600 million through the overseas dilution," says Amtek Auto global CEO John Flintham. "We have received a large number of enquiries for our overseas units, including Tekfor group, which was brought out of insolvency two years ago. The interest has come from trade and financial players around the globe."

Amtek is also negotiating with potential buyers from China and the US to offload a 50 per cent stake in Amtek Railcar, which makes railway freight cars.

Ernst & Young and Grant Thornton have been appointed to identify buyers for non-core domestic businesses. This comes after Dham has already consolidated the group's debt in a single entity. In November 2014, Amtek Global Technologies, the Singapore-based holding com-

pany of the group's international businesses, secured long-term finance of ₹1,800 crore from Kohlberg Kravis Roberts (KKR) to replace its existing bridge loan after consolidating all the company's existing debt.

Another asset, Italian coffee chain Barista, the country's second-largest after Cafe Coffee Day, is al-



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JAGDISH KHATTAR CMD, Carnation Auto, and former MD, Maruti Suzuki India

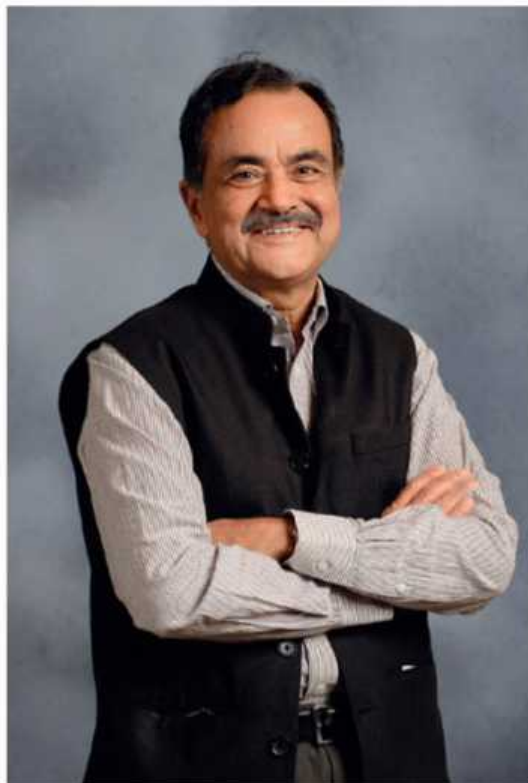
"For a person to grow so big, it has to be run professionally; and the fact that so many financial people are supporting, shows the confidence imposed in him"

ready on the block. It is managed by his daughter, Anamika. Dham, 'a foodie himself', now wants to dilute around 50 per cent in his food business under Carnation Hospitality, a wholly-owned subsidiary of industrial packaging firm Rollatainer, which also operates Wendy, Kylin and is the master franchisee of Italian chain Jamie Oliver. Dham also hopes to garner \$50-100 million from industrial real estate owned across India to redeem the debt.

Amtek's debt to EBIT ratio has reached an all-time high and was more than 7X in 2014 with ₹2,494 crore clocked as its consolidated profit before interest and tax. It's the highest amongst its peers. Its rival Motherson Sumi Systems, which has grown much faster and emerged far bigger than Amtek Auto, has a consolidated revenue of \$6 billion with a much lower debt to EBIT ratio of 2.4X. For Bharat Forge, another competitor, the figure stood at 2.2X in 2014/15.

Given Dham's track record, nobody's writing him off yet. For, Dham has gone through this phase in the past too. Although he retains a partial interest in real estate, thanks to his background in architecture, Dham had also diversified into the dotcom business and even forayed into pharma where a proposed plant in Bhiwadi was later turned into a metal foundry unit. But he has no regrets.

"Mistakes are part of business," says Dham, a former fast bowler



RAJWANT RAWAT

who played for Punjab. "We have to realise and take the right steps. Now we would only focus on the automotive business and bring down the debt by a third in the next year or so."

With economic recovery nowhere in sight, Dham surely can't rely on better business to get him out of the debt trap. But, he will need to work at the pace of a fast bowler to ease the burden that he has set out to achieve.

Analysts tracking the auto ancillary sector have been cautious about Amtek. "Amtek made silly investments when its cash flow was healthy. A hardcore auto component company went into the coffee business," says independent analyst P. Tulsian. "Now, the

promoters want to reduce debt and monetise their assets. Even if they erase it by a billion, the worst for the company is over. They have healthy assets, like Tekfor, which they are looking to sell or even exit."

Meanwhile, Dham has already chalked out retirement plans. He is a movie buff and also loves reading. Dham's planned abode in the Himalayas, where he intends to spend some quality time with his wife and sister, far from the hustle and bustle of corporate life, is almost ready.

There is a clear succession plan in place with younger heirs being groomed to manage these businesses. Dham manages the entire business with active managerial participation from close family and a team of expatriate honchos. He is assisted by his two nephews in running the domestic operations, while his engineer son Anupam shuttles between London and Frankfurt to keep a hawk's eye on the global business, stretching from Japan in the East to Mexico in South America.

Dham plans to gradually restrict his involvement to an advisory role. But that is for later. "I would love to spend time with my family as I hardly get to do that. This should happen once we get the debt issue settled and bring the business back on track," he says with a smile. ♦

Additional reporting by

Anand Adhikari;

Research inputs by Niti Kiran

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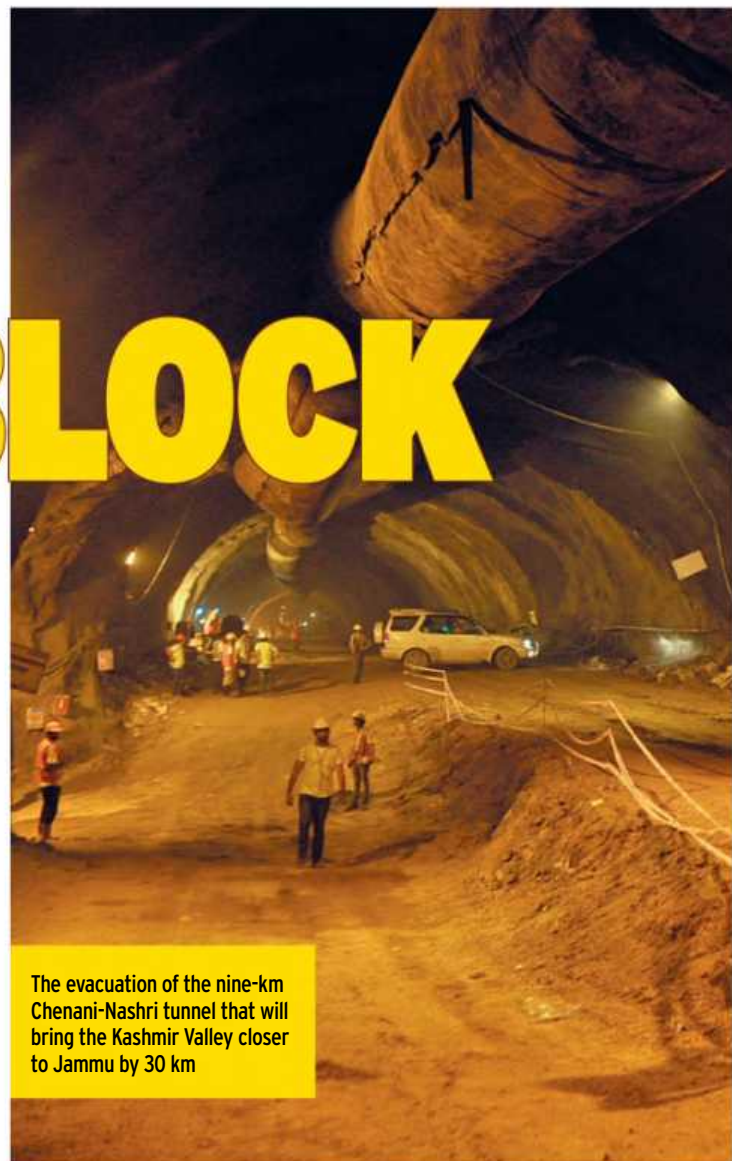
The Infra ROADBLOCK

Several big projects in J&K have been hit as companies struggle with labour unrest and difficulties in land acquisition and acquiring govt clearances

By ISHFAQ NASEEM

On July 14, Transport Minister Nitin Gadkari was witness to a rare engineering feat — digging of a nine-km road tunnel, the country's longest, between Chenani and Nashri in Jammu & Kashmir. The tunnel will reduce the distance between Jammu and Kashmir regions by 30 km. It will have the country's first Integrated Tunnel Control System, where ventilation, fire control, signal and communication systems will be automated.

But the project, to be completed in May 2016, has not gone off without hiccups. Last October, Australia's Leighton Contractors backed out after Mumbai-based IL&FS Transportation Network refused to pay more. "Leighton had agreed to take up the project for a lump sum. The workers went on a strike demanding higher wages. The difficulty was aggravated after floods in September 2014 closed the national highway for a month. Leighton raised excess bills and later withdrew," says an official of IL&FS. For IL&FS, it was a big challenge. "IL&FS has now



The evacuation of the nine-km Chenani-Nashri tunnel that will bring the Kashmir Valley closer to Jammu by 30 km

hired sub-contractors. The work is going on smoothly," says NHAI Project Director, Jammu, R.P. Singh.

The ₹3,800-crore tunnel is symptomatic of problems that most big infrastructure projects in the state are facing. While some, such as acquisition of land, lack of funds, delay in clearances and labour issues, are common to all the states, in Jammu & Kashmir, difficult terrain is proving to be an additional stumbling block.

Besides IL&FS, Hindustan Construction Company (HCC), Ramkay Infrastructure, GVK and Jaiprakash (JP) Associates, which are implementing some landmark



INFRA FACTS

■ Road length maintained by the Public Works Department increased from 18,368 km in 2007/08 to 31,921 km in 2013/14.

■ A total of 520 bridges are under construction in the state at a cost of ₹1,180 crore.

■ The state buys 72.95 per cent of its power from other sources

Source: State Economic Survey 2013/14

— to build them over ₹3,000 crore is needed. The Power Development Department (PDD) figures show that the state faces a power deficit of 27 per cent during peak hours. The situation has not improved much over the years. And given the mess the new projects are in, it is unlikely to do so in the near future either.

For instance, four-laning of the 300-km Jammu-Srinagar highway has been delayed due to land acquisition issues at the 67.7-km Srinagar-Banihal section. The contract was awarded in September 2010 to a consortium of Ramky Infrastructure (74 per cent stake) and China's Jiangsu Provincial

Transportation Engineering Group Co Ltd. The venture had to design, build, finance, operate and transfer the project on an annuity basis. The concession period was 20 years. The semi-annual annuity was ₹134.82 crore and the estimated project cost was ₹1,101 crore. However, only 62 per cent work had been done by the end of September. It is likely to be completed by June 2016, says a government official.

Also, Kashmir is still not connected with the country's railway network. The Jammu-Udhampur-Srinagar-Baramulla line has been delayed by years. The plan for

projects, are also facing difficulties. As most of these projects are in road and power sectors, this is also hitting the state's economy as industries grapple with power cuts and spend more to transport goods due to lack of high-quality road infrastructure.

The Infra Deficit

The only road that connects Kashmir with other parts of the country is the Jammu-Srinagar national highway. It is blocked in winter due to landslides. Government estimates reveal shortage of 3,000-km roads in the Kashmir division

GETTY IMAGES



"We were ready to discuss the matter, but the company (GVK) did not seem to be interested. We would have provided security"

NIRMAL SINGH/ Deputy Chief Minister and Power Minister

connecting Kashmir with the rest of the country was mooted in 1994. It was supposed to be completed by August 15, 2007. However, work on

major stretches of this 345-km line is still incomplete. These include the 110-km section between Katra and Banihal. The latest target date is now December 2020. Within Kashmir, the 18-km section between Qazigund and Anantnag was completed in October 2009. The railways also opened the Banihal-Qazigund section in June 2013.

Indeed, delay in clearances and difficult terrain have made some companies give up. For instance, in February 2004, JP Associates was awarded contract for a stretch of the Udhampur-Srinagar line for ₹168 crore. It was to be completed in three years. However, non-availability of land forced JP to foreclose the contract in April 2007 after execution of work worth ₹27.82 crore. It filed a ₹35.71 crore-claim for "idling of manpower, equipment and infrastructure" against which arbitrators declared an award of ₹21.82 crore.

On Banihal-Qazigund section, the Mumbai-based HCC bagged the contract for the 10.9-km Pir Panjal tunnel. The project cost was ₹413 crore. However, the company faced problems of "delay in handing over the site, increase in scope of work due to change in support system to retain the tunnel strata and delay in supply of drawings." An HCC spokesman says the work has now been completed.

In Srinagar, the Economic Reconstruction Agency (ERA) allotted the ₹247 crore Jehangir Chowk-Rambagh expressway corridor flyover project to Kolkata-based Simplex Infrastructures. That was in 2012. However, the work could start only in September 2013 as residents resisted dislocation. The deadline has been revised from September 2016 to March 2017.

"There were issues over settlement of people that have been sorted out," says ERA Director Malik Basharat Ahmad. He said the deadline was revised after damage to machinery in last year's floods. "The machinery has been repaired. It could not be done in time as the repairs were done outside the country. The workforce also fled due to floods," he says.

Power Pangs

In the power sector, upgrade of transmission lines and

construction of several hydel power projects has been obstructed. In July 2014, GVK stopped work on the 850-MW Ratle project on Chenab river at Drabshalla in Kishtwar district saying that the "atmosphere around the site was insecure." The company was forced to do this after people entered its site offices "and harassed the staff demanding employment."

"The company stopped work after the mob didn't relent and locked the offices. Local politicians have been demanding that people known to them be employed," says a senior official. Recently, the GVK management wrote to the government that "it doesn't want to continue the project."



GVK had bagged the ₹5,500-crore project on a build, own, operate and transfer basis from the PDC in May 2010. It was scheduled to be completed in February 2018. The state would have got 16 per cent power free of cost and 55 per cent at ₹1.44 per unit for 35 years.

Deputy Chief Minister and Power Minister Nirmal Singh says that GVK backed out saying it was not viable for it to continue the work. "It was earlier asked by the state government to pay water use charges. The company has written to us that it will not continue work due to the charges." Singh, however, asserts that the government is ready to offer concessions. "We were ready to discuss the matter, but the company did not seem to be interested. We would have provided security." The government may ask the PDC to do the work.

Work on another power project, Pakal Dul, couldn't be started as Chenab Valley Power Projects Ltd (CVVPL), a joint venture between National Hydro Electric Power Corporation, Jammu & Kashmir Power Development Corporation and PTC India, has not issued the allotment

order. The 1,000-MW project, one of the largest in India, was bagged by a consortium of Patel Engineering Ltd, Limak Holding of Turkey and state-owned Bharat Heavy Electricals Ltd in February last year. It was scheduled to be completed in 66 months. A senior official of CVVPL says the decision over the allotment couldn't be taken due to delay in constitution of the company board.

Singh, however, says that "the CVVPL board will be constituted shortly to clear other projects that are to be constructed through the joint venture."



"There were issues over settlement of people around the Srinagar expressway project, but they have now been sorted out"

MALIK BASHARAT AHMAD
Director, Economic
Reconstruction Agency

The upgrade of power transmission infrastructure is also way behind schedule. The state government recently took note of the slow pace of work by Kolkata-based EMC Ltd. Minister of State for Power, Mohammad Ashraf Mir, while reviewing the progress of the Restructured Accelerated Power Development Reforms Programme, asked officers to convey the government's displeasure to the company. The cost of the project is ₹889 crore. "The agreement for the project was signed on May 19, 2014, and the work is to be completed by March 2016. The work got delayed due to floods in September 2014," says a senior government official. A company official, looking after the

project in Kashmir, says, "We are not responsible for the delay. Our infrastructure was damaged in last year's floods." The company is working to reduce transmission losses in Srinagar city and the major towns of Tral, Ganderbal, Budgam and Pulwama in Kashmir.

Also, the Pune-based capital goods manufacturer, Thermax, was to work with Iceland-based Reykjavik Geothermal to construct a three-MW geothermal project at Puga Valley in Ladakh. However, a senior official in the PDC said work couldn't be started due to non-availability of funds. ♦



Work on four-laning the Jammu-Srinagar national highway is progressing slowly due to land acquisition issues

FAROOQ SHAH

Part - I

Statement of Standalone Un-Audited Financial Results For The Quarter And Half Year Ended 30th September, 2015

(₹ in lakhs)

Particulars	Quarter ended on			Half Year ended on		Year ended on
	30.09.2015 (Un-audited)	30.06.2015 (Un-audited)	30.09.2014 (Un-audited)	30.09.2015 (Un-audited)	30.09.2014 (Un-audited)	31.03.2015 (Audited)
1. Income from Operations						
a) Transmission Income	470826	454016	402981	924842	784275	1645086
b) Consultancy Income	9935	8902	6101	18837	12199	38060
c) Telecom Income	9694	8783	6248	18477	12698	27489
d) Other Operating Income	1347	54	2524	1401	2867	7088
Total Income from Operations	491802	471755	417854	963557	812039	1717723
2. Expenses						
a) Employee benefits expense	23888	23028	25705	46916	48831	102365
b) Depreciation and amortisation expenses	144806	136951	121163	281757	236666	508541
c) Transmission, Administration and Other expenses	36112	34981	33115	71093	63701	135516
d) Prior Period Adjustments : Expenses / (Income)	(58)	(2)	1047	(60)	4234	4712
Total Expenses	204748	194958	181030	399706	353432	751134
3. Profit from Operations before other income, finance costs and exceptional items (1-2)	287054	276797	236824	563851	458607	966589
4. Other Income	10888	7041	13072	17929	26398	60281
5. Profit from ordinary activities before finance costs and exceptional items (3+4)	297942	283838	249896	581780	485005	1026870
6. Finance costs	114904	110905	98909	225809	191703	397932
7. Profit from ordinary activities after finance costs but before exceptional items (5-6)	183038	172933	150987	355971	293302	628938
8. Exceptional Items	-	-	-	-	-	-
9. Profit from ordinary activities before Tax(7-8)	183038	172933	150987	355971	293302	628938
10. Tax Expenses						
a) Current Tax (Minimum Alternate Tax)	38441	36490	31064	74931	60510	128099
b) Deferred Tax	31943	31855	15682	63798	27709	82425
Total (a+b)	70384	68345	46746	138729	88219	210524
Less: Deferred Assets for Deferred Tax Liability	32150	32063	15886	64213	28695	79503
Total Tax Expenses	38234	36282	30860	74516	59524	131021
11. Net Profit from ordinary activities after tax (9-10)	144804	136651	120127	281455	233778	497917
12. Extraordinary Items (net of tax expenses)	-	-	-	-	-	-
13. Net Profit for the period (11-12)	144804	136651	120127	281455	233778	497917
14. Paid up Equity Share Capital (Face Value - ₹10/- per share)	523159	523159	523159	523159	523159	523159
15. Paid up Debt Capital	-	-	-	10416430	8810960	9384455
16. Reserves excluding Revaluation Reserve as per balance sheet	-	-	-	-	-	3293500
17. Bonds Redemption Reserve	-	-	-	640815	531712	587047
18. Earnings per share (before extraordinary items)(not annualised) (₹/Share of ₹10/- each calculated on Profit after Tax)						
(a) Basic	2.77	2.61	2.30	5.38	4.47	9.52
(b) Diluted	2.77	2.61	2.30	5.38	4.47	9.52
19. Earnings per share (after extraordinary items)(not annualised) (₹/Share of ₹10/- each calculated on Profit after Tax)						
(a) Basic	2.77	2.61	2.30	5.38	4.47	9.52
(b) Diluted	2.77	2.61	2.30	5.38	4.47	9.52
20. Debt Equity Ratio	-	-	-	72.28	71.29	71.29
21. Debt Service Coverage Ratio (DSCR)	-	-	-	2.11	2.19	2.04
22. Interest Service Coverage Ratio (ISCR)	-	-	-	3.95	4.04	4.06

Part - II

Select Information for the Quarter and Half Year ended 30th September, 2015

(₹ in lakhs)

Particulars	Quarter ended on			Half Year ended on		Year ended on	Particulars	Quarter ended 30.09.2015
	30.09.2015	30.06.2015	30.09.2014	30.09.2015	30.09.2014	31.03.2015		
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)	(Audited)		
A PARTICULARS OF SHAREHOLDING							B INVESTOR COMPLAINTS	
1. Public Shareholding								
- Number of shares	2202754450	2202754450	2202754450	2202754450	2202754450	2202754450	Pending at the beginning of the quarter	1
- Percentage of shareholding	42.10 %	42.10 %	42.10 %	42.10 %	42.10 %	42.10 %	Received during the quarter	95
2. Promoters and Promoter Group Shareholding							Disposed of during the quarter	96
(a) Pledged/ Encumbered							Remaining unresolved at the end of the quarter	0
Number of Shares	-	-	-	-	-	-		
Percentage of share (as % of the total shareholding of promoter and promoter group)	-	-	-	-	-	-		
Percentage of share (as % of the total share capital of the company)	-	-	-	-	-	-		
(b) Non-encumbered								
Number of Shares	3028835198	3028835198	3028835198	3028835198	3028835198	3028835198		
Percentage of share (as % of the total shareholding of promoter and promoter group)	100 %	100 %	100 %	100 %	100 %	100 %		
Percentage of share (as % of the total share capital of the company)	57.90 %	57.90 %	57.90 %	57.90 %	57.90 %	57.90 %		

POWERGRID

Towards Greater Growth

Segment wise Revenue, Results and Capital Employed for the Quarter and half year ended 30th September, 2015 (₹ in lakhs)

Particulars	Quarter ended on		Half Year ended on		Year ended on
	30.09.2015	30.06.2015	30.09.2014	30.09.2015	31.03.2015
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)	(Audited)
A. Segment Revenue (including allocable Other Income)					
- Transmission	475902	457467	408683	933369	794378
- Consultancy	10070	8998	6170	19068	12291
- Telecom	10789	9768	6743	20557	13490
Total	496761	476233	421596	972994	820159
Less: Inter Segment Revenue	1064	967	479	2031	747
Total Revenue including Other Income	495697	475266	421117	970963	819412
B. Segment Results					
Profit Before Interest and Tax					
- Transmission	279886	269898	235845	549784	458956
- Consultancy	6873	6203	3226	13076	5996
- Telecom	4190	4207	1016	8397	1028
Total Profit Before Interest and Tax	290949	280308	240087	571257	465980
Less :					
Unallocated interest and finance charges	114904	110905	98909	225809	191703
Other unallocated expenditure net of unallocated income	(6993)	(3530)	(9809)	(10523)	(19025)
Profit before Tax	183038	172933	150987	355971	293302
C. Capital Employed (Segment Assets - Segment Liabilities)					
- Transmission	10290504	9721290	8364100	10290504	8364100
- Consultancy	(70392)	(70969)	(65330)	(70392)	(65330)
- Telecom	18558	15515	27820	18558	27820
Capital Employed in Segments	10238670	9665836	8326590	10238670	8326590
- Unallocated Assets Less Liabilities	4395902	4348659	4584299	4395902	4584299
Total	14634572	14014495	12910889	14634572	12910889

Notes

1. The operations of the Company are mainly carried out within the country and therefore, geographical segments are not applicable.
 2. Previous periods / year figures have been regrouped / rearranged wherever necessary.

Notes :

1. (a) In exercise of powers u/s 178 of the Electricity Act 2003, Central Electricity Regulatory Commission (CERC) has notified "CERC (Terms and Conditions of Tariff) Regulations 2014" vide order dated 21st February, 2014 for the determination of transmission tariff for the block period 2014-19.
 (b) Income on account of Transmission Charges for the quarter and half year ended 30th September, 2015 has been provisionally recognized based on "CERC (Terms and Conditions of Tariff) Regulations 2014" pending issuance of final tariff orders (wherever tariff petitions have been filed) and filing of tariff petitions in certain cases for block period 2014-19. However beneficiaries are being billed as follows:
 i) In respect of the assets commissioned prior to 31st March, 2014, in accordance with the tariff approved and applicable as on 31st March, 2014 as provided in CERC (Terms and conditions of Tariff) Regulations 2014.
 ii) In respect of the assets commissioned after 31st March, 2014, up to 90% of the tariff claimed wherever provisional orders have been issued by the CERC.
 2. The Auditors have submitted a draft Limited Review Report on the financial results of the Company for the quarter and half year ended 30th September, 2015, containing qualifications as detailed below:
 i) Company has not made provision of ₹10789 lakhs towards reduction in revenue recognized in earlier years, to provide the impact of the tariff order dated 30.06.2015 issued by the CERC re-determining the date of commercial operation from 01.07.2010 to 01.09.2011 as per directions of Appellate Authority for Electricity (ATE) for Barh-Balla Transmission line. Company appeal is pending with Hon'ble Supreme Court against the order of the ATE / CERC. Pending decision of Hon'ble Supreme Court and in view of uncertainty involved, provision should have been made. Court and in view of uncertainty involved, provision should have been made.
 ii) The Company has not made any provision in respect of outstanding dues of ₹1564 lakhs from one of the medium term open access customers (MTOA), which is under liquidation, pending decision on the appeal filed with CERC.
 Both of the above two issues were subject matter of qualification in the Auditors' Report on the financial statements for the FY 2014-15.
 Non provision of the above has resulted in increase in cumulative Profit after Tax by ₹9162 lakhs which includes ₹nil for the quarter and half year ended 30.09.2015.
 Regarding comment at (i) above, Management is of the view that, the Company is entitled for the transmission charges w.e.f. 01.07.2010, since the line was ready for regular service on completion of Company's scope of work and the declaration of DCO on 01.07.2010 is correct as per CERC Tariff Regulations, 2009.
 However, as directed by Appellate Tribunal for Electricity (ATE) vide order dated 02.07.2012, CERC has now reviewed and re-determined the DCO from 01.07.2010 (earlier approved) to 01.09.2011 vide order dated 30.06.2015. The Company has referred the matter to Hon'ble Supreme Court for appropriate relief against the above said CERC order and ATE order, which is genesis of the entire issue.
 Pending final decision regarding shifting of DCO from 01.07.2010 to 01.09.2011 by the Hon'ble Supreme Court, no provision has been considered in the accounts for the FY 2014-15 and for the quarter and half year ended 30.09.2015.
 Regarding comment at (ii) above, Management is of the view that the MTOA is a transmission service provided on the margins available in the existing transmission network and the Company is not impacted (increase/decrease) due to grant of MTOA or cancellation thereof as per CERC regulations. Considering that the entire transmission charges are recoverable from long term customers, who have signed agreement for establishment of such transmission systems as per CERC sharing regulations, no provision is required towards the above dues.
 3. During the quarter, the Company has declared final dividend of ₹1.31 per share (face value of ₹10/- each) in addition to interim dividend of ₹0.69 per share, totalling to ₹2.00 per share for the financial year 2014-15.
 4. Formula used for computation of coverage ratios DSCR = Earnings before Interest, Depreciation and Tax/Interest & Finance Charges net of amount transferred to expenditure during construction + Principal Repayment and ISCR = Earnings before Interest, Depreciation and Tax/Interest & Finance Charges net of amount transferred to expenditure during construction).
 5. The above results have been reviewed by the Audit Committee and have been approved by the Board of Directors in their respective meetings held on 03rd November, 2015.
 6. The above results have been reviewed by the Statutory Auditors as required under clause 41 of the listing agreements.
 7. Previous periods / year figures have been regrouped / rearranged wherever necessary.

Standalone Statement of Assets and Liabilities

(₹ in lakhs)

Particulars	Amount	
	As at 30.09.2015 (Un-audited)	As at 31.03.2015 (Audited)
I. EQUITY AND LIABILITIES		
1 Shareholders' funds		
(a) Share capital	523159	523159
(b) Reserves and surplus	3574983	3293500
Sub-total - Shareholders' funds	4098142	3816659
2 Deferred Revenue	536832	476291
3 Non-current liabilities		
(a) Long-term borrowings	9877842	8937584
(b) Deferred tax liabilities (Net)	246800	247215
(c) Other long term liabilities	70899	109788
(d) Long-term provisions	62130	58023
Sub-total - Non-current liabilities	10257671	9352610
4 Current liabilities		
(a) Short-term borrowings	120000	120000
(b) Trade payables	10921	39297
(c) Other current liabilities	2121273	1904036
(d) Short-term provisions	105177	121195
Sub-total - Current liabilities	2357371	2184528
TOTAL - EQUITY AND LIABILITIES	17250016	15830088
II. ASSETS		
1 Non-current assets		
(a) Fixed assets (including Capital Work in Progress)	13980905	12956840
(b) Construction stores	1160620	1304196
(c) Non-current investments	74723	74099
(d) Deferred foreign currency fluctuation asset	351510	284154
(e) Long-term loans and advances	517377	417789
Sub-total Non-current assets	16085135	15037078
2 Current assets		
(a) Current investments	18543	18543
(b) Inventories	75521	71775
(c) Trade receivables	259584	211865
(d) Cash and Bank balances	4272711	206298
(e) Short-term loans and advances	172233	56642
(f) Other current assets	211729	227887
Sub-total - Current assets	1164881	793010
TOTAL - ASSETS	17250016	15830088

For and on behalf of
POWER GRID CORPORATION OF INDIA LTD.Sd/-
(I. S. Jha)Place : New Delhi
Date : 03.11.2015

Chairman & Managing Director

IMPORTANT NOTICE: Members are requested to register/update their E-mail ID with Company/Depository participants/Company's Registrar & Transfer Agent (KARVY) which will be used for sending official documents through e-mail in future.

**POWER GRID CORPORATION OF INDIA LIMITED**

(A Government of India Enterprise)

Registered Office : B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi - 110 016

Phone No. : 011-2660122, Fax: 011-26601081

Corporate Office : "Saudamini", Plot No. 2, Sector-29, Gurgaon, Haryana-122 001 (India)

Phone No. : 0124-2571700-719, Fax: 0124-2571762

Email ID: powergrid@powergrid.co.in CIN: L40101DL 1989G0308121

Fuelling Up



The dip in crude oil prices is a huge positive for the Indian economy, but PSU oil firms still have a long way to go.

By ANILESH MAHAJAN



ANAY THAKURI

In

July 2014, when Finance Minister Arun Jaitley was presenting his maiden Budget, the NDA government had just taken over. Talks of deficient monsoon rains were in the air. Crude oil was surging amid the uncertainties in Syria and West Asia. In fact, global

crude oil price, which was between \$107 and \$112 per barrel and was expected to touch the \$150 mark, could have thrown a spanner in the works of the new dispensation at the Centre.

However, crude prices turned out to be the FM's biggest facilitator in pushing reforms. The benchmark Brent crude crashed below \$45 a barrel on August 24, 2014, for the first time since March 2009. By October 8, the price of the Indian crude oil Basket, computed by the Petroleum Planning and Analysis Cell (PPAC) of the petroleum ministry, was down to \$49.81 from \$55 per barrel. For the Centre, it was a godsend, providing Jaitley with the opportunity to clean up the books of Indian oil companies and look beyond the subsidy maze.

Along with Dharmendra Pradhan, Minister of State, Independent Charge, Ministry Of Petroleum and Natural Gas, the finance minister pulled the plug on cash subsidies on diesel in October 2014 and, subsequently, launched a scheme for direct transfer of subsidy for liquefied petroleum gas (LPG) in March 2015. Pradhan is now working on subsidy disbursement of kerosene as well with chief ministers of all the states.

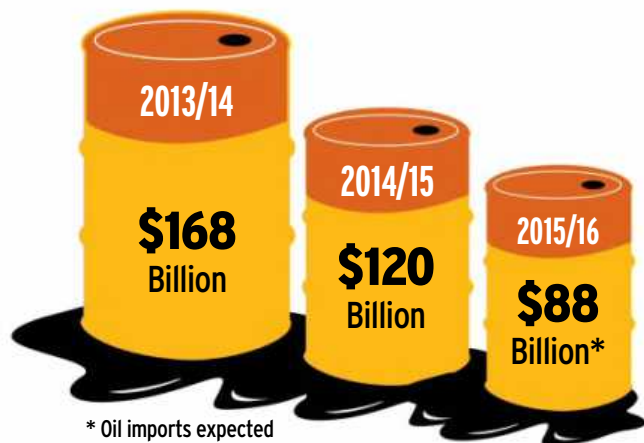
The move has helped oil companies to improve their numbers. In the first week of October, when the BSE Sensex showed signs of a recovery and surged sharply by 858 points, Oil and Natural Gas Corporation (ONGC) was one of the biggest gainers in terms of market capitalisation. In the first week of October ONGC surged by ₹26,393.68 crore to ₹2,25,137.72 crore.

India, the world's fourth-largest energy-consuming country, imports 78 per cent of its crude oil and 25 per cent of its natural gas requirements, which account for 4.5 per cent of global energy consumption. India had imported crude oil worth \$168 billion in 2013/14, but with the crash in prices it is expected to import the same volume of crude oil for \$88 billion in 2015/16. It is looking to reduce its imports by 30 per cent by 2030.

What's more, Jaitley is not having to eat away into the profits of PSU oil companies (ONGC, GAIL and Oil India) to compensate oil marketing companies (Indian Oil Corporation, Hindustan Petroleum Corporation and Bharat Petroleum), nor provide budgetary support, to sell products at subsidised rates. In the first three quarters of 2014/15, the Centre had compensated the OMCs with ₹67,091 crore worth of assistance from upstream firms

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including ONGC and OIL. Gas transportation company GAIL was exempted from sharing the subsidy burden earlier.

"Low prices of crude oil and petroleum products in the international market worry me. But it is a great opportunity for importers like India to set their house in order; rework the web of subsidies and make them more efficient," says Michiel Soeting, Global Chairman Energy and Natural Resources, KPMG LLP, adding: "I don't see the surge in prices happening in the near future, so there is some time in hand as well."

After rationalisation, ONGC's net realisation improved to \$58.92 a barrel in June this year from \$47.14 a barrel a year ago. The single biggest contributor was the no-subsidy-burden-sharing move. So it was for Oil India. Now, the NDA government is pushing the oil companies to create assets and to start new projects with the surplus money. The rigs and other essential equipment are now available at cheaper rates and this could help a majority of the national oil companies to expand their exploration activities.

Private oil producers, such as Anil Agarwal's Cairn India, are, however, still under stress. The company has

D.K. SARRAF CMD/ONGC

"While many of the global E&P companies have responded to this situation by cutting down their investments, ONGC takes this as an opportunity to build its assets in this environment of lower costs"



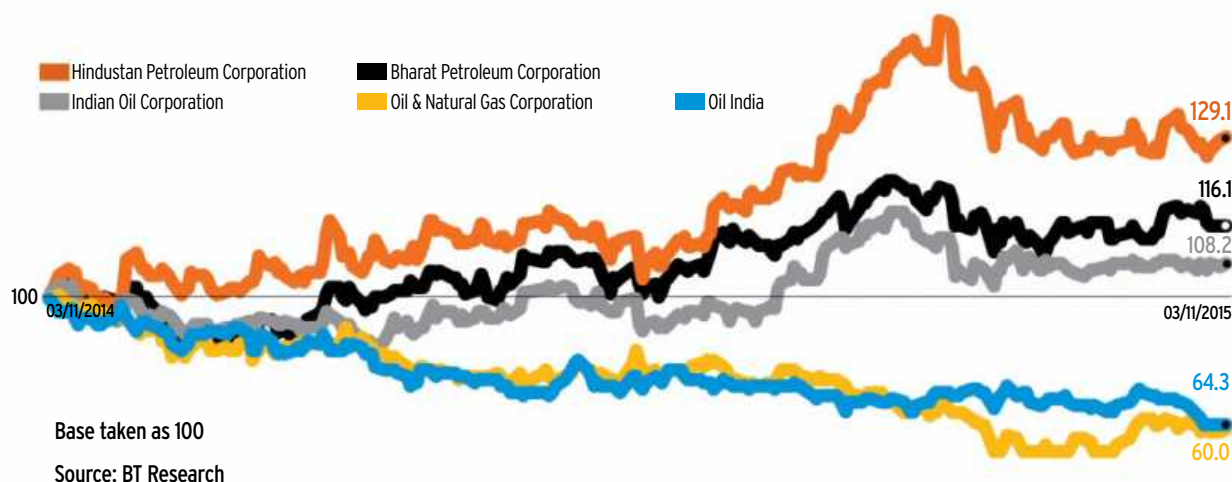
decided to reduce its capital expenditure by 60 per cent, from \$1.2 billion last year to \$500 million in 2015/16. It also plans to produce only from those wells that are viable. It operates the country's biggest on-land oil block at Barmer and offers crude at a 15 per cent discount to Brent. But the prices are withering away its profits, as it has to pay a fixed amount of ₹4,500 per tonne of oil produced from the two blocks that were awarded before the

New Exploration Licencing Policy (NELP) of 2014, came into effect.

ONGC, on the other hand, is expected to spend ₹36,000 crore as capital expenditure from ₹32,309 crore last year. "There is an opportunity to explore more. ONGC has called in fresh tenders to engage rigs and other equipment. The outlook for oil prices is very positive and prices are bound to go up. The assets in North America shale plays and oil sands, along with marginal fields are under immense pressure to cut production. We have this window to make the most of it," says R.S. Sharma, Chairman of industry lobby group FICCI's hydrocarbon committee and former chairman and managing director of ONGC. Dinesh Kumar Sarraf,

MIXED BAG FOR PSU OIL COMPANIES

HPCL stock has gained the most from pricing reforms, while ONGC suffered due to inventory losses



the incumbent CMD, agrees. "While many global exploration and production companies have responded to this situation by cutting their investments, ONGC has taken this as an opportunity to build its assets," he told his shareholders in September.

ONGC has submitted a field development plan for KG-DWN-98/2 block—a deep water block off the eastern coast of Krishna Godavari Basin. It could be the biggest find for ONGC after Bombay High. Therefore, it is busy debating how to make the project commercially viable despite the recession in the crude oil market.

The NDA government is also auctioning 69 of the 165 marginal fields (86 onshore and 79 offshore) owned by ONGC and OIL, because at current prices, it is not commercially viable for the PSU oil companies to produce from these fields. Smaller technology and equipment companies are expected to bid for these blocks with 89 MT of oil and gas reserves. If the Centre's plans are realised, it will not only improve the balance sheets of ONGC and OIL, but will also improve the reserves of the country. Globally, smaller players have put their money on shale reserves in the US, oil sands in Canada, and gas projects of many other countries including Africa and Australia.

The lower burden of subsidies has also helped oil marketing companies in the past one year. Following the price decontrol of both petrol and diesel, oil marketing companies are free to review the prices every fortnight, based on the average international prices, exchange rate of the US dollar and excise duties. However, according to sources, politics still plays a role in determining the prices of the products. For example, in mid-September, OMCs did not revise the price of diesel and petrol despite a depreciation of the rupee and a slight increase in prices, globally. "There could be aberrations, but revision of the prices is happening regularly, this is good enough to improve the cash flow of these companies," says a top executive of a private oil marketing company, adding: "The revision of prices should be sacrosanct to improve the market environment." RIL, Shell and Essar Oil compete with the PSUs in the downstream segment.

However, LPG and kerosene subsidies could still be a drag on the Centre. With an average crude oil price of \$60

per barrel, LPG and kerosene subsidies for 2015/16 will be around ₹18,000 crore and ₹13,000 crore, respectively. "If you transfer the subsidy amount directly to the bank accounts of consumers, it improves the cash flow of OMCs. This would allow timely payments from the finance ministry. And OMCs would not have to take debt to meet operational expenditures," says Narendra Taneja, noted energy expert and former national convener of the BJP's energy cell. According to the PPAC report of May 2015, IOCL, BPCL and HPCL collectively borrowed ₹88,681 crore

in 2014/15, compared to ₹1,38,749 crore last fiscal—a fall of over 37 per cent. Analysts believe this is largely because the cash flow of these companies has improved.

However, the dip in crude prices has impacted the inventory management of the three PSU oil retailers. "We have done well on most parameters. The refinery throughput has improved, we laid more pipelines and the revenues from sales have improved, but there is a massive impact of

inventory losses," says B. Ashok, CMD, Indian Oil. In the second quarter, IOCL reported losses of ₹5,137 crore.

Inventory loss is the difference between the buying price of crude oil and the selling price of finished products. Sample this: without the inventory loss, the gross refining margin of IOCL should have been \$6.82 per barrel in the second quarter (July to September), but it reported a margin of only \$1.95. Besides, the retailers were impacted with the continuous fall of the Indian currency. "IOCL lost ₹1,100 crore (out of the total loss of ₹329 crore) in the second quarter alone because of forex losses," says Ashok of Indian Oil.

Other PSU retailers are also facing a similar problem. There is a surge in demand as well. During 2014/15, the demand for refined petroleum products grew by 4.2 per cent to 165 million tonnes. This year, too, it is expected to grow by 5 per cent. Because of low prices, revenues might be down for the PSU companies, but over the long term they might be at an advantage if they take the opportunity to get the fundamentals right. If the government chooses to continue with its reforms measures even when crude oil prices surge, Indian oil companies might find themselves well-oiled to meet the growing demand. ♦

B. ASHOK CMD, IOC
"We have done well in most of the parameters; the refinery throughput has improved, we laid more pipelines, the revenues from sales have also improved. But there is a massive impact of inventory losses"



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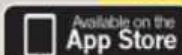
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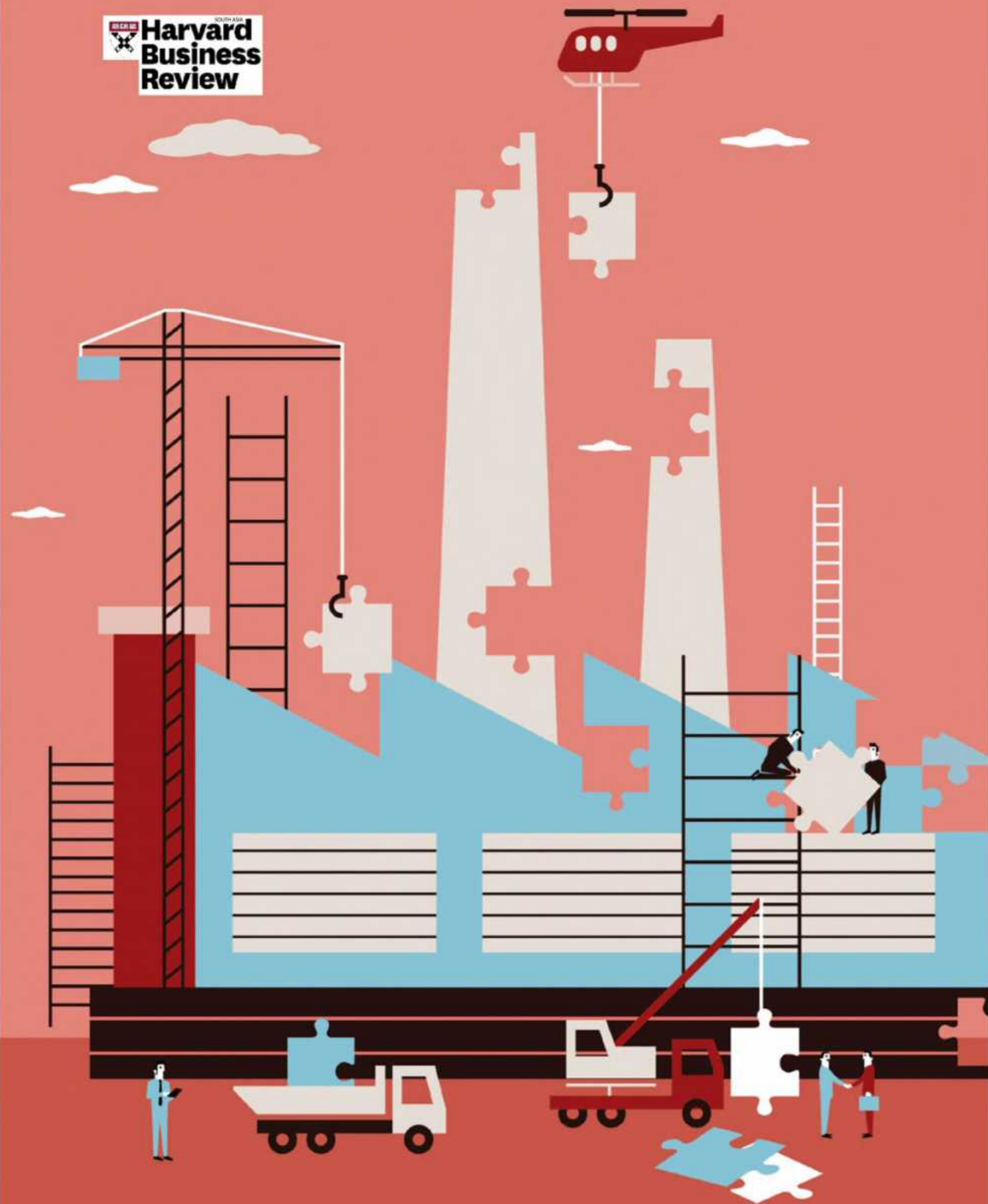
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Corporate Governance

2.0

We need to return to first principles rather than meander towards “best practices.” By GUHAN SUBRAMANIAN

Although corporate governance is a hot topic in boardrooms today, it is a relatively new field of study. Its roots can be traced back to the seminal work of Adolf Berle and Gardiner Means in the 1930s, but the field as we now know it emerged only in the 1970s. Achieving best practices has been hindered by a patchwork system of regulation, a mix of public and private policymakers, and the lack of an accepted metric for determining what constitutes successful corporate governance. The nature of the debate does not help either: shrill voices, a seemingly unbridgeable divide between share-



ILLUSTRATION BY: RAJ VERMA

DISPENSING WITH EARNINGS GUIDANCE WOULD MITIGATE THE OBSESSION WITH SHORT-TERM PROFITABILITY. COMPANIES SHOULD PROVIDE ANALYSTS WITH LONG-TERM GOALS INSTEAD

holder activists and managers, rampant conflicts of interest, and previously staked-out positions that crowd out thoughtful discussion. The result is a system that no one would have designed from scratch, with unintended consequences that occasionally subvert both common sense and public policy.

Consider the following:

- In 2010, the hedge fund titans Steve Roth and Bill Ackman bought 27 per cent of J.C. Penney before having to disclose their position; Penney's CEO, Mike Ullman, discovered the raid only when Roth telephoned him about it.
- The proxy advisory firm Glass Lewis has announced that it will recommend a vote against the chairperson of the nominating and governance committee at any company that imposes procedural limits on litigation against the company, notwithstanding the consensus view among academics and practitioners that shareholder litigation has gotten out of control in the United States.
- In 2012, JPMorgan Chase had no directors with risk expertise on the board's risk committee – a deficiency that was corrected only after Bruno Iksil, the “London Whale,” caused \$6 billion in trading losses through what JPM's CEO, Jamie Dimon, called a “Risk 101 mistake.”

- Allergan, a health-care company, recently sought to impose onerous information requirements on efforts to call a special meeting of shareholders, and then promptly waived those requirements just before they would have been invalidated by the Delaware Chancery Court.

- The corporate governance watchdog Institutional Shareholder Services (ISS) issued a report claiming that shareholders do better, on average, by voting for the insurgent slate in proxy contests; *within hours*, the law firm Wachtell, Lipton, Rosen & Katz issued a memorandum to clients claiming that the study was flawed.

- The same ISS issues a “QuickScore” for every major US public company, yet it won't tell you how it calculates your company's score or how you can improve it – unless you pay for this “advice.”

We can do better. And with trillions of dollars of wealth governed by these rules of the game, we must do better. In this article I propose Corporate Governance 2.0: not quite a clean-sheet redesign of the current system, but a back-to-basics reconceptualisation of what sound corporate governance means. It is based on three core principles – principles that reasonable people on all sides of the debate should be able to agree on once they have untethered from vested interests and staked-out positions. I apply these principles to develop a package solution to some of the current hot-button issues in corporate governance.

The overall approach draws from basic negotiation theory: Rather than fighting issue by issue, as boards and shareholder activist groups currently do, they should take a bundled approach that allows for give-and-take across issues, thereby increasing the likelihood of meaningful progress. The result would be a step change in the quality of corporate governance, rather than incremental meandering towards what may (or may not) be a better corporate governance regime for US public companies.

PRINCIPLE #1

Boards Should Have the Right to Manage the Company for the Long Term

Perhaps the biggest failure of corporate governance today is its emphasis on short-term performance. Managers are consumed by unrelenting pressure to meet quarterly earnings, knowing that even a penny miss on earnings per share could mean a sharp hit to the stock price. If the downturn is severe enough, activist hedge funds will start to become interested in taking a position and then clamouring for change. And, of course, there are the lawyers, ever ready to file litigation after a big drop in the company's stock.

It is ironic that companies today have to go private in order to focus on the long term. Michael Dell, for example, took Dell private in 2013 because, he claimed, the fundamental changes the company needed could not

be achieved in the glare of the public markets. A year later he wrote in the *Wall Street Journal*, "Privatisation has unleashed the passion of our team members who have the freedom to focus first on innovating for customers in a way that was not always possible when striving to meet the quarterly demands of Wall Street." The idea that "innovating for customers" can be done more effectively in a private company is deeply troubling; public companies, after all, are still the largest driver of wealth creation in our economy.

To allow managers at public companies to focus on the long term, Corporate Governance 2.0 includes the following tenets:

End earnings guidance. With holding periods in today's stock markets averaging less than six months, short-termism cannot be avoided completely. Nevertheless, dispensing with earnings guidance – the practice of giving analysts a preview of what financial results the company expects – would mitigate the obsession with short-term profitability. Earnings guidance has been in decline over the past 10 years, but many companies are nervous about eliminating it for analysts who have come to rely on it. Research shows that the dispersion in analysts' forecasts increases after companies stop giving guidance – presumably because analysts are no longer being fed the answers to the questions. With less consensus among them, the stock market reacts less negatively when earnings are lower than the average view, thereby mitigating the pressure for quarterly results. Instead of providing earnings guidance, companies should provide analysts with long-term goals, such as market share targets, number of new products, or per cent of revenue from new markets.

Bring back a variation on the staggered board. When a board is staggered, one-third of the directors are elected each year to three-year terms. This structure promotes continuity and stability in the boardroom, but shareholder activists dislike it, because a hostile bidder must win two director elections, which may be as far apart as 14 months, in order to gain the two-thirds board control necessary to facilitate a takeover. In my

research with Lucian Bebchuk and John Coates, of Harvard Law School, I find that no hostile bidder has ever accomplished this.

As shareholder activists gained more power in the 2000s, the number of staggered boards in the S&P 500 fell from 60 per cent in 2002 to 18 per cent in 2012. The trend is continuing: In 2014, 31 S&P 500 companies received de-staggering proposals for their annual meetings, and seven of those companies preemptively agreed to de-stagger their boards before the issue came to a vote. The result of this trend is that most corporate directors today are elected every year to one-year terms (creating so-called unitary boards).

It is virtually tautological that directors elected to one-year terms will have a shorter-term perspective than those elected to three-year terms. This is particularly true because ISS and other proxy advisory firms have not been shy about using withhold-vote campaigns to punish directors who make decisions they don't like. One director attending a programme at HBS told me that his board had decided against hiring a talented external candidate for CEO who would have required an above-market compensation package. Even though he was the best candidate, and even though this director thought that he'd be worth the money, the board did not move forward in part because of concern that ISS would recommend against the compensation committee at the next annual meeting. With a staggered board, ISS would have recourse against only one-third of the compensation committee each year,

because only one-third of the committee members would be up for reelection.

Of course, shareholder activists make a strong case that a staggered board may discourage an unsolicited offer that a majority of shareholders would like to accept. But this drawback would be avoided if the stagger could be "dismantled," either by removing all the directors or by adding new ones. A staggered board that could be dismantled in this way would combine the longer-term perspective of three-year terms with the responsiveness to the takeover marketplace that shareholders want. It would give ISS



recourse against individual directors, but only every three years rather than every year. A triannual check would allow longer-term investments (such as the superstar CEO mentioned above) to play out, and would be better aligned with long-term wealth creation than an annual check on all directors.

Install exclusive forum provisions. In our litigation-prone system of corporate governance, plaintiffs' attorneys (representing shareholders who typically hold only a few shares) look for any hiccup in stock price or earnings to file litigation against the company and its board. Plaintiffs' attorneys are especially attracted to major transactions, such as mergers and acquisitions, because

is subject to jurisdiction wherever it has contacts – its headquarters state, its state of incorporation, and states where it does business. Plaintiffs' attorneys take advantage of this fact to bring suit in multiple states – particularly those that permit a jury trial for corporate law cases. The prospect of inexperienced jurors deciding a complex corporate case leads many companies to settle in a hurry. This kind of blackmail is bad for corporate governance and society overall. Exclusive forum provisions permit litigation against a company only in its state of incorporation. For companies incorporated in Delaware, which are the majority of large US public companies, this means the case would be heard before an experienced and sophisticated judge on the Delaware Chancery Court rather than an inexperienced jury.

Yet despite these clear benefits, shareholder activists have expressed knee-jerk opposition to exclusive forum provisions. Glass Lewis has threatened a withhold vote against the chair of the nominating and governance committee of any board that installs one without shareholder approval. The argument is that the prospect of multistate litigation will make directors pay more attention. But most directors do not need the sharp prod of a jury trial for them to want to do a good job. Exclusive forum provisions give plaintiffs' attorneys a fair fight in a state where the rules of the game are well established. In exchange for such a provision, boards might consider renouncing more-draconian measures, such as a fee-shifting bylaw that forces

plaintiffs to pay the company's expenses if their litigation is unsuccessful.

Corporate Governance 2.0 asks the functional question: What goals are the activists, governance rating agencies, boards, and everyday shareholders all trying to achieve? The answer is clear: insulation from frivolous litigation, but meaningful exposure to liability in the event of a dereliction of duty in the boardroom. In the old days, activists and their allies agreed on this shared goal. In the late 1980s, when most US states enabled boards to waive liability for certain breaches of fiduciary duty, ISS encouraged directors to take up the invitation, on the understanding that they should be focused on shaping strategy and monitoring performance rather than wor-

DIFFERENT VIEWS ON THE ISSUES

How shareholder activists, board defenders, and Corporate Governance 2.0 compare on the key issues raised in this article

	SHAREHOLDERS	BOARDS	CORPORATE GOVERNANCE 2.0
Earnings guidance	Yes	Mixed	Replace with long-term goals
Staggered boards	No	Yes	Staggered board that can be dismantled
Exclusive forum provision	No	Yes	Yes
Age and/or term limits	Yes	No	Meaningful board evaluations
Shareholder proxy access	Yes	No	Should be considered as a backstop
Defensive measures generally	No	Yes	"Orderly voice"
Poison pills	No	Yes	"Advance notice" pill

of corporate law that is friendly to litigation in this arena. Any public-company board announcing a major transaction is highly likely to be sued – sometimes within hours – regardless of how much care and effort its members put into their decision. It is anyone's guess how many value-creating deals are deterred by this "tax" that the plaintiffs' bar imposes on the system. In fact, a board that goes forward with a transaction will often deliberately keep something in its pocket – such as a disclosure item or even a bump in the offer price – to be given up as part of a quick settlement so that the plaintiffs' attorneys can collect their fees and the deal can proceed.

It is not only the frequency of claims that causes concern, but also where they are brought. A US corporation

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rying about shareholder litigation. Corporate Governance 2.0 would return to this old wisdom through exclusive forum provisions. Directors would be accountable for their actions, but only as judged by a corporate law expert. The result would be greater willingness among directors to make longer-term decisions, without fear of a jury's 20/20 hindsight.

PRINCIPLE #2 **Boards Should Install Mechanisms to Ensure the Best Possible People in the Boardroom**

In exchange for the right to run the company for the long term, boards have an obligation to ensure the proper mix of skills and perspectives in the boardroom. Shareholder activists have proposed several measures in recent years to push towards this goal – principally age limits and term limits, but also gender and other diversity requirements. According to the most recent NACD Public Company Governance Survey, approximately 50 per cent of US public companies have age limits, and approximately eight per cent have term limits. ISS is urging more companies to adopt such limits, and if history is any guide, boards will give the idea serious consideration.

Activists and corporate governance rating agencies are motivated by a sense that boards don't take a hard look at their composition and whether the skill set on the board reflects the needs of the company. Too often directors are allowed to continue because it's difficult to ask them to step down. But age and term limits are a blunt instrument for achieving optimal board composition. Anyone who has served on a corporate board knows that an individual director's contribution has little to do with either age or tenure. If anything, the correlation is likely to be positive. As for age limits, directors who have retired from full-time employment can devote themselves to their

work on the board. And as for term limits, directors will often need a decade to shape strategy and evaluate the success of its execution; moreover, directors who have been in office longer than the current CEO are more likely to be able to challenge him or her when necessary. Yet these are precisely the directors who would be forced out by age limits or term limits.

Corporate Governance 2.0 would approach the issue of board composition in a tailored manner, focusing more on making sure that boards really engage in meaningful selection and evaluation processes rather than ticking boxes. In particular it would:

Require meaningful director evaluations. Many boards today have internal evaluations conducted by the chairman or lead director. Although these evaluations are well intentioned, directors may be unwilling to disclose perceived weaknesses to the person most responsible for the effective functioning of the board. A Corporate Governance 2.0 approach would engage an independent third party to design a process and then conduct the reviews. The process would include grading directors on various company-specific attributes so that they and their contributions were evaluated in a relevant way.

In Corporate Governance 2.0, director evaluations wouldn't just get filed away. They would be shared with the individual director, with comments reported verbatim when necessary to make clear any opportunities for improvement. They would also go to the chairman or lead director, to provide objective evidence with which to have difficult conversations with underperforming directors.

Meaningful board evaluations would also have more-subtle effects on board composition and boardroom dynamics. Foreseeing a rigorous review process, underperforming directors would voluntarily not stand for reelection. Even more important, directors would work hard to



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make sure they weren't perceived as underperforming in the first place.

Consider shareholder proxy access. Under such a rule, shareholders with a significant ownership stake in the company would have the right to put director candidates on the company's ballot. For the first time in corporate governance, a company proxy statement could have, say, 10 candidates for eight seats on the board. Hewlett-Packard and Western Union, among other companies, have implemented shareholder proxy access over the past two years.

The Securities and Exchange Commission tried to impose proxy access on all companies in 2010, but the D.C. Circuit Court of Appeals invalidated the move. The SEC has since allowed companies to implement it on a voluntary basis. My research with Bo Becker, then at HBS, and Daniel Bergstresser, of Brandeis, shows that a comprehensive proxy access rule would have added value, on average, for US public companies. The company-by-company approach is not as good as a comprehensive rule, because qualified directors may gravitate to boards that don't offer proxy access; nevertheless, it should be considered a backstop to rigorous director evaluations.

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HAS SERVED ON
A CORPORATE
BOARD KNOWS
THAT AN
INDIVIDUAL
DIRECTOR'S
CONTRIBUTION
HAS LITTLE TO DO
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FURTHER READING

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"Where Boards Fall Short"
Dominic Barton and Mark Wiseman

"The Case for Professional Boards"
Robert C. Pozen

Implementing a proxy access rule would help ensure the right mix of skills in the boardroom. For example, if JPMorgan had a proxy access rule, it seems likely that it would not have lacked directors with risk expertise on the risk committee at the time of the London Whale incident. More than a year before that event, CtW Investment Group, an adviser to union pension funds, highlighted the point: "The current three-person risk policy committee, without a single expert in banking or financial regulation, is simply not up to the task of overseeing risk management at one of the

world's largest and most complex financial institutions." With a proxy access regime, either the board would have put someone on the risk committee with risk expertise, or a significant shareholder could have nominated such a person, and the shareholders collectively would have decided whether the gap was worth filling.

This is not to say that if JPM's risk committee had included directors with risk expertise, the London Whale incident would have been prevented. As is well known, primary frontline responsibility for managing risk exposure at JPM belongs to the operating committee on risk management, whose members are high-ranking JPM employees. But the odds of identifying the problem would certainly have been higher in a proxy access regime.

Only in the aftermath of the debacle did the board add a director with risk expertise to the risk committee. Of course, it should not take a multibillion-dollar trading loss to put people with the right skill set on the JPM risk committee. A shareholder proxy access regime should be considered as a supplement to meaningful board evaluations, to ensure the right composition of directors in the boardroom.

PRINCIPLE #3 Boards Should Give Shareholders an Orderly Voice

Today, when an activist investor threatens a proxy contest or a strategic buyer makes a hostile tender offer, boards tend to see their role as "defender of the corporate bastion," which often leads to a no-holds-barred, scorched-earth, throw-all-the-furniture-against-the-door campaign against the raiders. As George "Skip" Battle, then the lead director at PeopleSoft, put it to me in the context of Oracle's 2003 hostile takeover bid for his company, "This is the closest thing you get in American business to war."

Consider the more recent case of Commonwealth REIT, one of the largest real estate investment trusts in the United States. As of December 2012, Commonwealth's

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properties were worth \$7.8 billion against \$4.3 billion in debt, but its market capitalisation stood at only \$1.3 billion. Corvex Management, a hedge fund run by Keith Meister (a Carl Icahn protégé), and the Related Companies, a privately held real estate firm specialising in luxury buildings, saw an investment opportunity in CommonWealth's poor performance. In February 2013, they announced a 9.8 per cent stake in CommonWealth and proposed acquiring the rest of the company for \$25 a share. This offer represented a 58 per cent premium over CommonWealth's unaffected market price.

The Corvex-Related strategy for unlocking value at CommonWealth was relatively simple. CommonWealth had no employees; it paid an external management company to manage the real estate assets. This company, Reit Management & Research, was run by Barry and Adam

Portnoy, a father-and-son team who also constituted two-fifths of the CommonWealth board. Corvex and Related believed that internalising management would eliminate conflicts of interest within the board, align shareholder interests, and unlock substantial value. Their investment thesis boiled down to three words: Fire the Portnoys.

Would the plan unlock value at CommonWealth? The board was determined not to find out. Despite having given shareholders the right to act by written consent, it imposed onerous information requirements that made it impossible, as a practical matter, for them to do so. The board also lobbied the Maryland legislature (unsuccessfully) to amend its takeover laws to protect the company. Perhaps most egregious, the board added a provision to its bylaws declaring that any dispute regarding the company would be heard by an arbitration panel, not a Maryland court. After 18 months of arbitration hearings and sharply worded press releases, Corvex and Related finally replaced the CommonWealth board with their own nominees in June 2014. Today CommonWealth (renamed Equity Commonwealth) trades at about \$25 a share, compared with about \$16 before the offer.

CommonWealth's board took the typical scorched-earth approach, but it shouldn't be like this. The principle of "orderly shareholder voice" involves a different conceptualisation of the board's role – to guarantee a reasonable process whereby shareholders get to decide, rather than to defend the corporate bastion at all costs. Even when a board genuinely believes that the competing vision is mistaken (which is true in the vast majority of cases), its fiduciary duty – contrary to popular belief – does not require preventing shareholders from deciding. In a Corporate Governance 2.0 world, the directors would campaign hard for their point of view but leave the decision to the shareholders.

"Orderly" is a critical qualifier, because some shareholders are undeniably disorderly. With the steep decline of poison pills, which block unwanted shareholders from acquiring more than 10 per cent to 15 per cent of a company's shares, hedge funds and other activist investors can buy substantial stakes in a target company before they have to disclose their positions. Recall the case of J.C. Penney: Because it did not have a poison pill in 2010, Roth and Ackman could secretly buy a 27 per cent stake. The company put them on the board, and Mike Ullman was replaced as CEO by the Apple executive Ron Johnson, who planned to give Penney a younger, hipper look. The strategy proved disastrous, and the stock price dropped from about \$30 to as low as \$7.50 over the next two years. Johnson was forced out in 2013 – and replaced by none other than Mike Ullman.

In theory, companies are protected against such lightning-strike raids by the SEC rule that shareholders

RATHER THAN DEFEND THE CORPORATE BASTION AT ALL COSTS, DIRECTORS SHOULD GUARANTEE A REASONABLE PROCESS WHEREBY SHAREHOLDERS GET TO DECIDE

must disclose their ownership position after crossing the five per cent threshold. But they have 10 days in which to do so, and nothing stops them from buying more shares in the meantime. This is exactly what happened in the Penney case. By the time Roth and Ackman had to make the disclosure, they had bought more than a quarter of the company's shares.

The relevant rule dates back to the 1960s, when 10 days was a reasonable amount of time. Today, of course, 10 days in the securities markets is an eternity, and no one designing a disclosure regime from scratch would dream of giving shareholders such a long window. (European countries have substantially shorter windows.) Nonetheless, shareholder groups have resisted change, on the rather questionable grounds that the Roths and Ackmans of the world need sufficient incentive to keep looking for underperforming targets.

Under a Corporate Governance 2.0 system, boards would get early warning of lightning-strike attacks. One way to do this would be with what I call an "advance notice" poison pill—a pill with a five per cent threshold but also an exemption: Any shareholders that disclosed their positions within two days of crossing the threshold would avoid triggering the pill and could continue buying shares without being diluted. John Coffee, of Columbia Law School, and Darius Palia, of Rutgers Business School, have


proposed a similar version of self-help, which they call a "window-closing" poison pill. Either kind of pill would give directors fair warning that their company was "in play" before the bidder could build up an unassailable position.

TODAY A CHANGE in corporate governance usually occurs when ISS threatens a withhold vote against the board unless certain reforms are implemented. Corporate Governance 2.0 takes a proactive approach that achieves the same (desirable) goals in a holistic and better way. Managers actively engage with shareholders from a functional perspective ("What are we all trying to achieve?") rather than an issue-by-issue reactionary perspective ("Should we surrender, or do we fight?").

In this article I have applied the three fundamental principles of Corporate Governance 2.0 to provide a package solution to certain hot-button issues in corporate governance today. A board that wants to adopt this solution could do so unilaterally in many jurisdictions (including, for the most part, Delaware), though in general it would be better advised to adopt Corporate Governance 2.0 through a shareholder vote.

Other hot-button issues will emerge in the future. The most recent version of ISS's QuickScore, for example, includes 92 factors, any of which could become the next pressure point against corporate boards. Rather than evaluating each of these innovations incrementally, boards should hold up future proposals to the same three principles of Corporate Governance 2.0.

This shift is vital in the United States, where the power of shareholders has increased over the past 10 years and the natural instinct of boards is to simply cave to activist demands. A Corporate Governance 2.0 perspective is critical outside the US as well, particularly in emerging economies where companies are trying to achieve the right balance of authority between boards and shareholders in order to gain access to global capital markets. Over the long term, a Corporate Governance 2.0 perspective would transform corporate governance from a never-ending conflict between boards and shareholders to a source of competitive advantage in the marketplace. ♦

 **Guhan Subramanian** is the Joseph Flom Professor of Law and Business at Harvard Law School, the H. Douglas Weaver Professor of Business Law at Harvard Business School, and a director of LKQ Corporation, a Fortune 500 company in the automotive sector. He has been involved as an expert witness or an adviser in some of the situations described in this article. This article was published in Harvard Business Review, March 2015. Copyright©2015 Harvard Business School Publishing Corporation. All rights reserved.

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Camera))



GoPro
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for



If you are an action sports enthusiast who loves to participate in power-packed adventure tourism or are planning to go pro, then action cameras – or the GoPro, as most people would refer to it as – are for you. Make no mistake, these cameras are for the doers and not the watchers. Capturing the moments while skittering down a muddy track on a mountain bike, negotiating strong currents while rafting down a river, riding a big wave in the rough seas or exploring the placid but wild underwater world with the help of these light-weight and waterproof compact cameras can not only help you relive the thrills, but can also be a source of immense satisfaction.

“Action cameras are used to capture extreme action sports or activities. These cameras can capture high speed and high quality images. Regular cameras are incapable of capturing high speed ac-

Action

Action
cams are
slowly
becoming
a craze.

By NIDHI SINGAL

tions and are not designed for rugged conditions. By contrast, action cameras are compact, light-weight, and can be worn by the person or mounted on vehicles,” says Manoj Kumar, Managing Director and CEO, Ricoh India.

GoPro, however, is not a type of camera, but a brand. Its success and strong association with action cams since 2010 has made it a household name. It started with Nick Woodman’s desire to film while surfing. His desire soon turned into action and the founder CEO of GoPro introduced the mountable camera to action sports enthusiasts, the world over. Since then, the company’s annual launches have been setting the industry standards.

The latest, GoPro Hero 4 Black, is the best camera in the category. It captures 4k videos and has the capability to record high-quality, slow motion videos – working flawlessly at all times and weather conditions – overcast outdoors, dimly-lit indoors, bright sunlight or at night. Usually, action cameras are not good while capturing still images, but the stills captured by the 12 MP camera on-board are praise-worthy. It, however, comes at a premium of ₹42,000. GoPro Hero 4 Silver is a cheaper alternative to the Hero 4 Black, but it does not allow 4k recording.

The primary focus of action cams is to capture professional-quality videos and not high-quality still images. These cameras capture images at 60 to 120 frames per second in full high definition (HD) footage, with the recent launches offering 4k video recording. Unlike traditional cameras that require careful handling, most action cameras are waterproof and can withstand a fall. Some have a special casing – an accessory that make it work well in extreme conditions without causing any damage.

“The current market size of the action camera is around 3,500 units per month, based on figures from major players, with an average selling price of ₹14,000-15,000. Since



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Xiaomi Yi

brands like GoPro, Garmin and Sony have introduced their products, this category is believed to be growing around 20 per cent quarter-on-quarter," says Rahul Taneja, Vice President, Category Management, Snapdeal.

Sony isn't actively talking about its 4k action cam, the X1000V, but it is listed for ₹39,990. Counted among the best action cams available, it competes with the GoPro series. It captures professional quality 4k videos at 30p high bit rate and has an ultra wide 170 degree angle ZEISS Tessar F2.8 Lens. The splashproof (IPX4), shockproof and dustproof body makes it a robust camera.

Garmin, known for its navigators, also manufactures some of the best action cameras. The company has a few models but the VIRB XE is the best, close on the heels of the GoPro and Sony cams, but not quite in the same league. While GoPro accessories do not fit in other action cameras, the VIRB XE can be fixed to the GoPro mount with an adapter. It captures wide angle footage in mp4 format in full HD resolution at 60 frames per second, and has a built-in Garmin GPS, G-force, and orientation sensors that capture high-speed rotations and big air jumps.

Not all action cameras are expensive. You can buy the old generation GoPros for much less. The Xiaomi Yi Action Camera, which is expected to hit the market, is also great value for money. Available on ebay.in, the Yi action camera can capture full HD

videos and can mount on any tripod or stick. It is compact and does not have a screen; therefore, one has to control it using a smartphone app. Add a waterproof casing to it and it is all set for underwater action too. The SJCAM SJ4000WiFi action camera, with features, such as manual image and video control, also offers 1080p videos at 30fps. It can be controlled using a remote control, or an Android

or iOS device using WiFi connectivity.

The use of action cameras is not just restricted to capturing action videos or sports activities, but they can also be used for capturing videos at weddings and large-event gatherings, using action cameras mounted on drones or hand-held accessories. Easy to carry, action cameras are being put to use by professionals for their video assignments.

Says Anant Dwivedi, CEO, Smoove, a Mumbai-based production house: "Almost 95 per cent of times I would use a video camera as it gives more control to the creator, including lens options, exposure settings and better quality. But, to get those different and unique camera angles, when a video camera cannot be mounted or when

you don't have hands-on control, an action camera is a better choice. However, action cameras are meant to be small, mountable and free of user interface, but they lack lens mounting options, exposure control and video monitor, among many things." Above all, one does not need any expertise to handle action cams.

Although this is a niche product, there is an increasing demand for action cameras in the Indian market. "We are witnessing a growing interest from photography enthusiasts for this product category. Selection for action cameras and related accessories has increased by over 500 per cent between March and October, 2015, on Amazon.in. Sale of action cameras, though still a small fraction of the total camera sales, have grown by over 300 per cent. Between April and October, the number of glance views for action cameras has increased by over 500 per cent," says Noor Patel, Director, Category Management, Amazon India. ♦



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Goodbye Shaky Videos

DJI's action camera gimbal OSMO is worth every penny.
By NIDHI SINGAL



There are plenty of action cameras in the market, but to capture high-quality videos you need to ensure your hands do not shake or the camera is mounted on a stable surface or stand. Gimbals allow you to do just that. After revolutionising the drone market, China-based DJI has launched a camera mounted gimbal – the OSMO.

OSMO comes mounted with a camera capable of capturing 4k videos, but does not have a viewfinder. Instead, clamps have been provided on one side to mount a smartphone. It also has a three-axis gimbal along with an ergonomic handle with control buttons. When turned on, OSMO switches on its own Wi-Fi network. The DJI app, which works on both Android and iOS, can be connected to the OSMO Wi-Fi network to access the gimbal features such as switching between still and video recording. Basic settings include white balance, ISO (the level of sensitivity of your camera to available light) and exposure. While capturing videos, you can switch between 4k video and full HD. It also gives a slow motion option for capturing 1080p video at 120fps. For still photography, there are options such as single, multiple, time lapse and panorama. But for capturing still images or

videos, you don't have to rely on the phone's touch display, as you can use the buttons on the gimbal.

The highlight of the OSMO is its motorised gimbal functionality. The gimbal is locked in three different places to prevent it from unexpected damages. To start using the camera, one has to unlock it. Mastering the gimbal controls is relatively easy as the thumb automatically rests on the joystick at the rear, and can be easily used to access the shutter button. The joystick helps in controlling the motorised movements of the camera from one side to the other and also helps control the speed. There is a trigger at the front where the forefinger rests. Pressing the button once locks the position for moving the hand while capturing videos. Double clicking it brings the camera to the centre, while tapping it thrice adjusts the camera to click selfies.

The motorised movements are smooth and help in capturing clear and smooth videos. Once you charge the device fully, the battery lasts for approximately 60 minutes of recording. Priced at \$649, the OSMO does seem slightly expensive, but it is a one-stop solution and does not require any additional equipment. ♦

BAG IT OR JUNK IT: The DJI OSMO successfully manages to address issues of calibration and stabilisation, that most gimbals struggle with

RATING: 5/5

PRICE: \$649

PLUS: 4k camera, stabilisation

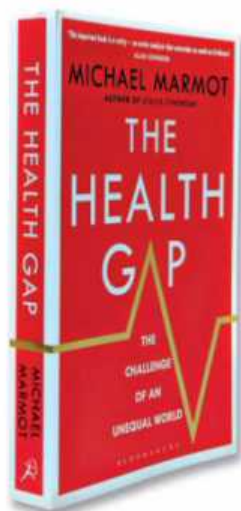
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The Secret of Good Health

In his book, the author cites social relationships, and not economic progress, as the key factor affecting citizens' health. By ARUN MAIRA



The Health Gap: The Challenge of an Unequal World

By Michael Marmot

PAGES: 400

PRICE: ₹1,848

Bloomsbury Publishing PLC

There is no direct co-relation between economic growth and improvement of citizens' health.

Jeete Raho' – 'May You Keep Living' – is a blessing given by Punjabi elders. Wishing one another a long life with good health is a common salutation in many cultures. An ultimate goal of economic progress is to enable people to lead longer and healthier lives. Michael Marmot explains in his book, *The Health Gap: The Challenge of an Unequal World*, the conditions in which people can expect to lead longer and healthier lives. Marmot has spent a lifetime researching these conditions. He presents his evidence compellingly, with a mixture of statistical evidence from many credible sources and human stories from around the world that ground abstractions in reality.

The US spends as much as 17 per cent of its GDP, more than any other country does, on healthcare. Yet, young adults in the US have lesser chance of surviving to sixty than young adults in Costa Rica, Cuba or Slovenia (let alone in Japan and most European countries). 'Lives lost before fifty' is a measure of how many people in a country die before they reach the age of fifty – a measure of overall health conditions in a country. It would surprise many that the US and UK fare worse than Italy and Portugal which are considered economically sick countries!

Closer to India too, evidence suggests that economic growth and citizens' health are not co-related. India is much richer than Bangladesh and Nepal, and its

economy is growing faster too. Yet, Bangladesh has made more progress in reducing maternal and child mortality and is now better off than India. Astonishingly, life expectancy in Nepal, a much poorer country than India, has improved by about twenty years, to sixty nine, between 1980 and 2012.

There is no direct co-relation between economic growth and improvement of citizens' health. Many factors are at work and Marmot explains these lucidly. Spending a larger portion of GDP on healthcare, which is a popular demand in India, is not the solution. If it were, the US, which spends the most, should have the healthiest people, which it does not. 'Healthcare' is being confused with 'medical treatment' of people.

US hospitals and doctors are the best in the world to fix you up when you are ill. However, the purpose of good healthcare should be to prevent people from becoming unhealthy. Good healthcare requires improvement of 'public health' conditions: sanitation, clean water, less air pollution, balanced diets, safe streets, etc. Marmot's research points to even deeper determinants of health. It explains the large differences in life expectancies across countries and amongst communities in the same cities.

For example, life expectancy of males in the Calton area of Glasgow is fifty four; whereas in Lenzie, a few kilometres away, it is eighty two! Poverty is not an adequate explanation for people in Calton having lower life expectancy than even

people in Nepal. Calton's residents are neither deprived of basic necessities of food and shelter, nor of public goods of sanitation and clean water. The cause of their low life expectancies is deeper. Marmot shows, with case studies from many countries – 'developing' and 'developed' – that the root cause of significantly lower life expectancy is the quality of the social relationships within which people are born and grow. Thus, he gets to the heart of the onion of health. The outer layer is the medical treatment people need more frequently when the inner layer of public health is sick. Deeper within the onion is the root cause of poor public health. These are the quality of relationships of the communities in which people live, and the values that guide economic policies. Marmot calls these the 'social determinants' of health.

'Family values' are often touted by people on both sides of the political spectrum as very important for creating good societies and strong nations. 'Caring' for others in the family, and 'fairness' amongst family members are core 'family' values. Yet, when these same values, of

caring and fairness, are sought to be extended into economic policy, the two sides become politically divided. Those promoting such values are decried as 'socialists': which seems to have become a bad word in economics. Marmot explains what must be done to improve health; but even he is at pains to say that he is not promoting socialism, but a better capitalism!

India's economy is growing fast. Worryingly, the health of its citizens is not improving as fast as in most other countries. Faster GDP growth is not an end in itself; it is valuable when it produces practical outcomes for citizens.

The most valuable outcome is a long, disability-free life, which every child born in

India should be able to look forward to, but sadly does not. India needs to rethink its approach to the improvement of health of its citizens along with economic growth. It must go beyond the war of the economic 'isms' to the practical heart of the matter. Michael Marmot's book is well worth reading ♦

The reviewer is a management consultant and former member of Planning Commission of India.

Marmot explains the large differences in life expectancies across countries and amongst communities in the same cities.

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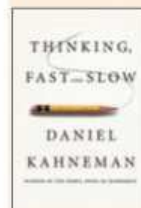
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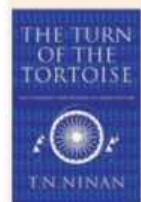
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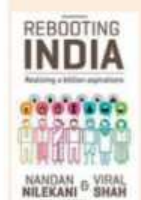
The Turn of the Tortoise
By T.N. Ninan
Penguin
Price: ₹699



Believe in Yourself
By Dr. Joseph Murphy
Manjul Publishing House
Price: ₹95



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



Rebooting India
By Nandan Nilekani
Penguin
Price: ₹799

*Top books by sales for Oct 25-Nov 7, 2015; Includes only books released after October 1, 2014; Information provided by amazon.in

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Impact HR Services Private Limited

VP-Ops

Location: Hyderabad / Secunderabad

Job ID: 17716034

Description: Financial responsibility for each customer account assigned to the LOB.

In-Depth Consulting Services LLP

Senior Manager Projects

Location: Bengaluru / Bangalore

Job ID: 17709773

Description: Ensure improved project delivery timelines, Releasing all orders on time and pay advances etc.

Mancer Consulting Services Pvt Ltd

Head- Transition and F&A

Location: Hyderabad / Secunderabad

Job ID: 17690748

Description: Strong credentials in stakeholder and people management.

Synergy HRD Consultant Private Limited

AVP - Talent Acquisition

Location: Hyderabad / Secunderabad

Job ID: 17711963

Description: Should have experience in BPO Bulk Hiring (Voice and F&A Process).

Talent Corner Hr Services Private Limited

Group Head- Media Planning

Location: Bengaluru / Bangalore

Job ID: 17717550

Description: Should have good exposure in TV, PRINT & RADIO media & good knowledge of TAM tool.

Sognare Hrc

Retail Sales Head

Location: Bengaluru / Bangalore, Chennai

Job ID: 17715508

Description: Responsible to drive Retail Sales in line with business plans.

Roljobs Technology Services Private Limited

Head Brewer

Location: Aurangabad, Mumbai

Job ID: 17424311

Description: Any Engineering Degree or Master in Science, with 10Plus years of experience in a brewery company in a similar role.

KL PLacement Consultancy

Admin - Head

Location: Pune

Job ID: 17695971

Description: Urgently requires candidates for Admin Department in Pune Location.

Busisol Sourcing India Private Limited

DGM-Transition

Location: Mumbai

Job ID: 17713595

Description: Looking out of candidates who have exposure in shipping process transition.

Link Technologies Private Limited

Manager/ Senior Manager - Product Management

Location: Pune

Job ID: 17692011

Description: Should have domain exp in Sourcing/Supply chain/Contract lifecycle mgmt.

Larsen & Toubro Infotech Ltd.

SOA Developer

Location: Mumbai

Job ID: 17549662

Description: Expert level knowledge on Oracle SOA Suite 11g. Exp in all aspects of Integration solutions in any of the Integration Product (Oracle Fusion Middleware Business Integration).

Global logic

Senior iOS developer

Location: Nagpur

Job ID: 17722433

Description: Senior iOS developer with 5-9 years' experience in developing iOS application.

Web Logic Technologies

PHP Developer

Location: Chennai, Mumbai

Job ID: 17717072

Description: Excellent understanding of JavaScript, AJAX, Caching, Sessions, and Authentication.

Business Arts India Private Limited

Granite Developer

Location: Hyderabad / Secunderabad

Job ID: 17717068

Description: Detailed (hands on) knowledge & Development experience on Granite Inventory.

Randstad India Limited

Senior Front - End Developer

Location: Hyderabad / Secunderabad

Job ID: 17717016

Description: Must have a minimum of 4-10 years of experience developing modern web applications.

Tech Mahindra Limited

DotNet Developers

Location: Hyderabad / Secunderabad

Job ID: 17717017

Description: Good experience on MSBuild scripting and MVC.

Sonyo Management Consultants Private Limited

Cloud Architect

Location: Mumbai

Job ID: 17717004

Description: 9-11 yrs of experience in design and development of rich user interface with browser-based technologies.

Sasken Communication Technologies Ltd.

Software Developer

Location: Bengaluru / Bangalore

Job ID: 17716802

Description: Good working knowledge on HTML5, CSS3, jQuery, JavaScript.

Subhanu Consulting

Java Ecommerce

Location: Bengaluru / Bangalore

Job ID: 17716765

Description: Sound knowledge of Java/J2EE technology stack.

Cognizant Technology Solutions India Pvt Ltd

Developer / Sr. Developer / Tech Lead

Location: Pune

Job ID: 17718466

Description: Responsible for delivery of assigned module/ components /phases of a project.

Zensar Technologies Limited

TIA Developers

Location: Pune

Job ID: 17717429

Description: Should have working knowledge on TIA along with its various modules.

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Market Research Manager

Location: Mumbai

Job ID: 17716479

Description: Smart looking with knowledge of routes/locations of Mumbai.

Chemix Specialty Gases and Equipment

Marketing Executive

Location: Bengaluru / Bangalore

Job ID: 17716068

Description: Candidate having knowledge of sales and marketing of Industrial Product, able to communicate and having pleasant personality.

Offers

Business Development Executive

Location: Mumbai

Job ID: 17715459

Description: Attend Walking Customers and assisting them in jewellery purchase etc.

Nirmal Automation Private Limited

Sales & Marketing Executive

Location: Pune

Job ID: 17712090

Description: Should be presentable with pleasant Personality, and good communication.

New Era India Consultancy Private Ltd

Sales Manager - VAS

Location: Gurgaon

Job ID: 17708863

Description: The candidate will be responsible for managing relationship with Operators.

Suven Consultants and Technology Pvt . Ltd.

Sales Manager

Location: Mumbai

Job ID: 17715492

Description: Responsible for sales and distribution of DRAM Memory Products (PC / Laptop / Workstation / Server) across India.

Digicable Network India Private Limited

Corp Communications - Manager/ Executive

Location: Mumbai

Job ID: 17058971

Description: Excellent in English, spoken and written. Knowledge of correct Grammar is a must.

Falcon Business Resource Private Limited

Marketing Executive

Location: Delhi

Job ID: 17714328

Description: Marketing Stock Mgmt Monitoring competitor activity, Marketing Alliances.

Mellcon Engineers Private Limited

Business Development Executive

Location: Mumbai

Job ID: 17090514

Description: Handling inward calls/emails/chats, Renewal conversion as per allotment etc.

Morpheus Human Consulting Pvt. Ltd.

Assistant Manager - Marketing

Location: Vadodara

Job ID: 17661194

Description: Initiating communication with client through emails and phone calls, Collecting fees and important documents from clients etc.

ELixir Web Solutions Private Limited

FP&A-Manager

Location: Mumbai

Job ID: 17638718

Description: Perform key activities (as described below) supporting the Planning and Analysis (P&A) function, across all products and countries.

Oremus Corporate Services Private Limited

Process Executive - Accounts

Location: Hyderabad / Secunderabad

Job ID: 17715500

Description: Should be good at general accounting concepts.

HR House

Accounts Assistant

Location: Bengaluru / Bangalore

Job ID: 16678230

Description: Handling all Accounting entries, CTC, Payroll, VAT, CST, Service Tax, MIS Reports etc.

Inspiration Manpower Consultancy Private Limited

Investment Banking

Location: Bengaluru / Bangalore

Job ID: 17714116

Description: Relevant experience into settlements from investment banking domain.

Vitasta Consulting Private Limited

Dealer Finance Operation

Location: Mumbai

Job ID: 17713315

Description: Co-ordinating with auto manufacturers and dealers, Preparation of various MIS for auto manufacturers.

eClerx Services Private Limited

Financial Analyst

Location: Mumbai

Job ID: 17716362

Description: Good knowledge of derivatives & capital markets is a must.

Golden Opportunities Private Limited

Assistant Manager/Manager Accounting

Location: Bengaluru / Bangalore

Job ID: 17716326

Description: Looking for CA/MBA qualified professionals with 6+ years experience in accounting and reporting/ Account to report.

Cyient Limited

Manager / Sr. Manager- Finance

Location: Hyderabad / Secunderabad

Job ID: 17716120

Description: Oversight of the accounting for the Group's headquarters operations.

Link Technologies Private Limited

AX Financial -Subcontract

Location: Navi Mumbai, Mumbai

Job ID: 17519019

Description: AX financial experience Atlas (an excel add on tool for AX) & also Management Reporter.

Amrutha Business Solutions

Accounts Assistant

Location: Chennai

Job ID: 17713658

Description: Knowledge in Tally ERP, sales & service tax, VAT, center excise, BRS.

Singh and Associates

Billing Executive

Location: Delhi

Job ID: 17346370

Description: Invoicing/ Billing to various clients after coordinating with our Lawyers and Accounts team.

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Rachita, Financial Analyst

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Raghuram Rajan
Governor, RBI

RACHIT GOSWAMI

A New Role

The Reserve Bank of India's Governor **Raghuram Rajan** has just got an additional responsibility. He has been elected the Vice Chairman of Bank of International Settlements (BIS), the first Indian to be chosen for the post. In his new role, Rajan, who is known for predicting the 2008 financial meltdown, will assist BIS Chairman Jens Weidmann, also president of Germany's Bundesbank. The 52-year-old Rajan has taken a strong stand on several issues affecting the global economy, be it the rising income inequality or ultra-loose monetary policies of central banks in Western countries. His tenure in BIS would last three years while his term as RBI governor would end in September next year.



Prashant Kishor
Political Strategist

SHALESH RAVAL

Man of the Moment

He is the most sought after political strategist in India after the thumping victory of the *Mahagathbandhan* in the recent Bihar state polls. **Prashant Kishor** has proved yet again that he is unbeatable when it comes to delivering election results. A native of Bihar, Kishor left his job at the UN and returned to India to run the election campaign for PM Narendra Modi, for the 2012 Gujarat election and general elections last year. Later, due to some differences, he parted ways with the BJP and joined hands with JD (U) leader Nitish Kumar.

Democracy Triumphs

Aung San Suu Kyi's National League for Democracy (NLD) has won the elections in Myanmar. The country has long been under military regime. The victory has paved the way for NLD to take control over the legislative and executive branches of the government. Suu Kyi, a Nobel peace laureate, had won the elections in 1990, but the military junta annulled the results and put her under house arrest where she spent much of the next 20 years.



Aung San Suu Kyi
Leader, NLD

YASHBANT NEGI

Matters of the Art

Chinese billionaire **Liu Yiqian** bought Amedeo Modigliani's 1917/18 canvas, *Nu Couché*, during a Christie's auction in New York for \$170.4 million. The painting of the nude woman was priced a tad lower than the \$179.4 million fetched by Pablo Picasso's 1955 painting *Les femmes d'Alger* (Version 'O') in another auction held this year. Yiqian, a former taxi driver turned billionaire, made his fortunes from chemicals, financial services and pharmaceuticals businesses. Over the years, he has become a big art collector and operates two private art museums in Shanghai along with his wife Wang Wei.



Liu Yiqian
Chinese Billionaire

Up the Ladder



I.S. Jha
CMD, Power Grid

Within a few days of taking on the additional roles of Chairman and Managing Director of state-run transmission utility Power Grid Corporation of India, **I.S. Jha** has been formally appointed as CMD of the PSU. Jha, an electrical engineer from NIT (Jamshedpur), was Director (Projects) of Power Grid since 2009. Earlier, his name was recommended by the Public Enterprises Selection Board (PESB) from a list of eight contenders to be given the additional charge of CMD. Jha is a member of several institutes such as Institute of Engineers (India), Power Engineering Society of IEEE in USA and CIGRE, France.

Caught in a Storm

K.M. Mani has seen several political upheavals in a career spanning six decades. However, the finance minister in the Kerala government could not survive the latest storm and was forced to step down. The ruling United Democratic Front government shunted Mani out after the Kerala High Court endorsed the vigilance court's order to further investigate the bribery case against him. Mani's removal is a setback for the rollout of GST (goods & service tax). In March this year, he was appointed Chairman of the empowered committee of state finance ministers on GST.



K.M. Mani, Former
Finance Minister, Kerala

COMPILED BY MANU KAUSHIK



Full interview with Ratul Puri at businesstoday.in/power-ratul

Ratul Puri, Chairman of Hindustan Powerprojects, tells **Anilesh S. Mahajan** why renewable energy is key to India's overall growth story.

How will the increase in renewable energy capacity help India?

The construction and development life cycle of a thermal project is five to 10 years. Since 2012, no new thermal project has taken off. As a result, between 2017 and 2022, increase in thermal power will be minimal. During the period, India's GDP is expected to be above 8 per cent and availability of power would play a critical role in the growth story. Therefore, the Centre's target of adding 175 GW of renewable energy will be a game changer.

What motivated you to venture into the power sector?

In 2008, I felt India has to ramp up its power generation capacity if it has to fulfil its aspirations of being a developed country. The Indian power sector is very demanding and this challenge got me attracted to the sector.

Is the government's integrated approach towards the power sector, helping the power business?

India needs an energy mix to live up to the 24X7-power-to-all goals. As a result, renewable energy has become increasingly cost competitive, as solar and wind energy tariffs are now ₹5.0 to ₹6.75 per kWh, which is only 15-20 per cent higher than that of thermal power. With the government's support, these sources of energy can achieve grid parity in the next few years. India will need seven to 10 big players to achieve its target. The government has addressed a lot of issues to etch out a viable solution.

"Green Energy is key"



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The Men's Health Guy
GAURAV ARORA
"When I was 21, I had no
confidence. No friends. No
girlfriend." P64

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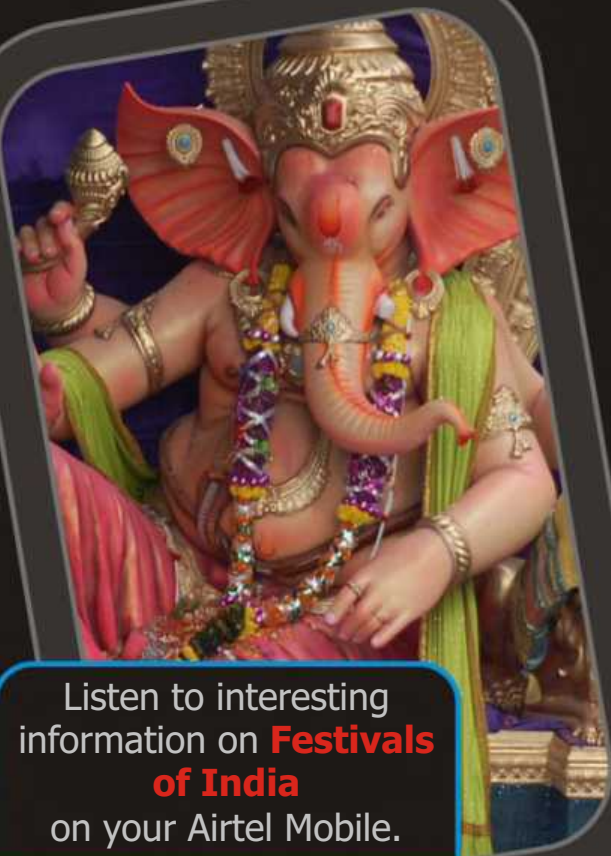
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