PRE-BUDGET ROUNDTABLE

Abhijit Sen | D. Raja | Harsh Mander | Mukesh Butani | Rajiv Kumar | Sumant Sinha

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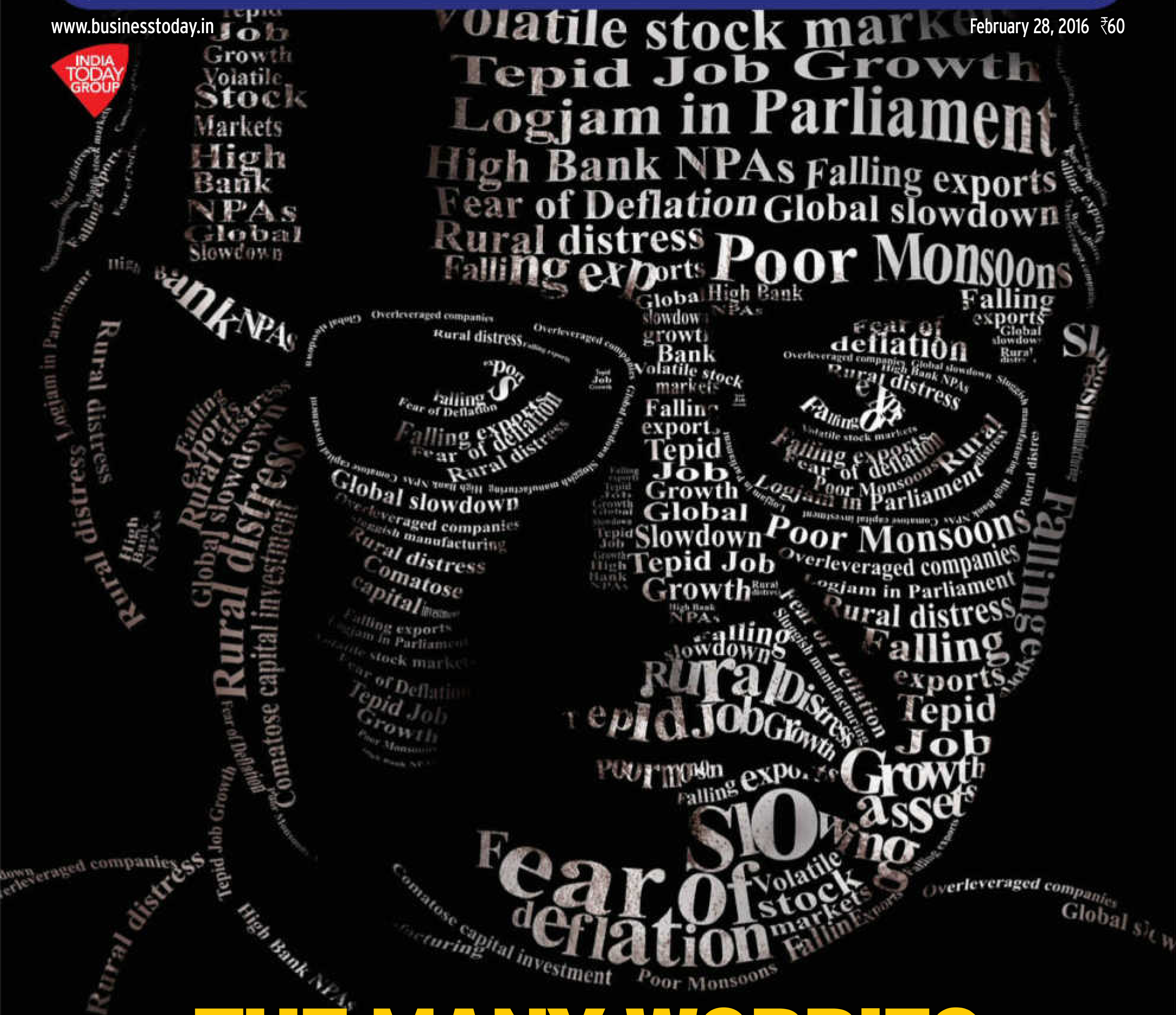

THE MANY WORRIES OF MR. JAITLEY

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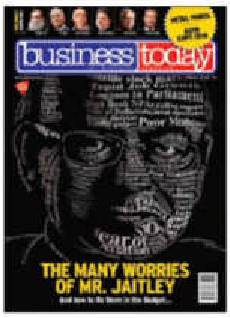
From the Editor

Hope vs Expectation

In the first two Budgets he presented after the NDA government led by Prime Minister Narendra Modi came to power, Finance Minister Arun Jaitley trod a cautious and conservative path. In the first one, he did not have many options perhaps the government had been formed in the middle of the financial year, and the Budget had to be presented within a fairly short period of his taking charge. He largely stuck to the line of thinking that had been outlined in the Vote on Account earlier in the year by his predecessor P. Chidambaram of the UPA government.

However, when he rose to make his second Budget speech on February 28, 2015, there were many expectations that the finance minister would present some truly pathbreaking proposals or unleash a lot of new initiatives to boost the economy. The time seemed right to do so. The finance minister had been on the saddle for nine months and had sufficient time to study and understand the problems in the economy. The Central government was still in its honeymoon period, and there were enough tailwinds in the Indian economy. Crude oil prices kept sliding, giving the government more ammunition to its import bill, narrow the trade deficit, and generally raise some additional revenues. The slump in crude and other commodity prices was also helping inflation come down.

Unfortunately, the second Budget also remained much on the beaten path. While most businessmen and some economists praised it in public, many of them in private conversations admitted that Jaitley had squandered a golden opportunity to do more about subsidies, spur growth or help improve social indicators such as education and health. Still no one had any serious problems with the Budget. In fact, the basic economic ideas of its predecessor, the UPA government, were considered sound, in general. The problem with the UPA government that had been voted out, as many business and financial leaders agreed, was not in its ideas but in its implementation and in the corruption allegations that plagued it. So, for a government to continue with those ideas while improving on the implementation would do much for economic growth, was the general consensus. And the feeling was that the prime minister was a master of implementation and he would straighten the kinks in the system.



As he prepares his third Budget, Jaitley has to contend with more problems perhaps than he would want. Despite India's September quarter GDP growth rate being clocked as 7.4 per cent, many of the leading macroeconomic numbers from exports to capital spending by corporates is down. Revenues in a host of industries are down, though profits have been maintained through cost-cutting. But cost-cutting is never an ideal option because it invariably involves reduction in employment, and that in turn reduces consumer spending.

There are other problems as well in the overseas markets, and the finance minister cannot depend on a booming global economy coming to the rescue of the domestic economy anytime at least not for a couple of years.

There is also a sense in the corporate world that the government has not been as successful in implementation of many programmes on the ground as it should have been. And in Parliament, it has hit a logjam despite enjoying brute majority in the Lower House. Indeed, some of the most crucial economic bills it has introduced have been successfully stalled by the Opposition.

Will this be another conventional Budget or a bold one where radical ideas are introduced? Most people expect the former but hope for the latter. Many finance ministers perform best when they face a challenging external situation. Everyone is hoping that Finance Minister Jaitley is one of that breed, though expectations in general are muted.

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A Trendsetter

This refers to your cover story package on India's Best Banks (February 14 issue). To become big, you have to first dream big and then work big. Paradoxically enough, in today's intensely-competitive milieu, even the best cannot afford to take their place for granted as we talk about the best of the best. HDFC Bank (*Best in Class*) has been a consistent player in the market right since its inception. It has never rushed into any new venture without fully understanding the ground realities. No business is without risk. The bank also has never been averse to taking risk as it's always backed up by a sufficient cushion through prudent policy initiatives. The well-timed acquisitions of Times Bank in the initial stage of its existence and Centurion Bank of Punjab in the subsequent period are cases in point. Having such a large balance sheet, strong capital adequacy ratio and the lowest net non-performing asset ratio among banks is something that is incredible, especially when the entire industry is reeling under the pressure of high non-performing loans. It shouldn't surprise anybody that HDFC Bank has bagged the coveted Bank of the Year award from *BT*-KPMG.

A great effort by the *BT* team for an excellent issue that is packed with information on a range of issues concerning Indian banking with related data. It is a treasure trove of information for the bankers.

Srinivasan Umashankar, *Nagpur*

Harnessing Natural Resources to the Hilt

This refers to your article on green buildings (*Greening Begins at Home*, February 14). It was a great fund of knowledge and wealth of information for construction of green buildings in India to reduce cost, improve amenities naturally, promote comfort of the dwellers holistically and protect the environment cohesively. It drives home the message that every house must harness the natural resources to the hilt. The recent selection of 20 cities out of the 100 proposed smart cities and allocation of funds for these cities will be the right channel to adopt the concept of green buildings from the inception itself. The abundant solar power and surplus storm waters during monsoons must be systematically utilised to foster a comprehensive ecosystem. These measures need to be taken up in the forthcoming Budget session and included in urban and housing policies.

Public sector banks must transfer the benefit of interest cost reduction to clients as envisaged by the RBI. This will motivate aspirants to avail housing loans. If these things are streamlined, India will definitely be a leader in adopting green technologies, topping even the developed nations of the world.

B. Rajasekaran, *Bangalore*

Anticipating Great Tax Relief

This refers to your article on corporate taxation (*Reform Path*, February 14). It is a timely piece before the Union Budget. The recommendations for bold tax reforms by the Easwar committee are most wecome. If implemented, they will definitely be a great relief to both the corporate sector and the individual taxpayer.

Namita Mahapatra, *Faridabad*

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How Bill Gates used to keep tabs on his employees.
Maybe Prime Minister Narendra Modi can take a leaf out of his book. But I doubt all of his ministers and bureaucrats can match his frenetic work pace. - **Karan Mahajan**, *@karanm311967*

Sahara misusing law by investing small savers' funds in Aamby Valley?
Now he is paying ₹10 lakh a day and living a quality life in jail, sitting on the kitty of ₹25,000 crore. - **Shrikant Sharma**, *@DeRSHRIKNTSH*

"Make in India" is a marathon, not a sprint, says Union Railway Minister Suresh Prabhu.
This you must tell when election comes. - **Srini**, *@sreeni50*

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CONTENTS

COVER BY RAJ VERMA

FEBRUARY/28/2016
VOLUME 25/NUMBER 4

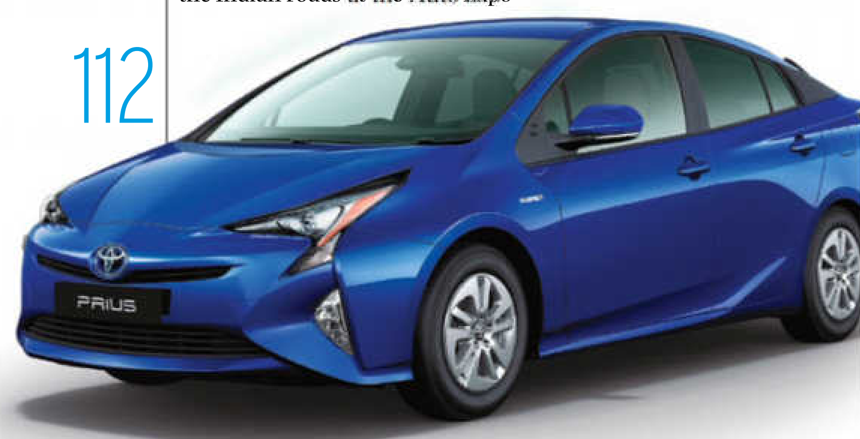
AJAY THAKURI

UPFRONT

FOCUS

FEATURES

112



CONTENTS

An IMPACT Feature

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INTERVIEW

"India has to make dramatic changes to have same opportunities as China"
John and Doris Naisbitt, authors of international bestseller *Megatrends*, talk about the rise of the Global Southern belt and its impact on the world in an interaction with *BT*'s **Sarika Malhotra**
businesstoday.in/naisbitt-book

PERSPECTIVES

Why US-led Trade Deal Worries India
The Trans-Pacific Partnership (TPP) agreement, signed between the US and 11 other countries, may be a threat to India
businesstoday.in/ustrade-india

How to Play the Indian Financial Markets
The strategy for different asset classes over the next few months
businesstoday.in/india-financialmarkets

Early Q3 Numbers Show Continuing Decline in Revenue Growth
Analysts believe that this is definitely not an inflection point for India Inc
businesstoday.in/q3-revenuegrowth

NEWS

Five Takeaways from Raghuram Rajan
While reviewing the monetary policy, the RBI governor has made some observations on key issues
businesstoday.in/monetarypolicy-rajan

BT COLUMN

The Passing Away of a Strategic Developer
Under the leadership of P. Ravindra Reddy, MTAR Technologies, which manufactures rocket engines, carved out a niche for itself, says E. **Kumar Sharma**
businesstoday.in/mtartech-reddy

RAJ VERMA

DIVIDED WE STAND

"The enormous costs of becoming an unstable country far outweigh any small growth benefits that can be obtained through aggressive policies"

RBI Governor
Raghuram Rajan

"What should be the fiscal deficit is the domain of the government and ultimately approved by Parliament"

Finance Minister
Arun Jaitley

300 Points

At that level, the Baltic Dry Index—the measure of global movement of dry bulk shipment—is at its lowest since 2008 when it peaked to

11,000.

Bottomline:
Global economic activity has hit a trough.

$5.84 billion

Stunning Facebook revenue in Q4, 2015, up by

$1.34 billion from Q3, indicating Facebook's emerging market dollars are beginning to contribute to topline.

A NOVEL PROTEST

"Dear @ElonMusk: You Should Be Ashamed of Yourself"

Tweet by Venture Capitalist Stewart Alsop (for a badly run launch event of Tesla's Model X)

(Musk cancelled Alsop's order calling him a "super rude customer")

"Recently, we've heard inexcusable political rhetoric against Muslim Americans that has no place in our country. We have to reject a politics that seeks to manipulate prejudice or bias, and targets people"

US President
Barack Obama

RAJ VERMA

9

BUILDING THE RIGHT SKILLS

WHAT: Skills & HR Conclave 2016
WHEN: February 9, Jaipur

WHAT TO LOOK FOR: The ninth edition is planned around the theme of 'Linking Skills to Jobs'. It's an pportunity for stakeholders to share ideas and discuss the challenges faced by the industry, and to promote best practices.

10

PROMOTING START-UPS

WHAT: CII Startupreneurs
WHEN: February 10, Chennai

WHAT TO LOOK FOR: Startupreneurs aims to provide a platform for Start-ups to meet with end-use companies, potential investors, VCs, high networth individuals and possible mentors – all under one roof.

10 - 11

THRUST ON AGRIBUSINESS

WHAT: India-Africa Agribusiness Forum
WHEN: February 10-11, New Delhi

WHAT TO LOOK FOR: Agriculture ministers, policy makers and industry leaders from Ghana, Kenya, Mauritius, Mozambique, Zimbabwe, Tanzania, Uganda, Liberia, Cote d'Ivoire, DRC, Mauritania and Swaziland are participating in the forum. Discussions will focus on identifying the hotspots for agri-investments; commercial farming; unlocking the land potential; logistical infrastructure development & management; role of mechanization and importance of processing zones & agri corridors.

10 - 11

DIGITAL TRENDS

WHAT: Netexplo Forum 2016
WHEN: February 10-11, Paris

WHAT TO LOOK FOR: The forum provides an opportunity to identify emerging trends in digital technology as well as its creators. It showcases the most promising global innovators in areas such as education, communication, information and management around the globe.

16

TOWARDS QUALITY MANAGEMENT

WHAT: Conferences-cum-Awareness Program on Quality Management in Pharmaceutical Manufacturing
WHEN: March 16, Panaji

WHAT TO LOOK FOR: As India's drug exports to the US rise, domestic pharmaceutical manufacturers are coming under greater scrutiny of the US drug regulator Food and Drug Administration. Assocham brings together the various stakeholders to discuss good manufacturing practices that must pass muster with the FDA.

WHAT'S TRENDING

Twitter Troubles

A look at the problems and challenges plaguing the social network.

By **TUSHAR KANWAR**

The tweet... err... writing is on the wall. The one-time darling of the social media world, Twitter, just cannot catch a break these days, and the last couple of weeks have been particularly rough. Wall Street repeatedly called open season on its stock, shaving off more than half its value last year to an all-time low right now. A slew of high-ranking executives left the company late January, casting further doubt on the future of the social network. Could the end be near for Twitter?

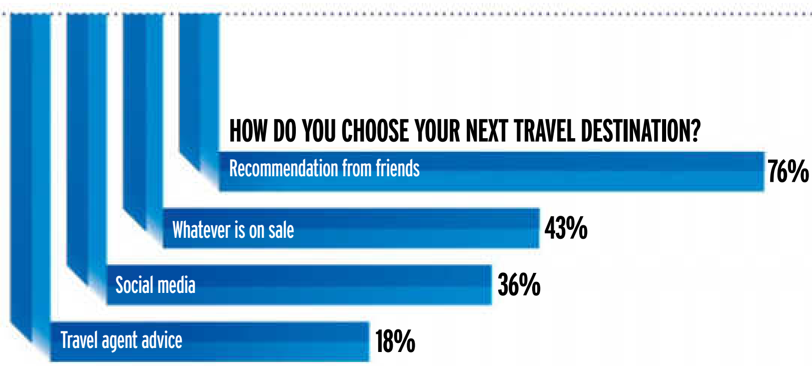
How did what was arguably a near-essential information service, with its unedited, unfiltered view of the world as it happened, translate to one that looks like a second Yahoo high profile departures, tanking stock prices and all? First,

AJAY THAKURI

DIGITAL DASHBOARD

Topdeck Travel report on millennial travel trends

Sample size: 31,819 people in 134 countries



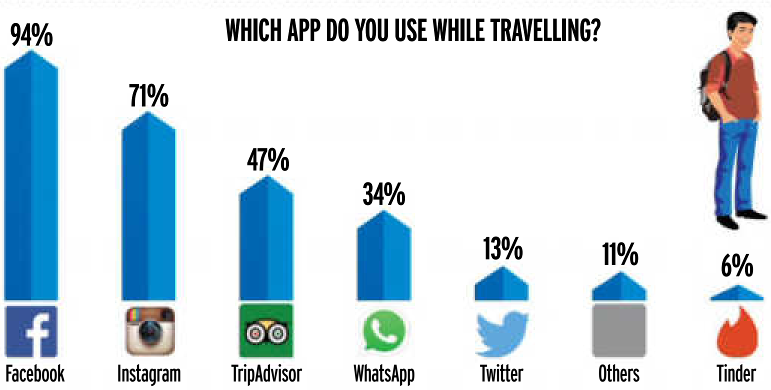
user growth has slumped or flat-lined (depending on the geography). The users on board are not particularly 'active' or 'engaged', remaining passive consumers of news or celebrity updates. As per reports on user engagement, about half of the users have not tweeted even once, while Instagram, WeChat and WhatsApp now have more individual users than Twitter. (Facebook is in a league of its own.)

Part of the problem was that the service itself is complex and somewhat confusing, and recent product changes like Moments, while well-intentioned, have made it only more so. This is not the case for the power users, mind you, – for them, Twitter is rather powerful and full-featured. But for the mainstream user that Twitter needs to win over (or back), the service does not lend itself particularly intuitively to follow conversations and narratives. Having no filter on the service allows misinformation to spread easily, and it takes some degree of effort to curate a compelling list of accounts one should follow.

Equally troubling is the growing wave of abuse and harassment that users have had to contend with. Whether it is troll armies of political supporters in India or misogynistic bile around the GamerGate controversy, incidents of hate speech and threats abound on the network, yet the tools and policies that govern these are inconsistent at best. As a result, instances of people driven off the platform – celebrities included – are not uncommon. The self-policing and constantly evolving etiquette that drove the service in the early days has not scaled up with its growth. Compare this to Facebook, which enforces a 'real name' policy and nuanced tools to deal with abuse and intrusion.

So, should you alter your social media strategy when it comes to Twitter? Amidst all this doom and gloom, there are slivers of hope. The fact remains that Twitter is not some start-up that is suddenly going to run dry – ad sales have continued to grow at a healthy clip, and the company has cash reserves of $ 3.5 billion. It also has a goldmine of data – billions upon billions of tweets. What Twitter should focus on is using natural language processing to understand user interests and target them better in terms of ads and suggesting who they should follow...solving the curation and discovery problem. It should use some of that cash to address the issues of spam and abuse, both via better algorithms to weed out bots and better product features to report and redress. That said, putting all your marketing eggs in the Twitter basket was never a wise idea. It may be prudent to diversify your approach by adding Instagram and Pinterest into your marketing mix, more so if you target millennials who are rarely (if ever) on Facebook or Twitter. ◆

@2shar



LISTENING POST

Live Action

Periscope has teamed up with GoPro to let users live stream directly from the action camera using iPhone. To use the feature, users need to connect their GoPro HERO4 Black or Silver camera to a WiFi service after ensuring it is on video mode. Tapping on the broadcast button on the Periscope app then enables live streaming of the recording. The app also has a new button to lock the phone screen, ensuring nothing is accidentally pressed when the phone is in the pocket. "We've seen people put their phones in some precarious situations. Creativity always finds a way, but we wanted to make it a little bit easier," Periscope says in a blog post announcing the integration.

Mobile Support

Facebook has expanded its advertising network, Audience Network, to include support for mobile web. Now 2.5 million advertisers on the platform can reach more people on mobile devices, the social networking site announced in a blog post. This basically means that Audience Network, launched in October 2014 to help advertisers place their ads in apps besides Facebook, will now help publishers sell their advertising on mobile websites, too. According to Facebook, the product, since its launch, has been delivering real value for publishers and advertisers and the company reached a billion dollar annual run rate for advertising spend through Audience Network in the fourth quarter of 2015, with the bulk of that value being passed to publishers.

STILL A LONG HAUL

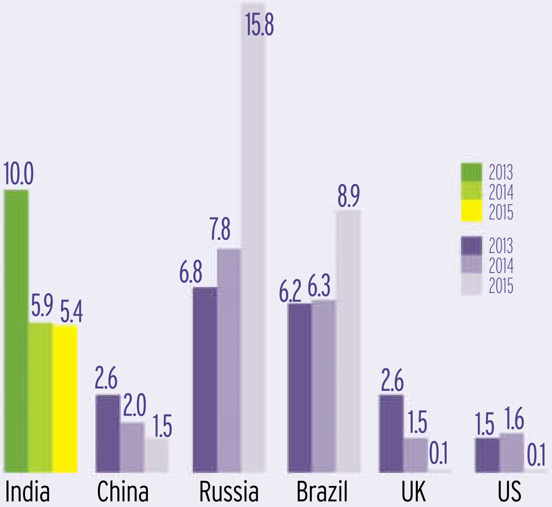
The global economy may be slowing but the Indian growth story appears intact. Indeed, India is now the fastest growing major economy in the world, overtaking China. A closer look, however, reveals a mixed bag. India still lags behind other large economies on some crucial macroeconomic indicators

Graphic by: **AJAY THAKURI** Research by: **Niti Kiran**

India's savings rate is impressive

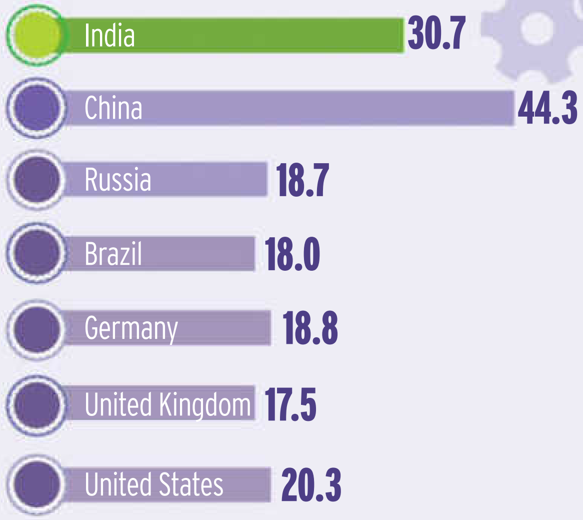
*Estimates for 2014; Gross savings (% of GDP) for 2014
Source: World Bank & CIA

Inflation appears to be **under control**



Figures in %
Source: IMF

Investment too is relatively **robust**

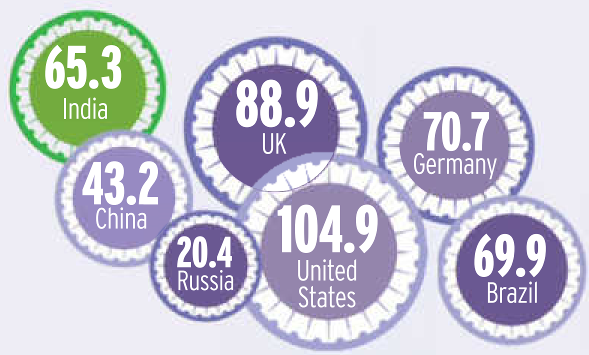


Figures for 2015; Total investment as a % of GDP
Source: IMF

India fares poorly on living standards

Figures in US dollars; Gross Domestic Product per capita at current prices in 2015
Source: IMF

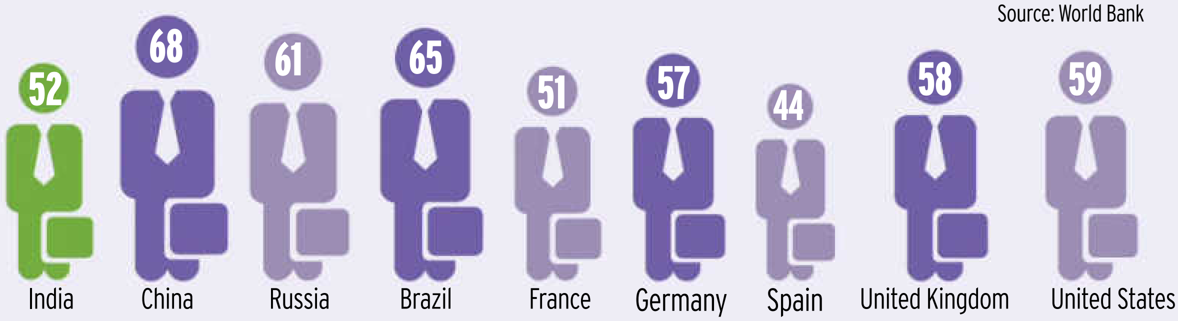
The **government debt** is high, though it's better than some



Gross debt as a % of GDP in 2015
Source: IMF

It also lags **behind on providing employment** to its burgeoning population

Figures are employment to population ratio; Data for 2014
Source: World Bank



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FOCUS

RAJAN'S AGENDA

The RBI Governor wants the government to bite the bullet on fiscal consolidation.

By ANAND ADHIKARI

RACHIT GOSWAMI

It doesn't happen often. Several experts are advocating that the government should boost public investments instead of pushing ahead with its fiscal consolidation road map. The reason is obvious: a sluggish domestic economy and a global slowdown.

Aditya Puri, MD of HDFC Bank, India's second largest private bank, is advocating a delay in fiscal consolidation. "We have low inflation with negative WPI," he points out. Concurs Kaku Nakhate , President and country head of Bank of America. "We can live with higher fiscal deficit," she says. Maintaining the deficit at around 3.9 per cent of GDP, instead of lowering it to the targeted 3.5 per cent, will give the finance minister headroom to increase public spending and also provide an economic stimulus by accepting Seventh Pay Commission recommendations, adds Nakhate.

In last year's Budget (2015/16), the first full year budget of the Modi government, Finance Minister Arun Jaitley deferred the 3 per cent fiscal deficit target by a year to 2017/18. According to the fiscal consolidation road map, the target for 2016/17 is 3.5 per cent – many commentators are suggesting a slight deviation to 3.7 per cent in the fiscal year, given the ground realities.

But the Reserve Bank of India (RBI) Governor Raghuram Rajan disagrees. A celebrated economist, he believes any deviation would damage the government's credibility overseas and also impact the macro-economic stability. "The consolidated fiscal deficit of the states and centre is by far the largest among countries we like to compare ourselves with. Presently only Brazil, a country in difficulty, rivals us on this measure," he said, recently in New Delhi. Rajan is himself running a tight ship - he has not only set an inflation target for the RBI but is also goading banks to rein in mounting bad loans.

Already, the RBI Governor expects some expansion in the fiscal deficit of states post the implementation of UDAY, the scheme for revival of power distribution companies (discoms). UDAY entails the states taking over 75 per cent debt of discoms. Rajan is worried about the consolidated fiscal deficit of the states and Centre creeping up – it has gone up from 7 per cent in 2014 to 7.2 per cent in 2015. "So we actually expanded the aggregate deficit in the last calendar year. With UDAY coming into operation in the next fiscal, it is unlikely that states will be shrinking their deficits, which puts pressure on the Centre to adjust more,"says Rajan.

So what is Jaitley's take? Jaitley has said on record that the government is committed to 3.0 per cent for 2017/18 without specifically commenting on the target for 2016/17. There are pros and cons of boosting growth by higher spending, he observed recently. Indeed, there are challenges both on the expenditure as well as revenue side.

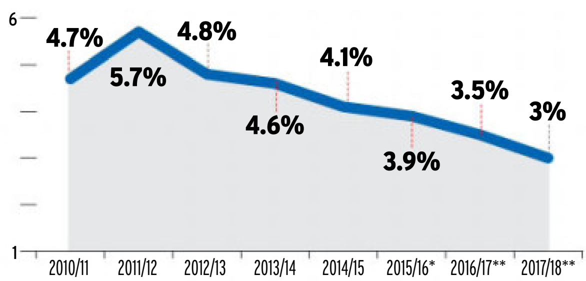
The finance minister, for example, will have to make full year provision for Seventh Pay Commission, which has recommended a 23.6 per cent hike for government employees. In fact, the RBI Governor is also waiting for the Pay Commission allocation, especially for inflation guidance. "RBI will adjust the inflation forecast path as and when more clarity emerges on the timing of Pay Commission," said Rajan.

There are challenges on the revenue front as well. Meeting the disinvestment targets is turning out to be extremely challenging. In fact, the government is unlikely to meet its 2015/16 target of close to ₹70,000 crore. Jaitley has to lower expectations drastically in 2016/17 because of the stock market turbulence. The benchmark BSE Sensex has plummeted 20 per cent to 24,000 levels in the past year. The PSU index, which tracks more than 50 performing government companies, has fallen sharply – it is down by a massive 30 per cent. "This window looks completely shut for the next year," says an analyst.

Falling oil prices, though, have come as a respite for the government. Crude has tumbled in the past 18 months, down to $30 a barrel

A TOUGH TASK

It will be difficult for the Modi government to meet the fiscal deficit targets over the next two years



*Budgeted figure; **Fiscal management road map ; Source: Budget

from a high of over $100. This steep fall has reined in the current account deficit as India is a big importer of oil. It has eased the government's burden by way of lower oil and fertiliser subsidies. Oil prices may continue to remain weak – most predictions suggest that they will either stay at the current levels or correct further. More so, with Iran again starting to sell in international markets.

All said and done, it will be a challenge for the finance minister to stick to the fiscal consolidation target when he is expected to give a booster dose to the economy through increased spending. But any slippage may put the government on a collision course with Rajan. Over to Jaitley. ◆

@anandadhikari

SHEKHAR GHOSH

Aluminium Woes

Aluminium firms are looking for safeguards from the government because of cheap Chinese imports. By SUMANT BANERJI

WHAT'S PUTTING PRESSURE ON THE ALUMINIUM INDUSTRY

- Steep rise in cheap exports from China
- Higher taxes on coal which accounts for big input costs
- Inverted duty structure that allows China to import bauxite from India and sell back finished goods

AND WHAT THE INDUSTRY WANTS

- Raising import duty on aluminium finished products from 5 per cent to 15 per cent
- Reducing import duty on raw materials from 7.5 per cent to 2.5 per cent
- Increasing export duty on bauxite from 20 per cent to 50 per cent
- Increasing Duty Drawback

An unprecedented downturn in the global commodity cycle and persistent rise in steel and aluminium imports from countries such as China have forced the government to examine ways to safeguard these industries.

With the northern neighbour sitting on huge excess capacity in both these sectors, it is looking at ready markets, and India happens to be one such market. The government has already imposed safeguard duty twice to protect the steel industry, and the aluminium industry is hoping for a similar concession.

The steel industry, before the safeguard duties were imposed had seen imports rise 69 per cent in the last financial year. Just like steel, the aluminium industry has seen a steep rise in cheap imported finished products cutting into its market.

"Dumping by China is a big reason. They are selling for lower than their production cost. It may be their strategy but it is damaging us," says Narendra Singh Tomar, Union Minister for Steel and Mines. The government has increased the import duty on steel on more than one occasion. It also imposed anti-dumping and safeguard duties. The odds are that more action is in the offing to shelter the metal producers.

The aluminium industry is currently reeling under not just cheap imports but also rising costs, largely due to higher taxes on coal, and a steep decline in aluminium prices. India consumes around 3.5 million tonnes aluminium every year, of which 1.5 million is imported, mostly from China and West Asia. Since 2011, the import surge has been a steep 159 per cent. In the first half of the financial year, the share of imports in total consumption was 56 per cent. Over the past few years, the domestic aluminium industry has witnessed significant capacity addition, and is currently operating atonly 50 per cent capacity, making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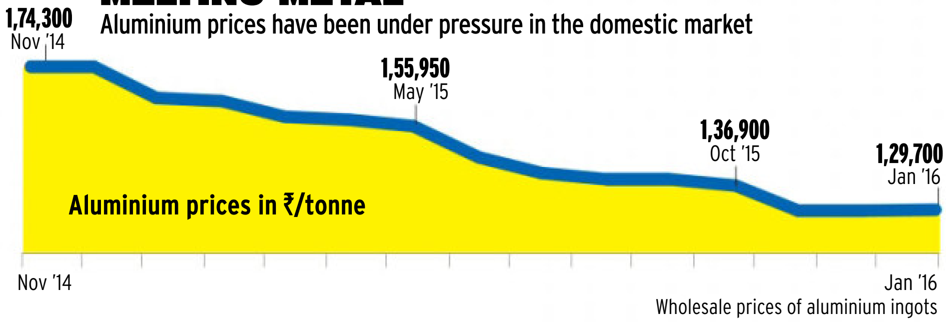
Office For Ipad Alternatives
IMAGING GADGETS: Best of the Lot
Keep Cool This Summer
STILL SOME WAY TO GO
GGCHOICE
The Perfectionist
Top-notch hardware and right pricing makes Motorola Moto X a compete winner

MELTING METAL

Aluminium prices have been under pressure in the domestic market



TAKING A HIT

Profits of leading aluminium companies have tumbled

TOTAL INCOME	2010/11	2011/12	2012/13	2013/14	2014/15
Hindalco Industries	72859.36	82358.67	81567.17	89501.93	105705.57
National Aluminium Company*	6409.97	7153.24	7427.53	7338.56	8055.80
Ess Dee Aluminium	706.67	682.19	759.51	722.71	864.15
Gujarat Foils	225.14	261.23	344.33	429.92	487.76
PAT					
Hindalco Industries	2879.35	3558.70	3023.06	2128.20	83.85
National Aluminium Company*	1069.30	849.50	592.83	642.35	1321.85
Ess Dee Aluminium	118.01	68.04	73.43	50.87	37.41
Gujarat Foils	1.87	2.32	6.04	9.21	6.72

Figures in ₹ crore
*Nalco's profits were up because of its bauxite and electricity operations but its aluminium business was hit;
Vedanta Resources is a multi-product company and could not be included in the chart but its aluminium business, accounting for 18 per cent of its revenues, has posted losses

debt servicing more difficult.

Continuous fall in global aluminium prices 40 per cent from $2,474 a tonne in November 2014 to $1,479 a tonne in January 20165 has impacted the profitability of companies. Hindalco reported a 33 per cent decline in operating margin in the July-September quarter while Vedanta reported a loss in its aluminium business which contributes 18 per cent to overall revenues in the October-December 2015 period.

THE INDUSTRY IS PITCHING FOR INCREASING THE EXPORT DUTY ON BAUXITE TO DISCOURAGE CHINA AND OTHERS FROM BUYING IT CHEAP FROM INDIA AND THEN SELLING BACK VALUE-ADDED MATERIAL

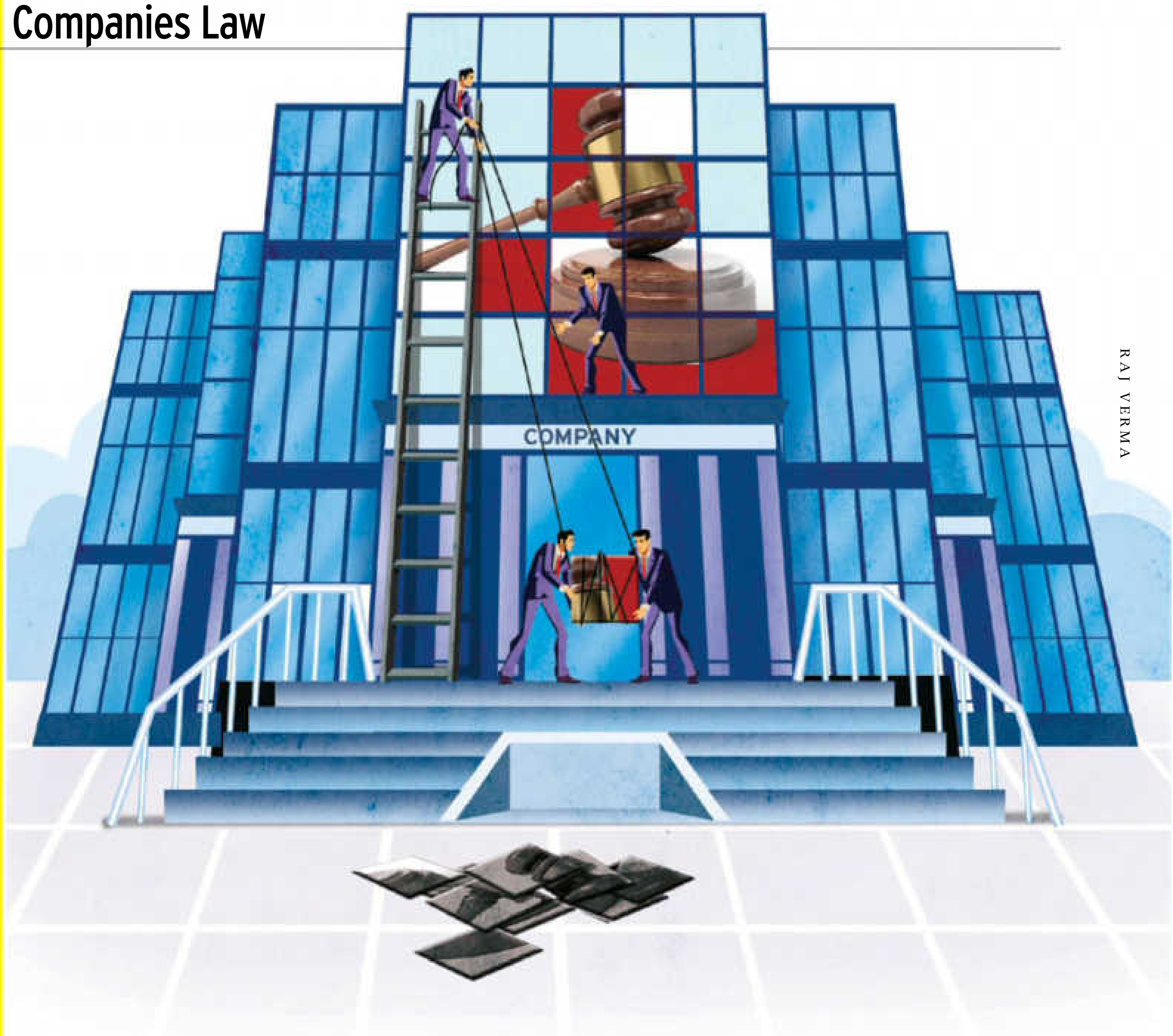
The government says it is actively considering the industry's wish for raising the import duty on aluminium from 5 per cent to 15 per cent. The aluminium industry also faces inverted duty structure where the duty is 5 per cent on imported finished products and 7.5 per cent on raw materials. It is trying to convince the government to reduce the import duty on raw materials to 2.5 per cent.

Meanwhile, bauxite exports to China have surged 52 per cent in the past one year. There, value addition takes place and finished aluminium is exported back to India. The industry is pitching for increasing the export duty on bauxite from 20 per cent to 50 per cent to discourage China and others from buying it cheap from India and then selling back value-added material, which competes directly with what is produced by the Indian players.

Other commodity players are also watching keenly if the government extends the same safeguards to the aluminium industry that it has provided to the steel industry.

Solar panel manufacturers, the electronic hardware industry and tyre manufacturers are all clamouring for protection saying they are threatened by cheap imports. However, their case might be weaker than that of steel and aluminium industries because their domestic production is still below demand. But they are all waiting to see exactly what action the government will take on aluminium before ramping up their lobbying efforts. ◆

@sumantbanerji



RAJ VERMA

Shifting Goalposts

Too many changes in new companies law keep India Inc on its toes. By **DIPAK MONDAL**

The half-baked Companies Act, 2013, has come to haunt industry yet again. It has been just one-and-a-half year since the new Companies Act came into force. Already, around 100 amendments have been either made or proposed. The latest changes, 78 in all, have been recommended by the Companies Law Committee, constituted in May 2015. And this, when the full law is not in force yet.

THE LATEST CHANGES, 78 IN ALL, HAVE BEEN RECOMMENDED BY THE COMPANIES LAW COMMITTEE

Alhough most experts have welcomed the recommendations, they complain that the changes are too much in too little time (the law came into force on 1 April 2014). This shows the law was hurriedly drafted, they say.

Darshan Upadhyay, Partner, Economic Laws Practice, says even when the law was being drafted, a lot of things were not thought through. "The bankruptcy law was being separately discussed. It will have repercussions for companies. Besides, when Sebi was coming out with initial public offer and insider trading rules, there was no involvement of people drafting the companies law," he says. According to him, a number of sections are not clear. "The way some definitions were worded, companies were finding it difficult to figure out if they were compliant or not. All this necessitated changes," says Upadhyay.

Lalit Kumar, Partner, J. Sagar Associates, says more public consultations would have eliminated the need for so many amendments. Preeti Malhotra, former president of the Institute of Company Secretaries of India and a member of the J.J. Irani Committee set up in 2005 to advise the government on the law, says, "When such an extensive overhaul happens, it is only when you implement the changes that you realise the shortcomings and problems."

For Better Or Worse?

Most companies found a lot of provisions of the law difficult to comply with. The new government, which has been trying to make doing business in India easier, therefore, decided to set up a committee to look into the points raised by the companies. That is why the issues the panel has addressed mostly relate to problems in implementation and lack of clarity in language. Ease of doing business and encouragement to start-ups are two other guiding principles for the changes.

While some changes are just clarifications, some involve relaxation of rules. In many cases, the committee has found some provisions irrelevant or redundant and, therefore, recommended their omission.

The biggest recommendations involve making fund-raising and incorporation easier, besides easing of rules for start-ups, raising of deposits and employee stock options or ESOPs.

On fund raising, the committee has recommended easier rules for private placement of shares. Based on feedback from companies, it has suggested that there is no need for a separate offer letter requiring extensive disclosures. On deposits, the committee has done away with the need to provide deposit insurance, as no insurer provides such a product. It has also suggested change in the rule for lifetime ban on raising deposits in case of a default. The panel says if a company has "made good the earlier default, it should be allowed to accept further deposits after a period of five years from the date it repays the earlier amount, with full disclosures."

ON FUND RAISING, THE COMMITTEE HAS RECOMMENDED EASIER RULES FOR PRIVATE PLACEMENT OF SHARES

Also, the rule that private companies cannot accept deposits beyond their net worth and free reserves should not apply to start-ups for the first five years, the panel has suggested. It also wants relaxation of the rule for issuance of sweat equity in case of start-ups. For start-ups, the panel has recommended that the limit be raised from 25 per cent to 50 per cent of the paid-up equity share capital. It wants permission to companies to offer ESOPs to promoters working as employees/directors.

The panel has also recommended keeping smaller frauds, of up to ₹10 lakh or 1 per cent turnover of the company, out of the ambit of severe punishments laid down by the law. Also, to make corporate structuring easier, it has recommended removing the limit of two layers of subsidiaries.

Will these recommendations lead to dilution of the law? Lalit Kumar of J. Sagar Associates disagrees. He says the essence of the law has not been diluted and only some practical problems have been removed. Preeti Malhotra says that the intent, even when the J.J. Irani Committee was formed, was to make the law pragmatic and easier.

MAJOR RECOMMENDATIONS

1. Only frauds worth ₹10 lakh-plus or 1 per cent turnover of the company shoud be compoundable
2. For start-ups, sweat equity limit must be raised to 50 per cent paid-up capital
3. Companies must be allowed to accept deposits without providing deposit insurance
4. Lifetime ban on accepting deposits in case of a default should go if the company pays investors for the earlier default
5. There should be no need to file a separate offer letter for private placement of equity

Too Many Changes

While most recommendations have been welcomed, experts still believe that too many changes in too short a time are not allowing the companies to settle down. Even the latest recommendations are subject to changes and approvals.

Worse, only around half the provisions of the law, 283 out of 470, have been implemented. The rest, related to functioning of the National Companies Law Tribunal and the National Company Law Appellate Tribunal, are yet to be notified. The remaining are likely to be notified by July this year. Upadhyay of Economic Law Practice believes modifications and clarifications continue as the Act is not fully in force. ◆

@dipak_journo


HITACHI
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"WHY DOES WATER HAVE SO MANY DIFFERENT COLOURS?"
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IT'S OUR FUTURE

The Shoe Is Pinching

How long will it take for the government to phase out corporate tax exemptions? By JOE C. MATHEW

AJAY THAKURI

Prime Minister Narendra Modi was merely stating the obvious. At a recent function in Delhi, he expressed his discomfort over the practice of giving away ₹62,000 crore annually as tax incentives to corporate India. His government's stand on such forgone revenue was well known much before this observation.

The difficulty in continuing with several tax incentives 32 of them contributed to a revenue loss of ₹62,398 crore in the previous financial year was highlighted by Finance Minister Arun Jaitley during his budget speech last year. Jaitley had expressed a desire to phase out these tax incentives while simultaneously lowering the effective rate of corporate taxes from 30 per cent to 25 per cent over a period of four years.

FM ARUN JAITLEY HAD EXPRESSED A DESIRE TO PHASE OUT TAX INCENTIVES WHILE SIMULTANEOUSLY LOWERING THE EFFECTIVE RATE OF CORPORATE TAXES

Though Modi has just reiterated the government's resolve, the timing of the statement days before Union Budget 2016/17 is indicative of the speed with which the government would perhaps like to implement its plans.

Experts say that the government should be cautious in phasing out these exemptions as the revenue losses arising from many of these incentives are not significant. For instance, of the 32 incentives listed by the ministry, the top 11 account for 95 per cent of the total revenue forgone. The top three – accelerated depreciation (₹37,010 crore), exemption to SEZs (₹18,394 crore) and concessions to power generation, transmission and distribution firms (₹10,607 crore) – alone contribute 67 per cent. Targeted exemption withdrawal from the top three segments itself can thus make a big difference even if the 29 other categories are left untouched for the moment, they point out.

Another issue is the possible impact of exemption phase outs on minimum alternate tax (MAT). Ganesh Raj, Partner, Tax and Regulatory Services, EY, says that the withdrawal of exemptions can turn MAT redundant as it is being paid by companies that claim large tax incentives and exemptions.

The road map proposed by the finance ministry in November 2015 had suggested that the phase-out should begin in 2017/18.

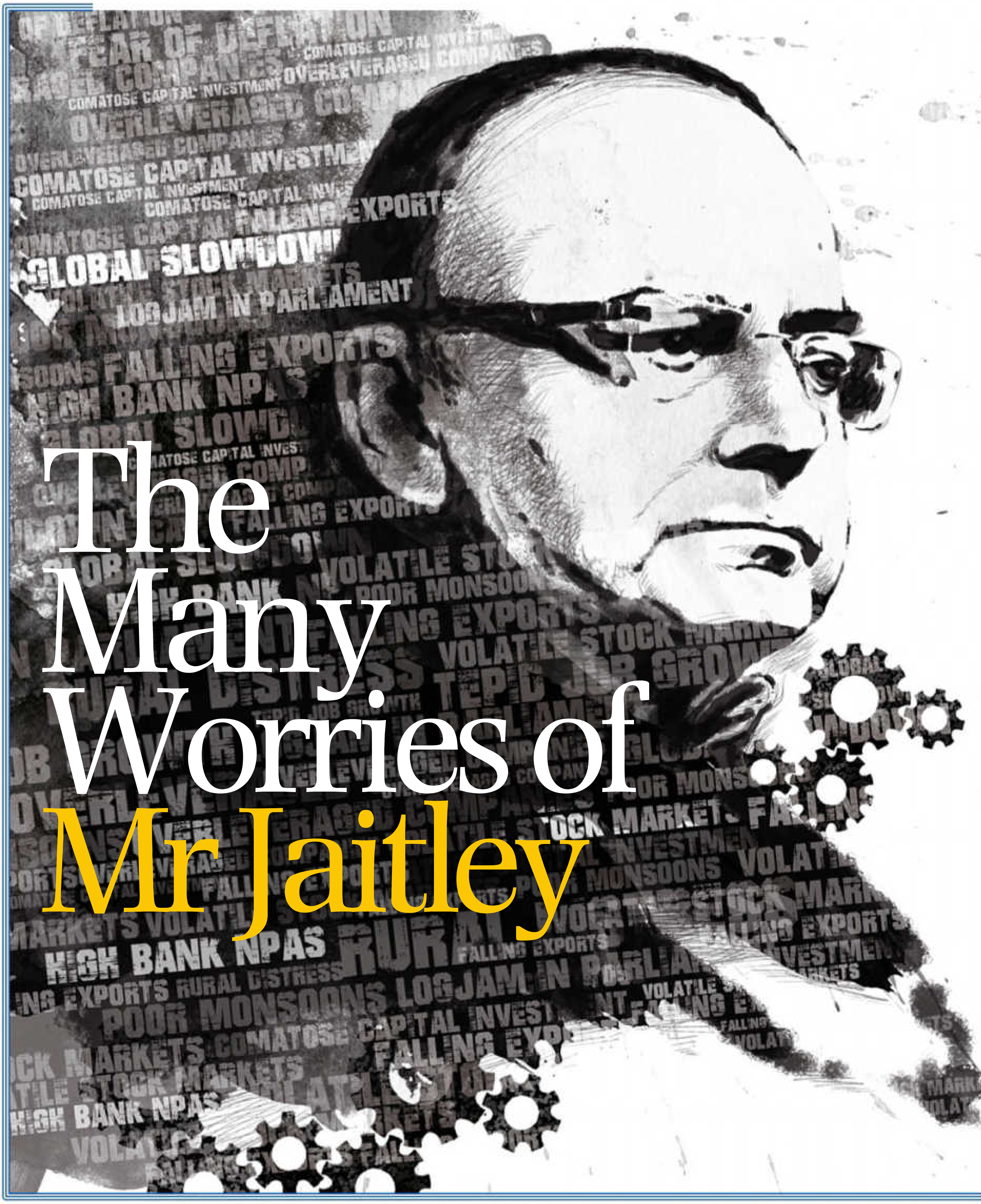
Depreciation is the highest component of revenue forgone. The finance ministry wants the highest rate of depreciation under the Income Tax Act to be brought down from the current 100 per cent to 60 per cent. It also proposes that all profit-linked, investment-linked and area-based deductions to be phased out for both corporate and non-corporate tax payers. It wants that exemptions having a sunset date should not be extended. In the case of tax incentives with no terminal date, March 31, 2017, has been proposed as the sunset date.

The future of phase-wise reduction of effective tax rate, and that of MAT will depend on the implementation of these proposals. While some of the suggestions have already been opposed by the industry, the forthcoming Budget will provide more clarity on the proposals that will stay.

It is a known fact that the exemptions have to go, but clarity is needed on when and how it will happen. ◆

@joecmathew

The Many Worries of Mr Jaitley

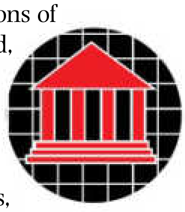


AJAY THAKURI

And what he can do to solve them in the Budget...

By PROSENJIT DATTA

For any finance minister, preparing a Budget is all about trade-offs. It has to meet many different objectives simultaneously, and some of them might be in conflict with one another. In an ideal world, Finance Minister Arun Jaitley would have presented a Budget that would boost economic growth, raise lots of revenues in a benign tax environment, give incentives to corporations to invest more, while spending lots of money for the welfare and social well-being of all citizens, particularly the weaker sections, and also have enough money left for crucial functions of the state such as policing, defense, etc. And, all this, without running up a fiscal deficit.

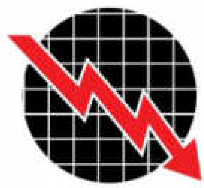


Unfortunately, no finance minister ever gets to operate in an ideal world. As he prepares his third Union Budget, Jaitley, too, faces a host of domestic economic challenges, at a time when the global economy is looking decidedly volatile. At home, in particular, Jaitley's headaches are growing by the day. Economic growth has not picked up as much as was expected. At the beginning of the year, the North Block team had projected a real GDP growth of 8.1-8.5 per cent for the current fiscal, accelerating to 9 per cent-plus in 2016/17. When Chief Economic Advisor Arvind Subramanian released the Mid Term Review of the Indian Economy in December 2015, the expectations had slumped. The review cautiously talked of real GDP growth for the current year at 7-7.5 per cent. The caution is warranted – in the September quarter, Indian GDP grew by 7.4 per cent, which was lower than the 8.4 per cent growth clocked in the corresponding quarter of last year.

After two consecutive years of failed monsoons, a misguided clamping down on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in the initial months of the government, and low hikes in minimum support prices early on, rural areas in most parts of the country were crying out in distress. Now, rural incomes have stagnated

THE STRESS POINTS

GDP growth has not picked up as was initially expected and, instead, decelerated around one percentage point from **8.4 per cent** in Q2FY15 to 7.4 per cent in Q2FY16



Exports have fallen 13 months in a row contracting **14.75 per cent to $22.3 billion** in December

Bank gross NPAs have risen **to 5.1 per cent from** 4.8 per cent in the past four quarters

The rural sector is in distress (see page 50)

Job creation is lagging behind (see page 72)

Global economy is looking bleak with a downward revision in growth from **3.6 per cent to 3.4 per cent in 2016.** China particularly remains worrisome

Capital investments have been lacklustre. The rate of gross fixed capital formation to GDP at current prices was **30.8 per cent in 2014/15 as compared to 31.6 per cent in 2013/14**

Important Bills stuck in Parliament: GST, Real Estate, Insolvency and Bankruptcy Code, 2015, The Electricity (Amendment) Bill, 2014

> Drop in crude and other commodity prices has lowered input costs for a host of industries, which has kept WPI low – **in negative territory for the past 14 months, while food prices have stubbornly resisted all efforts by the government to remain under control**

and consumption is down in almost all goods (see *Reality Bites*, page 50). Of late, the government has shown greater intent to make amends by introducing a crop insurance scheme and by increasing the outlay for MGNREGA – but those steps will take months to show results.

Meanwhile, Prime Minister Narendra Modi and Finance Minister Jaitley have been unable to get domestic corporations, struggling with enormous debt burdens and overcapacity built up in the past decade, to invest in new projects on the ground. At every new initiative, the Prime Minister has announced his ambitious plans, such as Make in India, Smart Cities and Defence production, businessmen have rushed to make announcements of projects worth billions of dollars. But few of those announcements have resulted in any real capital spending on Greenfield projects. This has been the case with state investment jamborees as well, where corporate leaders have made big commitments, but have been tardy in following up. There are still many companies with big cash piles in their balance sheets, but most of them have preferred to pick up existing plants and divisions from other companies struggling with debt, instead of sinking money into new projects. In power, cement and a host of other industries, mergers and acquisitions have boomed, but few new plants have been announced. Meanwhile, in areas such as steel and aluminium, domestic producers are struggling because the Chinese are selling at cut rate prices to make up for slowing demand at home.

On the trade front, the outlook has been quite embarrassing – with exports falling for 13 months in a row. If the trade deficit has remained under control, it is because of the crashing crude and commodity prices that have reduced the import bill. Indeed, the drop in crude prices from \$110 a barrel in June 2014 to around \$30, currently, has helped the government keep its finances in check, as *Business Today* had reported in an earlier issue (see *Oiling the Economy's Wheels*, January 31, 2016). Drop in crude and other commodity prices has also lowered input costs for a host of industries, which has kept wholesale price inflation (WPI) low – in negative territory for the past 14 months. On the other hand, food prices have stubbornly resisted all efforts by the government to remain under control, one reason the common consumer is still feeling the pinch.

A FEW TAILWINDS THE FM ENJOYS

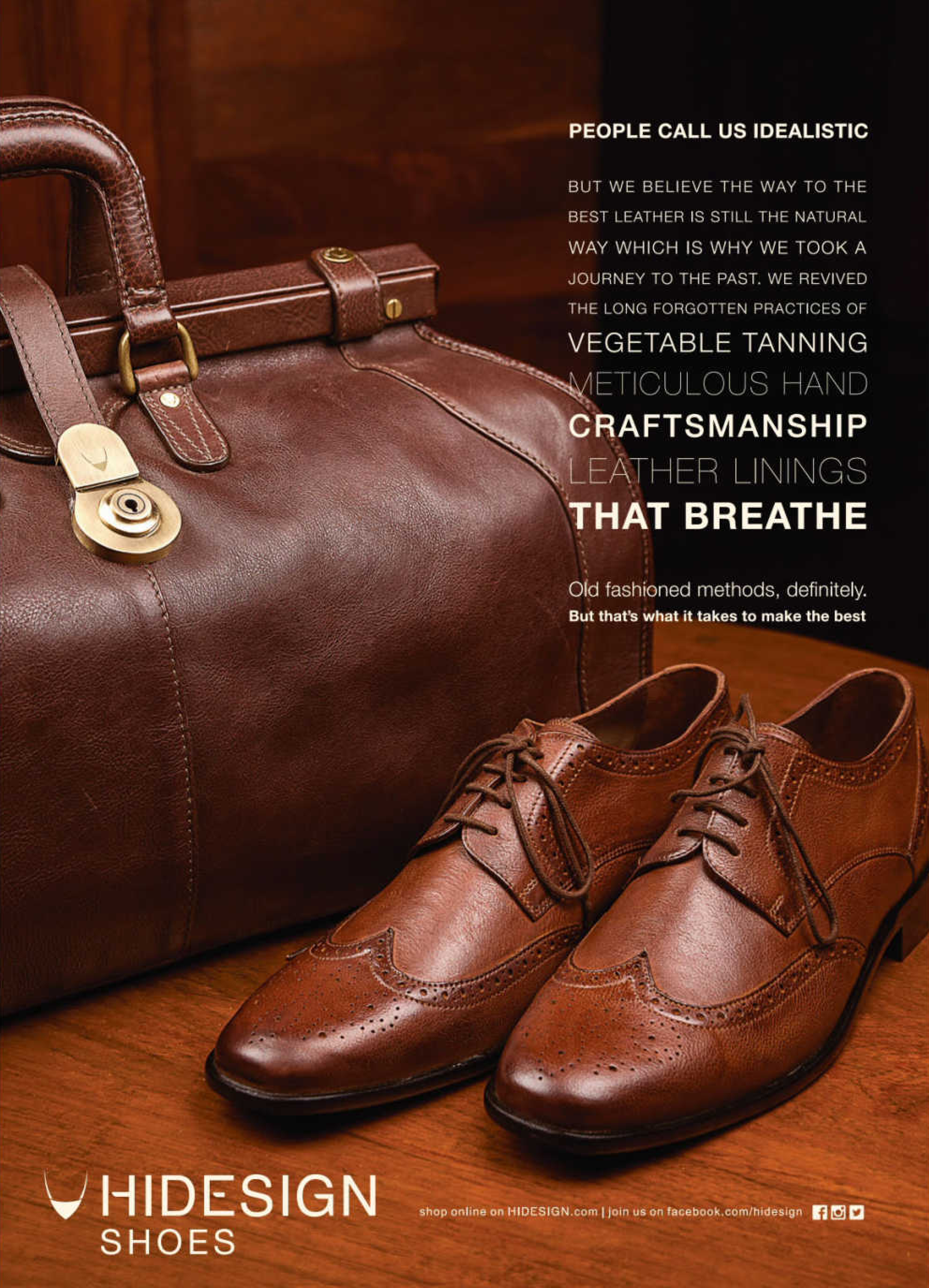
Crude oil prices are low at **\$32 per barrel,** which helps inflation and government finances

India is still attracting good FDI with cumulative flows of **\$16,631 million** during Apr-Sept 2015, registering growth of 13 per cent

Many schemes and programmes, such as **Make in India, Digital India, Smart Cities,** should see some action in coming months

India still has a young population with **356 million** 10-24 year-olds

The services sector **is still growing at a fast clip** as indicated by the Nikkei India Services Business Activity index


PEOPLE CALL US IDEALISTIC
BUT WE BELIEVE THE WAY TO THE BEST LEATHER IS STILL THE NATURAL WAY WHICH IS WHY WE TOOK A JOURNEY TO THE PAST. WE REVIVED THE LONG FORGOTTEN PRACTICES OF
VEGETABLE TANNING
METICULOUS HAND
CRAFTSMANSHIP
LEATHER LININGS
THAT BREATHE
Old fashioned methods, definitely.
But that's what it takes to make the best
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Meanwhile, the Centre has not been able to create the kind of jobs the country needs. The government estimates that one million young Indians join the workforce every single month and will do so for 15 more years. But in many industries – ranging from leather to gems and jewellery – labour bureau calculations suggest that jobs have actually been lost.

The global environment, too, has remained bleak – the China slowdown and the shrinking of the Russian and Brazilian economies are creating a general feeling of gloom and doom. Many European countries have also failed to get out of the troubles that started with the financial conflagration of 2008. Even the US economy, while it has stabilised in the past year, is unlikely to gather enough steam to pull the rest of the world together. This was reflected in both exports of services from India as well as FDI flows into the country. One of the few bright sparks in the global economy, India has seen a good amount of FDI flowing into the country. But it has not been the kind of flood that could raise all industries and make up for lack of domestic investments.

> The global environment, too, remains bleak – the China slowdown and the shrinking of the Russian and Brazilian economies creating a general feeling of gloom and doom. Many European countries have failed to get out of the troubles that started with the financial conflagration of 2008. Even the US economy is unlikely to gain enough steam to pull the rest of the world

In a pre-Budget panel discussion held by the magazine, one of the panellists, Sumant Sinha, Chairman and CEO, ReNew Power, plaintively asked that if the country was really growing at 7 per cent-plus, why doesn't it feel like that on the ground? As others pointed out, there are still worries that the growth figures being tom-tommed by the government are more due to a change in the way growth is captured than about any real improvement in the economic arena.

What will the Finance Minister do in this Budget? The majority of panellists in the pre-budget roundtable agreed that there were enough indications by the finance minister that a lot of thrust will be on alleviating the rural situation. There would also be a boost in government expenditure in infrastructure to pump prime the economy. In a recent interview given by Jaitley to this magazine's sister publication *India Today*, the Finance Minister has more or less confirmed this line of thinking. He will have plenty of popular support if he does that – with quite a few economists saying that sticking to the fiscal discipline targets he had announced in the last few years is not as important as giving a jump start to growth at the moment.

But more cautious voices, and the Reserve Bank of India Governor Raghuram Rajan is among the foremost in this regard, have pointed out that pump priming has rarely worked anywhere in the world – or even in India. In his C.D. Deshmukh memorial address at NCAER on January 29, 2016, Rajan had said: "It is possible to grow too fast with substantial stimulus, as we did in 2010 and 2011, only to pay the price with higher inflation, higher deficits, and lower growth in 2013 and 2014."

Most panellists in the pre-budget discussion felt that social sector spending will not get the kind of attention the country needs at this point in time to reduce inequality and improve the condition of the poorer half of the population. And, while some tinkering will be done on the taxation front, it may not be the kind of bold measures that would give a huge sentiment boost to corporations. Indeed, the government has constantly been dependent on increased taxation – whether excise on petrol and diesel or multiple cesses – to keep its business going and make up for shortfalls in other revenue-generation areas. That is to be expected – the Finance Minister has to work within the constraints of the external environment if he plans to balance the government's books. He has to find the money for infrastructure and rural development, while also keeping cash aside for higher outflows that will result from the implementation of OROP and the Seventh Pay Panel recommendations.

If the Finance Minister does present something dramatically different, it would surprise us all. But it would probably be a pleasant surprise. ◆

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A slowing world economy, two consecutive bad monsoons and a political logjam in Parliament, apart from a host of other domestic challenges, have created a challenge of greater proportions for Finance Minister Arun Jaitley.

Agriculture, Infrastructure and Taxes to be the Focus

Watch the Pre-budget Roundtable at
businesstoday.in/prebudget-panel

PHOTOGRAPHS BY SHEKHAR GHOSH

OUR PANELLISTS (From left) Prosenjit Datta, Editor, Business Today; Harsh Mander, Director, Centre for Equity Studies; Mukesh Butani, Chairman, BMR Advisors, and Managing Partner, BMR Legal; Abhijit Sen, former head of the department of Economics, JNU; D. Raja, National Secretary, Communist Party of India and Member of Parliament; Rajiv Kumar, Senior Fellow, Centre for Policy Research; and Sumant Sinha, Chairman and CEO, ReNew Power

Finance minister Arun Jaitley will present his second full Budget, and the third since the NDA government came to power in May 2014, in the backdrop of a slowing global economy and a domestic financial system that is showing a number of worrying signals. Globally, the other three members of the celebrated BRICs group China, Russia and Brazil are battling rising concerns on a number of fronts. Many European countries, too, are struggling with their own set of problems. The US economy has stabilised but is still sometime away from high growth.

Jaitley also has to worry about certain other pressing issues exports falling month after month, GDP growth not meeting initial expectations, a huge bad loan problem in the balance sheets of government-owned banks and lacklustre domestic investment.

In the run up to the event, six economic and political thinkers joined *Business Today* Editor Prosenjit Datta to take stock of the country's economic situation and deliberate on the options before the finance minister. The participants of the pre-Budget panel discussion – D. Raja, National Secretary of the Communist Party of India and Member of Parliament; Rajiv Kumar, Senior Fellow, Centre for Policy Research; Abhijit Sen, former head of the department of economics, Jawaharlal Nehru University; Mukesh Butani, Chairman, BMR Advisors, and Managing Partner, BMR Legal; Harsh Mander, Director of the Centre for Equity Studies; and Sumant Sinha, Chairman and CEO, Renew Power – concluded that the finance minister needs to take bold decisions, but may not have the elbow room to do that. (To access the full panel discussion transcripts and videos, log on to *businesstoday.in/prebudget-transcript* and *businesstoday.in/prebudget-panel*) Excerpts:

Prosenjit Datta Thank you so much for coming to the *Business Today* Pre-Budget Panel Discussion.

Let me start with the first question. There seems to be a fair amount of gloom and doom, of late, around the Indian economy. The mid-year review scaled down economic growth expectations from 8.5 per cent to 7-7.5 per cent, if I'm not wrong. Consumer inflation has risen, NPAs are up, private investments have not taken off, and globally, also, there seems to be a lot of bad news with a slowing China and problems in Europe. Therefore, I just wanted everyone's opinion, one at a time, on how bad the situation is, or are we overreacting? Should we start with Mr. Raja?

D. Raja The economy, both globally and at the national level, is in a bad shape. We, the Left, are extremely concerned with the recent developments. We are worried with the creation of wealth and the way this wealth is being distributed in India. Recently, I read the Global Wealth Report, which says that a total wealth of $2.3 trillion (approximately ₹1,567 lakh crore) was created in the Indian economy between 2000 and 2015. Out of this newly created wealth, 61 per cent went to the richest, who represent just 1 per cent of the population, 9 per cent of India's citizens got another 21 per cent share of the wealth, while the bottom 90 per cent of people was left with only 18 per cent of this new wealth. India, as a nation, should move forward by taking everybody together and, that is why, we speak about the need for faster, but inclusive growth. The government should increase its social sector spending to achieve this faster and inclusive growth. For instance, how much money, as the percentage of GDP, is being spent by the government on education? What is its spending on the health sector, on women or child welfare? On scheduled castes and scheduled tribes? It is all right to speak about *Skill India*, but what about generating jobs? Even professionals who have obtained BE and B.Tech degrees are unemployed. The unprecedented decline in oil prices has not reflected in our domestic price management. There is a need to revamp the entire economic structure. Unless the government is prepared to address these issues, it is going to be extremely difficult to manage the economy.

> India, as a nation, should move forward by taking everybody together and, that is why, we speak about the need for faster growth, and inclusive growth. **The government should increase its social sector spending to achieve that faster and inclusive growth**
>
> D. Raja, National Secretary, CPI, and Member of Parliament

Prosenjit Datta Before we come to the question of inclusive growth, do we have growth at all?

Rajiv Kumar It's a great question. Why should there always be doom and gloom in a country, which is growing at 7.5 per cent? The fact is that our statistics are not reflecting the ground reality. I am not the only one saying this. People in the technical committee for the revision of the GDP series are in agreement with me. I recently heard a very senior official saying that this 7.5 per cent is more like 5 per cent or 5.5 per cent. Therefore, one, there is a need for a clarification on what this new GDP series means in terms of the old numbers, and where we are today in terms of growth. Similarly, if you look at the IIP (Index of Industrial Production) numbers, we have been seeing growth rates of plus-1,000 per cent, minus-400 per cent, or plus-200 per cent, month-on-month, for the same sector. Obviously, this cannot be true. We are in a situation where we are trying to make policy without any reliable statistics or numbers, and instead, shooting in the dark. We must first address this.

Two, ground realities are not very good at all. Manufacturing is in very bad shape – there is 30 per cent more excess capacity. Some sectors, such as steel and textile, which are in a near-comatose state, are scared of (impending) imports, and there are bankruptcies in the offing. This is where our employment should come from. I am in complete agreement with Mr. Raja that the employment situation has worsened in the past 20 months that this government has been in power.

Three, private corporate investments have just refused to grow. It is down by 2.5 per cent or 3.2 per cent. At its peak, it was around 14 per cent. The offtake of credit from commercial banks is growing at 8 per cent, while in 2007 it was 23 per cent. In fact, these factors are creating the feeling of doom and gloom in the economy.

Prosenjit Datta: How bad is the global economy and how is it going to affect us?

Abhijit Sen The global economy, with the solitary exception of the US, is about as bad as it was in 2008. The only difference with the US is that because of its big numbers, its economy looks much better than it did in 2008. And, that's really the forecast for 2016: the US economy will remain roughly where it is, and there is absolutely no chance that China or Europe, or Japan, are going to do very well. So, on the international economy side, expect a continuation of 2015, which is not a good story.

Rajiv Kumar The real issue in the global economy is the deficient demand because of the crash in commodity prices. Commodities exporters are now sitting back without any demand. Adding to it is China, whose demand has really come down. That's the reality that faces Indian manufacturers and Indian exporters.

Abhijit Sen Even if growth slows down there is a lot you could do. It may not be in terms of the economic numbers, which, in any case, have been disputed, but in real terms. As Mr. Raja pointed out, a rapid rate of growth means about 90 per cent of all wealth generated is accruing at the top 10 per cent of the population. The bottom 90 per cent is getting only 10 per cent of that wealth. If we can just push that 10 per cent to 15 per cent, you could actually make a huge improvement in the economic conditions. I see shoots of that political realisation. That is, rather than expecting the economy to rebound as soon as you remove some red tape – the way,

> My simple philosophy is that growth has to be either demand-driven or policy-driven. The fact is that after 2008 it has been largely policy-driven, whether economic or monetary policies. Sensible policies helped us maintain that edge. For some time we are going to be a policy-led growth economy
>
> Mukesh Butani, Chairman, BMR Advisors, and Managing Partner, BMR Legal

I think, this government really thought of the economy when it came to power – the government is now actually looking at areas where there is real deficit, that is, what is witnessed on ground, and some attempt (is being made) to address those. Whether the government will be able to do this is a different thing altogether, because most of this has to be done by the state governments. And, I think, this government has got into a situation where its ability to get the states to do what it would like them to, is hugely diminished partly because of the way the system has changed after the 14th Finance Commission and the end of the Planning Commission. The only reason why 2016 will be better than the previous years is that you've already had two bad monsoons, it is statistically extremely unlikely that we will have another bad monsoon. Statistically, we are likely to have a very good monsoon and that should actually see certain things improve; not just agriculture, but certain other things as well. Whether the government can ride on it, I don't know.

Prosenjit Datta Mukesh, you have been meeting more corporates than any of us. What is your view?

Mukesh Butani I see a glass half full. I think there's a lot happening at the ground level to propel growth and attract more investment. We can always sit and debate whether that is good enough – should the government have done more to attract institutional investments, should the government have done more to attract foreign direct investments (FDI), should the government have done more to raise the level of confidence of Indian entrepreneurs, etc. So, the case in point is, as an advisor, I certainly feel that in July and August when the bogey of levying of minimum alternate tax on FIIs came up, they were extremely nervous about it and feared whether the new government was going back on its promises of stability and tax policy. There was a solution for that, and the government acted very fast. There was political will and, I think, things did seem to have fallen into place. As far as the legislative agenda of the government is concerned, we all know where we stand. There is no political will from the Opposition to allow the government to pass major bills. We know the impact of large bills, including the land (acquisition, rehabilitation and resettlement) and GST (Goods and Services Tax) bills. But I also feel that, even in the midst of all that, two important bills got passed. One was on commercial courts and the second on arbitration. These were both very important pieces of legislation that are going to help enhance the confidence of investors – domestic as well as foreign. I also feel that if in 2016 we are able to look at the bankruptcy code, the land bill, and some of the recommendations of the financial legislative reforms commission, we would have done a better job. So, it's a mix.

Prosenjit Datta I was told by a couple of people that the bankruptcy bill might have even more impact than the GST in the short term. What's your thought?

> The Centre is now actually looking at areas where there is real deficit, that is, what's on the ground, and some attempt (is being made) to actually address those. Whether the government will be able to do this is a different thing altogether, **because most of this has to be done by the state governments**
>
> Abhijit Sen, Professor of Economics (retired), JNU

Mukesh Butani It is, because it is putting together six important pieces of legislation which were in a complete mess. Whether it is the BIFR (Board for Industrial and Financial Reconstruction) legislation, or provisions under the Companies Act (how you deal with sick companies, the liquidation process or recovery of debt by institutions), it is just not implementable without an integrated bankruptcy code. So, there will be far-reaching impacts and you are not going to see the impact of these legislations in six or nine months, but over a period of time.

I am not an economist, but as far as growth is concerned, my simple philosophy is that growth has to be

> We will see massive increase (in allocations) in public irrigation systems and more schemes will be announced for the agriculture sector. Besides, the fertiliser subsidiary regime will be dismantled by the way of **direct transfer of subsidies to bank accounts of small and marginal farmers**
>
> Rajiv Kumar, Senior Fellow, Centre for Policy Research

either demand-driven or policy-driven. The fact is that after 2008 it has been largely policy-driven, whether economic or monetary policies. Sensible policies helped us maintain that edge. For some time we are going to be a policy-led growth economy.

Harsh Mander I'll just highlight my greatest concerns. The first and most important, is job creation. We need to remember that for every second Indian over the age of 25, a million new young people are joining the workforce every single month. They have dreams and they have aspirations. We have very poor levels of education and we might keep talking about skill development, but they're not ready for the market. On the flip side, the market is also not creating enough jobs.

The second is the complete, almost terminal, crisis that Indian agriculture is in – something we are just not ready to address. It is getting worse and we are in a state of considerable denial. Three years of drought have made things worse. Then comes the issue of food inflation – we are actually getting less and less on the plate for a large segment of our people. The protein content of food is declining substantially. All of this has been aggravated by a climate where we continue to believe in low public spending in the social sector – and is further declining. It has enormous implications because we cannot hope to sustain even the current levels of economic growth, let alone employment, on such an unequal foundation.

Prosenjit Datta Sumant, what, in your view, is the real economic situation at the moment? You run a business; and a consultancy too. How bad are we?

Sumant Sinha From the discussions that I had with fellow insiders across the Indian industry, the best feedback is – yes, things seem to have bottomed out, but nobody is really witnessing growth. So, it is a bit of a mystery to me and to a lot of people, as to where this 7.5 per cent of GDP growth is actually coming from.

The government had increased expectations by a great deal and, therefore, everybody expected that within a year or year and a half, things would change. That clearly has not happened and, I think in retrospect, it was fairly difficult for that to happen. I think people did not recognise the deep hole that we had got into, and the fact that there was no real growth push from the global economy. We have to boost ourselves, and that is taking much more time than people had expected. The government, in its own way, is trying to come up with various schemes –*Startup India* or *Digital India* or *Smart Cities*– to get investments going from the public sector side, because they realise that the private sector is not in a position to invest at this point in time. They're trying to reform different sectors of the economy – certainly roads is getting a push, the railways side is getting a push, and the power side is also looking quite decent.

Prosenjit Datta What kind of Budget are we likely to

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>
> Sumant Sinha, Chairman and CEO, ReNew Power

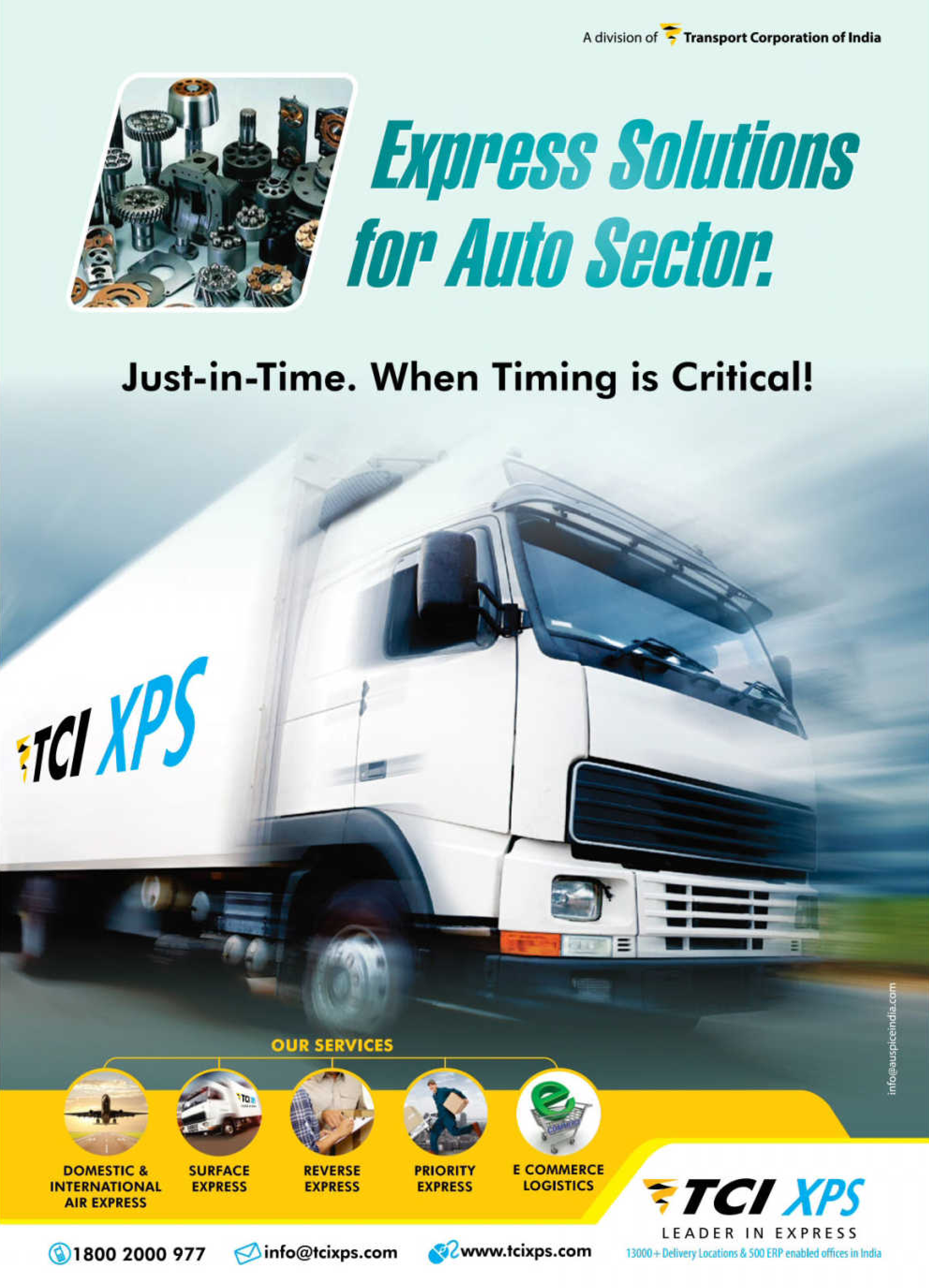
get? Is it going to be a bite-the-bullet one or a growth Budget or a populist one? What will you wish for?

Rajiv Kumar There will be huge focus on agriculture. We will see massive increase (in allocations) in public irrigation systems and more schemes will be announced for the sector. We might see the dismantling of the fertiliser subsidiary regime, which will be wonderful if it happens. The fertiliser subsidies might be directly transferred to the bank accounts of small and marginal farmers, or it could be a system where 5-10 bags are given at a subsidised rate, while everybody else buys it at market price. The second big push will be for affordable housing – the sector is a huge multiplier with its backward linkages. The third one will be in the financial markets – to improve incentives for capital formation by the retail investor. One last bit, which I might add, is again a massive push on infrastructure; even more than what you've seen before. The only sectors that may not see enough, again, are education and health.

Harsh Mander What would I like to see? There's a lot. But, I fear that we are going to see a business-as-usual Budget. (Despite that), I will just talk about three basic things (that I would have liked to see). The first is the need to address the crisis in agriculture. If the figures are right, anything between 50 per cent and 60 per cent of people are dependent on agriculture or agriculture-related activities, though its contribution to the GDP is less than 15 per cent. The quantum of public investment in agriculture is about 4 per cent; if I am not mistaken, much of that 4 per cent is for things that benefit the big farmers. I would like to see a move to farmers' income protection based on the land size he has, rather than subsidies, which benefit only a segment. The second would be to greatly expand the tax base. India's tax-to-GDP ratio is among the lowest in the world. We need to tax more, and we need to get more from direct taxes, corporate taxes, inherent taxes, etc. And the third, is, of course, about the social sector. Free primary and secondary public health care for all is something that needs much greater investment. Improving the quality of school education, universal maternity benefit schemes, and making old-age pension inflation-indexed and universal, are also of extreme importance.

D. Raja I don't expect great things from the Budget. The government will be increasingly under the influence of corporate houses. Whether it is the BJP or Congress, governments should act as a welfare state. The working people are the primary productive force in any economy. Unless they are involved or their purchasing capacity is increased, demand will not increase. You ask the poor to tighten the belt, but you loosen everything for corporate houses and the rich. That is why the economy is getting into a very bad state. I do not know whether Mr. Arun Jaitley will address some of these issues rationally and realistically. If he is moved by his own philosophy or by his own ideology, or he is influenced by other vested interests, then I do not think we are heading for a bright future.

Abhijit Sen I think Rajiv hit it right on the head. It is going to be a Budget that will have, as lots and lots of budgets in the past have had, probably slightly longer spiel on agriculture and what the government intends to do about it. Affordable housing will come up again and, therefore, in terms of the content of the Budget, it would be something that you people may choose to call populist. This is roughly what the Budget will do – there will be lots of peels, nothing much will be done on the tax side. The tax side remains important but successive governments have been unable to do much about it. The only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time tax had risen was when growth rose and so did the taxes along with the growth rate.

I think there is a problem that people don't realise. In the coming years, the Union Budget is going to be even less important because of the devolution of taxes from the Central government to the state governments. One of the reasons why nothing much can be done about health and education is because the Centre, which has other priorities, can rightly pretend that this is something they can't do anything about, because the money has already been given to the sates on health and education. Unfortunately, exactly the same thing applies to agriculture, which is also a state subject. The simple point that I am trying to make is that we need to look a bit more at the state budgets and not so much at the Union Budget.

Mukesh Butani I think the Finance Minister will stick to his commitment of bringing down corporate tax rates. I did hear comments about the Budget being pro-business; India is perceived as a low taxed country, but what is the tax base of India? Let me just put certain things in perspective. India is a very high taxed country, it is not a low taxed country if you look at the impact of the corporate tax rate or dividend distribution tax. It also has a very inefficient tax administration, which pushes up cost of compliances to businesses and, hence, it is imperative for the government to bring down the tax rates. Of course you know the debate that others have been having. Who is responsible? Is it the Central government, the state governments, the private enterprise, or the civil society? I think everybody has to play a role in the growth of an economy – state governments, Central government and businesses. If you are not going to encourage businesses, private sector investment is not going to happen. If you are not going to have private sector investments, you are not going to create jobs. So, it is a vicious circle. If you look at the average rates of the Organisation for Economic Cooperation and Development (OECD) and non-OECD countries, India is a high tax country. I think we have an extremely inefficient administration, which pushes up our compliance costs. So, reduction of corporate tax in my view is given.

Sumant Sinha I think that the focus of the Budget is probably going to be in two areas. One is infrastructure, where a lot can actually be done, whether it is in the area of affordable housing or airports or more roads, or even building other transmission grids, besides many others. There are lots of areas, where we can actually spend more money, and now that the ministers have been there for a year and a half, two years, they should have the ability to know the areas (where more spending is necessary) and how to get the money spent in the most productive manner. That probably is an area that is going to see some increase in spending. The FM has talked about decreasing tax rates and, at the same time, removing exemptions. So, I don't know what the final outcome is going to be. Actual tax rates may go up for certain types of corporates and, perhaps, it will be lower for certain others. But we have to see exactly how that whole thing shapes up. I think the answer to the tax issue is that individuals in India are certainly not paying enough taxes. I think corporates are paying fairly reasonable amount of taxes from a global stand point. If you just increase tax rates, it is going to further depress investments and they are going to further depress foreign direct investment. There is no benefit in doing that. Therefore, we have got to look at taxing potential individuals more because, as everybody has already opined, our tax net is very narrow. That's the area the central government must look at. ◆

> My greatest concerns...the first and most important, is job creation...the second is the complete, almost terminal, crisis that Indian agriculture is in...then comes the issue of food inflation – **we are actually getting less and less on the plate for a large segment of our people**
>
> Harsh Mander, Director, Centre for Equity Studies

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Reality Bites

The rural economy is reeling under erratic monsoons and unfriendly government policies. As a result, India Inc, too, is feeling the heat as rural consumption shrinks to a multi-year low.

By AJITA SHASHIDHAR & DIPAK MONDAL

It is a Saturday afternoon, and all lanes of Ganori village, 60 km from Aurangabad, are leading to the weekly market. The elders, in resplendent pink turbans, are having a heated discussion. The topic is local politics. They are worried. Rains have eluded the village for the third year in a row. The people are struggling to make ends meet.

Take Devidas Nagorao Dhangore, who grows cotton and *bajra* on his five-acre farm. When rainfall is good, he earns ₹40,000 a year. For the past two years, he has been earning half of this. Last year, he bought seeds worth ₹50,000 on credit. He has been unable to pay up. That's not all. Two years ago, when harvest was good, he had bought a bike. He has not been able to repay this loan either. "I need more loan but no bank is willing to lend me money," he says.

In the nearby Phoolambri village, Ajinath Tandure employs 20 labourers on his farm. In the past two years, his farm income has halved, and he is unable to pay the workers. "In good times, I had given them loans. Now, I am deducting from their salaries the money I had lent them."

Nearly 1,500 km away, in Bihar's Vaishali district, Satyendra Singh, 46, owns a five-acre farm. Unseasonal rain in early 2015 ruined his crop. "I usually produce 50 quintals wheat but got just nine quintals." He is yet to get paid even for the nine quintals that he had sold. After that, monsoons were below normal. "I spent ₹20,000-25,000 on paddy. I am going to be in trouble." The state government promised to pay ₹6,500 an acre to those hit by unseasonal rain but Singh got paid for just one

Rural consumption in a range of products is sliding dramatically.

SHEKHAR GHOSH

acre. "I am still waiting for the rest." It costs ₹30,000-40,000 to plant wheat on a one-acre farm. Singh, obviously, is far from breaking even.

This year, almost everybody living in large swathes of the country not covered by irrigation systems has a similar story to tell stories about lives getting derailed by two consecutive failed monsoons, topped by a government whose policies failed to provide timely help and, in some cases, token minimum support price (MSP) increase, for instance, made matters worse. That all this came right in the middle of a sharp slowdown in construction projects, which hit rural wages, did not help either (see *A Tale of Unending Woes*). Stagnating rural incomes, rising rural consumer inflation and increasing debt burden are taking a toll in large areas of the countryside. The net result: rural consumption in a range of products is sliding dramatically.

The crisis is so deep that its spillover has made the whole economy anaemic. India Inc, for instance, is finding that one of the biggest engines powering it for the past few years rural consumption is not working anymore. It could not have been otherwise as agriculture, after all, contributes 17.4 per cent to the country's gross domestic product, or GDP, and provides direct and indirect sustenance to 49 per cent Indians.

Agriculture growth in the past one year, says D.P. Joshi, Chief Economist, Crisil, has been a paltry 1 per cent; it was 3-3.5 per cent between 2009 and 2013.

Two-wheeler makers, almost half of whose sales are directly dependent on rural demand, have been feeling the heat. Even as scooter sales grew 12.62 per cent in April-December 2015 over April-December 2014, sales of motorcycles and mopeds, whose demand is largely rural-led, dropped 3.42 per cent and 6.38 per cent, respectively. "Market sentiment in some rural areas has been impacted due to various factors, including the curtailment of rural job scheme spends, poor crop realisation and moderating wages," says a spokesperson of Hero MotoCorp, India's largest two-wheeler maker. Hero gets 46 per cent sales from rural markets, and it has witnessed around 8 per cent decline in the past year.

17.4%
Is agriculture's contribution to GDP

Tractor sales, an important barometer of economic sentiment in rural markets, dipped 15 per cent in the last financial year, according to the Tractor Manufacturers Association. In the ongoing financial year, sales have plunged 10 per cent.

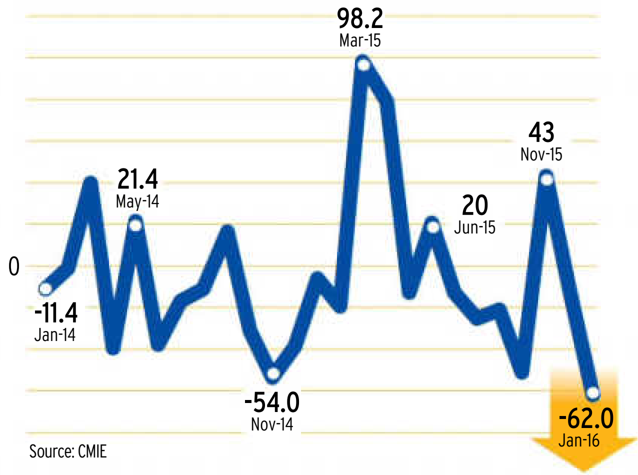
Satyendra Singh of Vaishali had planned to buy an insecticide sprinkler and a tractor this year. He has deferred the plan. Punjeram Ramdas Gadve, a resident of Ghoti village in Maharashtra's Igatpuri district, is bargaining hard

A TALE OF UNENDING WOES

Elusive rains, low farm sector/wage growth and high rural inflation are haunting rural India

1 TWO CONSECUTIVE BAD MONSOONS...

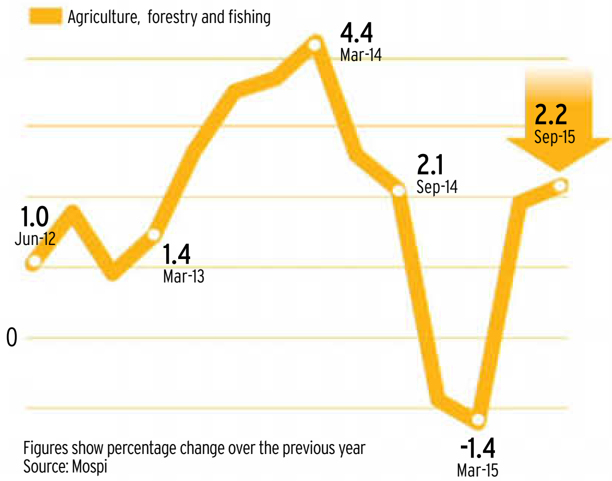
% deviation (rainfall) from normal



Source: CMIE

2 ...CAUSE FARM SECTOR GROWTH TO SLOW

Gross Value Added at Constant Basic Prices (2011/12 prices)



Figures show percentage change over the previous year
Source: Mospi

for a hefty discount on a 110-cc bike that he needs for moving around his 10-acre farm. He even roped in his friend so that they could get a bargain on two bikes. Gadve says he wouldn't have bargained like this two years ago. "My plan was to buy an SUV (sports utility vehicle) but unseasonal rain last year ruined my crop. I lost ₹25,000 per acre," he says. The Hero dealer at Ghoti, Amol Mende, says he can't afford more discounts. In 2014, he had sold 1,200 bikes. In the first seven months of 2015, he had managed only 100. In 2014/15, domestic motorcycle sales had risen 2.5 per cent compared to the average of 13 per cent in the preceding five years. The year 2015/16 may be worse if we go by the current level of sales in rural areas.

Such a sharp dip in consumption is bad news for the economy as 68-70 per cent out of the country's 1.2 billion people live in rural areas. These areas account for 55 per cent consumption and one-third savings.

R. Ramkumar, Professor and Dean (School of Development Studies), Tata Institute of Social Sciences (TISS), says rural India contributes 35-40 per cent to the country's GDP. "Its sheer size makes it impossible for us to ignore it. GDP growth has to be influenced by the largest segment of the population. Agriculture accounts for half the total income in rural areas. So, what happens to agricultural income is important as rural income drives rural demand and rural demand drives industrial growth."

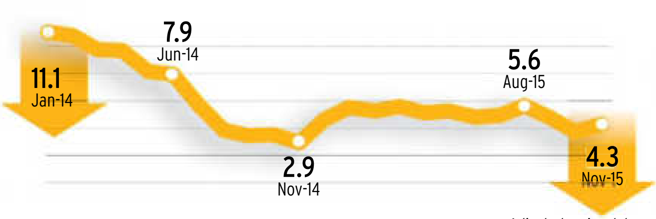
Sometime Ago

Rural India was booming till a year-and-half ago, especially between 2008 and 2013. According to an Accenture report, the monthly per capita spending of rural consumers rose 17 per cent between 2010 and 2012; urban spends grew just 12 per cent during the period. From tractors and specialised seeds to two-wheelers and LED TVs, rural consumers wanted them all.

"There were a lot of goods rural India did not buy much before 2000.

4 ...CAUSING RURAL INCOME GROWTH TO COME TO A STANDSTILL...

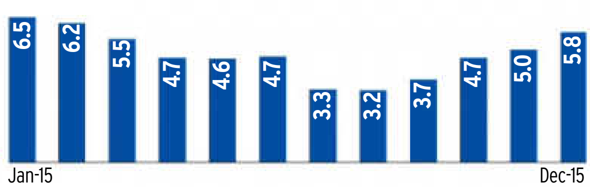
Average wage increase (%) in rural India for men



Adjusted series data

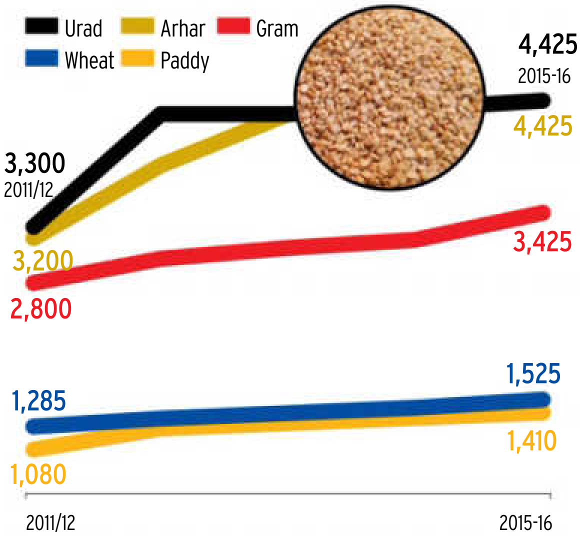
5 ...EVEN AS RURAL INFLATION CONTINUES TO BITE

Retail price inflation (in%) for rural labourers



Source: CMIE

3 MEANWHILE, THE GOVT DOES NOT RAISE THE MSP OF CROPS...



Figures are minimum support prices in ₹/quintal. Source: CMIE

People are even cutting down on consumption of everyday items

PHOTOGRAPHS BY RACHIT GOSWAMI

Then, rural demand for things such as two-wheelers and anything to do with construction and personal care grew significantly," says Abhijit Sen, a former member of the Planning Commission.

Consumption patterns changed after 2004, says Pronab Sen, Chairman, National Statistical Commission. "Agriculture prices rose faster than non-agriculture prices and rural wages grew faster than agriculture prices. There was income redistribution from urban to rural areas and in rural areas from landed to non-landed,"

So, when Mondelez India, the maker of Cadbury chocolates, started to focus on rural areas in 2012, it started with ₹5 and ₹10 packs. It was surprised to find enough takers for its premium offerings, Silk and Celebrations, priced over ₹100. "People watched same programmes, same ads, generating similar aspirations," says Sunil Taldar, Director (Sales & International Business), Mondelez India.

"A rural customer is also not willing to compromise on quality. While 90 per cent consumers in rural areas may not have much purchasing power, the rest 10 per cent are exposed to the best in the country," says a Tata Motors spokesperson.

Policies That Worked

The spurt in consumption in rural areas around the middle of the last decade was not just due to the rise in farm yields. It also had to do with government schemes such as the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) that promised to pay one person in a rural family a fixed wage for 100 days in a year. The exact wages vary from state to state, though the average right now is around ₹170. "When MNREGA started in 2008, the wages were ₹60 per day. Today, they are around ₹170. That's how rural incomes went up," says Madan Sabnavis, Chief Economist, CARE Ratings. Added to this was the increase in MSP of over 9 per cent a year between 2009 and 2013. Tractor sales, as a result, rose over 50 per cent during the period. The farmers also started buying high-quality inputs such as seeds.

The period between 2009 and 2013 saw farmers going for massive upgrades, says Balram Yadav, Managing Director, Godrej Agrovet. "When prices of farm output rose, productivity became paramount. Therefore, the farmer started investing in technologies and products to de-risk his business." Therefore, if a farmer earlier bought Type-III cattle feed, priced at ₹14 per kg, he didn't hesitate in investing in Type-1 feed, priced at ₹24 a kg. Yadav says five years ago, Type III used to account for 75 per cent sales. Now, Type-I accounts for 75 per cent sales.

It was boom time for the infrastructure sector too. Road and other infrastructure projects required labour. This was an additional income source for the rural population.

"Two years ago, everyone was growing in rural India. People had surplus money for their aspirations. Some bought land and gold, some invested in post office savings and bank deposits. Many bought two-wheelers and second-hand cars," says Ramesh Iyer, Managing Director, Mahindra Finance, the consumer finance arm of the Mahindra Group that focuses on rural markets.

That fairytale has now come to an end. If weather was not bad enough, the economy as a whole, including infrastructure projects, has slowed. Though road projects have picked up somewhat of late, Crisil's Joshi says the takeoff is not strong enough to impact job generation.

"The size of infrastructure works has reduced. Cash flows have got stretched. So, the entire consumption story has come under pressure," says Iyer of Mahindra Finance, whose profit after tax fell 37 per cent in the third quarter of 2015/16. "Contractors' payments are not coming from government agencies. So, they are unable to pay their labourers, and the surplus they have is shrinking. This is affecting their ability to service the loans," he says.

In 2014/15, motorcycle sales grew 2.5 per cent compared to an average of 13 per cent in the preceding five years

The other reason for slow income growth is fiscal restraint by the Centre to control inflation. The BJP government, according to a report by Moody's Investor Service, has kept a tighter rein on MSP than the earlier government. The report says that in June 2015, for instance, the government announced a 3.7 per cent increase in MSP for paddy, much less than the 9.1 per cent average annual rise between 2019/10 and 2013/14.

"The policies are against the farmer," says Ambas Gunaji Jadhav, a farmer from Phoolambri village in the Marathwada region of Maharashtra who grows cotton and maize. Jadhav says cotton prices have fallen from ₹7,000 to ₹3,000 a quintal in the last one year while maize prices have risen from ₹800 to ₹1,000 a quintal.

The Moody's report says that the MNREGA expenditure was ₹36,030 crore in 2014/15, down from ₹39,780 crore and ₹38,800 crore in 2012/13 and 2013/14, respectively. Rajendar Ishwar, a farm labourer in Waki village in Nasik district of Maharashtra, says his wages have not risen for the past two years. The land owner, he says, pays him ₹150 per day. This also has not been regular of late due to crop damage. He now works as an auto-rickshaw driver in Nasik and earns ₹150 per day. "I have heard about the MNREGA but don't know what it means."

In Bihar, though a lot of villagers we met were enrolled under the MNREGA, they said money seldom reaches them. Siyaram Singh, a labourer in Vaishali district, says he is enrolled under the MNREGA but does not get either work or money. Most of the money, he claims, is pocketed by local officials.

However, Ramkumar of TISS attributes the dip in consumption to shrinking public expenditure and not just the cut in MNREGA allocation or lower MSP increases. "It's part of a larger decline in government expenditure as a share of GDP after 2011. After Pranab Mukherjee left and P. Chidambaram came (as finance minister), the austerity drive came back to the agenda. As a result, MNREGA also suffered. What you see in rural areas is the result of five years of shrinking public expenditure."

MNREGA, says Abhijit Sen, covers just 2 per cent rural population. "How much can ₹30,000 core do for a country like ours?" he asks. He says what mattered earlier was the construction boom. "When rural incomes were growing at 6-7 per cent (real rate of growth), they (rural folks) themselves were building houses. Both urban and rural construction boom led to high demand for labour."

Changing Patterns

Fall in incomes is making people defer purchases. Om Prakash Yadav, who works as a computer operator in Uttar Pradesh's Azamgarh district, earns over 50 per cent income from agriculture. He was hoping to buy a car this year. However, with his crop getting hit, he has deferred the plan. "My wife is likely to get a job. We will probably be able to afford the loan instalments after that," he says.

Devidas Nagorao Dhangore of Kanori village in Marathwada wants to replace his 10-year-old tractor. "If rains are good and the harvest is decent, I will first repay my current loans than buy a tractor." In 2014/15, tractor sales had fallen 13.1 per cent.

Rajesh Jejurikar, CEO, Mahindra Farms, says while 2013/14 saw 21

per cent growth in tractor sales, 2014/15 was bad. In 2015, the overall market for tractors contracted 14 per cent due to deficit rains. Though Mahindra Farms registered 47 per cent growth in November 2015 due to festivals, sales grew just 1 per cent in January this year. In September 2015, the sales had dipped 37 per cent. "Sentiment plays an important role. It is decided by prospects of good monsoon, rise in MSPs, and so on," he says.

Mangal Singh Pawar, Managing Partner, Ratnaprabha Auto Agencies, the dealer for Mahindra tractors in close to 1,200 villages in and around Aurangabad, says sales have declined over 50 per cent in the past couple of years.

Similarly, domestic light commercial vehicle, or LCV, sales fell 12 per cent in 2014/15. J.K. Sahay, Manager, Tirhut Automobiles, the dealer for Ashok Leyland LCVs in Bihar's Muzaffarpur district, says dip in rural incomes has hit demand for pick-up trucks and mini-buses in the past one year. In the Marathwada region, dealers are reporting a 50 per cent dip in TV and fridge sales.

In these markets, such as areas around Nashik or in Bihar's Vaishali, there is a clear trend of people going for cheaper options. Harshal Kulthe, who runs a consumer electronics shop in Ghoti village near Igatpuri, also sells a plethora of local brands such as Iconic, Melbon and Hilton. Kulthe says while sales of established brands have fallen 20 per cent in the last one year, sales of local brands have risen over 30 per cent. "All the national brands are offering steep discounts, but still there aren't any takers," says Kulthe.

Dinanath Modanwal, who owns an electronics shop in a village near Jaunpur in UP, echoes Kulthe's views. He says local television brands such as Tellex, Texla and Beston have a lot of takers.

In rural markets, such as areas around Nashik or in Bihar's Vaishali, there is a clear trend of people going for local electronics brands that are cheaper

C.M. Singh, COO, Videocon Industries, says in 2011/12 and 2012/13, rural sales were growing 35-40 per cent. This has now come down to 8-10 per cent. "We have come up with 16-inch LED TVs priced at less than ₹8,000 and 150-litre refrigerators for rural markets. There are no takers for these. People don't want to buy unless it is really necessary." Consumer durables sales have fallen 30 per cent in the past one year.

Such down-trading is happening across categories. Kalpana Ajinath Tandure, a resident of Kanori village in the Marathwada region, used to buy either Wheel detergent or a Rin bar to wash clothes till about a year ago. With prices escalating and her husband's income falling, she now buys detergent from the weekly market where she says she gets Wheel loose. "I have stopped stocking for the whole month," she says.

Satyendra Singh of Naamedih village in Vaishali, whose family uses

The size of infrastructure works has reduced. Cash flows have got stretched. So, the entire consumption story has come under pressure

RAMESH IYER/ MANAGING DIRECTOR/ MAHINDRA FINANCE

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www.sleepwellproducts.com • Helpline No./Institutional Enquiries: Int-91-(0)-120-4512260 • Toll Free: 1800 103 6664 personal care brands such as Lux, Clinic Plus and Fair & Lovely, doesn't want to replace these brands. "If I buy any soap other than Lux, my children start complaining," he says. So, he has started buying smaller packs.

Local Brands Ahoy!

Around 55 km from Nasik, in a village called Waki, Kiran Kale, who owns a grocery shop, struggles to sell branded items. Biscuits in the village are synonymous with Parle G and Monaco. Apart from grocery items like sugar, tea and flour, the store has a few one-rupee sachets of Clinic Plus shampoo, covered by dust. Kale says there are hardly any takers for them. "People buy biscuits only when they have visitors, but with harvest not being good, there are no takers. Shampoo used to be in demand, but not now," he says.

However, one thing that the people consume a lot are locally-packaged snacks. In fact, Kale's store hardly has any loose snacks (*farsan*). "Packaged *farsan* is more hygienic," says Rajendar Ishwar, a customer of Kale. Therefore, local brands such as Euro Chips, Officer Choice Wafers and Suder Moong Dal, which have a price advantage, do well here.

Similarly, in places in and around Bhimavaram and in parts of East and West Godavari districts of Andhra Pradesh, Meena Bakery biscuits give national brands such stiff competition due to a 15-20 per cent price advantage.

In Andhra, local brands rule the soft drinks market, too. Artos, manufactured in Ramachandrapuram in East Godavari district, reportedly has a higher market share in the region than Pepsi and Coke.

In Bihar's Vaishali, a detergent brand, Ganga Active, made in Hajipur, shares shelf space with brands such as Wheel and Ghadi and sells more than both, claim locals. The district also has a local snack brand, Njoy chips, which again sells more than Bingo and Lays.

Unsystematic Change

TISS' Ramkumar says rural income growth in the past few years happened by chance. He says rural India has never seen any systematic growth in incomes. He says 33 per cent of the world's chronic poor live in India and their incomes are as low as ₹26 per day. He says there has never been a conscious effort towards land reforms, compulsory education or giving people a social security net.

"Healthy development of capitalism has always been preceded by a transformation in the agricultural sector. In India, capitalism has hardly grown as the rural market is under-developed," he says.

So, the last decade's growth, say economists, was driven by a rise in government expenditure, apart from high global commodity prices that increased farm incomes. The government also started spending heavily on infrastructure, increasing rural incomes.

S. Chandrasekhar, Associate Professor, Indira Gandhi Institute of Developmental Research, says in 1993/94, six million people used to criss-cross urban-rural boundaries per day, which rose to over 25 million a day by 2011/12. "Therefore, clearly, the future rural consumption will be a function of whether India is able to invest in roads and build an affordable transport system so that people can go where jobs are available," he says.

Now, with government expenditure on infrastructure and agriculture under pressure, and global commodity prices hitting a low, rural incomes and, consequently, consumption have hit a dead end. "Rural incomes did go up, but as I said, not due to systemic transformation of rural areas," says TISS' Ramkumar.

Desperate Moves

Rural sales of Parle fell over 12 per cent in 2014. In 2015, they were flat. Other FMCG brands are also feeling the pinch. Hindustan Unilever is offering a ₹2 discount on a 200-gm bar of Surf Excel. Santoor is offering a pack of three soaps for ₹50, helping the consumer save ₹5. Parle Products has been offering extra grams in every pack of Monaco biscuits.

However, such incentives, says Dilip Patni, a *kirana* store owner in Phoolambri village of the Marathwada region, rarely work. He says in an environment where consumption has dipped almost 70 per cent, people don't get swayed by such offers and buy only what they need.

Mayank Shah, Deputy Marketing Manager (marketing head of the biscuits business), Parle Products, admits that deep discounting is not working in rural markets. "Rural buying patterns are different. They buy what they need, especially when the going isn't good."

Varun Berry, Managing Director, Britannia Industries, doesn't believe

> *The slowdown is part of a decline in government expenditure as share of GDP. After Pranab Mukherjee left and P.Chidambaram came, the austerity drive came back to the agenda*
>
> **R. RAMKUMAR** / PROFESSOR AND DEAN (SCHOOL OF DEVELOPMENT STUDIES) TISS

> *The period between 2009 and 2013 saw farmers going for massive upgrades. When prices of farm output rose, productivity became paramount*
>
> **BALRAM YADAV** / MANAGING DIRECTOR/ GODREJ AGROVET

in deep discounts. "Most brands can afford to offer extra grams as commodity prices are low. But once input prices rise, they will have to increase prices, and that's when consumers will move away from them."

Harsh Agarwal, Director, Emami, says the good news is that high consumption levels of the past few years have made rural consumers more aspirational. He says the past one year has seen a dip in demand in both rural and urban areas. "When incomes have fallen, the task of marketers is to ensure that they offer products that are affordable."

Iyer of Mahindra Finance agrees that the spell of prosperity has made the rural consumer more aspirational. "As of now, they are awaiting good times. Our role is to partner with them and not force them to repay loans when we know they can't. Today, if somebody pays us three times a month, we take money from him three times a month."

For Cadbury, growth in rural areas continues to be three times higher than that in urban markets, says Taldar of Mondelez. He says rural consumers are not down-trading but reducing the frequency of consumption.

One of the worst hit in rural areas is Coca-Cola India. Both beverages and chocolates fall in the discretionary category and are among the first things people stop buying in a slowdown. Coca-Cola India, says its spokesperson, has been offering beverages in smaller packs and at lower price points. Have these initiatives worked? While the company's spokesperson chooses not to comment, the *kirana* store owner at Phoolambri village says though the company has been trying to make its products affordable, they are not finding many takers.

The automobile companies, on the other hand, are merely waiting for the good times to come. Pawan Munjal, CMD and CEO of Hero Motocorp, says the dip in rural consumption has severely hit his company. "Months have passed and we have not seen double-digit sales growth," he says.

For Tata Motors, 50 per cent sales of Tata Ace and Tata Magic are in towns with population of less than 100,000. The company's spokesperson says poor sentiment in these markets has hit the entire industry.

Even as scooter sales grew 12.62 per cent in April-December 2015, sales of motorcycles and mopeds dropped 3.42 per cent and 6.38 per cent, respectively

"However, with the government increasing spending on infrastructure, we are looking forward to the second half of the financial year," he says.

With large areas experiencing a rainfall deficiency of over 50 per cent, rural consumption will in all likelihood continue to be low. However, the dip that the industry is brooding over is actually restricted to less than half of rural India. Economists say rural consumption is restricted to just 45 per cent of Indian villages. The remaining 55 per cent have hardly ever had a consumption story as the big brands have not been able to reach out to this segment. "These are markets that don't have good road infrastructure. Distributing products there is fairly expensive," says B. Krishna Rao, Product Manager (head of the snacks business), Parle Products.

So, while one may blame poor monsoon or the current economic scenario for low incomes in rural areas, economists say the problem is far more deep-rooted. "We have built a weak, stunted and deformed capitalist market, and unless we do something drastic that increases incomes and, thereby, consumption, these ups and downs will continue," says Ramkumar of TISS.

With erratic rainfall becoming a way of life, Joshi of Crisil feels the government should urgently look at drought-proofing the economy.

The government indeed has to do a lot of re-thinking about rural India. ◆

Additional reporting by E. Kumar Sharma, Nevin John and Chanchal Pal Chauhan

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The Whole BIT

The revised model text for bilateral investment treaties has addressed many concerns, but to avoid litigations, India must renegotiate existing treaties on the basis of the new norms.

BY JOE C. MATHEW

On December 17, 2015, US-based Philip Morris, the manufacturer of iconic cigarette brand Marlboro, lost a legal battle against the Australian government in an international arbitration tribunal. The company was trying to challenge an Australian law, which was legislated from a public health perspective to discourage the promotion of tobacco products. The Australian government had limited the use of brands, logos and trademarks on cigarette packs sold in the country. Philip Morris argued that the law harmed its investment interests in Australia.

The global tobacco giant was empowered to drag the Australian government before a tribunal set up under the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules on the basis of an agreement that the country had earlier signed with Hong Kong. The Investment Promotion and Protection

Agreement (IPPA), signed by Australia in 1993, had a provision for an investor-state dispute settlement (ISDS) mechanism. Foreign investors could invoke this provision to sue Australia or Hong Kong (depending on who invests where) if any policy or regulatory decision in the host country harms the business interests of investors.

Well, technically, the company that complained against Australia was not a US entity. It was Philip Morris Asia (PMAL), a Hong Kong-based corporate body that manages the parent company's business interests in the Asia Pacific. PMAL also owns 100 per cent equity in its Australian affiliate, Philip Morris Limited. This made it possible for a battle between a Hong Kong company and the Australian government.


VIVAN MEHRA

The Australian government won the case only because the tribunal felt that it had no jurisdiction to hear the case, prompting Marc Firestone, Senior Vice President and General Counsel, Philip Morris International, to state that the "outcome hinged entirely on a procedural issue that Australia chose to advocate instead of confronting head on the merits of whether plain packaging is legal or even works".

Australia was perhaps lucky, but countries entering into similar bilateral investment treaties with ISDS provisions are not always so. At least, India was not.

A day before the Philip Morris verdict, on December 16, 2015, the Union Cabinet chaired by Prime Minister Narendra Modi approved a new model text for the Indian Bilateral Investment Treaty (BIT), the Indian version of Australia's IPPA. India had lost a couple of arbitrations in similar situations and was threatened with many more, simply because the agreements signed on the basis of its existing model draft, a 23-year old draft, had not worked to the country's advantage. The revision to the text was an attempt to plug the gaps in the earlier provisions. Now, the improved version will not apply to new Bilateral Investment Promotion and Protection Agreements (BIPA), but also be used to re-negotiate the existing ones.

> "The government neither finds the allegations acceptable, nor agrees with their contention that tax disputes can be resolved under the said agreements"
>
> Jayant Sinha
> Minister of State of Finance

India's Bit Woes

The most recent BIPA-linked case India lost was against one of its own. On September 29, 2015, Bangalore-based Devas Multimedia said that it had won an arbitration in an International Chamber of Commerce (ICC) tribunal against Antrix Corporation – the commercial arm of the Indian Space Research Organisation (ISRO). The tribunal asked Antrix to pay $672 million to Devas for "unlawfully" terminating a February 2011 contract to use spectrum (airwaves) from satellites. The India-Mauritius BIPA came in handy to the three Mauritius-based investment companies, which had owned significant shares in the Indian company. Devas challenged the decision and sought penalties for the lost business opportunities.

This was the second instance where India was being penalised for allegedly not honouring the investment interests of the companies that put in money in the country on the basis of BIPA. In 2011-end, India had tasted the bitter side of BIPA for the first time when an

I. INDIA'S BIT WOES

Firms that moved tribunals against Indian government

White Industries, Australia; **Telenor,** Norway; **Sistema,** Russia; **Vodafone,** UK; **Nokia,** Finland; **Children's Investment Fund,** UK; **Devas Multimedia,** India

II. HIGH FIVE

The model text for BIT 1993 vs the 2015 revised version

1 DEFINITION OF INVESTMENT

1993: The draft was very broad

2015: It has been made more specific

WHY IS IT SIGNIFICANT?

Not every investment comes under the BIT definition. For instance, now, portfolio investments or hot money flows will not be considered under BIT

2 TAXATION

1993: Taxation was covered

2015: Taxation is not covered any more

WHY IS IT SIGNIFICANT?

Many cases, including that of Vodafone, were tax-related. Now, any law regarding taxation, including measures taken to enforce tax obligations, will not be covered under BIT

3 NATIONAL TREATMENT

1993: There were no specific guidelines to limit its scope

2015: Clear guidelines have been introduced

WHY IS IT SIGNIFICANT?

Treaty shall apply only to decisions taken by the Central government. Investment sops by states or local bodies will be out of its purview. This will result in competitive spirit among states to offer sops to attract investments

4 MOST FAVOURED NATION (MFN)

1993: MFN clauses linked investment agreements by ensuring that parties to one treaty provide treatment no less favourable than the treatment they provide investors under other treaties

2015: Deleted

WHY IS IT SIGNIFICANT?

In White Industries vs India, the Australian investor, relying on the MFN provision of India-Australia BIT, sued India using a clause in the India-Kuwait BIT. Now, foreign investors will not be able to borrow beneficial provisions from other Indian BITs (treaty shopping)

5 INVESTOR-STATE DISPUTE

1993: Petitioners could approach international tribunals without waiting for verdicts from domestic courts

2015: Need to seek domestic remedies for at least five years before approaching international forums

WHY IS IT SIGNIFICANT?

Arbitration will no longer be the first option for investors

Australian mining company invoked the provisions under the India-Australia agreement to get a verdict in its favour. The White Industries Australia versus Republic of India case resulted in Coal India paying Australian dollar 98,12,077 (around ₹45 crore) for cancelling a contract it had with its erstwhile mining partner.

Similarly, companies such as Vodafone, Nokia, Cairn Energy and Vedanta have issued notices under BIPA with India against its retrospective taxation moves. The companies alleged that the tax proceedings undertaken by the income-tax authorities under the provisions of the Income-tax Act, 1961, amounted to violation of obligations by India under BIT, and international arbitrations are needed to resolve such disputes that gains strength out of those agreements. Jayant Sinha, Minister of State of Finance, says that the government "neither finds their allegations acceptable, nor agrees with their contention that tax disputes can be resolved under the said agreements". However, he adds: "In order to ensure that the interests of India in such arbitration proceedings are protected, arbitrators have been appointed by the government in accordance with the BIPAs."

The Law Commission of India, in an analysis of the 2015 Model BIT draft, points out that there are 14 pending claims made by foreign investors against India, challenging various regulatory measures, including the cancellation of telecom licences and the imposition of retrospective taxes. The latest status of these complaints is not in public domain as the government wants to explore all possible options to settle these cases out-of-court.

Eighty Three and Counting...

India's BIT programme began with the country's attempt to liberalise its economy in the early 1990s. It was meant to increase the comfort level and confidence of foreign investors by assuring a level-playing field in all matters and providing them with an independent forum for dispute settlement by arbitration. BITs, it was hoped, will help project India as a preferred foreign direct investment (FDI) destination while protecting the interests of Indian investors in India's BIT partner countries.

The first BIT, based on a model text prepared in 1993, was signed with the UK in 1994. Around 50 agreements followed before the model text underwent a few modifications in 2003, to become the basis of future negotiations. Till date, the country has signed 83 BITs, of which 74 are in force. India has also entered into Free Trade Agreements (FTAs), which have a dedicated chapter on investment, and are substantially similar to standalone BITs. Eleven such FTAs are in force.

At present, India is negotiating FTAs containing investment chapters with Indonesia, Australia, Mauritius, New Zealand and the European Union. It is also negotiating with Canada for BIT and has an ongoing negotiation


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with the US that began in 2009.

The revised model BIT is meant to be used for renegotiations of existing BITs as well as during negotiations of all future BITs and investment chapters in the Comprehensive Economic Cooperation Agreements (CECA), Comprehensive Economic Partnership Agreements (CEPA) and FTAs.

The primary difference between the model text and the existing BIPA version is to provide a sharper, enterprise-based definition of investment, a refined investor state dispute settlement (ISDS) provision, which will force investors to exhaust local remedies before commencing international arbitrations, and limiting the power of tribunals to awarding only monetary compensation. The new model excludes certain provisions, including government procurement, taxation, subsidies, compulsory licences and national security policies, to preserve the Centre's regulatory authority. But how effective will be the revised text on BIT be in protecting India from future threats?

Kavaljit Singh, Director of the Delhi-based Madhyam, a policy research institute, says that the new text is definitely "better" than the old one, though it will not reduce litigation risks from existing agreements. "We got sued because of the existing version. All 74 BITs are legal documents, and investors can still sue us. Even if these BITs lapse, there is a survival clause attached to it," adds Singh.

Even if a BIT gets cancelled today, the assurances given to investors under that agreement will remain valid for another 10 years. "In other words, even if you renegotiate, it (the provisions in the existing BIT) is enforceable", Singh explains.

Renegotiating the Future

The finance ministry is silent on how it would renegotiate existing agreements. As of now, it seems to be just an intention. The only positive move is the government's decision to put an end to the practice of allowing the commerce ministry to handle the negotiations on the investment chapter in free trade agreements, and restrict the finance ministry's role to negotiations on standalone BITs. From December 28, 2015, the Department of Economic Affairs (DEA) under the finance ministry remains the sole authority to lead all negotiations on standalone BITs as well as investment chapters of CECAs, CEPAs and FTAs, to ensure convergence between trade and investment issues among all stakeholders.

Even if the government decides to renegotiate the agreements, it may not be able to get all the 83 partner countries to agree to it. Countries with less diplomatic and financial clout may agree, but the powerful may not. Even if they do, they would try to push their own set of conditions before reaching for a final settlement. The model law, when looked from an inbound investment point of view, needs a lot of improvement. There are still many loopholes for investors to exploit, but perhaps this can be better explained when one comes to realise that the same rules will also be applicable to facilitate outbound investments. If there is something that helps foreign investors in India, the same rules will also help Indian companies invest in India's BIT partner nations.

> Even if India decides to renegotiate existing BITs, it may not be able to get all the 83 partner countries to agree to it. Countries with less clout may agree, but the powerful would try to push their own sets of conditions before reaching for a final settlement

In this context, the 2015 model text, for instance, has no provision for the government to sue the investor or company in case of a serious fraud as part of a counter measure. It is true that Indian companies having investments abroad were not very keen to have such a mechanism as that would have subjected them to counter actions from host countries in case of any non-compliance. "Right now the government cannot sue private corporations. It (the proposal) was removed altogether in the final draft. But the clause would have brought some level-playing field," says Singh.

With India's dwindling export earnings, and slower-than-expected economic growth, the Modi government has announced its plans to speed up its bilateral and multilateral engagements. Whether it will be backed by stronger investment protection and promotion agreements is something that needs to be seen. During the past few years, significant changes have occurred globally around BITs in general, and investor-state dispute resolution mechanism in particular. India is not alone. South Africa is in the process of changing the way it negotiates investment treaties. Indonesia has finalised its draft. But even if India does it, are we shying away from renegotiating the existing agreements? ◆

@joecmathew

Saffronomics

How the RSS has been influencing the government's economic policies and what it expects from the coming Budget.

By ANILESH MAHAJAN

AJAY THAKURI

Every year, starting late January and continuing until the Budget is presented on the last day of February, a host of delegations representing all kinds of industry sectors, interests and ideologies make their way to the finance minister's imposing North Block office. They all have myriad suggestions that they hope the minister will include in his Budget proposals. This year's procession has begun as well. But this time it includes two delegations whose suggestions will be taken much more

SUCCESSFUL INTERVENTIONS

What the Swadeshi Jagran Manch (SJM) has achieved so far

- Changed government view on genetically modified (GM) agricultural products, blocked GM clinical trials
- Persuaded government to withdraw the new Land Acquisition Bill
- Restrained government from allowing FDI in e-commerce retail
- Prevented government from making changes in patent rules
- Influenced government position on WTO-related issues
- Proposed the setting up of the Micro Units Development and Refinancing Agency (MUDRA) Bank
- Narendra Modi's ambitious programme of Power for All by 2022, influenced by RSS' Antyodaya concept

seriously than most others. On January 28, a five-member team of the Swadeshi Jagran Manch (SJM), the economic wing of the RSS, met Minister of State of Finance, Jayant Sinha. A few days earlier, a delegation of senior leaders of the RSS itself had conferred with Finance Minister Arun Jaitley.

Alongside its commitment to Hindutva and cultural nationalism, the RSS also has very definite ideas on the direction the Indian economy should take, and has been forcefully conveying these to the government from the time the NDA came to power in May 2014. Often the government has listened. Sources maintain, for instance, that the decision last August to withdraw six controversial amendments to the land acquisition bill and leave it to individual states to make changes if any was taken at the behest of the RSS. "We explained to the government that the bill was not good for it politically," says an RSS leader, who does not want to be identified. "Even if the government managed to push it through with the earlier amendments by calling a joint session of Parliament, the states would have to ratify it and that would take another two years."

Similarly, the RSS and the SJM were responsible for the government stopping field trials of genetically modified crops, restraining itself on labour reforms, which would have made hiring and firing easier, and taking the position it did on food security at the World Trade Organization (WTO). "For labour reforms too, we pushed the government to take the state legislature route and leave it to the states to decide how far they want to go," says the same RSS leader. "Anyway, it is the states that have to implement any laws passed relating to labour or land acquisition."

The RSS and SJM had been tracking economic developments closely even during the previous United Progressive Alliance (UPA) regime, often providing BJP leaders then in opposition the inputs needed to question the government's moves. It was Ashwani Mahajan, National Co-convener of the SJM, for instance, who kept track of WTO developments and briefed leaders like Arun Jaitley and Sushma Swaraj for their attacks in Parliament on the stance the then Commerce Minister Anand Sharma had taken at the WTO meeting in Bali, in December 2013. With developed nations at the WTO opposing the developing countries' right to sell food grains at prices lower than the limits prescribed in the WTO agreement on agriculture, Sharma had agreed to a 'temporary peace' clause on the issue, which essentially deferred a decision for four years.

In contrast, at the next WTO meet in Nairobi in December 2014, NDA Commerce Minister Nirmala

INTELLECTUAL THRUST

New think tanks backed by the Swadeshi Jagran Manch (SJM) for specific sectors

Bharat Solar Developers Association (BSDF)
HEADED BY
Bhagwati Prasad
Vice Chancellor, Pacific University, Udaipur

Defence Innovators & Industry Association (DIIA)
HEADED BY
Ashwani Mahajan
National Co-convener of the SJM

National Action Committee on Public Private Partnerships
HEADED BY
Amarjit Chopra and Anil Sharma
Delhi-based CAs

Centre for Economic Policy Research
HEADED BY
Subhash Sharma
Chandigarh-based economist

> *"You need to have a national perspective and national interest in mind while setting an economic agenda. No emerging market can reject FDI outright. But it should come in on our terms and not those of the investors"*
>
> **SESHADRI CHARI**/ BJP MEMBER AND FORMER EDITOR OF THE RSS' MOUTHPIECE, ORGANISER

Seetharaman insisted on India's right to sell food grains at a price it chose and managed to get the US and other nations to withdraw their objections. Mahajan, along with seven other delegates, had accompanied her, continually giving her inputs. "I texted her at once after we succeeded: 'You have done a good job'," says Mahajan.

Last March, at the RSS' Pratinidhi Sabha meeting in Delhi, two heavyweights, Bhaiyyaji Joshi and Krishna Gopal, were assigned the task of coordinating with the government on economic issues. The RSS has also backed a number of think tanks relating to different aspects of the economy to monitor and guide the government. These include the Centre for Economic Policy Research (CEPR) to look into macro-economic issues, headed by Chandigarh-based economist Subhash Sharma; the National Action Committee on Public Private Partnerships, headed by Amarjit Chopra and Anil Sharma, both Delhi-based chartered accountants; the Bharat Solar Developers Forum (BSDF) headed by Bhagwati Prasad, Vice Chancellor of Pacific University, Udaipur, which keeps a close watch on the ambitious solar power thrust of the government and the Defence Innovators & Industry Association (DIIA), a forum for defence manufacturers, headed by Ashwani Mahajan. "These think tanks help us understand the issues involved in different sectors, and thereby assist the RSS top brass, keeping it clued in," says Sharma of CEPR.

"We don't intervene on a daily basis, but if the government deviates from our core agenda, we lodge our protest and put forth our point of view," says a top RSS leader, preferring anonymity. "The current leadership is much more amenable to the RSS' viewpoint than the previous NDA government of Atal Bihari Vajpayee." A veteran BJP leader, who also wants to remain unnamed, agrees. "Under Vajpayee, the RSS managed to get some of its people appointed as heads of government institutions, but failed to influence economic policy," he says. A top union minister, too, acknowledges RSS' shadow over the government. "It gives us inputs, but we take decisions in accordance with government policy."

DIFFERENT STROKES

BJP and RSS have differing viewpoints on a number of issues:

Narendra Modi's Make in India initiative is all very well, but RSS believes the government is too soft on foreign players

Government considers the $62 billion inflow of FDI in 2014 a great achievement, but RSS leaders remain fundamentally opposed to foreign investment

RSS is opposed to government's unwillingness to rake up retrospective tax claims

On goods and services tax (GST), RSS believes that the tax threshold is too low

Budget Direction

So, what does the RSS want in this year's Budget? It is keen that the government continues on its present investment-oriented growth, but is wary about the welcoming stance adopted towards foreign capital. "We are pushing for more investment in the social and rural sectors, more funds for village roads and schools, and rural healthcare," says the RSS leader quoted earlier. On disinvestment, it has underlined that it would prefer retail equity sales of PSU shares and not their strategic offloading to select corporate houses. Its chief reservation is with foreign direct investment (FDI). "The government needs to rethink its premise that only large quantities of FDI can drive growth," says Kashmiri Lal, SJM leader. "Why is the rupee depreciating despite the record FDI inflows of late?" Mahajan wants the government to impose penalties on companies that depend on foreign funds and technology transfer. "The 'Make in India' initiative is laudable, but the government must encourage Indian companies to do so, not foreign ones," he says.

On this score, however, it is unlikely the BJP will listen. As Seshadri Chari, former editor of the RSS' mouthpiece, *Organiser*, but now a BJP member, says: "You need to have a national perspective and national interest in mind while setting an economic agenda. No emerging market can reject FDI outright. But it should come in on our terms and not those of the investors." ◆

@anileshmahajan

JOB HALF DONE

The Indian economy may be expanding at a brisk pace, but job creation in the country has remained sluggish. In fact, the compound annual growth rate (CAGR) of employment has decelerated -- from 2.8 per cent between 1999/2000 and 2004/05 to 0.5 per cent between 2004/05 and 2011/12. Meanwhile, India's workforce has grown at almost 2 per cent annually between 1999/2000 and 2011/12 to 47.5 crore. It is a cause for concern. Indeed, creating job opportunities has to be top priority for the government to ensure that the rapid economic growth is inclusive and equitable.

THE CONTRIBUTION OF ORGANISED SECTOR TO TOTAL EMPLOYMENT IS STEADILY RISING

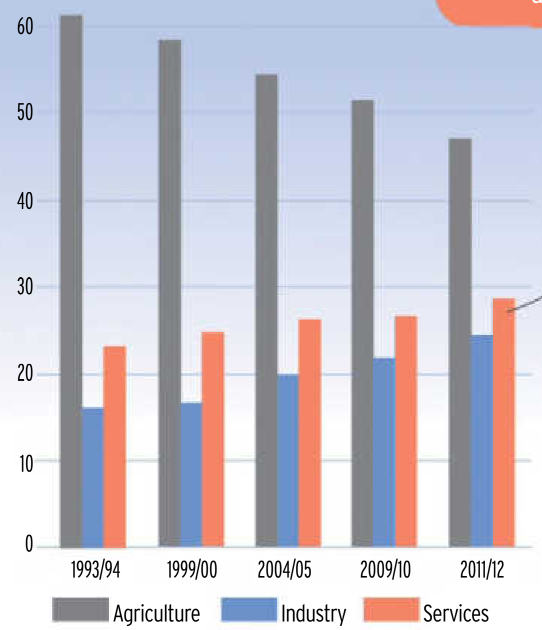
Figures in brackets indicate per cent share; other figures are in million
Source: Niti Aayog

GRAPHICS BY SAFIA ZAHID

SECTORAL SHARE OF EMPLOYMENT

The pattern of the sectoral share of employment has changed over the past two decades with the share of agriculture falling and that of industry and services rising steadily.

Services share in employment is consistently higher than industry over the past couple of decades

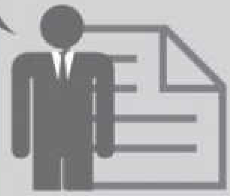


% share in total; Source: NSSO and CSO

UNEMPLOYMENT IN URBAN CENTRES IS DECLINING; IN RURAL INDIA IT IS STAGNANT

Figures are unemployment rates (in per cent) in rural and urban areas on usual status basis; Source: NSSO

94%



WORKERS

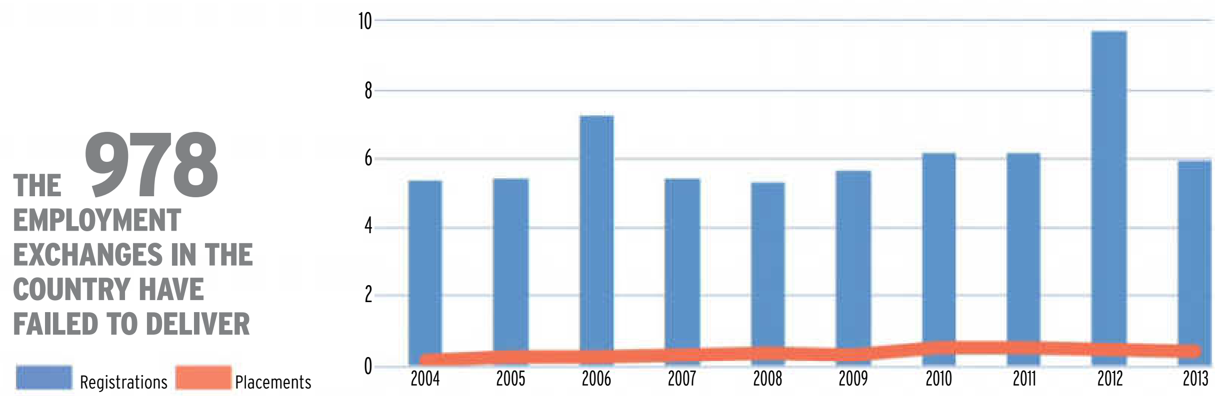
in India are without a permanent job contract. Globally, over 60 per cent of all workers lack any kind of employment contract

% OF WORKERS WITHOUT A PERMANENT CONTRACT

India	>90
China	>90
Australia	<25
Brazil	50-75
Canada	25-50
US	<25
Russian Federation	<25
United Kingdom	<25

Source: ILO's World Employment and Social Outlook 2015 report

THE 978 EMPLOYMENT EXCHANGES IN THE COUNTRY HAVE FAILED TO DELIVER



Figures are in million; Source: Directorate General Employment and Training, Ministry of Labour and Employment

Revenue Roadblock

The government's push for ambitious infrastructure spending is constrained by the country's historically low tax base. By DIPAK MONDAL

AJAY THAKURI

The National Democratic Alliance (NDA) government says the core of its economic strategy is investment-led, and not consumption-led, growth. However, its ambitious plan to invest heavily in infrastructure is being hit by a resource crunch, at the heart of which is the country's extremely low tax base — the proportion of people out of the total population that pays taxes (see *A Narrow Base*).

A lot of income and business activities in India go unreported. Due to this, the government loses a significant tax revenue, both direct and indirect. This is the reason for the country' low tax-to-GDP ratio of 9-10 per cent over the past five years. Brazil's tax-to-GDP ratio is 14 per cent. The figures are 15 per cent for Russia and 25 per cent for South Africa (as per World Bank data). India's peak was 12.5 per cent, touched in 2007/08.

While the government has budgeted for capital expenditure (spending for creation of long-term assets) of ₹2.4 lakh crore for 2015/16, 25 per cent more than the 2014/15 revised estimate of ₹1.9 lakh crore, it has not reduced revenue expenses. Its total expenditure in 2015/16 is estimated to be ₹17.77 lakh crore, 5.7 per cent more than the 2014/15 revised estimate. However, shortage of sources from where it can raise additional taxes means that it has been able to budget for only 1.35 per cent increase in revenue (tax and non-tax) to ₹11.4 lakh crore, leaving a gap of ₹6.24 lakh crore between revenues and expenses. It is this lack of options that is restricting its ability to spend as much on infrastructure as it would like to.

Though experts say that the tax-to-GDP ratio varies a little because of economic growth, the government will have to take serious steps to increase the tax base if it has to meet its long-term development commitments. "It is a cyclical thing. When growth improves, tax revenues go up, and when growth falls, tax revenues go down," says Arvind Virmani, a former chief economic advisor and Planning Commission member. However, to tackle the issue in the long run, there is a need to simplify tax laws to increase compliance, he says.

Most experts and analysts echo Virmani's view. Ganesh Raj, Partner, Tax & Regulatory Services, Ernst & Young, says many tax incentives to companies not only lead to loss of revenue but also litigation. For companies, the effective tax rate is 23 per cent compared to the headline rate of 30 per cent, due to exemptions and deductions. Corporate tax exemptions led to a revenue loss of ₹63,000 crore in 2014/15. The government has announced a road map for removing exemptions and reducing the corporate tax rate from 30 per cent to 25 per cent by 2018/19.

Raj believes the government will axe many exemptions but may not cut corporate tax in this year's Budget. Virmani, however, cautions against tweaking laws just to increase tax collections in the short term. "Tax reforms should ideally be revenue neutral. They should increase collections over the long term through increased voluntary compliance," he says.

The goods and services tax (GST), a uniform indirect tax that will apply across the country, is one of the biggest tax reforms attempted by the government. However, the GST Bill is pending in Parliament due to lack of political consensus.

K.R. Sekar, Partner, Deloitte Haskins & Sells LLP, stresses the need for proper capturing of income and business data. He says the government must look at the Parthasarathi Shome Committee report on tax administration reforms. The committee has recommended a common business identification number for use by all departments -- income tax, customs, central excise, service tax, etc. It has also suggested single registration for both central excise and service tax.

Till such measures are taken, the government will continue to face the problem of resource mobilisation. That's why although its overall tax revenue is up 21 per cent in the first nine months of the financial year, a closer look at the data presents a different picture. The growth is largely driven by 35 per cent higher indirect tax collections, helped by an increase in excise duty on petroleum products (the government could do this because of falling oil prices) and in service tax rate from 12 per cent to 14 per cent. Higher indirect tax collections have partially offset the muted 11 per cent growth in direct tax collections.

Economists warn against over-reliance on indirect taxes to make up for revenue shortfalls. "The public finance theory says the government should rely more on direct taxes than indirect taxes as the latter do not discriminate against taxpayers on the basis of income," says Sunil Kumar Sinha, Principal Economist and Director of Public Finance, India Ratings and Research.

The government had plans to raise ₹69,500 crore this year by selling its stake in public sector companies. But the finance ministry says this will at best get it ₹30,000 crore. The only way the government can fill the revenue-expense gap is through debt, but even here it does not have much choice given the stiff fiscal deficit targets it has set for the rest of its tenure -- 3.9 per cent of the gross domestic product, or GDP, for 2015/16, and 3 per cent by 2017/18. The fiscal deficit was ₹5.56 lakh crore in the first eight months of 2015/16, 87 per cent of the yearly target. The government has till date raised just 50 per cent tax revenue it has

BIG SPENDS

National Investment and Infrastructure Fund to have an annual inflow of
₹20,000 crore

Building of 20 smart cities will require
₹50,000 crore
over five years

₹34,000 crore
needed for bank recapitalisation every year till 2018/19 (India Ratings estimate)

Road construction @30 km/day: The budgetary allocation for 2015/16 was
₹43,000 crore

Seventh Pay Commission expense:
₹72,000 crore

> Though experts say that the tax-to-GDP ratio varies a little because of economic growth, the government will have to take serious steps to increase the tax base if it has to meet its long-term development commitments

budgeted for (after deducting the share of the states).

Challenges Ahead

In 2015/16, the government could still afford higher spending on infrastructure projects, mainly due to savings from the sharp fall in crude oil prices. Brent crude fell from $55 a barrel in April 2015 to $34 a barrel in January 2016, which has made the task of keeping the fiscal deficit within target easier. Falling oil prices helped the government save 42 per cent on its oil import bill in the first nine months of the financial year.

Most of these positives may be missing in 2016/17. There are few chances of further sharp fall in oil prices. It is to be seen if the government increases the excise duty from 12 per cent to 14 per cent, as it did with service tax last year, to move closer to the proposed GST rate of 18 per cent.

While there is limited scope for raising revenue, the government will have to deal with many one-time expenses in 2016/17. For example, the Seventh Pay Commission implementation will mean an additional burden of ₹72,000 crore. The government may also have to recapitalise public sector banks. According to an India Ratings report, it will have to inject ₹34,000 crore into public sector banks every year till 2018/19.

But the biggest challenge is the enormity of funds required for building infrastructure. Even after a 25 per cent increase in the 2015/16 Budget, capital expenditure as a percentage of GDP continues to be only 1.7 per cent, which experts say should be above 2 per cent.

Sinha of India Ratings and Research says, "In absolute terms, the government may have increased the allocation for infrastructure, but as a percentage of GDP, it has been around 1.7 per cent since 2011/12, and this is a cause for worry."

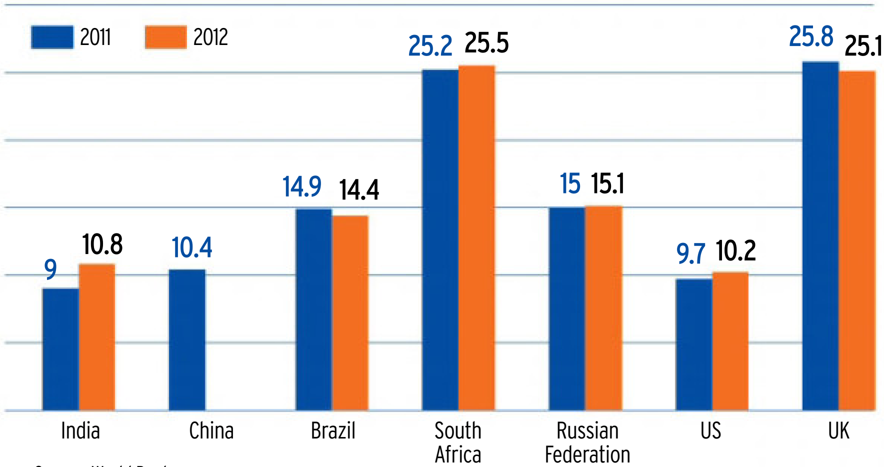
Meanwhile, economists caution against any indiscretion in expenditure. D.K. Joshi, Chief Economist, Crisil, says, "The fiscal space is limited. Therefore, the government has to be more discreet in spending. It will have to select sectors or areas where it gets more bang for the buck, and which have a higher multiplier effect." Virmani says there is a need to get fiscal and monetary policies right.

Though a section of analysts and industry is in favour of the government compromising on fiscal deficit targets for spending more on infrastructure, this course may put the country's ratings under pressure and narrow the room for monetary easing. Only the Budget can bring some clarity on whether the government takes this path or not. ◆

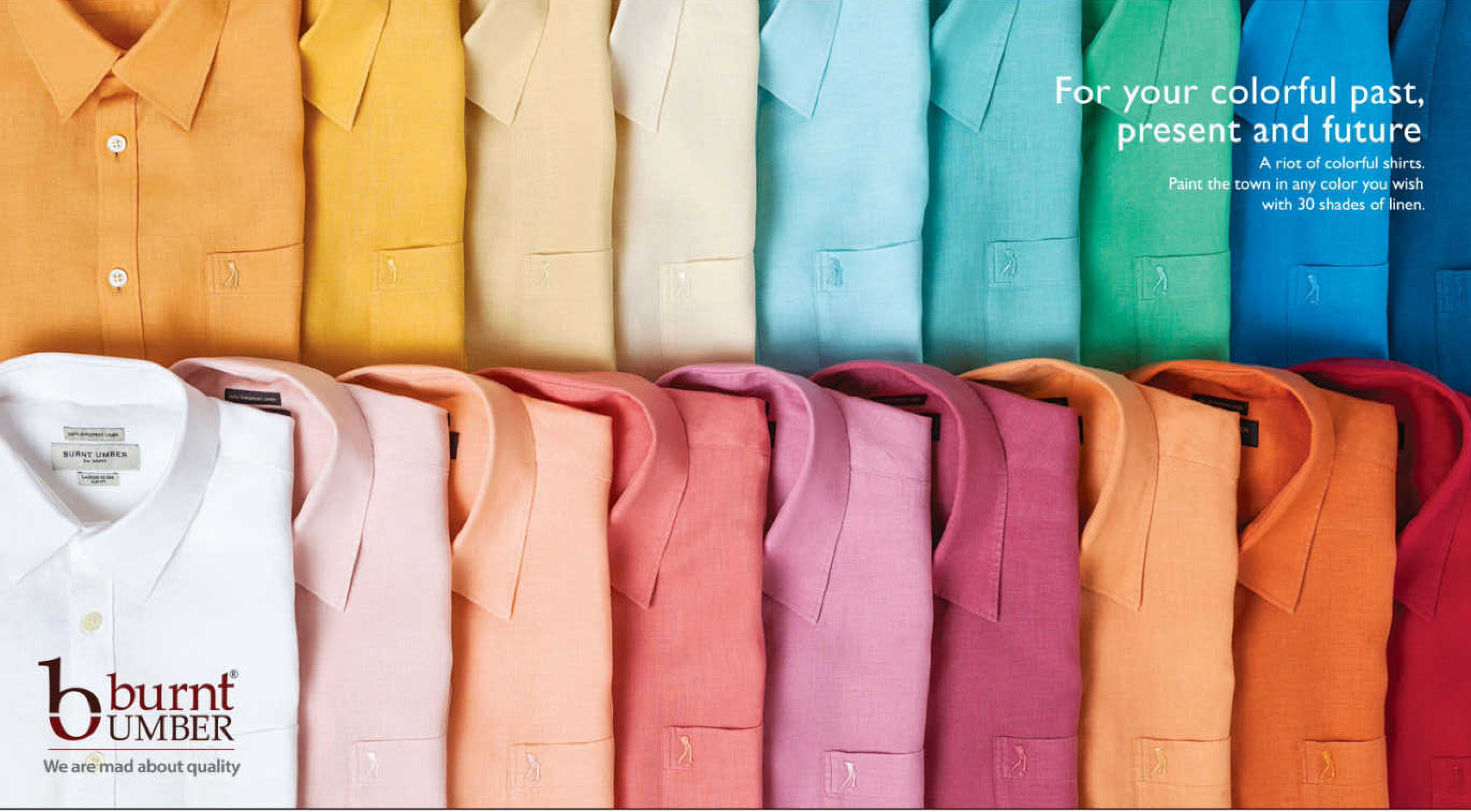
@dipak_journo

A NARROW BASE

Low tax-to-GDP ratio continues to restrain India's ability to build infrastructure



Source: World Bank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Taxman at the Door

RAJ VERMA

An ignorant yet aggressive tax system has e-commerce companies looking for succour.

By GOUTAM DAS

It couldn't have been a trip M.K. Pallai would compare and book. His nightmare began on the night of January 8, a Friday. He was served a two-page arrest warrant at 10 PM, taken to a police station and locked up. By the time he was released on bail, Pallai, the Vice President of Finance at MakeMyTrip.com, had spent three nights in Delhi's Tihar Jail.

The issue was a service tax evasion investigation Pallai's employer was facing. The Director General, Central Excise Intelligence (DGCEI) alleged that MakeMyTrip, an online travel company founded in 2000 by Deep Kalra, had not paid service tax dues, amounting to ₹67.44 crore, that it had collected from its customers. The investigation is still a work in progress, but, according to the Delhi High Court papers, where a civil writ petition was filed by the company, the DGCEI made the arrest even without issuing any show-cause notice. If service tax collected exceeds ₹50 lakh and is not paid to the exchequer for more than six months, it is an offence and can attract imprisonment under Section 89(1)(d) of the Finance Act, 1994.

The developments, nevertheless, have raised the ugly spectre of "tax terrorism" yet again – something the BJP government promised to end. Pallai's arrest has forced the company to cough up ₹40 crore to the government's tax kitty, even as the investigation continues. *The Financial Express* quoted Justice S. Murlidhar – who was hearing the writ petition – as saying: "No show-cause notice, not even a scrap of paper to show that he (the company) owes ₹67 crore to you (the government). This is a remarkable way of collecting taxes. Do you have any document to prove his liability? Now, even without a notice you have collected ₹40 crore. We are getting reduced to a police state, that is what is happening."

The country's mushrooming e-commerce sector   a $17-billion industry that is expected to be $100 billion in five years – appears terrified at this act. The incident has left many pondering: does the government, particularly the bureaucrat, really understand new business

E-commerce: Expectations

INDIRECT TAX

	Issue	Possible resolution
1	**Reverse charge mechanism involving aggregators** It has created an anomaly where the aggregators (e-commerce players) have to discharge service tax in cash and the actual service providers have Cenvat credit lying in their books of accounts	**The concept of 'aggregator' only complicates the overall process. It should be done away with entirely**
2	**Guidance on tax treatment of promotional and marketing schemes** E-commerce companies roll out various marketing and promotional schemes to boost sales/ purchases from their web portals. The present tax regime does not provide adequate clarity/ guidance on tax treatment of such activities	**Specific tax treatment should be provided for various types of marketing/ promotional activities/ spends**

DIRECT TAX

	Issue	Possible resolution
1	**Section 79 – Accumulated business losses** Business losses are not allowed to be carried forward in case there is a change in ownership/ voting power of the company beyond 51 per cent	**Change in ownership of e-commerce companies is driven by genuine business requirements and an exception should be made for them**
2	**Section 194H – Withholding tax on marketing fee/ commission charged** For marketing fee/ commission charged by e-commerce companies, vendors generally deduct tax at source at the rate of 10 per cent under section 194H of the Act	**Since there is no principal-agent relationship between e-commerce companies and their vendors, the former should be kept outside the purview of section 194H**
3	**Section 72 – Carry forward of business losses** Business losses incurred in a given year can be set off against all other heads of income (except salary). The remaining losses are allowed to be carried forward for a period of eight years	**For incentivising companies in e-commerce sector** • **The period for carrying forward business losses should be extended from 8 to 10 years; and** • **Losses brought forward from the previous year should be deemed to be business loss of the year under consideration**
4	**Capital gains on transfer of securities** Currently, there is a disparity in the tax rates applicable for capital gains on sale of listed securities vis-à-vis sale of unlisted securities	**There should be a uniform tax treatment on capital gains from sale of the securities of the company, irrespective of whether these securities are listed or unlisted**

Source: KPMG

models? Anita Rastogi, Partner of Indirect Tax at consulting firm PwC, says there are many reasons for such incidents. "It could be the lack of understanding of the business model, as such transactions are new in India. Two, the indirect tax laws are old and were drafted largely when brick-and-mortar business was the norm. Third, revenue authorities are under tremendous pressure to garner revenue; so, in areas where there could be interpretational issues, tax demands are raised by them to be finally decided by the appellate forum," she says.

MakeMyTrip is a travel portal, an online tour operator. It does not own hotels or run an airline company. But, according to an executive close to the development, the service tax authorities "took up an extremely bizarre argument". "MakeMyTrip is being considered as an airline company. Under the service tax law, a tour operator is one classification and an airline or a hotel company is another. A hotel company is liable to pay service tax on 40 per cent of the value, whereas a tour operator is liable to pay service tax on 10 per cent of the value," the executive says.

So, if you want to go on a three-day weekend trip to Goa with family, MakeMyTrip can sell you a travel and hotel package for ₹1 lakh, for instance. ₹60,000 may go to the hotel and ₹30,000 to the airline. "If ₹10,000 is the commission, MakeMyTrip's service to the customer is to that extent. But the government officials said you collected ₹1 lakh – so you are providing hotel and airline services," he adds.

A similar lack of understanding of new business models has afflicted the marketplace players – such as Amazon and Snapdeal – in a few states. An e-commerce marketplace is a platform that connects vendors with buyers. Marketplace companies don't own the products. They pay a service tax of 14.5 per cent on the commission they make to the Central government, while the vendor selling the goods pays a VAT to the state government. However, in 2014, the Karnataka government asked Amazon India to pay VAT. "In VAT, there is a concept of Consignment Agent. The Consignment Agent of the dealer can sell the product on his behalf. VAT authorities were of the view that e-commerce companies who provide market place could be considered as a Consignment Agent since they have a warehouse to store goods on the sellers' behalf," says Rastogi of PwC.

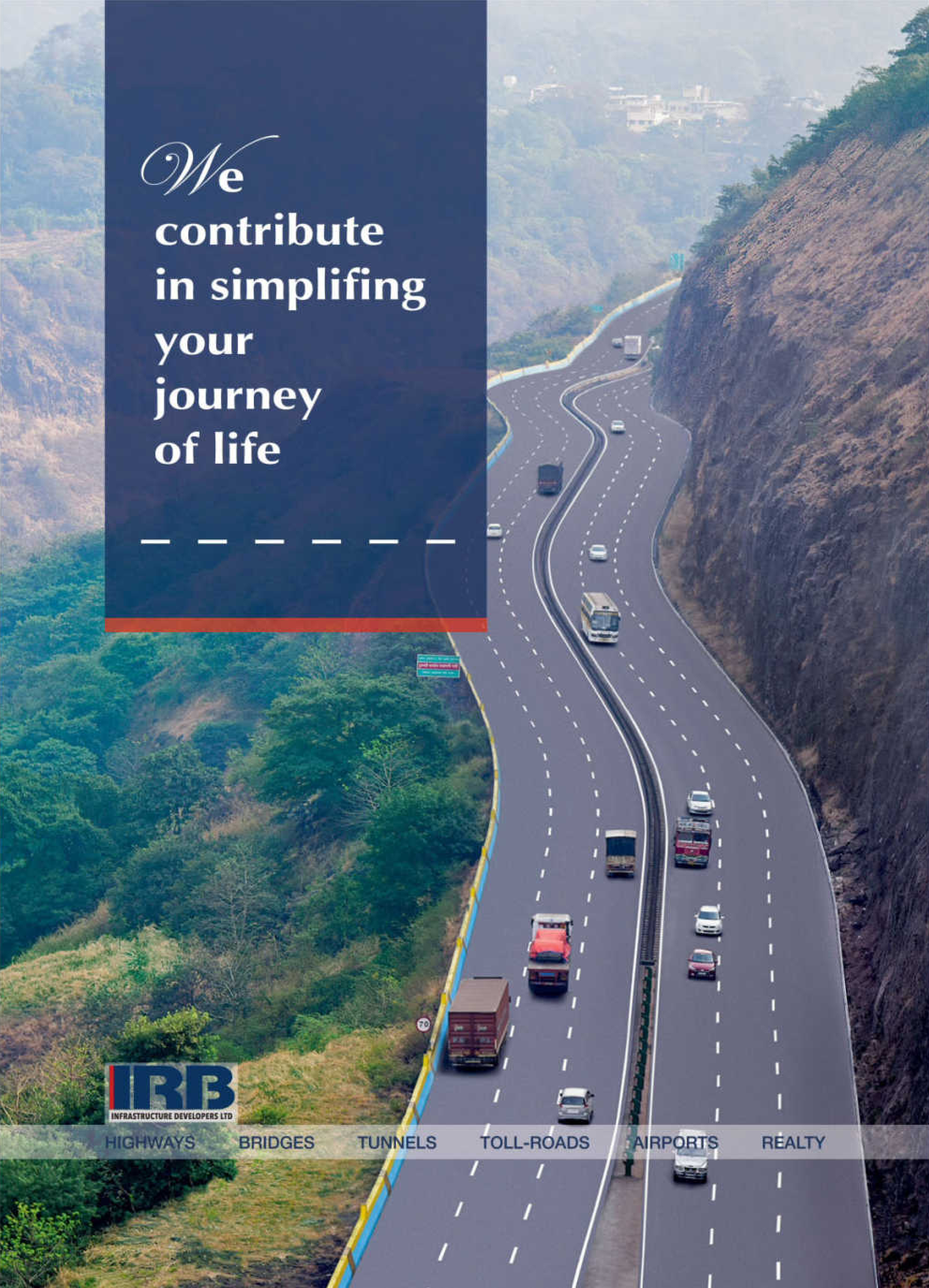
> An e-commerce marketplace is a platform that connects vendors with buyers; the companies don't own the products. They pay a service tax on the commission they make to the Central government, while the vendor selling the goods pays a VAT to the state government. However, in 2014, the Karnataka government asked Amazon India to pay VAT

Different states have begun taxing e-commerce transactions in their own ways, which, in the long run, can be detrimental to the sector. The Uttarakhand Government, for instance, has imposed a 10 per cent 'purchase tax' on e-commerce sales – courier companies have to collect the tax from buyers. It is not clear what the Centre can do in some of these state issues, but e-commerce companies, especially start-ups, want standardisation. "For e-commerce start-ups, taxation needs to be re-calibrated in terms of tax having uniformity across separate regions which might not all come in the fold of GST," says Yosha Gupta, Founder of LafaLafa.com, an affiliate marketing company. The current complex indirect taxation structures not only create a huge burden for start-ups from an accounting and compliance perspective, but also create inefficiencies in the entire ecosystem by creating multiple checkpoints between state movement of products, according to her. "This causes delivery delays and prevents e-commerce start-ups from making their deliveries and processes more efficient," Gupta adds.

E-commerce companies assert that some of the "draconian provisions" in tax laws should go. "Section 89(1)(d) of the Finance Act, 1994, which doesn't provide any safeguards, should be illegal. We have told the government that you either need to drop this penalty provision or provide safeguards in the law. Otherwise, this is not even an Inspector Raj. This is Police Raj," says a consultant close to MakeMyTrip's developments.

He, along with everyone in the sector, would be monitoring every bit of the 2016 Budget keenly. ◆

@Goutam20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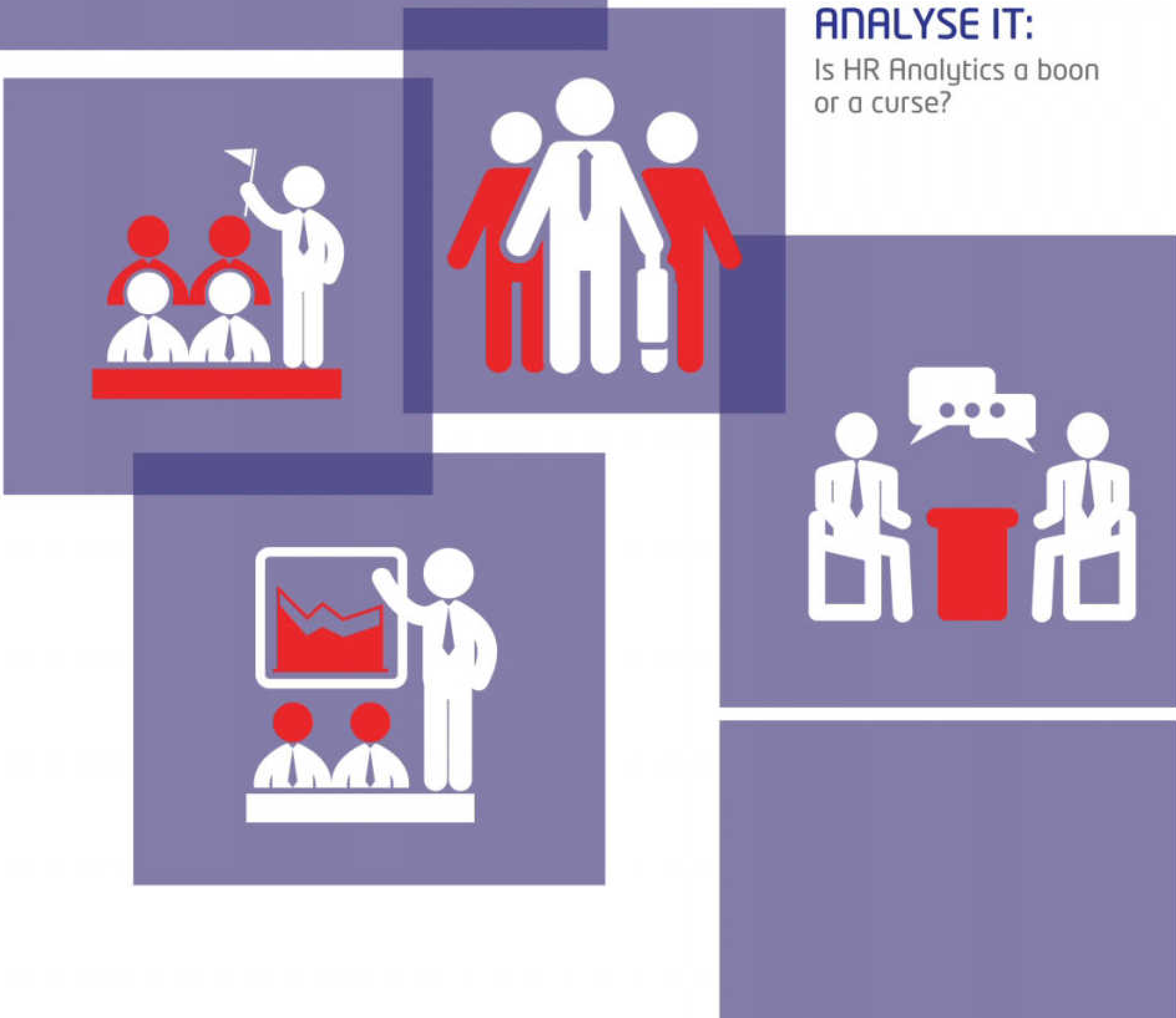
As India Inc. grapples with several challenges on the business front, how are they handling the people aspect? Are hiring trends changing, how are start-ups managing their workforce as their businesses grow, how are companies plugging the skills gap, how is technology impacting HR - are HR analytics of any help? These are core questions facing HR heads in Indian companies across sectors and sizes. What can be done to surmount these challenges? Get the answers at the Business Today Knowledge Forum on Human Resources.

ANALYSE IT:

Is HR Analytics a boon or a curse?



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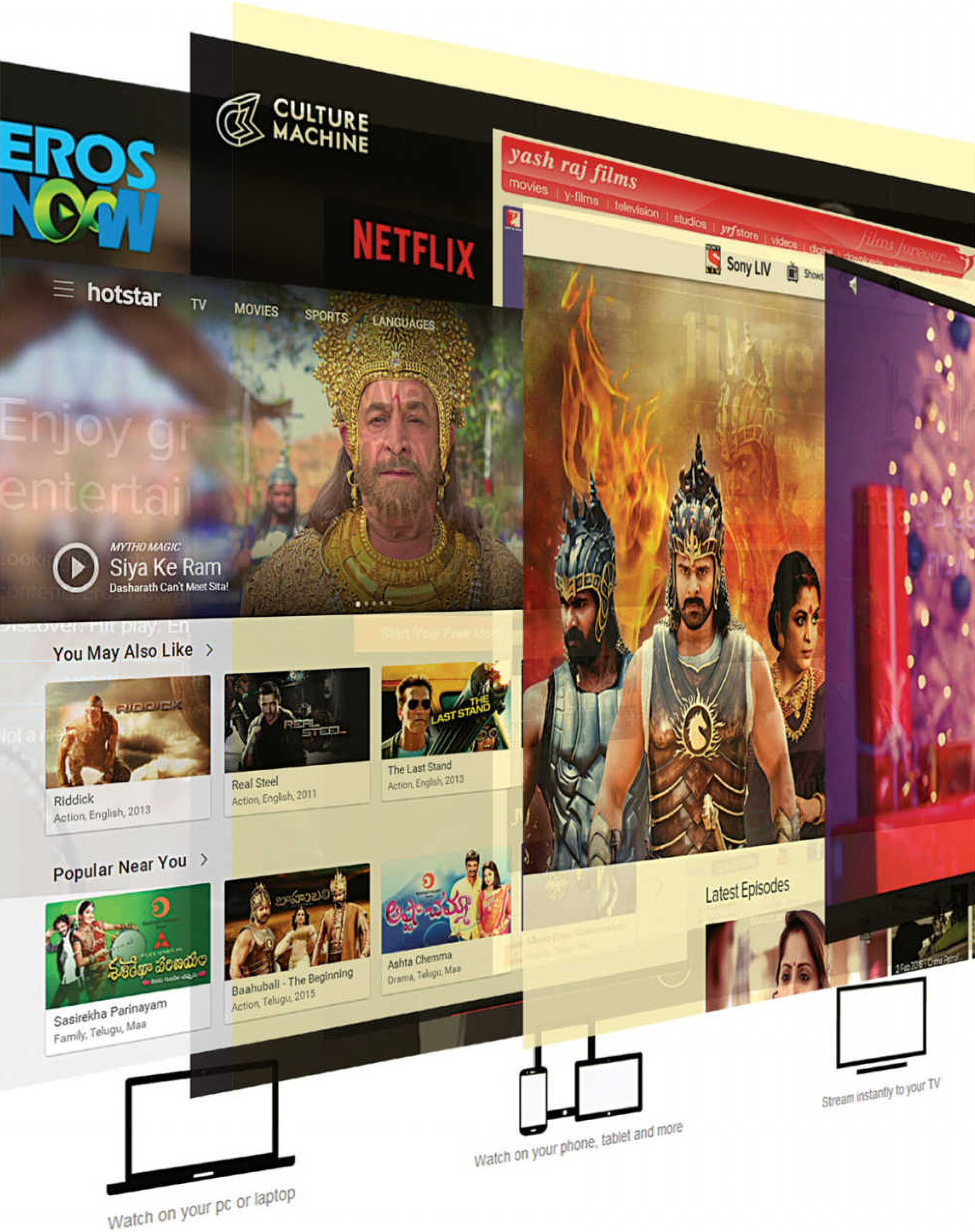
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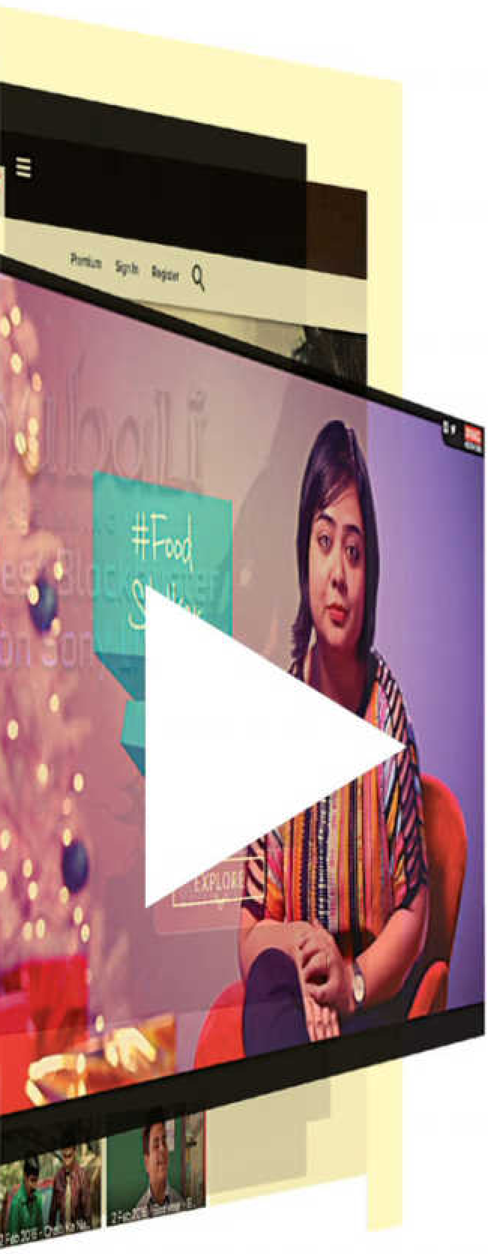


Entertainment companies and start-ups are betting mega bucks on digital platforms.

By **AJITA SHASHIDHAR**

ENTERTAINMENT ON THE GO

If you walked into the office of the CEO of a broadcast company some 18 months ago, the conversation invariably centred around their forthcoming big-ticket television shows. With the television distribution ecosystem beginning to get digitised and the consumers getting access to better quality television viewing, every broadcaster was more than willing to shell out crores on high-concept shows. The game was to strengthen their offerings of high-definition channels. While Star India didn't get tired of talking about its ₹100-crore investment on the epic *Mahabharata*, Sony Pictures was gung-ho about *Yudh*, which starred Amitabh Bachchan in the lead role.

It's not that digital entertainment was not in their scheme of things. In fact, Sony had already launched its digital platform, Sony Liv, by then. But digital was a small figment of their large television aspirations. While most broadcasters knew that digital was the future, they felt it was sometime away due to lack of proper broadband infrastructure in the country. In the United States, over 74 per cent of the homes have wired Internet and the minimum access speed is 10 Mbps. Compare that to India, less than a per cent homes

"Over 180 million satellite TV viewers are paying anywhere between ₹200 and ₹450 for their TV connection. Can you entice at least 20 million viewers to pay for ₹100 more for digital content, which they can have on demand?"

JYOTI DESHPANDE, CEO, Eros International

have wired broadband with more than two Mbps. Over-the-top (OTT) consumption of content, most felt, was still a far cry.

Some 18 months later, broadband still continues to be an issue but the discussion in the boardrooms across all media houses is overwhelmingly digital. Star India rolled out Hotstar, its OTT platform last year. While Sony was the first mover with Sony Liv, all the other broadcast networks would have their own OTT platforms by the first quarter of the next fiscal.

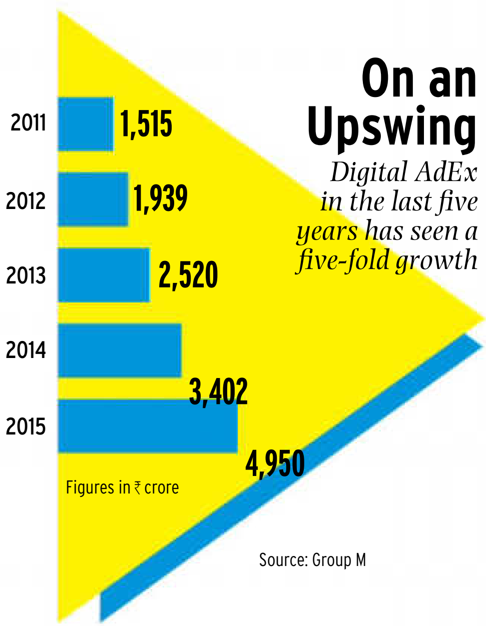
Apart from the broadcasters, there are film production companies such as Eros (Eros Now), Yashraj Films and Balaji Telefilms that have also joined the digital bandwagon. The new year saw the foray of the world's largest OTT platform, Netflix, into India. By the end of 2016, at least 10 new OTT platforms are expected to be launched in India, including Arre, which will be launched by serial entrepreneur, Ronnie Screwvala and B. Sai Kumar, Former CEO of Network 18.

Barring Yashraj Films, all the new entrants would be owning OTT platforms, too. Balaji Telefilms, for instance, is launching Balaji Alt, wherein it will not only create content, but will also host content created by other creators. It will also make sure that the Alt platform is distributed through telcos and even DTH operators. Be it Alt or Eros Now, all of them are poised to be the homegrown YouTube or Netflix of India.

The big difference here is that global platforms such as Netflix or Hulu are intrinsically platform owners whose forte is distribution. Content creation came as an after-thought. The likes of Balaji and even Star India are content creators. Do they really understand the game of distribution?

Harit Nagpal, MD, TataSky, says that the Indian media and entertainment industry is becoming greedy. The DTH company, which launched its mobile app a year ago, says that its core strength is distribution and getting the consumer to access the best content and that is what it would stick to. "Earlier I was getting the best content for my consumers on television, now I am ensuring that the content reaches them even when they are on the go, on their smartphones and tablets. I don't understand the business of content creation, and I will not even venture into it. A content creator getting into the distribution business is like me creating content, where I have limited understanding."

While Nagpal may call it greed, with more and more Indians preferring to consume entertainment whenever and



wherever they feel like and not be bounded by appointment viewing (which the television industry has offered them for decades), every broadcaster as well as content creator considers it to be the opportune moment to be a part of this digital entertainment boom.

The digital entertainment story is also going the e-commerce way. Every media company is trying to get its pound of digital flesh.

Varied business models

While the broadcasters say that digital was always an area of priority for them, the fact remains that the gradual dip in television viewership was something they couldn't ignore. Many of the high-concept expensive shows such as the mythological and historical dramas did get them critical appreciation, but didn't attract mass eyeballs.

Since the trend clearly is to consume content as per one's convenience on a device of one's choice, most broadcasters are currently offering catch-up television on their respective OTT platforms (which enables consumers to watch the TV shows as per their convenience), along with a few original web shows. "Since we have two decades of content with us and a network of 22 TV channels, having our own platform makes sense," explains N.P. Singh, CEO, Sony Pictures Network, which owns Sony Liv. Launched in 2012, Liv is an advertising-supported model. The company, however, is now trying out a subscription model, where a consumer has to pay ₹150 to access its movie library.

Liv's competitor, Hotstar (Star India) also largely thrives on catch-up TV, and has an advertising-based revenue model. With the cost per thousand minutes (CPM) ad rate being a modest ₹300-500, the broadcasters are doing bundled ad deals, wherein they bundle their OTT platform along with their channels.

However, neither of the broadcasters intends to be a content aggregator (like Netflix), where it will distribute content that doesn't belong to its network. If one considers Netflix as a benchmark of a classic OTT model, none of the Indian companies would fit the bill.

Not as premium as Netflix, but the likes of Eros and Balaji also have a subscription-based model. Eros Now has also aggregated content from other content providers and invested in creating its own content. But unlike Netflix, it has created a "freemium" model, where only 30 per cent of its content is subscription-based. The company has created two tiers of subscription, a ₹50 per month offering that is completely ad-free and the second one is at a ₹100 price point, which has features like HD quality video and accessibility across five-six devices. The company has also partnered with telcos such as Airtel and Idea to distribute its platform.

Balaji Telefilms, which has raised ₹250 crore to fund its digital aspirations, unlike Netflix, will create 80 per cent of its content and at the same time aggregate and distribute outside content for a fee.

Yashraj Films, on the other hand, does all its digital content on the Y-Films YouTube channel. Being a storyteller all its life, Yashraj, says Ashish Patil, Vice President, Yashraj Films, never wanted to venture into the platform space. "We

"Indian consumers pay for everything. They have been paying for cable TV since 1992"

SAMEER NAIR, Group CEO, Balaji Telefilms

PHOTOGRAPHS BY RACHIT GOSWAMI

Sweet Spot

Original content is giving digital platform owners the much-needed differentiation

It is about a couple of years since US-based OTT giant, Netflix, began creating content. Already, 30 per cent of its revenue is coming from its own content. It now intends to spend $50 billion per year on content creation.

Original content helps to give the platform owner the much-needed differentiation. "The problem of aggregation is that you are at the mercy of big Hollywood studios that keep asking you to increase the cheques. People with library content have more power," points out Sameer Pittalwala, Co-founder, Culture Machine, a leading multichannel network (MCN).

In India, one of the early pioneers of digital content are MCNs, such as Culture Machine and Ping Digital. They have been aggregating content on platforms such as YouTube and also creating their own original content. MCNs help consumers to discover content on platforms such as YouTube. So, if one puts up a music or comedy video and partners with a MCN, the MCN uses its own network to help the video's discovery for a fee.

Both Culture Machine and Ping boast of getting over 300 million views per month and are creating 30-40 hours of original content per day. Now, with over 10 new OTT platforms coming up this year, their field is going to expand further. "We are in talks with almost every OTT player in the country to create content for them," says Rajeshree Naik, Co-founder, Ping Digital.

It is not just the MCNs, but also other content companies such as Endemol and BBC Worldwide that find themselves in a sweet spot, as every OTT platform wants original content. "We have conversations on with all the platforms," says Myleeta Aga, Senior VP and GM, BBC Worldwide

The digital revolution, also gives the Indian content companies an opportunity to retain the IP of the content they create, which could make them more valuable as they can monetise it on other platforms, too.

But Jehil Thakkar, Head (Media and Entertainment Practice), KPMG, says that he would bet on the new-age MCNs and not the conventional content production companies, as they understand the nuances of digital story-telling better.

Bhaskar Majumdar, Founder, Unicorn Ventures, agrees. "They know what kind of content will work, unlike the traditional companies who only understand long-form content."

Gautam Patel, MD, Zodius, which has picked up a stake in Culture Machine, says that just being able to create content for the digital media isn't enough. "Along with the ability of content, one should also be well-versed in analytics. It is analytics that will help you know what works and what doesn't."

don't understand that space at all," says Patil.

While most YouTube digital content creators (the likes of Culture Machine and Ping) function on a CPM model, Yashraj does branded content. So, a web series such as *Band Baajaa Baaraat* or *Man's World*, which got over a million views per episode is completely funded by Lakme and United Nations, respectively. Similarly, its newest offering, *Six-pack Band*, is funded by Brooke Bond Red Label tea.

While their content is completely funded, they are also looking at monetising through other avenues. He claims that the studio is in talks with a US studio for the TV remake of *Man's World*. So, remake and licensing rights would be yet another monetising avenue. Patil is also looking at building a franchise. "*Band Baaja Baaraat*'s second season could be a film. You saw a wedding go wrong, now you could now see a honeymoon go wrong, but as a film. So there is scope of building a franchise, too."

While common sense says that the Yashraj model of merely creating content and not owning the platform makes better business sense for a pure-play content company foraying into the digital space, the analyst community wants to play it safe. "The field is wide and open and it's a little too early to say what will work and what will not," remarks Vivek Raicha, Executive Director and Investment Head, Emerald Media.

Subscription v/s Advertising

The market is in the customer-acquisition mode and the tendency is to depend on advertising supported revenue models. Even Viacom 18, which is shortly launching its OTT platform Voot, is looking at a similar model. "Though subscription in the long run makes better business sense, for the next four-five years the larger market would be ad-supported," says Gaurav Gandhi, COO, Viacom 18 Digital Ventures.

With CPMs as low as ₹300-500, an ad-supported model certainly doesn't make sense. "Anyone who is investing, is investing knowing fully well that the ROI is slim. The game is of stamping your presence and getting consumer loyalty," says Manav Dhanda, Group CEO, Shri Adhikari Brothers.

Not only is India a market where consumers are just about adapting to digital, this is also a market where broadband penetration is far from satisfactory and quite expensive. For consuming one MB of data, one ends up paying ₹24. So, if one buys a movie, along with the data charges, she will end up paying ₹200.

In the US, the Internet service providers offer unlimited data bundling services for the entire year. The cable platforms charge $100 a month. In addition, OTT platforms are available on cable at marginal additional costs

– Netflix is available at $8 a month, Hulu $7 and Amazon $12. Therefore, even if one subscribes to all these services, she is paying all of $27, which is much cheaper than traditional TV. This has led to people consuming all their content through the various OTT platforms but on their TV sets.

Despite the odds in India, Netflix has launched a subscription-based service and that, too, at ₹500 per month. "When we launch in a new region, we generally see that early adopters of technology and entertainment enthusiasts are among the first to try the service," says a Netflix spokesperson, adding that as the company introduces local content, there will be more takers even at that price.

Netflix's premium pricing may have takers only at the top end of the pyramid, but its subscription service has indeed emboldened those who believe that a subscription model will also work in India. "Indian consumers pay for everything. They have been paying for cable TV since 1992," points out Sameer Nair, Group CEO, Balaji Telefilms.

The competition of OTT is actually with television, says Jyoti Deshpande, CEO, Eros International. "Over 180 million satellite television viewers are paying anywhere between ₹200 and ₹450 for their TV connection. So, can you entice 20 million of that 180 million viewers to pay for ₹100 more for digital content, which they can have on demand?" Deshpande says when they launched Eros Now at ₹250 per month last year, there were few takers. However, ever since they launched their paid service at ₹50 and ₹100 price-points, she claims the subscription has gone up by six times.

Smita Jha, Head, Media and Entertainment Practice, PwC, agrees that there is a market for subscription. She says that there are takers for a premium model like Netflix, too. "Why do you need volumes in every business model," she argues.

Eros Now, for instance, is also looking at coming up with more subscriber-friendly offers such as enabling consumers to subscribe to Eros Now just for a week or even a day. Raicha of Emerald Media thinks that it is a smart move as he feels that advertising in the long run won't work. "Video advertising industry is all of $100 million, of that YouTube takes the lion's share (60 per cent) and then Facebook (20 per cent). The OTT players dependent on advertising will have very little field to play on."

The Indian OTT segment is currently in a trial-and-error mode. There are multiple business and revenue models being experimented and no one has a clue as to what will work and what won't. But two-three years from now, consolidation would surely be on the cards, pretty much the e-commerce way. Apart from the top two players in each segment of e-commerce, the rest are feeling the pinch, and digital entertainment will also go through a similar curve. ◆

@AjitaShashidhar

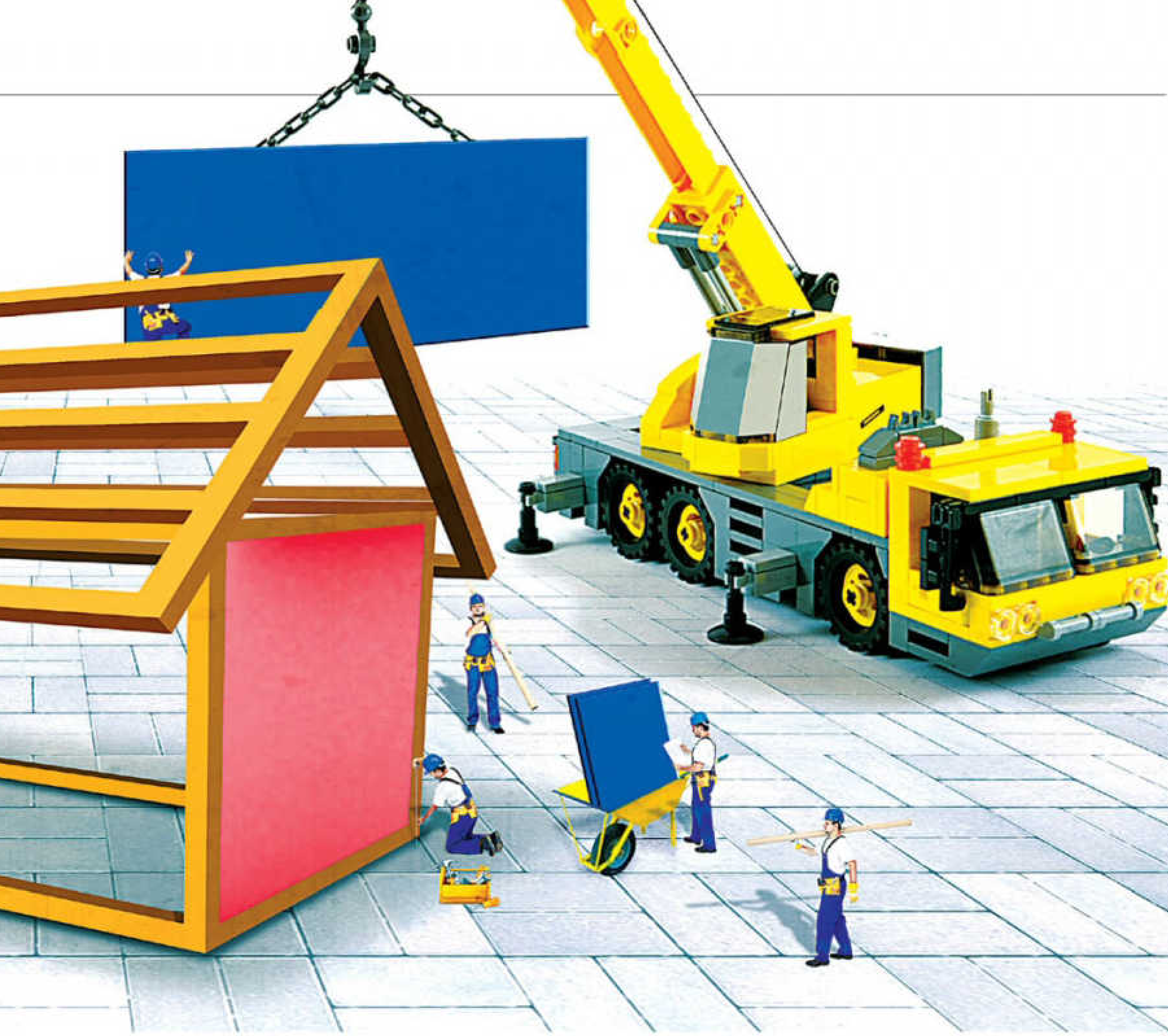
"Since we have two decades of content with us and a network of 22 TV channels, having our own platform makes sense"

N.P. SINGH, CEO, Sony Pictures Network

Houses Off the Shelf

Prefabricated homes, quicker to build than conventional ones, are gaining in popularity.

By CHANCHAL PAL CHAUHAN



RAJ VERMA

The world's tallest building so far, Burj Khalifa in Dubai, employed this technique. So did one of the marvels of modern-day architecture – the Sydney Opera House. Prefabricated construction, beginning in Europe after World War II, has been commonplace in many parts of the world for decades. But it is only now catching on in India.

Building, not brick by brick, but by joining parts that have already been cast – much the way cars are assembled at automobile factories – comprises so far merely 1 per cent or so of India's $100-billion real estate market. But given the prolonged slump in residential real estate, with inventories at a historic high – around 200,000 unsold flats in the National Capital Region alone – developers are certain its popularity will rise. This is because prefabrication enables faster completion of projects and thereby lowers overall costs. "If it takes a year to complete a housing project using traditional methods, it takes five to six months using precast construction, the scale being the same," says Naveen Raheja, Chairman and Managing Director, Raheja Developers. For an industry which, following the slump, is highly leveraged, with mounting debts and restricted cash flows, completing projects early saves interest cost and is of crucial importance.

$100 bn

Size of the Indian real estate market

"We have invested around ₹400 crore on a prefabrication facility and another ₹350 crore is on the anvil," says Anil Sharma, Chairman and Managing Director of the Delhi-based Amrapali Group."We want to have a production capacity of 1.5 crore sq. ft. of building material annually. With that we should be able to construct an 18-floor tower, which normally takes around two years, in less than 10 months." Apart from Amrapali and Raheja, Delhi-NCR-based Supertech Ltd, the Pune-based B.E. Billimoria and Co, the Bangalore-based B.G. Shirke Group, Sobha Developers and Brigade Group, and many more, have begun to use prefabricated parts.

"This technology can be used for all kinds of construction: high rises, low rises, villas, mass townships, whatever," says R.K. Arora, Supertech's Chairman. Supertech is using it for villas and apartment blocks on the Yamuna Expressway between Delhi and Agra, at projects such as Golf Country and Upcountry. "Our premium residential project site Oxford Square in Greater Noida (West) should close earlier than we envisaged because of prefabrication," Arora adds. "It is particularly useful for mass housing, because it reduces both time and dependence on labour."


SHEKHAR GHOSH

Built to last: Supertech's prefabrication plant at Greater Noida (West) in Uttar Pradesh

Durability is another advantage. "Prefabricated construction imparts strong structural strength, enabling such structures to withstand earthquakes, which also matters in the seismic-sensitive Indian landscape," says B.K. Malagi, Executive Director - Projects, at Gurgaon-based Experion Developers. "The concrete panels last longer, too, because of the high quality of elements used and their production in a controlled factory environment."

Which part of a house can be prefabricated? Practically all of them – ceiling slabs (usually hollowed, which makes them lighter and easier to transport), terrace blocks, wall panels, columns and staircases can be fitted "readymade". State governments, especially those of Odisha, Chhattisgarh, West Bengal and Himachal Pradesh, and agencies like the Delhi Development Authority, are all encouraging such construction. "We are trying to incorporate prefabricated construction into the Smart City project for Dharamsala," says Sudhir Sharma, Himachal Pradesh's Minister for Urban Development. "It would help in greener construction and would be in sync with the ecological balance of this Himalayan town."

India's growing interest in such construction has led to global makers of prefabrication machinery and parts – Finland-based Elematic, UK-based Spiroll, Germany-based Halfen, Vollert and Weckenmann and Netherlands-based Van Boxsel Engineering among others – entering the country. Elematic has even announced plans to make India its manufacturing hub for Asian markets, exporting steel structures used for fabrication to Vietnam, Malaysia, Philippines, Thailand and West Asia. Vollert has tied up with Sobha Developers to develop 20,000 sq. ft. of prefabricated material daily at a unit on the outskirts of Bangalore. "While the initial cost of using prefab may be higher, there are overall benefits," says J.C. Sharma, Vice Chairman and MD, Sobha Developers. "Faster execution and timely delivery of the final product brings gains to both developers and customers."

The government's objectives of ensuring housing for all by 2022 – which requires constructing 30 million low-cost houses – as well as building 98 smart cities, are both expected to provide a boost to prefab housing. Besides, commercial real estate demand – as distinct from residential – is increasing, led by the IT and e-commerce industries – and this, too, should help. The government's decision in late 2014 to relax earlier conditions relating to 100 per cent foreign direct investment (FDI) in real estate will allow for faster adoption of modern prefab technologies.

Prefab housing, however, also has its critics. After an early foray, for instance, the Maharashtra Housing and Area Development Authority (MHADA) has decided to stop using prefab construction, because of the heavy damage to such structures during Mumbai's rains. Manoj Gaur, MD of NCR-based Gaursons India Ltd and President of the NCR Chapter of the Confederation of Real Estate Developers Association of India (CREDAI), prefers other modern technologies. "In our projects we have used 'aluminium formwork' technology, which provides long-term benefits," he says. "It is better than prefab, with higher earthquake resistance and makes construction even faster," Gaur says. "We have sourced it from South Korea, investing around ₹100 crore. It has high load bearing capacity and is better in Indian conditions." Aluminium formwork does away with the need for bricks and plastering, and calls for lower investments than prefab. ◆

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GRADUATE FROM THE CORNER OFFICE TO THE
WINNER'S PODIUM.
EVENT SCHEDULE
Ahmedabad October 24, 2015 at Kalhaar Blues & Greens
Hyderabad November 21, 2015 at Hyderabad Golf Club
Mumbai January 15, 2016 at Willingdon Sports Club
Bengaluru January 30, 2016 at Eagleton Golf Resort
Chennai February 07, 2016 at Madras Gymkhana Club
Kolkata February 20, 2016 at Tollygunge Club
GRAND FINALE
Delhi March 12 & 13, 2016 at Classic Golf & Country Club

LADIES VS GOLIATH

RASHMI BANSAL VISITS THE SANITARY NAPKIN FACTORY IN DHARAVI RUN BY WOMEN, FOR WOMEN. SHE FOUND WOMEN WITH NEW-FOUND DIGNITY AND CONFIDENCE WHO BELIEVE THEIR PRODUCT IS AS GOOD AS ANY.

Hidden away amid the high-rises of India's financial capital is a 550-acre slum, **Dharavi,** which is home to seven lakh people. Their economic status and conservative mindset, along with the low toilet-to-person ratio, pose an enormous challenge to maintain its women's menstrual hygiene.

PHOTOGRAPHS BY RUHANI KAUR/UNDP INDIA

Sajida was 14 years old when she got her first period. In the middle of the school day, she was sent home, amid giggles and whispers of her classmates. Back in the one-room tenement, where she lived with five members of her family, Sajida's mother equipped her eldest daughter with a soft muslin cloth.

Sajida's was kept at home for two weeks. Her father reluctantly allowed her to complete the school year, but that was to be her last. What does a girl need to study for anyways? *Shaadi hi to karin hai* (after all she must be married off). In the old days it was easier – girls were married soon after puberty. But now the law requires them to be at least 18. Thus, Sajida spent the next three years within the walls of her tiny home in Dharavi, assisting her mother with household chores. One fine day, her *nani* (grandmother) brought a *rishta* (a match) – a boy from the same neighbourhood, and the *nikaah* (wedding) was quickly concluded.

Now a mother of two little boys, she wistfully recalls: "*Main bahut kuch karna chahti thi, kuch banna chahti thi par ijaazat nahin mili.*" (I had so many dreams but wasn't allowed to pursue them.)

Sajida is a resident of Dharavi – a slum of hope, and of enterprise. Famous as the 'largest slum in Asia' (not true anymore), the homes are cramped and rarely get sunlight. But, there's opportunity knocking at their doors. In December 2014, a sanitary napkin manufacturing unit was set up here. Word spread in the slum – "there is a new factory looking for workers. Only ladies should apply".

When Sajida heard about the job open-

PHOTO ESSAY: CHANGING LIVES

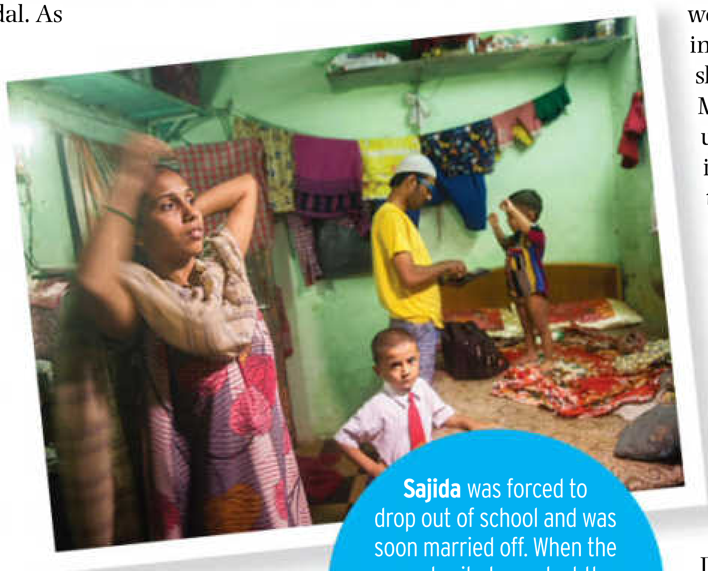
The Dharavi unit employs 10 women to make chemical-free biodegradable sanitary pads. It could also help the women of Dharavi to improve their menstrual hygiene

Aakar provides the raw material and distributes the finished product. Here, pine fibre is being pulverised and stacked in moulds before it is pressed manually

ing, she knew she had to apply. No woman in the family had ever been allowed to work outside the home but she was adamant. "*Mere dono bachchon ko English school mein bhejna chahti hoon*. (I want my two children to study in an English medium school). *Do paisa kamaoongi to madat ho jayegi*. (The extra money I earn will be a big help)." The family relented. Along with a dozen other women, she started working.

The napkin unit was set up with machinery provided by Aakar Innovations, a social enterprise led by a young maverick, Jaydeep Mandal. As a boy, Mandal enjoyed tinkering with machines. After he completed his graduation from Kalyani Engineering College in West Bengal, he wanted to do something different. While pursuing his MBA from Indus Business Academy, he started a company to commercialise grass-root-level innovations. One such innovation was the much-talked about sanitary napkin machine – using simple hand-operated cutting and sealing units – by A. Muruganantham. Each unit made sanitary napkins affordable to all.

"In the 1960s, Amul was behind the white revolution, I wanted to create the second white revolution!" says Muruganantham. He refused offers from big businesses to work only with women self help groups (SHGs) to help generate employment for women. There was just one problem – the machines frequently broke down and there was no after-sales service.



Sajida was forced to drop out of school and was soon married off. When the opportunity to work at the Anand unit came knocking at her door, the mother of two young boys grasped it with both hands

More than 100 units were sold amid fanfare, but in no time, several had shut down. It was time for Mandal to step in: "I took up the challenge of reviving two sick units." The team at Aakar Innovations, along with the Council for Scientific and Industrial Research (CSIR), improved on the prototype. The end result was a more efficient piece of machinery that could be set up for ₹6 lakh-7 lakh. And, a few found their way into Dharavi in December 2014. "Initially, we wanted to be only in ru-

The sealing section takes a moulded pad base, puts a layer of bio sheet on it and seals it with another pressing machine. The supervisor then quality checks it before it is packed

After inspection, pads are sterilised and packed into muted green packaging with the Anandi logo, to differentiate it from the bright colours of chemical pads available in the market

ral areas but soon realised that women face similar problems in urban slums as well," says Mandal.

Every shanty in Dharavi has satellite TV antennas, but none has attached toilets. Both men and women queue up to use the handful of filthy public facilities – a nightmare on any given day, but a hundred times worse when a woman has her period. They cannot afford Whisper or Stayfree and continue to use and reuse cloth. "*Kapda poori tarah sookhta nahin hai phir infection bhi ho jaata hai* (The rags don't dry after washing and also become a source of infection)," says Sajida.

The women were, in fact, quite excited by the prospect of working in a napkin unit. "*Hamein hi use karne ko milega*," was the initial thought that excited them. The initial cost of capital, training, raw material and three months' salary were funded by United Nations Development Programme (UNDP) in India, while the premises were provided by SHED, a local NGO working with women and youth for over two decades.

In theory, the napkin-making machine was an ideal solution – the Anandi napkin was a product for the women of Dharavi, by the women of Dharavi. However, implementation of any idea is not easy. In the first six months of operations, the factory did not make any profit. Due to quality issues, not a single napkin could be sold. "We had teething troubles, especially with the workers," admits Mandal.

Women were not used to 'being on time'. They would arrive late, or take frequent holidays. Then, the supervisor trained to oversee the unit quit without giving notice. Luckily, the new supervisor Sandhya proved to be more efficient. "*Humne phir un ladies ko hi liya jinko sachmuch job ki zaroorat hai.* (We decided to take only those women who really needed the job)." To be commercially viable, each unit had to produce at least 1,200 pieces a day. After nine months of trial, error, training and supervision, the Anandi unit in Dharavi is breaking even. "Nearly 40 per cent of our units, including the one at Dharavi, are producing 1,200-1,500 napkins a day," says Mandal. "*Abhi hamara quality bhi pehle se bahut achchha hai.* (The quality of napkins has greatly improved)," says Sandhya.

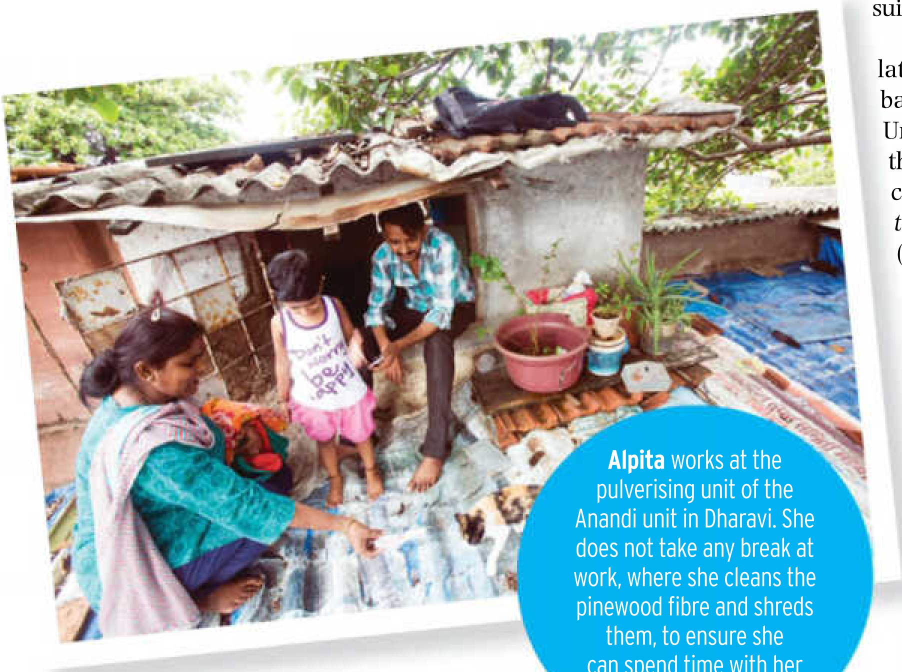
Today, if you visit the Anandi napkin unit in Dharavi, you will come across a buzzing workplace. The workers are all clad in 'uniform' and fully absorbed in their tasks. The first shift starts at 10 am and ends at 2 pm. There is no tea break because most women have young kids at home. And, they must be as productive as possible during working hours – in order to fulfil the targets.

The napkin unit consists of a set of machines, each designed for a particular purpose. As soon as you enter, you will see a pulverisor. This is where the basic raw material of the napkin is processed.

A plump and jovial Alpita works in this unit. She cleans the pinewood fibre by hand. Then it is torn to shreds by the pulverisor machine. "*Acchhi tarah gaanth maaro* (make a tight knot)!" instructs Sandhya, the unit supervisor.

Alpita's neighbour, Shameem wears a *burkha* at work. At the factory, she dons a medical-green apron and mans the pressing unit. She weighs 65 gm of pulp and applies the dye. The pulp has now acquired the distinctive shape of a napkin. "*Acchha lagta hai idhar kaam karna* (I like to work here),"she smiles. Fatema, Ujwala, Preeti, Deepa and Sajida work at the sealing unit. Their eyes are focused on the task at hand.

The sealed napkins are checked by the supervisor before they go through the final phase – gumming, UV sterilisation and packaging (in lots of eight). Ganga and Anjali handle these operations in the morning shift. "*Abhi inka speed bahut badh gaya hai* (Their speed has improved)," says Sandhya.



Alpita works at the pulverising unit of the Anandi unit in Dharavi. She does not take any break at work, where she cleans the pinewood fibre and shreds them, to ensure she can spend time with her young daughter

The ladies beam with pride. All of them now use sanitary napkins and encourage their friends, relatives and neighbours to do so. Says Fatema, who had never used a sanitary napkin before joining the factory, and had problems using cloth during her periods: "Our napkins do not have chemicals. They are very safe and affordable. "*Pehele sab kuch chhup chhup kar karna padta tha* (earlier, I was afraid someone will find out)." Moreover, the job has raised her status in the eyes of her husband and in-laws.

Says Preeti, a mother of two young children under the age of five years: "*Mere saas sasur bacchhe dekhte hain, is liye mujhe koi tension nahin hai.*" (My in-laws look after my children so I have no tension at work). The ₹3,000 Preeti takes home earn her this privilege. She is now a *kaam karnewali bahu* (working daughter-in-law).

The changing norms of society are reflected in the life stories of these workers. Alpita worked in a beauty parlour in Kolkata for 14 years before shifting to Mumbai. "*Mera love marriage tha* (I had a love marriage)," she whispers shyly. The love blossomed on mobile phone, thanks to a 'missed call'. After chatting with each other for hours for more than two years, the two decided to get married. Alpita was a fish-eating Bengali, while Manish a vegetarian Jain. Surprisingly, the parents on both sides had no objections. Alpita's husband is in the zari business, the family is 'well-off' by Dharavi standards. Yet Alpita leaves her young daughter and goes out to work to support her family in Kolkata. "My parents are old and not keeping well," she says. "I send ₹2,500 to them from my salary every month." The four-hour-a-day job suits her needs as a young mother.

Sajida's eyes sparkle when she relates how her husband goes to the bank to deposit her salary cheque. Unlike other workshops in Dharavi, the Anandi workers do not get paid in cash. "*Mera khud ka bank account khula to itni khushi huyi, kya bataaoon!*" (I cannot express how happy I felt when I opened my own bank account). Her 17-year-old sister Nazia wants to follow in her footsteps.

The positive social impact of the napkin factory is clearly visible in this Mumbai slum. "Low-cost sanitary napkins are drivers for change and development," says Alka Narang, Head of the Poverty Unit, UNDP. "This particular initiative provides dignity of livelihood and empowers women to talk freely about a taboo subject."

The concept of menstrual hygiene and health is spreading in the slum. But beyond the feel-good factor, is the sanitary napkin making business sustainable? The most successful napkin unit till date was set up in Tuljapur in rural Maharashtra. It was ably managed by Shanta Gawli, a local woman entrepreneur. But most Anandi units are run by NGOs, which are not naturally inclined towards running a business – that explains the struggle to break even. So far, Aakar has set up 21 units – from Janakpuri in New Delhi to Uyumpok village in Manipur. The other challenge is marketing. Currently, Aakar buys back the napkins and sells them in bulk as part of its corporate social responsibility. Only a small percentage is sold locally. The original plan was to create a direct sales force through *mahila mandals* and SHGs. But this will take time and effort.

Can Anandi napkins repeat the success, say, of what Lijjat Papad had achieved in the past? The Dharavi factory may be small, but the ladies are dreaming big – "*Hum chahte hain ki hamara product sab door jaaye, uska TV par ad aaye!*" (Our product should be sold everywhere and we should have our advertisements on TV.)" Some day, their dreams may well be within their reach! ◆

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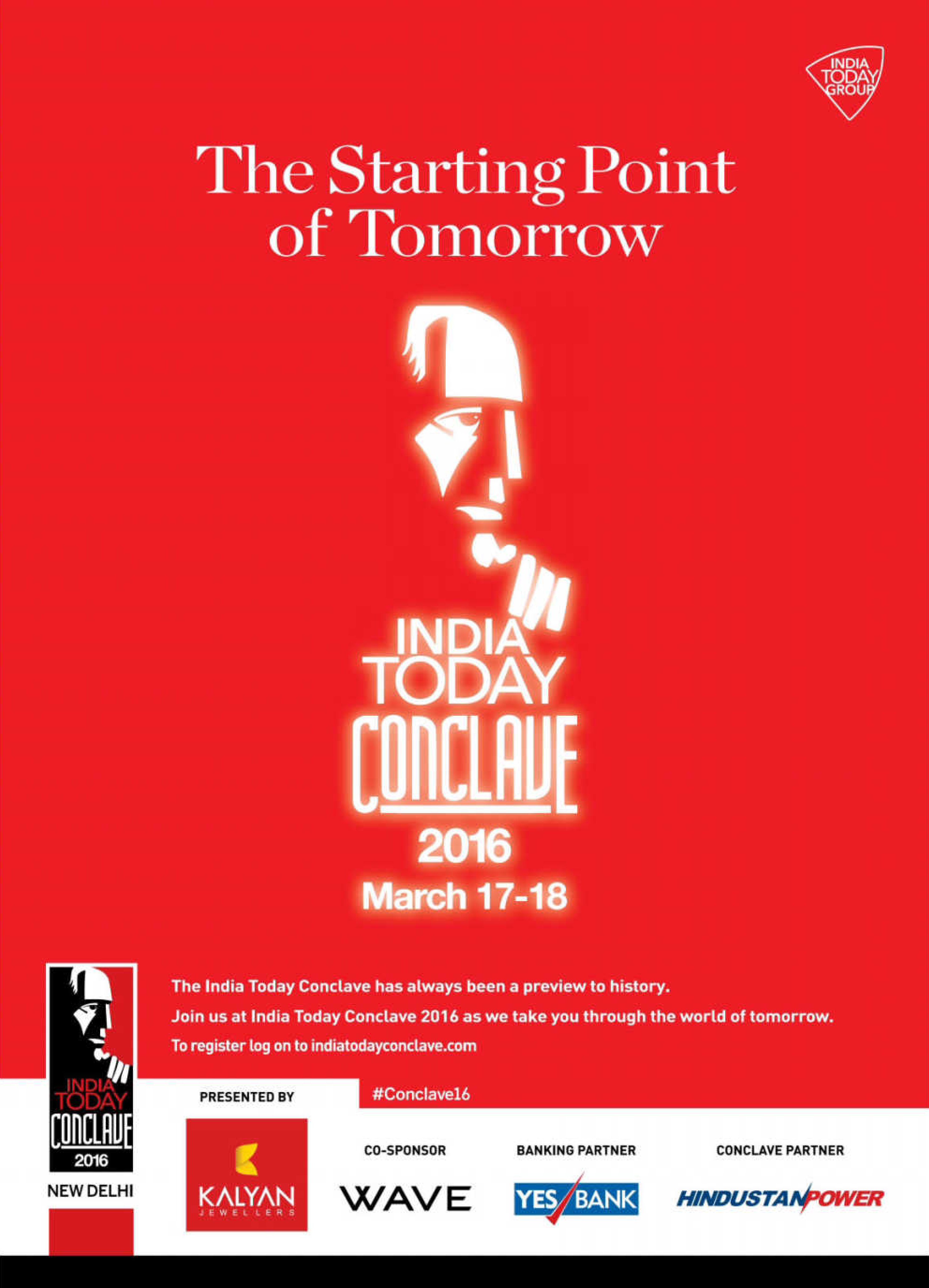
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AJAY THAKURI

Beyond Automation

Strategies for remaining gainfully employed in an era of very smart machines.

By THOMAS H. DAVENPORT and JULIA KIRBY

After hearing of a recent Oxford University study on advancing automation and its potential to displace workers, Yuh-Mei Hutt, of Tallahassee, Florida, wrote, "The idea that half of today's jobs may vanish has changed my view of my children's future." Hutt was reacting not only as a mother; she heads a business and occasionally blogs about emerging technologies. Familiar as she is with the upside of computerisation, the downside looms large. "How will they compete against AI?" she asked. "How will they compete against a much older and experienced workforce vying for even fewer positions?"

Suddenly, it seems, people in all walks of life are becoming very concerned about advancing automation. And they should be: Unless we find as many tasks to give humans as we find to take away from them, all the social and psychological ills of joblessness will grow, from economic recession to youth unemployment to individual crises of identity. That's especially true now that automation is coming to knowledge work, in the form of artificial intelligence (see the sidebar *Three Eras of Automation*). Knowledge work – which we'll define loosely as work that is more mental than manual, involves consequential decision making, and has traditionally required a college education – accounts for a large proportion of jobs in today's mature economies. It is the high ground to which humanity has retreated as machines have taken over less cognitively challenging work. But in the very foreseeable future, as the Gartner analyst Nigel Rayner says, "many of the things executives do today will be automated."

What if we were to reframe the situation? What if, rather than asking the traditional question – What tasks currently performed by humans will soon be done more cheaply and rapidly by machines? – we ask a new one: What new feats might people achieve if they had better thinking machines to assist them? Instead of seeing work as a zero-sum game with machines taking an ever greater share, we might see growing possibilities for employment. We could reframe the threat of *automation* as an opportunity for *augmentation*.

The two of us have been looking at cases in which knowledge workers collaborate with machines to do things that neither could do well on their own. And as automation makes greater incursions into their workplaces, these people respond with a surprisingly broad repertoire of moves. Conventional wisdom is that as machines threaten their livelihood, humans must invest in ever higher levels of formal education to keep ahead. In truth, as we will discuss below, smart people are taking five approaches to making their peace with smart machines.

What Is Augmentation?

David Autor, an economist at MIT who closely tracks the effects of automation on labour markets, recently complained that "journalists and expert commentators overstate the extent of machine substitution for human labour and ignore the strong complementarities that increase productivity, raise earnings, and augment demand for skilled labour." He pointed to the immense challenge of applying machines to any tasks that call for flexibility, judgment, or common sense, and then pushed his point further. "Tasks that cannot be substituted by computerisation are generally complemented by it," he wrote. "This point is as fundamental as it is overlooked."

A search for the complementarities to which Autor was referring is at the heart of what we call an augmentation strategy. It stands in stark contrast to the automation strategies that efficiency-minded enterprises have pursued in the past. Automation starts with a baseline of what people do in a given job and subtracts from that. It deploys computers to chip away at the tasks humans perform as soon as those tasks can be codified. Aiming for increased automation promises cost savings but limits us to thinking within the parameters of work that is being accomplished today.

WITH AN AUGMENTATION MINDSET, KNOWLEDGE WORKERS WILL COME TO SEE SMART MACHINES AS PARTNERS AND COLLABORATORS IN CREATIVE PROBLEM SOLVING

Augmentation, in contrast, means starting with what humans do today and figuring out how that work could be deepened rather than diminished by a greater use of machines. Some thoughtful knowledge workers see this clearly. Camille Nicita, for example, is the CEO of Gongos, a company in metropolitan Detroit that helps clients gain consumer insights – a line of work that some would say is under threat as big data reveals all about buying behaviour. Nicita concedes that sophisticated decision analytics based on large data sets will uncover new and important insights. But, she says, that will give her people the opportunity to go deeper and offer clients "context, humanisation, and the 'why' behind big data." Her shop will increasingly "go beyond analysis and translate that data in a way that informs business decisions through synthesis and the power of great narrative." Fortunately, computers aren't very good at that sort of thing.

Intelligent machines, Nicita thinks – and this is the core belief of an augmentation strategy – do not usher people out the door, much less relegate them to doing the bidding of robot overlords. In some cases these machines will allow us to take on tasks that are superior – more sophisticated, more fulfilling, better suited to our strengths – to anything we have given up. In other cases the tasks will simply be different from anything computers can do well. In almost all situations, however, they will be less codified and structured; otherwise computers would already have taken them over.

We propose a change in mindset, on the part of both workers and providers of work, that will lead to different outcomes – a change from pursuing automation to promoting augmentation. This seemingly simple terminological shift will have deep implications for how organisations are managed and how individuals strive to succeed. Knowledge workers will come to see smart machines as partners and collaborators in creative problem solving.

This new mindset could change the future.

Five Steps to Consider

Let's assume that computers are going to make their mark in your line of work. Indeed, let's posit that software will soon perform most of the cognitive heavy lifting you do in your job and, as far as the essential day-to-day operation of the enterprise is concerned, make decisions as good as (probably better than) those made by 90 per cent of the people who currently hold it. What should your strategy be to remain gainfully employed? From an augmentation perspective, people might renegotiate their relationship to machines and realign their contributions in five ways.

Step up. Your best strategy may be to head for still higher intellectual ground. There will always be jobs for people who are capable of more big-picture thinking and a higher level of abstraction than computers are. In essence this is the same advice that has always been offered and taken as automation has encroached on human work: Let the machine do the things that are beneath you, and take the opportunity to engage with higher-order concerns.

Niven Narain, a cancer researcher, provides a great example. In 2005, he cofounded Berg, a start-up in Framingham, Massachusetts, to apply artificial intelligence to the discovery of new drugs. Berg's facility has high-throughput mass spectrometers that run around the clock and produce trillions of data points from their analysis of blood and tissue, along with powerful computers that look

FIVE PATHS TOWARDS EMPLOYABILITY

Humans have alternatives for how they'll work with machines. Here's a look at them in one realm: marketing

	HOW YOU ADD VALUE	EXAMPLE	IF THIS IS YOUR STRATEGY, HOW DO YOU PREPARE?
Step up	You may be senior management material – you're better at considering the big picture than any computer is	A *brand manager* orchestrates all the activities required to position a brand successfully	Get that MBA or PhD and constantly challenge yourself to gain broader perspective on your work
Step aside	You bring strengths to the table that aren't about purely rational, codifiable cognition	A *creative* can intuit which concept will resonate with sophisticated customers	Develop your "multiple intelligences" beyond IQ and gain tacit knowledge through apprenticeships
Step in	You understand how software makes routine decisions, so you monitor and modify its function and outputs	A *pricing expert* relies on computers to optimise pricing on a daily basis and intervenes as necessary for special cases or experiments	Pursue some STEM education and keep updating your business domain expertise
Step narrowly	You specialise in something for which no computer programme has yet been developed (although theoretically it could be)	A *"wrap advertising" specialist* has deep expertise in using vehicles as mobile billboards	Look for a narrow niche and master it by doing the work with focus and passion
Step forward	You build the next generation or application of smart machines – perhaps for a vendor of them	A *digital innovator* seizes on a new way to use data to optimise some key decision, such as cable video ad buys	Stay at the cutting edge in computer science, artificial intelligence, and analytics. Learn to spot candidates for automation

for patterns suggesting that certain molecules could be effective. "The last thing you want to do now," Narain told a reporter in March 2015, "is have a hundred biochemists...going through this data and saying, 'Oh, I kind of like this one over here.'" But he also employs a hundred biochemists. Their objective is not to crunch all those numbers and produce a hypothesis about a certain molecule's potential. Rather, they pick up at the point where the math leaves off, the machine has produced a hypothesis, and the investigation of its viability begins.

Narain stepped up by seeing an opportunity to develop drugs in a new way. That takes lots of experience, insight, and the ability to understand quickly how the world is changing. Likewise, one interpretation of the success of today's ultrarich Wall Street investment bankers and hedge fund titans is that they have stepped up above automated trading and portfolio management systems.

If stepping up is your chosen approach, you will probably need a long education. A master's degree or a doctorate will serve you well as a job applicant. Once inside an organisation, your objective must be to stay broadly informed and creative enough to be part of its ongoing innovation and strategy efforts. Ideally you'll aspire to a senior management role and thus seize the opportunities you identify. Listen to Barney Harford, the CEO of Orbitz – a business that has done more than most to eliminate knowledge worker jobs. To hire for the tasks he still requires people to do, Harford looks for "T-shaped" individuals. Orbitz needs "people who can go really deep in their particular area of expertise," he says, "and also go really broad and have that kind of curiosity about the overall organisation and how their particular piece of the pie fits into it." That's good guidance for any knowledge worker who wants to step up: Start thinking more synthetically – in the old sense of that term. Find ways to rely on machines to do your intellectual spadework, without losing knowledge of how they do it. Harford has done that by applying "machine learning" to the generation of algorithms that match customers with the travel experiences they desire.

Step aside. Stepping up may be an option for only a small minority of the labour force. But a lot of brain work is equally valuable and also cannot be codified. Stepping aside means using mental strengths that aren't about purely rational cognition but draw on what the psychologist Howard Gardner has called our "multiple intelligences." You might focus on the "interpersonal" and "in-

trapersonal" intelligences – knowing how to work well with other people and understanding your own interests, goals, and strengths.

The legendary thoroughbred trainer D. Wayne Lukas can't articulate exactly how he manages to see the potential in a yearling. He just does. Apple's revered designer Jonathan Ive can't download his taste to a computer. Ricky Gervais makes people laugh at material a machine would never dream up. Do they all use computers in their daily work lives? Unquestionably. But their genius has been to discover the ineffable strengths they possess and to spend as much time as possible putting them to work. Machines can perform numerous ancillary tasks that would otherwise encroach on the ability of these professionals to do what they do best.

We don't want to create the impression that stepping aside is purely for artists. Senior lawyers, for example, are thoroughly versed in the law but are rarely their firms' deep-dive experts on all its fine points. They devote much of their energy to winning new work (usually the chief reason they get promoted) and acting as wise counsellors to their clients. With machines digesting legal documents and suggesting courses of action and arguments, senior lawyers will have more capacity to do the rest of their job well. The same is true for many other professionals, such as senior accountants, architects, investment bankers, and consultants.

Take the realm of elder care, in which robotics manufacturers see great potential for automation. This isn't often treated as a nuanced or a particularly intellectual line of human work. We were struck, therefore, by a recent essay by the teacher, coach, and blogger Heather Plett. She wrote of her mother's palliative care provider, "She was *holding space* for us," and explained: "What does it mean to *hold space* for someone else? It means that we are willing to walk alongside another person in whatever journey they're on without judging them, making them feel inadequate, trying to fix them, or trying to impact the outcome. When we hold space for other people, we open our hearts, offer unconditional support, and let go of judgement and control."

True, hospice care is an extreme example of a situation requiring the human touch. But empathy is valuable in any setting that has customers, coworkers, and owners.

A LOT OF BRAIN WORK CANNOT BE CODIFIED. EMPATHY, FOR EXAMPLE, IS VALUABLE IN ANY SETTING THAT HAS CUSTOMERS, COWORKERS, AND OWNERS

If stepping aside is your strategy, you need to focus on your uncodifiable strengths, first discovering them and then diligently working to heighten them. In the process you should identify other masters of the tacit trade you're pursuing and find ways to work with them, whether as collaborator or apprentice. You may have to develop a greater respect for the intelligences you have beyond IQ, which decades of schooling might well have devalued. These, too, can be deliberately honed – they are no more or less God-given than your capacity for calculus.

Step in. Back in 1967, having witnessed the first attempts to automate knowledge work, Peter Drucker declared of the computer: "It's a total moron." It's a lot less moronic now, but its relentless logic still occasionally arrives at decisions whose improvement wouldn't require a human genius.

Perhaps you saw a 2014 story in the *New York Times* about a man who had just changed jobs and applied to refinance his mortgage. Even though he'd had a steady government job for eight years and a steady teaching job for more than 20 years before that, he was turned down for the loan. The automated system that evaluated his application recognised that the projected payments were well within his income level, but it was smart enough to seize on a risk marker: His new career would involve a great deal more variation and uncertainty in earnings.

Or maybe that system wasn't so smart. The man was Ben Bernanke, a former chairman of the US Federal Reserve, who had just signed a book contract for more than a million dollars and was headed for a lucrative stint on the lecture circuit. This is a prime example of why, when computers make decisions, we will always need people who can step in and save us from their worst tendencies.

Those capable of stepping in know how to monitor and modify the work of computers. Taxes may increasingly be done by computer, but smart accountants look out for the mistakes that automated programmes – and the programmes' human users – often make. Ad buying in digital marketing is almost exclusively automated these days, but only people can say when some "programmatic" buy would actually hurt the brand and how the logic behind it might be tuned.

Here you might ask, Just who is augmenting whom (or what) in this situation? It's a good moment to emphasise that in an augmentation environment, support is mutual. The human ensures that the computer is doing a good job and makes it better. This is the point being made by all those people who encourage more STEM (science, technology, engineering, and math) education. They envision a work world largely made up of stepping-in positions. But if this is your strategy, you'll also need to develop your powers of observation, translation, and human connection.

Step narrowly. This approach involves finding a specialty within your profession that wouldn't be economical to automate. In Boston, near the headquarters of Dunkin' Donuts, a reporter recently peered into "the secret world of the Dunkin' Donuts franchise kings." One of them, Gary Joyal, makes a good living (if his Rolls-Royce is any indication) by connecting buyers and sellers of Dunkin' Donuts franchises. As the *Boston Globe* put it, Joyal "uses his encyclopedic knowledge of franchisees – and often their family situations, income portfolios, and estate plans – to make himself an indispensable player for buyers and sellers alike." So far he has helped to broker half a billion dollars' worth of deals.

Could Joyal's encyclopedic knowledge be encoded in software? Probably. But no one would make enough doing so to put a Rolls in the driveway. It's just too small a category. The same is true of Claire Bustarret's work. *Johns Hopkins Magazine* reports that Bustarret "has made a career out of knowing paper like other French people know wine." Her ability to determine from a sheet's texture, feel, and fibres when and where the paper was made is extremely valuable to historians and art authenticators. Maybe what she knows could be put in a database, and her analytical techniques could be automated. But in the meantime, she would have learned more.

Those who step narrowly find such niches and burrow deep inside them. They are hedgehogs to the stepping-up foxes among us. Although most of them have the benefit of a formal education, the expertise that fuels their earning power is gained through on-the-job training – and the discipline of focus. If this is your strategy, start making a name for yourself as the person who goes a mile deep on a subject an inch wide. That won't mean you can't also have other interests, but professionally you'll have a very distinct brand. How might machines augment you? You'll build your own databases and routines for keeping current, and connect with systems that combine your very specialised output with that of others.

Step forward. Finally, stepping forward means constructing the next generation of computing and AI tools. It's still true that behind every great machine is a person – in fact, many people. Someone decides that the Dunkin' Franchise Optimizer is a bad investment, or that the application of AI to cancer drug discovery is a good one. Someone has to build the next great automated insurance-underwriting solution. Someone intuits the human need for a better system; someone identifies the part of it that can be codified; someone writes the code; and someone designs the conditions under which it will be applied.

Clearly this is a realm in which knowledge workers need strong skills in computer science, artificial intelligence, and analytics. In his book *Data-ism*, Steve Lohr offers stories of some of the people doing this work. For example, at the E. & J. Gallo Winery, an executive named Nick Dokoozlian teams up with Hendrik Hamann, a member of IBM's research staff, to find a way to harness the data required for "precision agriculture" at scale. In other words, they want to automate the painstaking craft of giving each grapevine exactly the care and feeding it needs to thrive. This isn't amateur hour. Hamann is a physicist with a thorough knowledge of IBM's prior application of networked sensors. Dokoozlian earned his doctorate in plant physiology at what Lohr informs us is the MIT of wine science – the University of California at Davis – and then taught there for 15 years. We're tempted to say that this team knows wine the way some French people know paper.

Stepping forward means bringing about machines' next level of encroachment, but it involves work that is itself highly augmented by software. A glance at Hamann's LinkedIn page is sufficient to make the point: He's been "endorsed" by contacts for his expert use of simulations, algorithms, machine learning, mathematical modelling, and more. But spotting the right next opportunity for automation requires much more than technical chops. If this

Three Eras of Automation

If this wave of automation seems scarier than previous ones, it's for good reason. As machines encroach on decision making, it's hard to see the higher ground to which humans might move.

ERA ONE
Machines take away the **dirty and dangerous** – industrial equipment, from looms to the cotton gin, relieves humans of onerous manual labour
19TH CENTURY

ERA TWO
Machines take away the **dull** – automated interfaces, from airline kiosks to call centres, relieve humans of routine service transactions and clerical chores
20TH CENTURY

ERA THREE
Machines take away **decisions** – intelligent systems, from airfare pricing to IBM's Watson, make better choices than humans, reliably and fast
21ST CENTURY

is your strategy, you'll reach the top of your field if you can also think outside the box, perceive where today's computers fall short, and envision tools that don't yet exist. Someday, perhaps, even a lot of software development will be automated; but as Bill Gates recently observed, programming is "safe for now."

Why Employers Love Augmentation (or Should)

Our conversations to date with professionals in a wide range of fields – radiologists, financial advisers, teachers, architects, journalists, lawyers, accountants, marketers, and other experts of many kinds – suggest that whatever the field, any of the five steps we've just laid out is possible. Not all of them are right for a given individual, but if you can figure out which one is right for you, you'll be on your way to an augmentation strategy.

You might not get very far, however, if employers in your field don't buy in to augmentation. The world suffers from an automation mindset today, after all, because businesses have taken us down that path. Managers are always acutely aware of the downside of human employees – or, to use the technologist's favoured dysphemism for them, "wetware." Henry Ford famously said, "Why is it every time I ask for a pair of hands, they come with a brain attached?"

For augmentation to work, employers must be convinced that the combination of humans and computers is better than either working alone. That realisation will dawn as it becomes increasingly clear that enterprise success depends much more on constant innovation than on cost efficiency. Employers have tended to see machines and people as substitute goods: If one is more expensive, it makes sense to swap in the other. But that makes sense only under static conditions, when we can safely assume that tomorrow's tasks will be the same as today's.

Yuh-Mei Hutt told us that in her small business (Golden Lighting, a manufacturer of residential fixtures), automation has made operations much more efficient. But that means profitability depends now more than ever on the creativity of her people. Her designers need to know about trends in the interior design world and in lighting technology and must find fresh ways to pull them together. Her salespeople rely on CRM software, but their edge comes from how well they connect in person with retail buyers.

In an era of innovation, the emphasis has to be on the upside of people. They will always be the source of next-generation ideas and the element of operations that is hardest for competitors to replicate. (If you think employees today lack loyalty, you haven't noticed how fast software takes up with your rivals.) Yes, people are variable and unpredictable; capable of selfishness, boredom, and dishonesty; hard to teach and quick to tire all things that robots are not. But with the proper augmentation, you can get the most out of the positive qualities on which they also hold a monopoly. As computerisation turns everything that can be programmed into table stakes, those are the only qualities that will set you apart.

Winning a Different Kind of Race

To be sure, many of the things knowledge workers do today will soon be automated. For example, the future role of humans in financial advising isn't fully clear, but it's unlikely that those who remain in the field will have as their primary role recommending an optimal portfolio of stocks and bonds. In a recent conversation, one financial adviser seemed worried: "Our advice to clients isn't fully automated yet," he said, "but it's feeling more and more robotic. My comments to clients are increasingly supposed to follow a script, and we are strongly encouraged to move clients into the use of these online tools." He expressed his biggest fear outright: "I'm thinking that over time they will phase us out altogether." But the next words out of his mouth more than hinted at his salvation: "Reading scripts is obviously something a computer can do; convincing a client to invest more money requires some more skills. I'm already often more of a psychiatrist than a stockbroker."

That's not a step down. It's at least a step aside, and probably a step up. The adviser and his firm need only to see it that way and then build on it. For the foreseeable future, prompting savers and investors to make wiser financial choices will not be an automated task.

The strategy that will work in the long term, for employers and the employed, is to view smart machines as our partners and collaborators in knowledge work. By emphasising augmentation, we can remove the threat of automation and turn the race with the machine into a relay rather than a dash. Those who are able to smoothly transfer the baton to and from a computer will be the winners. ◆

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WHEELS OF THE FUTURE

All major automakers, from global giants to Indian poster boys, showcased a host of trendy yet environment-friendly options for the Indian roads at the biennial event.

By CHANCHAL PAL CHAUHAN

Volkswagen Passat: Green answer after the infamous emission scandal

Toyota Prius: The king of hybrids was the Show Stopper

The Indian automotive industry's biggest event brings to fore a host of new and environment-friendly mobility options, which could allay growing environment concerns. While hybrid and electric technologies may still be in their nascent stage in the subcontinent, with the pressure on fossil fuels ramping up, green technologies are evolving as a viable power solution to tackle the ever-growing commuting demands.

The emphasis on these alternatives was more than evident at the Auto Expo 2016. The buzz was around Toyota Prius – the world's first mass-produced hybrid with over eight million units sold so far. It offers the most solid template of technological evolution – a conventional petrol engine mated to an electric motor – that not only increases fuel economy, but also cuts noxious fumes from the tail pipe.

India is home to 12 of the 20 most polluted cities in the world and automobiles are a significant contributor. It was also apt that the expo was taking place at Greater Noida, barely 25 km from the national capital, which had just seen a 15-day odd-even experiment. Half a dozen hybrids and electrics unveiled at the event could well be the answer to the vehicle number puzzle faced by Delhiites.

Steep prices, however, could be a stumbling block. The Prius comes at a neat ₹40 lakh (ex- showroom Delhi) while others, such as the Nissan X-Trail and Volkswagen Passat GTE, will be equally expensive, if not more. The industry is banking on government support to boost such technologies after the rollout of FAME, or Faster Adoption of Manufacturing of (Hybrid and) Electric Vehicles in India, which offers cash incentives to manufacturers and customers from April 2015. Without the support, some of these vehicles may not even hit the Indian market. Yet, it is always good to have a sneak peak at what may be the future of mobility in India.

10,000

Electric two-wheelers and cars are sold in India every year. In China, it is over 200, 000

Some affordable options, like the Maruti's Ciaz sedan, have also come up with innovative hybrid solutions – even with limited benefits the vehicles could provide us with the kind of middle-of-the-road alternative that India perhaps needs. "There are a host of eco-friendly green technologies that could address the environmental concerns, but rationalised tax structure is a must to make them affordable for the Indian consumer and for commercial success," says Toyota Kirloskar Motor

PHOTOGRAPHS BY VIVAN MEHRA & SHEKHAR GHOSH

Renault EOLAB:
Runs 100 km to a litre

Managing Director Naomi Ishii. The auto major has been actively campaigning for reduction of import duty on hybrids and electric vehicles, which with added taxes, runs up to 160 per cent of the vehicle price.

Unlike the US and China, which have supportive government policies, including subsidies and tax cuts, the Indian market portrays a grim picture. China emerged as the world's largest electric car market in 2015 with a mind-numbing sales figure of 220,000 cars – roughly 10 per cent of India's annual car sales figures and a third of global electric car sales of 600,000 units. In comparison, sales of electric vehicles in India have not picked up, and less than 10,000 two wheelers and cars are sold annually.

"We need to get into the action mode backed by a clear policy initiative to invest into green technologies," Hero MotoCorp Chairman and Managing Director Pawan Munjal said on the sidelines of the launch of the DuetE 2.0, its first pure electric scooter.

Utility vehicle major Mahindra & Mahindra also unveiled the GenZe 2.0, the first connected all-electric scooter, and the Verito, an electric sedan. "The electric vehicles reflect Mahindra's vision of the Future of Mobility, which we believe, would lead to the creation of more sustainable urban areas," says Anand Mahindra, Chairman of the Mahindra Group.

Electric vehicles – both cars and two wheelers – have been present for over a decade in India, but lack of charging infrastructure has hampered growth. But, the emphasis on hybrid as an alternative was also evident in the Expo. French carmaker Renault showcased its EOLAB concept that could run close to 100 km with just one litre of fuel. This plug-in hybrid integrates technology, including lightweight design and aerodynamics, to minimise fuel consumption. Other global majors, too, showed their concerns for 'greener mobility'. Honda, for instance, showcased the Accord hybrid after it had burnt its fingers with a hybrid version of the Civic eight years ago, and was forced to cut prices to clear the huge inventory it had piled up.

APART FROM ELECRTIC CARS AND TWO-WHEELERS, THE EMPHASIS ON HYBRID VEHICLES WAS ALSO EVIDENT AT THE EXPO

Korean auto major Hyundai is awaiting a clearer government policy before it finalises the Sonata plug-in hybrid for Indian roads. "This product is doing well in our overseas markets. However, it's an expensive car and right incentives from the (Indian) government would go a long way to make it a commercial success," said Rakesh Shrivastava, Senior Vice President, Marketing and Sales, Hyundai. ◆

@sablaik

THE ODD BALLS

The biennial motoring show brings some super star attractions offering unique opportunities for mobility. Honda introduced Navi – a dinky little bike with unique styling. The other attraction was the driverless shuttle bus, which could be the mode of transport in controlled campuses. It may not be in the same league as Google's autonomous car, but would surely change the way short commuting is perceived. The cabin-less structure featuring a floating design seat and powered by Honda's MotoGP RC213V engine, the Maclaren Honda MP4-30 concept model embodies the feat of creative craftsmanship.

1 **McLaren Honda MP4-30:** Cabinless concept for motorsport leaves conventional designs behind

2 **Driverless Shuttlebus:** India's answer to Google's autonomous driver car

3 **Honda Navi:** World's first motorcycle-scooter

READY TO ROLL

The real show stoppers were a bevy of new compact sports utility vehicles mostly stamped in neat metal frames and ideal for the fast-expanding Indian middle class. The post-liberalisation economic boom and rising incomes have helped the industry raise aspirations where the average ticket size of cars has now touched ₹5 lakh – a quantum jump from ₹3.2 lakh five years ago. Banking on the growing propensity to spend more on cars, companies have pushed the envelope to develop new-generation vehicles, with SUVs and crossovers dominating this season of the motoring show. From Hyundai's HND-14, a sub-four metre SUV that boasts multi-function lifestyle in its acclaimed fluidic styling, to Maruti Suzuki's aggressively priced Vitara Brezza, which is expected to change the way Indians perceive the fast-growing market, were the most sought-after vehicles.

1 **Hyundai HND-14:** It will become the entry-level SUV model for Hyundai, slotted below Creta

2 **Vespa Armani:** The most expensive scooter to hit Indian roads

3 **Chevrolet Essentia:** The four-door notchback will compete with Maruti Dzire and Honda Amaze

4 **Mahindra Aero:** Our answer to the BMW X-6

5 **Mercedes G 500:** Super off-roader from the finest sedan maker

1 **Ford Mustang:** Iconic two-door sports car

2 **TVS Akula:** Super MotoGP racing stuff

3 **Maruti Brezza:** King's bid to capture the compact SUV segment

Too Little, Too Late?

The first-ever Android-run BlackBerry, the PRiv, comes with the legendary BlackBerry features the company is known for, but is priced too high.

By NIDHI SINGAL

A few years ago, the iPhone and Android platforms took the smartphone world by storm, and players who dominated this space at that time started losing out. Nokia's Symbian, for example, gave in and its smartphone portfolio was sold off to Microsoft. BlackBerry, which was once a cult, revamped its operating system to come up with BlackBerry 10 OS to stay relevant. The OS offered flawless productivity and multitasking, but again, the company did not have the necessary apps to take on competition. Now, BlackBerry is trying something new – adopting the Android operating system for its hardware. But is it too little, too late?

Physical Keyboard Is Back

Be it the BlackBerry Bold 9900 or the Playbook tablet, it always offered sturdy devices. The overall build quality, including the display, the back panel and the physical keyboard, was a rage. Now, with the Priv, Black-Berry is trying to recreate the magic of touch and feel yet again – blending the virtual keyboard with physical keys. At first glance, the Priv's 5.4-inch display makes it look like a bulky all-touch phone till you discover the slider, hiding away the QWERTY keyboard. While many would argue against a physical keyboard, BlackBerry claims to have an audience that has been asking for a touch display with physical keys and a better selection of apps. This may be true, but will the same set of customers be willing to shell out ₹62,900 for the Priv? That, I am not sure about.

Coming back to my experience with the Priv. It's been over half a decade since I used a physical keyboard, and getting back to one was a task. I was more comfortable using the touch keyboard. However, BlackBerry smartphone users were overwhelmed by it.

Android OS, Finally

Although the BlackBerry OS 10 was a great operating system, especially the multitasking part, it did not have the required apps portfolio.The company allowed users to install the APK Android apps, but users did not find it appealing. Now, the integration of

the Android OS to its superb hardware makes me feel at home. Navigation was simple as the user interface was simlar to Android with a few additional features from the company's own stable. The Black-Berry Hub stores all important communication from accounts, services and apps under one hood. The predictive text comes handy and makes typing much easier with time. You also get access to the Google Play store for downloading Android apps.

Security and BB's DTEK

There is no doubt that BlackBerry smartphones were the most secure devices. But now that it is opting for an open source Android OS, will it be compromising on security?

BAG IT OR JUNK IT:

Designed for power users, including individuals and enterprises, the premium pricing makes it favourable for a niche audience. The company plans to launch two more devices with Android OS, which will be priced much lower than the Priv

RATING: 4/5

PRICE: ₹62,900

PLUS: Android OS, Camera, DTEK security app

MINUS: Price

BlackBerry has added DTEK, an extra layer of security, to prevent users from installing third-party launchers and apps from unverified sources. It also monitors the apps closely as well as the information they are accessing, to help users customise permission settings. In my case, it threw up a list of apps accessing my location and other personal information.

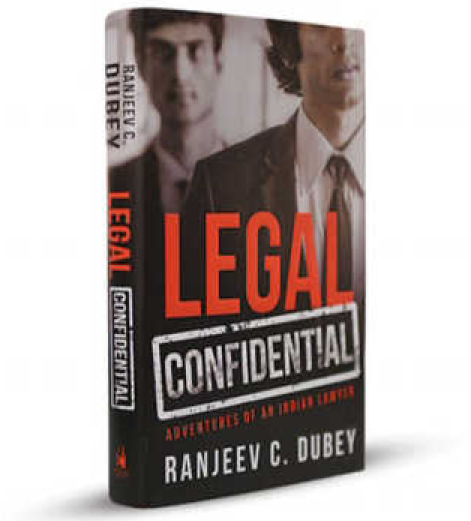
The Camera

BlackBerry scores full marks on the imaging front. The 18-MP camera captures superb images – colours are rich and images sharp. But, the camera starts struggling a bit in low light environment. ◆

@nidhisingal

Trials and Errors

The author's account of his experiences as a practising lawyer in the Indian legal system is both revelatory and entertaining. By Prosenjit Datta



Legal Confidential: Adventures of an Indian Lawyer
By Ranjeev C. Dubey
PAGES: 312
PRICE: ₹299
Penguin Books India

In the 1980s, Ranjeev Dubey joined the legal profession in India under the impression that lawyers fight for justice. He thought that as a practising lawyer, he would fight for liberty and justice – two values rather dear to him.

It took a fairly short time for him to lose his illusions about the profession. As he puts it in his Author's Note, "I learnt soon enough that justice does not have a great deal to do with the legal system. I also learnt that justice was not of paramount interest to many service providers (translation: lawyers, law firms, solicitors, clients and even judges) of the legal system."

A more sensitive soul would, perhaps, have wilted at the "dog-eat-dog world of the self-serving street fighting" legal system that he had just entered. Dubey is made of sterner stuff; he took everything that the legal profession threw at him with great relish and learnt how to play the game pretty well. (Full disclosure: I have known Dubey for many years, and he has been a columnist in the magazines I have edited.) He survived the skirmishes at Tees Hazari court (Delhi's lower court) and joined a corporate legal firm where his partners and colleagues were happy enough to take the work he was doing, as long as it did not involve paying him his fair dues. He rose to some heights in the legal profession and is, today, the managing partner in one of NCR's well-known corporate legal firms.

Legal Confidential: Adventures of an Indian Lawyer is his third book – he had written *Winning Legal Wars* and *Bullshit Quotient*, earlier. Though both his earlier titles had dealt with the real world of the Indian legal system as opposed to the rose-tinted view that many people have, this volume is, perhaps, his sharpest dissection of the problems with the system and with the profession as a whole. The book is written as an autobiography that is also a commentary on the practice of law as it happens in India.

It could easily have degenerated into a sort of bland and boring memoir. It also ran the risk of becoming the litany of complaints of a disillusioned idealist. But Dubey manages to avoid both these risks by throwing dollops of humour into his account, drawing unflattering but extremely funny sketches of his clients, partners, the lawyers he met during his practice, and even some of those who were judging his cases. He does not take himself too seriously either and avoids being pompous, as many people writing autobiographies are wont to do. He avoids painting himself as too heroic either, which keeps his account entertaining and grounded, to a large extent.

Anybody planning to become a lawyer anytime soon should definitely read this book just to understand the practice, as opposed to the theory

From a reader's perspective, the first one-third section – which deals with his earlier years ('The Doghouse Years' as he calls them) – is the funniest. This was the phase when he had just entered the profession and was invariably given the worst jobs. He had also managed, for some unknown reason, to attract a number of divorce cases. His clients were a motley crowd, and most of them were fairly colourful. It is obvious that while he was making very little money, Dubey enjoyed those years thoroughly. Most of the stories in this section are hilarious. He recounts the time he made one of his biggest mistakes while cross-examining a client's husband, and ended up cutting a sorry figure. No lasting harm was done to the case, luckily for his client, largely because the embarrassed judge presiding over the case had instructed the court recorder to tone down a lot of the comments and graphic descriptions given by the husband. As Dubey points out, he almost lost a case that was easy to win because of his overconfidence.

The second section – 'Dancing with the Wolves' – sees Dubey joining hands with two senior corporate lawyers to start a new firm. It deals with the travails of a new entity trying to establish itself in an over-crowded market, pulled in different directions by two completely opposite personalities, who also happened to be the senior-most partners. It also has some fairly interesting corporate cases, including the tactics used by both sides to win, or at least stall a case. By the end of this section, it is pretty apparent why most cases in India linger for many decades, without coming close to a conclusion.

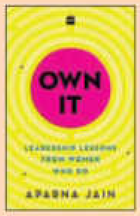
The most useful part of this section – for any reader interested in understanding how the legal profession functions – is that it clearly lays down on the line how fixers flourish at every level of the system. These are the guys willing to do the dirty jobs that respectable law firms and their partners do not want to touch. It also looks at how a law firm needs to bring in outside counsel when fighting big cases or how it needs to bring in allies when it fights in an unfamiliar state or court.

The third section has a lot of tips for identifying loopholes in almost any situation. It has a number of cases and companies that anyone following business events would easily recognise. (Though Dubey changes the names of clients and lawyers, some of the companies were too prominent to not be recognised.) It deals with plenty of office politics – much of what he recounts here can be found in other professions and offices as well. Though the two senior partners have a pretty good opinion of Dubey, their opinion at what value he brings to the office is at variance with his own. As a result, they try to give him far less than what he feels he is worth, until he actually resigns from the firm. It is then that they rush to make amends, but Dubey finally strikes out on his own.

Towards the end, the narrative sags a bit, and it seems that Dubey was getting a little bored of finishing the final chapters. But, despite that minor complaint, it is a pretty good read – it is fun and it tells you a lot of useful things about the law, especially corporate law. Anybody planning to become a lawyer anytime soon should definitely read this book just to understand the practice, as opposed to the theory. It is a good book for the general public, too. ◆

Own It

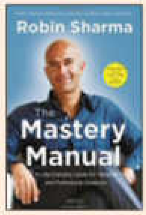
THE FORTNIGHTLY PICK



By Aparna Jain
Collins Business
Price: ₹599

Indian women leaders across industries discuss the challenges they face in the Indian workplace and at home.

BUSINESS BESTSELLERS*



The Mastery Manual
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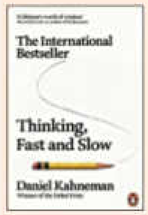

Thinking, Fast and Slow
By Daniel Kahneman
Penguin
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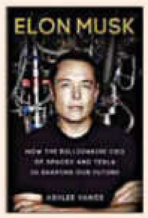

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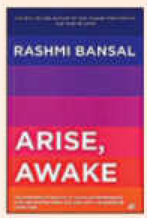

Arise, Awake
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Westland Books
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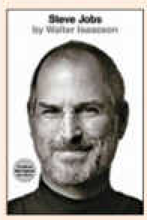

Steve Jobs
By Walter Isaacson
Little, Brown Book Group
Price: ₹550

*Top books by sales for Jan 17-30, 2016;
Includes only books released after Jan 1, 2015;
Information provided by amazon.in

(L to R): K. Ganesh, Growthstory.in; Atul Tewari, Quikr; Hari T.N., Big Basket; Srikrishna Ramamoorthy, Unitus Seed Fund; Vikram Ramakrishnan, Linkstreet; Anurag Verma, Flipkart; and Venkatesha Babu, Business Today

The Art of Hiring for Start-ups

Leading entrepreneurs and HR practitioners debated on how start-ups should deal with HR issues and what the freelance marketplace holds for them.

The evening of January 29 in Bangalore, India's IT and start-up hub, made for a perfect setting for discussion and brainstorming amongst HR leaders of top companies in the city. The venue, the Hyatt hotel, turned a hotbed of activity as panellists debated the nuances of (a) how start-ups should deal with HR issues while growing the business, and (b) the freelance marketplace: Can it plug the skills gap for companies? Both discussions were moderated by BT's Deputy Editor Venkatesha Babu.

The first topic starred six of the city's leading entrepreneurs and HR practitioners. K. Ganesh, Partner of Growthstory.in and a serial entrepreneur, started proceedings: "When you start a company, you're trying to prove a business model. As you grow, the culture and kind of people required changes." Ganesh referred to companies like Infosys, Wipro and Microsoft that have grown from start-up stage to become giants, and pointed out that the responsibility of founders towards employees changes as growth kicks in.

Anurag Verma, Director, HR for Supply Chain Platform at Flipkart, said that in the initial stages, employees are largely drawn from the founders' own network. But the most delicate phase is when A and B series of funding come in, and start-ups

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PHOTOGRAPHS BY NILOTPAL BARUAH

(L to R): Sean Blagsvedt, Babajob; Lovleen Bhatia, Edureka; Pradeep Kar, Microland; N.S. Parthasarathy, Mindtree; and Venkatesha Babu, Business Today

start attracting new talent. "What has worked in Flipkart is that the two founders have always connected with the new people coming in, and have taken senior people along."

Srikrishna Ramamoorthy, Partner, Unitus Seed Fund, said that in the race to scale the business, entrepreneurs shy away from building a senior team. "That is something we lay a lot of emphasis on; a lot of times entrepreneurs want to hire people like themselves, but the other way probably works better." Atul Tewari, COO of 'unicorn' start-up Quikr and head of Quikrcars, said: "One of the important things for us is the cultural fit. For example, the will to succeed is very important. The skill part we can all train."

Vikram Ramakrishnan, Co-founder and Director of Linkstreet, said that in a start-up, there is no HR function, and people need to multitask. "Some of the most successful people we have brought in have done a variety of roles." Hari T.N., HR head of online grocery major Big Basket, echoed Tewari's views on culture: "Culture is real it differs from company to company. You have to be clear what you stand for and what kind of people you want to attract."

The second panel, on the freelance marketplace and skill gap, started off with ageless entrepreneur Pradeep Kar, Chairman and MD of Microland, saying that Microland itself had freelancers even in senior positions, and that globally you could hire CXOs for an interim period. "I think that model will evolve."

> Panellists were unanimous in their view that technology has made freelancing viable and that it is set to evolve

Sean Blagsvedt, CEO of Babajob, an organisation that provides blue-collar workers, said that one of the reasons freelancing has become viable is because of the advent of computers and networks. "Phones are getting out there which means there's suddenly a computer and a unit of work that somebody can program against, which virtually everybody will have in the next five years. That enables new types of business models and algorithmic efficiency that we haven't even fathomed yet." Lovleen Bhatia, Co-founder & CEO of online education start-up Edureka, pointed out that his company was built on freelancing: "We have 400 freelancers taking class, we deliver 3,000 classes every month and are growing fast." He expects a lot of people getting out of full-time jobs and "getting into services like ours".

N.S. Parthasarathy, President & COO of leading IT services company Mindtree, believes that as the Indian employability market matures, freelance will be here to stay. "But I think the model in which it will grow in India will probably be very different from other parts of the world." In services companies, freelance can be used in only a few pockets, he opined.

The event was sponsored by SRM University. ◆

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Mcfadyen Consulting Software India Private Limited
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Description: Financial Accounting - Put together the Financial Statements for all the legal entities, completing the statutory audit within the agreed timelines.

Syntel Limited
Internal Audit Experts
Location: Mumbai
Job ID: 18163140
Description: Managing Internal Audit, IT Audit, Sox Audit, process Audit, compliance, Finance Audit, HR audit etc.

Juniper Networks Inc.
Tax Analyst 4
Location: Bengaluru / Bangalore
Job ID: 18157833
Description: Assist with the preparation of VAT/GST Returns for the Juniper entities in the region, Support VAT audits etc.

dEEVOiR Consulting Services Private Limited
Credit Analyst
Location: Indore
Job ID: 18153413
Description: Come up with and periodically review baseline credit rating mechanism/methodology/matrix for counterparty credit evaluation.

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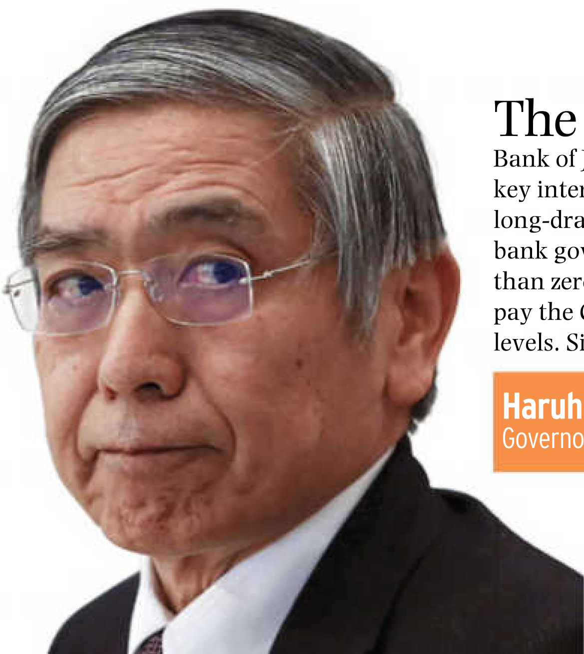
And many more.

From Behind Bars

Having seen various ups and downs in his life, Sahara Group founder, **Subrata Roy**, has decided to write his life experiences from within the walls of Tihar jail, where he has been incarcerated for about two years now. *Life Mantras* is the first of the three books under the series titled *Thoughts from Tihar*. Roy's group firms were accused of unlawfully collecting millions from investors. Sahara has been trying to sell some of its prized assets, including New York's Plaza Hotel, the Grosvenor House in London, Sahara Star Hotel in Mumbai and its stake in a Formula One racing team, to free Roy from jail.

Subrata Roy
Founder, Sahara group

M ZHAZO



REUTERS

The Banker's Cure

Bank of Japan Governor **Haruhiko Kuroda**'s recent decision to reduce key interest rates below zero could possibly help the country fight the long-drawn deflation battle. Interest rates are used as a tool by Central bank governors across the world to manage consumer prices. Less than zero interest rates mean that financial institutions will have to pay the Central bank to park their money beyond required reserve levels. Similar interest rate policies were announced by Central banks in Europe, Denmark and Switzerland. Kuroda's move is expected to encourage consumers to make big-ticket purchases.

Haruhiko Kuroda
Governor, Bank of Japan

T. Suzuki
COO, Suzuki Corporation

Driving Home

T. Suzuki, who was appointed as COO and President of the Japanese automaker Suzuki Corporation in July last year, was in India recently for the Auto Expo. He said that the largest carmaker, Maruti Suzuki, in which Suzuki has a majority stake, aims to reduce its dependence on India, and focus on markets such as Europe and South-East Asia. He also said that there is no possibility of an alliance with Toyota Motor Company for developing any technology or products.

Bernie Sanders
US presidential candidate

Playing a Trump

Bernie Sanders, a junior Senator from Vermont, gave Hillary Clinton a run for her money in the race to become the Democrat Presidential candidate. Sanders lost to Clinton by just 0.29 percentage points in the Iowa caucus, a margin thinner than predicted. His strong performance has led him to raise a record $3 million within 24 hours. "We had no money, no name, recognition, and we were taking on the most powerful political organisation in the United States of America," Sanders said, after the Iowa caucus.

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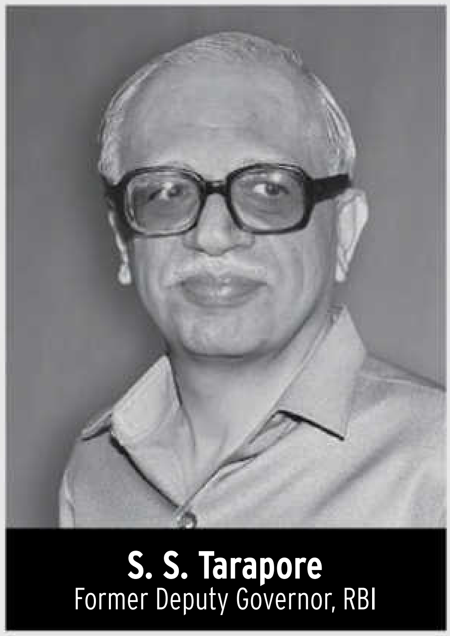

S. S. Tarapore
Former Deputy Governor, RBI

The Ageless Banker

Few Central bankers manage to keep pace with financial sector developments after retirement. But noted economist and former RBI Governor **Savak Sohrab Tarapore**, 80, who passed away on February 2, was different. Not only did he make his points heard by regularly penning his thoughts on policy making in leading dailies, but also kept in touch with people at the Central bank. "He was one of the finest macro economists with a broad understanding of external issues, including currency and balance of payments," says G.N. Bajpai, former LIC and Sebi Chairman. Tarapore rose through the ranks in a career spanning three-and-a-half decades. He joined the bank as research officer. Former RBI Governor C. Rangarajan, under whom he worked as the deputy governor, called him a crusader in the fight against inflation. Raghuram Rajan, the incumbent, lauded his contribution as part of the two Narasimham committees, which set the tone for first-generation reforms in the financial market. In fact, Tarapore is best known for chairing the capital account convertibility (CAC) report, which was considered comprehensive and quite ahead of its time.

From IT to High Tee

Corporate honchos participate in the LLOYD-Business Today golf event in Bangalore.

Winning Smiles: (L-R) Chetan Meda on behalf of Vishal Bhat; Peter Prem; Navroze Dhondy of Creatigies; Karanth K and Nanda Kishore

On a sunny Saturday afternoon 84 golfers teed off at Eagleton Golf Resort to participate in the Bangalore leg of the 20th edition of the LLOYD-*Business Today* Pro-Am of Champions event.

The picturesque golf course at Eagleton fulfilled a dual purpose for every golfer who participated. It presented each with the appropriate level of challenge and enjoyment. The 18-hole championship course, which has even hosted a European Ladies Tour, is a pleasure to play on with changes in elevation, water hazards in play and nearly 70 bunkers to avoid. With the resort set-up, which includes rooms, restaurants and other leisure activities, this is a perfect weekend getaway.

Played in the Stableford format with Double Peoria handicap, the afternoon witnessed some great golfing action with players vying for both individual as well as team prizes.

The winning team comprising Nanda Kishore (Wipro), Vishal Bhat (MNS Exports), Peter Prem (Univern Solutions India) and Karanth K (Nirmal Infotech) prevailed with a combined score of 116 points.

The team comprising Rajat Chanchani (Ceebros Automation), Puneet Kashyap (Director CSR, Lloyd), Ramesh Iyengar (Tech Mahindra) and Nikhil Dhodapkar (Accor India) finished Runners Up with 113 points.

Winning team to represent Bangalore in the Pro-Am National finals

In the individual prizes, Bipin Shah (Quality Soap Industries) was the winner with 38 points in the 0-10 handicap category; Vishal Bhat with 41 points was the winner amongst the 11-18 handicap category and Ramesh Iyengar played a great round for a score of 40 points to win in the 19-24 handicap slot.

The S-Cross, up for grabs for a Hole-in-One on the 17th hole, was nearly claimed by Iyengar who missed out narrowly. The 4moles Closest to Pin for the day was won by Srinivas Murthy of Adwit India, while Tarandeep Singh of Aon Hewitt Consulting was adjudged the Nautica Most Stylish Golfer.

Some of the other eminent golfers who participated amongst the corporate bigwigs of Bangalore included Varun Berry, MD, Britannia; Anil Sama, COO, Intel; Arjun Ramaraju, Vice President Wipro; Naresh Shah, President, EG India R&D, Hewlett Packard Enterprise; Arjun Srivatsa, Chief Neurosurgeon, Columbia Asia Hospitals; Anand Kumar A, CEO, Moksh Champa Agarbathy; Mohan Sekhar, Sr. MD, Accenture; Krishna Kumar, Senior Director, Oracle Solution Service India; Sandeep Kulhalli, Sr. Vice President-Retail and Marketing-Jewelry, Titan; Sudheer Bhat, MD, Plastronics India; K.K. Mathew, Chairman & Managing Director, Disha Communications; Karthik Padmanabhan, Executive, Cloud Ecosystem, Asia Pacific, IBM Corporation.

The day's action culminated with the prize distribution ceremony followed by dinner. The winning team also earned themselves a place in the Pro-Am National finals to be held in Delhi in March 2016. LLOYD Electric & Engineering is the co-title sponsor; S-Cross, the 'driven by' sponsor; Nautica, the style partner; 4moles, the digital partner and Creatigies, the marketing partner of the event. ◆

Individual Winner: Bipin Shah (Handicap 0-10)

Individual Winner: Vishal Bhat (11-18 Handicap)


Power four-ball: Anil Sama (Intel), Naresh Shah (Hewlett Packard Enterprise), Varun Berry (Britannia) and Vipul Hoon (BT) with the Maruti S Cross prize for Hole-in-One

Individual Winner: Ramesh Iyengar (19-24 Handicap)

Full interview with Y.K. Koo at
businesstoday.in/Hyundai-Koo

“Our team responded immediately to the situation in Chennai”

VIVAN MEHRA

Y.K. Koo, the new Managing Director of Hyundai Motor India, talks to **Chanchal Pal Chauhan** about the initiatives that kept both its factories in Chennai up and running during the massive floods.

How did Hyundai manage to counter the massive flooding in Chennai?

The floods were an unforeseen calamity. But our team (on December 8) responded immediately to keep the assembly operations unaffected. Besides, we placed 17 emergency road service vehicles and 30 flatbed trucks for towing operations, apart from having 300 technicians working at multiple shifts to assist stranded vehicles. We also activated a toll free number for vehicle owners.

How were the intricate spare parts supplies managed?

Our spare parts supplier, MOBIS, was equally up to the challenge, by prioritising orders for all spare parts to Chennai workshops in such a way that we did not have to wait for critical components.

How did you maintain production and commitments for the overseas markets?

We have, so far, invested over $2.7 billion in our Chennai facility because the Indian subsidiary is an important part of our business strategy to maintain Hyundai's solid position in export of compact cars. Therefore, despite the calamity, it did not affect our regular production of vehicles and that helped us to meet our global commitments. In fact, 2015 was a great year for Hyundai Motor India. Domestic sales stood at a record of 476,001 units with 17.3 per cent market share. We posted 16 per cent growth – double the industry average. We also added 1.6 lakh exports unit, finishing the year with 15.7 per cent annual growth. We aspire to be India's largest auto company. ◆

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