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CHANAKYA

NI POTHI

Economic Survey: 'Counter-cyclical fiscal policy' to boost demand justified

The Economic Survey for 2019-20, presented to Parliament on Friday, laid out an agenda for wealth creation in India and sought to ground pro-wealth and pro-business economic policies in India's economic experience and philosophical traditions. In the Survey's preface, Chief Economic Advisor K V Subramanian revealed the Survey's motivation: Prime Minister Narendra Modi's speech on Independence Day 2019, which highlighted the contributions of wealth creators and that "only when wealth is created will wealth be distributed". Subramanian argues that liberalisation is a return to India's "roots" as a market economy, and thus advocates various wealth-boosting reforms in the Survey.

From the macro-economic point of view, the Survey argues that since "the government, with a strong mandate, has the capacity to deliver expeditiously on reforms", the upside risks to the economy dominate the downside risks. Given the base effect, it thus pegs growth in India's gross domestic product or GDP in 2020-21 as being in the range of 6 to 6.5 per cent. The Survey admits that meeting the $5 trillion target set by the prime minister will be challenging, given the growth slowdown.

The Survey places primary blame for the slowdown on global factors, saying "the deceleration of India's GDP growth since 2017 has tracked the decline in world output". It noted also that some recent research suggested that the length of the business cycle in India was about 13 quarters, perhaps faster during the deceleration phase. Given that history, the Survey predicted a resurgence of growth in the current half of 2019-20.

The Survey also argues, however, that "the stagnation in private corporate investment at approximately 11.5 per cent of GDP between 2011-12 and 2017-18 has a critical role to play in explaining the slowing cycle of growth and, in particular, the recent deceleration of GDP and consumption". This stagnation is linked to the decline in credit growth from banks.

With important implications for the path of government spending to be outlined in the Union Budget for 2020-21, the Survey argues that boosting sluggish demand and consumer sentiment should be a priority and so "counter-cyclical fiscal policy" — in other words, fiscal slippage — is justified.

Among the reforms that the Survey advocates to boost "wealth creation" in India is the end of unnecessary and counter-productive intervention by the government in the economy.

Here the Survey highlights the Essential Commodities Act (ECA) in particular, using research that shows that the imposition of stock limits had "no effect" on price volatility of onions over the past year, but that 76,000 raids under the ECA were conducted during 2019 of which under four per cent led to convictions.

Thus, the main effect of the ECA was to harass traders and to dis-incentivise inventory-keeping. Similar policies which had counter-productive effects included the Drugs Prices Control Order of 2013, which the Survey said increased the prices of drugs sold through hospitals.

Highlighting the sharp increase in major subsidies in the Budget, led by the growth in the food subsidies, the Survey pointed out that "the intervention of government has led to a disconnect between the demand and supply of grains" and argued that farmer support needs to be realigned towards incentivising farmers to diversify their production away from foodgrain.

The Survey also argues in favour of integrating India with world markets deeply enough that "network products" such as electronics and automobiles are assembled in India for world markets. In this context it dissents from general government policy by pointing out that recent free trade agreements have in fact benefited India, finding that on the average Indian exports to its FTA partners has increased more than imports. The Survey reiterated in this context that policy measures "should focus on reducing input tariffs and implementation of key factor market reforms".

Other chapters of the Survey focused on the growth of entrepreneurship, on dealing with cronyism, and privatisation. On entrepreneurship, the Survey found that a 10 per cent increase in the registration of new firms in a district led to a a 1.8 per cent increase in the district's output. It argued also that the anti-corruption moves since 2011-12 had led to a reduction in cronyism that was visible in the data on, for example, related party transactions of firms receiving natural resources.

In spite of its justification of fiscal slippage, the Survey also pointed out that the root cause of the slowdown was low private investment. It blamed that on risk aversion in scheduled commercial banks (SCBs) following the non-performing asset crisis. But it also gestured at government borrowing as a problem, saying that the "easy investment in G-secs" was a complementary factor and that SCBs "chose to invest thrice the amount in G-Secs in the current year as compared to the previous year, while reducing their credit off-take by more than four-fifths".

In terms of policy prescriptions for the financial sector, however, the Survey has been relatively restrained. Instead of arguing again for greater private control, Subramanian instead suggests leveraging big data algorithms by pooling data held by public sector banks, and by increasing employee ownership to give them more of a stake in the PSB's performance. The CEA also devoted a chapter to seeking to refute the finding of his predecessor, Arvind Subramanian, that India's GDP was overstated.

Neemuchwala resigns after 4 years as Wipro CEO citing 'family commitments'

Abidali Neemuchwala has formally resigned after about four years as chief executive officer (and managing director since last July) at information technology major Wipro.

His term had another year, but Neemuchwala has cited "family commitments" for wanting to leave. The board of directors has begun the process of looking for the next CEO, the company told the stock exchanges.

Rishad Premji took charge last year as executive chairman from his father, Azim Premji. "The board and I have a lot of respect for Abid and thank him for all his contributions over the past five years...he will continue to be the CEO and MD till a successor is appointed, to ensure a smooth transition," Rishad Premji wrote in an e-mail to employees after the quit announcement in the morning.

Neemuchwala joined Wipro as group president and chief operating officer in April 2015, from Tata Consultancy Services (TCS), where he was heading the BPM services division.

He was elevated as CEO in February 2016. Under his charge, Wipro took various steps to realign its business operations for faster growth.

Its West Asia business was restructured; the Indian business was reorganised by carving out a separate unit for state-run undertakings and government organisations, from the enterprise business.

And, divesting its low-margin data centre business. While being affected by client-specific issues in the retail and health care divisions, Wipro has seen a fair amount of contract wins in the large deals space. In September 2018 came its largest-ever outsourcing contract, worth $1.5 billion, from Alight Solutions. A year after, it bagged a $300-million deal from ICICI Bank.

Yet, in recent years, growth was subdued as compared to peers. Revenue from IT services was nearly $7.6 billion in 2016-17 and $8.1 bn in 2018-19.

This was a far cry from the earlier target of becoming a $15-bn entity, with operating margin of 23 per cent, by 2020. During FY17-19, the operating margin also declined from 18.8 per cent to 17.9 per cent.

However, the market capitalisation rose to $22.2 bn in FY19, from $19.3 bn in FY17. Analysts, nevertheless, said Neemuchwala took all the right steps.

"Given the macro headwinds and company-specific issues, Neemuchwala has given a strategic direction. His realignment efforts will definitely give dividends to the IT firm in the coming quarters," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting. Bhaskar Ghosh of Accenture is seen as a strong contender as the next CEO.

HUL volume growth surprises, profit before tax up 14% in December quarter

The country's largest consumer goods company, Hindustan Unilever (HUL), on Friday reported a volume growth of 5 per cent in the third quarter, ahead of analysts' estimates of 3-4 per cent.

This came in a challenging market environment, according to HUL's chairman and managing director Sanjiv Mehta.

This is the fourth straight quarter of single-digit volume growth for HUL. Of the four quarters, three quarters in a row have seen HUL deliver volume growth at 5 per cent, Abneesh Roy, executive vice-president, research (institutional equities), Edelweiss, said.

HUL's Q3 volume growth is also ahead of the overall fast moving consumer goods (FMCG) sector's volume growth of 3 per cent for the three months ended December 31 2019, experts said, implying the firm was committed to driving sales volumes despite weak market conditions.

The company did this by cutting soap prices, driving low unit packs across categories and pushing penetration of its products using its 'Winning in Many Indias' strategy, Mehta said.

While HUL's profit before tax (PBT) grew 14.3 per cent to Rs 2,229 crore, its net profit

grew nearly 12 per cent Rs 1,616 crore year-on-year.

A consensus estimate of analysts by Bloomberg had pegged net profit at Rs 1,596 crore for the period.

Revenue (which includes net sales plus other operating income) rose 2.6 per cent to Rs 9,808 crore in the December quarter. Analysts had estimated Rs 10,034 crore, according to Bloomberg.

Earnings before interest tax depreciation and amortisation (Ebitda) rose 19 per cent to Rs 2,445 crore—higher than analysts' estimates of Rs 2,241 crore.

Ebitda margin expanded to 24.9 per cent from 21.4 per cent, higher than the consensus projection of 22.3 per cent.

"The demand outlook remains challenging in the short-term," Mehta said, adding that he saw medium-to-long-term prospects for the domestic FMCG market improving. "I remain hopeful that policy measures will spur demand and drive consumption," he said, as attention shifts to the Union Budget to be announced on Saturday.

Market research agency Nielsen has said a recovery in the FMCG market is likely in the January-March 2020 period, and is expected to gain pace in the subsequent quarters.

Relatively cheaper food improved common man's welfare, says Economic Survey

Did the falling prices of food items that caused widespread resentment among millions of growers in the countryside since 2016-17 benefit anyone?

Well, it added on an average around Rs 10,887 per year to your family if it eats vegetarian food and approximately Rs 11,787 per year if it consumes non-vegetarian food.

The 2019-20 Economic Survey added a chapter called 'Thalinomics' to understand how factors such as low inflation impact the daily plate of a common man and whether the citizen is well-off or worse over a period of time because of it. The Survey found that between 2006-07 and 2019-20, the affordability of a vegetarian thali has increased by 29 per cent while that of a non-vegetarian thali has improved by 18 per cent for an average common man because of falling inflation.

"In terms of the inflation in thali prices and all the components, we find a distinct declining trend during the period under review. Affordability of thalis vis-à-vis a day's pay of a worker has improved over time, indicating improved welfare of the common person," the Survey said.

The Thalinomics, which to some is Indian version of the Big Mac Index, also found that rising food prices in the first seven months of 2019-20 were making the thali less affordable for a common man on the street as compared to previous three years.

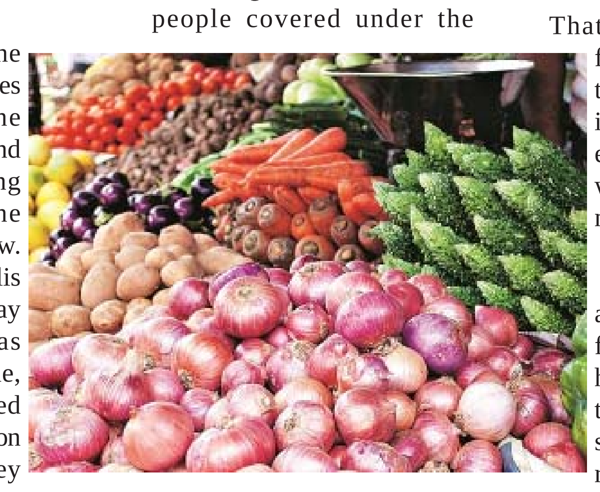
The affordability index has been constructed using the annual earnings of an average industrial worker. For a vegetarian thali, the Survey has assumed that an average household of five individuals consumed two thalis a day that comprises 300 grams' cereals, 150 grams' vegetables, and 60 grams of pulses.

In case of non-vegetarian thali, all the components remain the same, except that 60 grams of pulses is replaced by an equal quantity of non-vegetarian food be it egg, meat, or fish. For fuel, the index uses cooking gas prices as well as firewood prices for which data is available consistently.

The Survey claimed that 2015-16 could be considered as a year when there was a shift in dynamics of thali prices as many reforms were introduced to enhance the productivity of the agriculture sector as well as efficiency and effectiveness of agricultural markets for better and more transparent price discovery.

RAISE CEREAL PRICES UNDER FOOD ACT, CUT COVERAGE

chartAt a time when falling food prices seem to have benefitted the common man, the most in the past few years as per Thalinomics, the Survey has not only advocated raising the price of cereals distributed through ration shops but also relooking at the number of people covered under the



programme in order to curb spiraling subsidy.

"With a large share of poor people, maintaining food security is still a challenge. The rates under the National Food Security Act (NFSA) and the coverage need to be revisited," the Survey said.

Foodgrains via ration shops are supplied at highly subsidised rates of Rs 3 per kg for rice, Rs 2 per kg for wheat, and Rs 1 per kg for coarse grains according to NFSA. It covers over 67 per cent of India's population in the present form, which the survey has advocated revisiting.

For farmers' welfare, the Survey advocated land reforms for freeing up land markets as the proportion of small and marginal holdings in country's overall agriculture is significantly large.

It also said small holdings of India can be better harnessed through appropriate use of farm mechanisation as the degree of farm mechanisation is low as compared to the other major developing countries like Brazil and China.

That apart, the Survey favoured expanding the coverage of irrigation facilities while ensuring an effective water conservation mechanism.

It said an inclusive approach to provision for agricultural credit has to be undertaken to address the skewness in its regional distribution.

It also harped on the need to give increased focus on exploring global markets for agricultural commodities to give an additional source of market for the surplus of agricultural produce India currently has.

Virginia Rometty steps down, IBM elevates Arvind Krishna as CEO

Arvind Krishna, the head of IBM's cloud and cognitive software unit and who was a principal architect of the company's purchase of Red Hat, has been promoted to the position of chief executive officer, replacing Virginia Rometty.

Krishna, 57, whom Rometty described as the "right CEO for the next era at IBM", will thus join the elite list of Indian-origin CEOs heading major US technology firms such as Google, Microsoft, Adobe, and MasterCard.

Krishna will take charge on April 6, while Rometty, who has been at the helm since 2012, will continue as executive chairman until the end of the year and then retire after almost 40 years

Embassy to merge some of its properties with Indiabulls Real Estate

Embassy Property Development is merging some of its residential and commercial properties with Indiabulls Real Estate to set up a new entity, the latter said on Friday.

The companies did not share details of the properties they are merging. Under the proposed merger, Indiabulls will issue equity shares of Rs 2 each to the shareholders of Embassy, in accordance with the swap ratio approved by the boards of both the companies, Indiabulls said.

The merged platform will be controlled by Embassy Chairman Jitu Virwani. Sameer Gehlaut, the current promoter of Indiabulls will become a passive shareholder in the new company, sources in the know said."The merged platform will become the development arm for the listed REIT (Embassy Office Parks).

Amazon's Jeff Bezos adds $13 bn to his fortune in 15 mins; stock rises

Shares of his Amazon.com surged 12 per cent to $2,100 in extended trading late on Thursday in New York, after the largest US e-commerce company reported fourth-

quarter results that smashed Wall Street estimates.

Bezos, already the world's richest person, added $13.2 billion to his fortune in 15 minutes. At the current price, his net worth would be about $129.5 billion, according to the Bloomberg Billionaires Index.

Bezos, 56, owns about 12 per cent of Amazon's outstanding stock, making up the bulk of his fortune. His ownership of closely held Blue Origin accounts for about $6.2 billion. The late surge on Thursday added more than $90 billion to Amazon's market value, pushing it above $1 trillion.

His ex-wife, MacKenzie Bezos, 49, also had reason to celebrate, as she owns about 4 per cent of the Seattle-based retailer. She started the day as the world's 24th-richest person, with a $37.1 billion fortune.

Bezos wasn't the only tech titan with dramatic changes to their net worth this week. Elon Musk's fortune swelled by $2.3 billion in an hour on Wednesday after shares of Tesla rose in extended trading on better-than-expected results. Bill Gates and Steve Ballmer also saw huge gains after Microsoft Corp. reported results. Mark Zuckerberg's fortune tumbled $4 billion as Facebook shares slid on its slowest-ever quarterly sales growth.