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States may not get GST compensation in full, says Finance Ministry

State governments are unlikely to get the full compensation promised for shortfall in goods and services tax (GST) collection as the finance ministry says the amount will be given only through money collected from the cess imposed for this purpose.

A key ministry official said states should agree to hike GST or cess rates in the Council meeting, the date for which is yet to be fixed.

Earlier, the impression was that whatever losses states bore would be fully compensated to them for five years from the date of GST rollout. The states might not get the full amount of their losses despite the recent Union Budget carving out a special dispensation from the surplus collected through the compensation cess in previous years.

With the GST revenues of many states facing contraction over the previous year and cess realisation lower than required, the shortfall could be around Rs 30,000 crore, even after taking into account the Budget proposal of a special dispensation.

After this year's provision of special dispensation, said officials, transfers to the compensation cess fund will, henceforth, be limited to collections through cess, which is levied on items such as aerated drinks, coal, paan masala, cigarettes and automobiles over the peak rate of 28 per cent.

Central Board of Indirect Taxes and Customs Member John Joseph, who was officiating as chairman at the time of Budget preparation, told Business Standard the compensation to states would be made only if available.

"The law is very clear. It says that for the purpose of paying compensation, compensation cess will be introduced. Compensation will be given from that. If that cess is not coming up to the required amount, the law does not say that you can take it from central GST…", he said.

States are free, he added, to increase the GST or cess rates to get full compensation.

Earlier, states were assured that their revenues would be protected to the extent of 14 per cent growth on the base year of 2015-16 for five years from the date of GST rollout, which was July 1, 2017.

Clause 18 of the Constitution Amendment Act for GST stated "Parliament shall...on recommendation of the GST Council provide for compensation to the states for loss of revenue arising on account for implementation of the GST for a period of five years".

Subsequently, the GST (Compensation to States) Act was passed, which states that compensation would be payable from the GST Compensation Fund.

Experts say the spirit of the law is that states will be fully compensated for revenue shortfall for a five-year period, assuming a 14 per cent growth rate, while the Centre was going by the letter. "Ideally, the Centre should not go back on its word given to states," said an indirect tax expert, who did not wish to be named.

The Centre has estimated a compensation cess shortage of Rs 63,200 crore in financial year 2019-20 (FY20). In the first 10 months of FY20, GST collection grew 4.6 per cent.

The central government will transfer a surplus from the previous two years of Rs 35,000 crore in two installments to the compensation fund. This still leaves a gap of around Rs 28,000 crore.

"It is decided to transfer to the GST Compensation Fund balances due out of collection of the years 2016-17 and 2017-18, in two installments. Hereinafter, transfers to the fund would be limited only to collection by way of GST compensation cess," Union Finance Minister Nirmala Sitharaman had said in her Budget speech.

Joseph says, "If the compensation cess is not giving enough money, let them (states) increase the rate of cess or GST rates or add more items. The Centre never said that it will oppose the raising of rates."

GST revenue of 23 states till end-December was Rs 15,100 crore lower than last year's or a 3.9 per cent decline YoY. If revenue loss is assumed on the basis of 14 per cent growth, it would mean a shortfall of Rs 69,000 crore for these states till December. The loss would be much more, since 14 per cent growth for compensation in the GST laws is taken on the base year of FY16.

Compensation cess collection is Rs 7,000-8,000 crore a month, as against the compensation requirement of Rs 14,000-15,000 crore a month.

In the April-December period of FY20, Punjab's and Andhra Pradesh's GST collections fell by 16 per cent, that of Uttar Pradesh by 11 per cent, Kerala by 12 per cent, Gujarat by six per cent and Telangana by eight per cent. States have received compensation till September so far in FY20.

The Centre has pegged cess collection at Rs 98,000 crore in the Revised Estimate of FY20, which is Rs 10,000 crore lower than what was estimated at the beginning of the financial year.

Banks to get 5-year CRR relief for lending to auto, housing, MSMEs

The Reserve Bank of India (RBI) on Monday said banks would not be required to maintain the cash reserve ratio (CRR) for five years on their deposits for an amount equivalent to loans given to the MSME (micro, small, and medium enterprises), housing and vehicles sectors between January 31 and July 31.

Banks currently maintain 4 per cent on their deposits as CRR.

In the monetary policy, however, the RBI said it would allow relaxations on this for loans given to the three productive sectors as they could have "multiplier effects to support growth impulses".

Therefore, banks were told that they could carve out an amount equivalent to what they lent to these three sectors in the six months from their total deposit base, and go for five years without maintaining the CRR on that amount.

While home finance can stretch over a longer period, and vehicle finance loans can reach seven years, analysts say five years is a good enough window for banks.

In this period, the loan portfolios could see a number of resets, as all retail loans are now linked to repo and they need to be reset at least quarterly. This is also forcing transmission in at least one segment of the loan portfolio, something that the RBI has been trying to do for quite some time. The RBI is looking to bring down the cost of funds for banks.

"This, along with long-term repo operation (LTRO) can bring down cost of funds for banks, without lowering deposit rates," said an economist. The Reserve Bank, in its policy meeting also said banks can avail up to ~1 trillion of liquidity for one and three years at the repo rate.

Banks had maintained that they could not lower lending rates if deposit rates were not cut. Lowering deposit rates could make depositors leave banks in search of higher returns elsewhere. Experts say the LTRO is a deposit-like product for banks.

Announcing such schemes also has risks for the central bank as the interest rate cycle could turn and rates could go north.

"Even if banks take the money from LTRO, or even the savings that come from CRR exemptions, and put the money in corporate bonds, that's a form of lending and should help the economy," said an economist requesting anonymity.

Importantly, economists say, if needed, RBI can increase such CRR relaxations and LTRO operations.

Consumption slowdown bites into Britannia's new product launch plans

Biscuit-maker Britannia has decided to go slow in scaling up its newer products because of the consumption slowdown. The company is holding back the pan-Indian launches of its salted snacks and croissants products as it feels it is not the right time to take those nationally.

"In normal circumstances, we would have taken it national, but in times like these (when the economy is slowing down) it might be a good idea to take the product to absolute finality and then launch it," said Varun Berry, managing director, Britannia Industries, during an investor call on Monday.

Even though Britannia's net profit for the December quarter grew 23 per cent to Rs 369.8 crore on a year-on-year (YoY) basis, its revenue grew at 4.9 per cent YoY, reflecting slowing demand on the face of weak consumer sentiment. "During slowdown, consumers go back to their favourite brand, which gives them more comfort and they are not as experimentative as they would be in good times," he added.

The Good Day biscuit maker is hoping to take the croissant offers, which it is currently fine-tuning, pan-Indian by May-June this year and salted snacks in the next six months.

Croissants are currently available in two variants of chocolate and vanilla in West Bengal and Tamil Nadu, while the baked salted snacks are available in three formats of chips, centre fills and sticks in South Indian states, with minute presence in West India.

The company management said it was hopeful that things would stabilise in the next two quarters and it would see uptick as far as growth is concerned. "The Indian consumer is extremely resilient and at some stage she's going to say enough is enough.

Let me live my life. That's the point when things will start to fall back in place," said Berry.

According to a Nielsen report, the FMCG market is expected to grow 9-10 per cent in 2020, on a par with last year but slower than the double-digit growth of 13.5 per cent posted in 2018.

Brands turn to social media influencers for fresh looks, wider audience

What did PepsiCo India do to spread the word about its new look Lays? Or luxury watchmaker Tissot, to gain familiarity in the country, or Chinese handset brand, Vivo, to add a youthful gloss to its image. In all of these cases and many more, through 2019, brands turned to select social media networks and a band of influencers to amplify their marketing efforts.

A report released earlier this week by an Indian influencer-marketing firm Buzzoka said, "From celebrities to the rising class of micro–influencers (experts in a specific topic with smaller, but more highly engaged audiences), influencers are emerging as a critical marketing tool for brands large and small."

The top social media platforms are Instagram, YouTube and TikTok, in that order, according to the Buzzoka Influencer Marketing Outlook-III, 2020. For most brands, influencers were an amplification strategy, helping the brand take its new launches, fresh looks and offers to a wider audience.

Sameer Singh, vice-president, Monetisation, TikTok India has been working very closely with brands over the past year. "We worked with Pepsi for their #SwagStepChallenge. The challenge garnered close to 37 billion views till date. Moov partnered with us to launch #MakeYourMoov that gave young users an opportunity to showcase creative and unique fitness moves. The campaign has garnered over 10 billion views. And Marico Hair & Care launched #KhuleBaalBefikar. Within three days, the hashtag saw 2.8 billion views, and to date, it has over 10.6 billion views," he says.

According to the report, 76 per cent of the respondents said that influencer marketing is an important part of their marketing strategy and the majority said that its relevance grew in 2019 and will continue to do so, because influencers offer brands better reach and engagement and come with phenomenal story telling capabilities.

In 2019, TikTok dominated the brand story in terms of its expanding base of young users while Reliance Jio played a big role in the growth of influencer marketing, both in terms of content creators and the audience watching them.

"Influence has long been at the core of marketing, seeking it, increasing it, and then effectively using it to achieve goals," says Prashant Sharma, CMO of Nofiltr, a social marketing firm. He estimates that the influencer marketing segment will grow at a CAGR of +38 per cent over 2020-26.

Most marketers said that they looked for a combination of factors while choosing influencers and platforms. The number of followers, the quality of the content that they generated on their feeds and posts and the level of engagement they had with their followers played an important role.

Shashank Surana, VP, New Product Development, DS Group, had spoken to Business Standard earlier on the rise of influencer-led campaigns. Pulse candy has been leveraging both macro and nano influencers in the digital space, he said, adding "There is a need to find and leverage the most suitable digital influencer, who embodies the true brand value and proposition."

As the report notes, influencers help amplify the brand message. They help the brand speak in many tongues, adapt to regional preferences and become more resilient to changing tastes, by taking the brand closer to consumers in remote parts of the country and to those that do not find a place in the mainstream narrative.

Dilen Gandhi, senior director and category head, Foods, PepsiCo India spoke to Business Standard earlier about the company's influencer strategy and said, "Influencers act as micro-amplifiers that can drive engagement to the idea. It's the equivalent of your friend relaying a message they've heard on mainstream media; your friend will add his own flavour while retaining the essence. This makes the message at once more relatable and sticky, however the original idea still remains core."

Amazon seeks interim stay on CCI order, cites 'irreparable loss and injury'

E-commerce giant Amazon on Monday filed a writ petition in the Karnataka High Court, seeking an interim stay on the Competition Commission of India's (CCI's) order on probing some of its business practices.

Investigation by the CCI was launched last month after the Delhi Vyapar Mahasangh (DVM), a traders' body, filed a complaint against e-commerce players giving deep discounts on online sales of smartphones and cherry-picking sellers.

The investigation covers Amazon and rival Flipkart, which Walmart owns now.

Amazon asked the court that an interim stay be granted on the proceedings, or else a probe would cause "irreparable loss and injury" to the e-commerce player's "reputation/goodwill".

It said the CCI order "has been passed without prima facie application of mind and will cause serious prejudice to the petitioner (Amazon). Its findings are perverse, arbitrary, untenable in law".

Amazon has filed a "Writ of Certiorari" under Article 226 of the Constitution, by which there can be a judicial review of a decision of a lower court or an administrative agency.

The choice of the Karnataka High Court is because Amazon India's registered office is located in Bengaluru, Karnataka.

In the past, the CCI, after studying deep discounts in e-commerce, had said it was not a matter of competition.

The DVM has alleged Amazon and Flipkart influence pricing by providing discounts as well as inventories to sellers.

Further, it has complained that Amazon and Flipkart have done exclusive arrangements, deep discounts, and preferential listing.

The DVM has said these are exclusionary tactics with adverse effects on competition.

However, according to Salman Waris, managing partner at New Delhi-based specialist technology law firm TechLegis Advocates & Solicitors, Amazon will not get immediate relief because reports suggest that the DVM had filed a caveat with the Karnataka High Court in the past.

As a result, Amazon will not be able to get an instant stay on the order without the arguments being heard in the court.

Amazon and Flipkart did not respond to requests for comment until the time of going to press.

The two firms have the lion's share of the e-commerce market in India, and incurred the ire of small traders, who have time and again alleged that their (of Amazon and Flipkart) platforms do not follow foreign direct investment (FDI) norms, and their business practices harm the trading community.

"Amazon claims it follows the FDI policy; then why is it opposing investigation?" asked Praveen Khandelwal, secretary general, Confederation of All India Traders (CAIT). "Let investigation be conducted by the CCI. The stay application by Amazon is an ample testimony to the fact that all is wrong with its business model."

India's e-commerce market is estimated at around $40 billion, and makes for less than 10 per cent of the overall retail pie, which is estimated at close to $700 billion.

GAIL reports 22% rise in Q3 PBT atRs 1,872 crore

GAIL India on Monday reported a 22 per cent rise in its profit before tax at Rs 1,872 crore during the third quarter.

Its net profit saw a 25 per cent drop due to slump in margins on natural gas marketing, LPG and liquid hydrocarbons. GAIL Chairman and MD Ashutosh Karnatak said it had been able to achieve growth in profit despite a fall in petrochemical prices.

The net profit at Rs 1,250.65 crore, or Rs 2.77 a share, in October-December, was 25.6 per cent lower than Rs 1,681.23 crore, or Rs 3.73 per share, profit earned in the same period a year ago, it said.

JSW crude steel output in January declines 3% to 1.4 million tonnes

JSW Steel on Monday reported 2.9 per cent decline in crude steel output at 1.4 million tonnes (LT) during January, 2020.

The company had posted crude steel output of 14.53 lakh tonnes in the year-ago period, JSW Steel said in a filing to BSE.

During the month under review, there was 1.4 per cent decline in production of flat rolled products at 10.25 LT, as against 10.40 LT in January 2019, it said.

The company also registered 0.5 per cent decline in the output of its long rolled products at 3.42 LT as compared to the year-ago month, it added.

JSW Steel is an integrated steel company in India with an installed steel-making capacity of 18 million tonnes per annum (MTPA).