BusinessLine

Forewarning investors

Mandating disclosure of defaults on loan repayments will serve investors well

■ he Securities and Exchanges Board of India has received much flak for its perceived inaction in protecting fixed-income investors of companies, many of which have recently gone bankrupt. The regulator has now tried to address this matter in its recent board meeting by stipulating that from January 1, 2020, all listed companies should disclose any default in repayment of principal and interest of loans from banks or other financial institutions that are outstanding beyond 31 days. This will help give an early-warning signal to investors in bonds and debentures of listed companies. With the companies' financial statements in many instances not really presenting the true state of affairs, and given inadequate communication from the credit rating agencies, investors are often in the dark about the true state of affairs in a company, until it is too late to act. Such disclosure is also in the interest of minority shareholders of companies that may eventually go for resolution under the Insolvency and Bankruptcy Code. These shareholders witness severe erosion in



the value of their holdings once the IBC process begins, and prior intimation about possible stress could help them make adequate adjustments to their portfolios. It is good that the regulator has given the companies a 31-day window between the repayment

date and the disclosure. This will give adequate opportunity to repay the dues, while ensuring that they are not unduly punished by shareholders for operational delays. It needs to be kept in mind that even after the disclosure the company has two more months to salvage the situation before their assets become NPAs. The regulator also needs to spell out the details that need to be included in the announcement, to avoid ambiguous disclosures.

Streamlining the rules governing rights issues is also welcome. The timeline for completion of rights issue has now been reduced from 55 days to 31 days, ensuring that trading disruption caused by the offer is shorter. The move to allow trading of rights entitlement in demat form will considerably simplify the process for rights renunciation.

Another segment that enjoyed lighter regulation so far, with more leeway to fund managers in asset allocation, was Portfolio Management Schemes, There have been reports of portfolio managers struggling to repay investors mainly due to the excessive risk taken by them. SEBI's move to tighten the regulations governing PMS should help restore credibility in this segment. Laying down limits for the extent to which funds can be deployed in unlisted securities and unregulated investment vehicles will help avoid future fiascos. By increasing the networth requirement for companies offering PMS to ₹5 crore from ₹2 crore, the regulator is trying to keep away fly-bynight operators. Doubling the minimum investment by clients to ₹50 lakh will restrict the access to PMS to high networth individuals, with better ability to take risk.

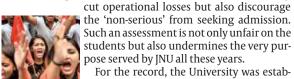
FROM THE VIEWSROOM

JNU fosters inclusivity

The hostel fee hike will hamper access to the disadvantaged

It is very easy to criticise and mock students of Jawaharlal I Nehru University when you have the might of the state and ruling party MPs behind you. The students who have been protesting the steep hike in hostel fees for close to three weeks now have been variously pilloried as 'liberal freeloaders' who exploit the hospitality extended to them to carry out "anti-national/anti-social activities" from the safety of the uni-

JNU has been similarly blackened and projected as a university that harbours "urban naxals." And the fee hike was projected in some quarters as an instrument that would not only



lished in 1969 by an Act of Parliament and was meant to be inclusive. According to official figures, 40 per cent of students enrolled in the University come from families with monthly income below ₹12,000. For such students the revised hostel fee may well be a big drain on their families, with many prospective students having to opt out of higher education. To put it bluntly, in one stroke the hike renders JNU

exclusive to only those who can afford to pay. But what about the argument that the University is a drain on taxpayers' money? Well, in 2017-18 JNU received ₹352 crore as grants/subsidies while its expenditure exceeded incomes by ₹173 crore. However, this shortfall is nothing compared to the education cess lying unutilised in the Consolidated Fund of India. The CAG data for 2017-18 reveals that ₹94,036 crore of secondary and higher education cess collected remained unused. This cess can very easily be used to bring relief to universities experiencing a shortfall of funds. Perhaps, JNU needs official support and the government needs to give a patient hearing to the faculty and students rather than unleash the

Preeti Mehra Editorial Consultant

Power sector: Focus on other pain points

While there's enough capacity now, flexible generation, tariffs and regulation must be addressed to remain power-surplus



MATTERS OF FACT

n the face of it, media reports painted a scary picture. One report mentioned that as many as 262 thermal power units had shut down operations by early November. Many of them have been shut for weeks. Another report said Coal India's output fell to its lowest in six vears in September on account of heavy rains. Not just that. Its coal shipment that month was a fiveyear low. Central Electricity Authority (CEA) data revealed that the plant load factor (PLF) of thermal units in the April-September 2019 period (at 57.67 per cent) was the lowest in a decade. Even worse, by end-September it had dropped further to 51 per cent.

Under these circumstances, the country should have been in a state of crisis with a crippling electricity shortage that would have brought industrial, commercial and retail consumers to their knees. But that is not the case. This fiscal.

peak demand for electricity has been more or less met. The deficit was just 0.7 per cent. To put this in perspective, a decade ago this shortfall, in meeting peak demand, was 12.7 per

This has been possible because India has finally overcome the capacity constraint that dogged power generation since Independence. That, indeed, is a significant achievement. In fact, the total gen-

eration capacity today at 3,64,960 MW is good enough to meet any surge in demand for the next few years even if economic growth picks up pace. Frequent load shedding and tripping of the electricity grids, it appears, is history.

Having said that, it is too early to uncork the Champagne bottle. Not all supply-side issues have been resolved. Any mature power sector will have sufficient reserve capacity, anywhere between 20 and 25 per cent of the generation capacity, to meet the seasonal swings in peak power demand. India, traditionally, ever had this luxury

Most thermal power plants operated at a PLF of 90 per cent or more to meet the tight demand-supply situation often at the cost of preventive maintenance which resulted in them breaking down causing disruption in power supply.

Reserve capacity

Scan & Share

But what we have at the moment is a reserve capacity that is uncomfortably high. In October the average peak demand (of 1,64,875 MW) was less than half the total generation capacity. As many as 133 thermal power plants with an aggregate capacity of 65,133 MW have been shut down for want of demand.

This has raised concerns of a fresh set of NPAs hitting the already fragile banking system. This fear is a

bit over-blown as most of these plants have a power purchase agreement (PPA) which has a 'Take or Pay' clause. Only those without a PPA and/or a coal linkage will face liquidity issues and possible default of their debt obligations.

Nevertheless, shutting down so many power plants and running the rest at half their capacity is not an optimal strategy. In fact, India is caught in a piquant situation.



Bright spot The total generation capacity is enough to meet any surge in demand for the next few years B VELANKANNI RAJ

While it has to create capacity ahead of demand (power plants being long gestation projects), it must also reckon with the fact that as an emerging economy it is susceptible to vicious economic cycles compared to more mature economies. This invariably results in situations where supply far exceeds demand as is the case now.

The need of the hour thus is flexible generation capacity, something India lacks in its overall energy mix. Gas-based power plants offer this flexibility and so do pumped storage hydro power

Unlike thermal or nuclear power plants they don't have to be run continuously and can be operated on demand. Economic cycles and consequent demand volatility apart, flexibility in generation has become all the more important in this era of renewable energy.

Solar energy is available only during the day time and wind is seasonal, a sustainable grid uses clean energy when available and switches to conventional sources at other times. India's share of renewable energy is 22 per cent and growing. The government has set itself as aspirational green energy target of 175 GW (achieved 83 GW so far) by 2022. It is high time planners impart significant flexibility to the grid to leverage clean energy effectively and optimally use the thermal

Also, now that we are sitting on surplus capacity, the situation is conducive to weed out inefficient generation units, especially in the public sector, which are decades old with high variable costs. This will make the sector more efficient.

Tariff rationalisation

Today if the sector is under stress it is because demand from well paying consumer category such as industrial users has dropped, especially in the States such as Maharashtra, Tamil Nadu and Gujarat, while non-paying or low paying domestic consumers have risen. This has hurt distribution companies' cash flow badly. The only solution to this problem is tariff ration-

Consumers - industrial, commercial or retail — should pay the right price for electricity and if any

government wants to offer free or cheaper power to a section of the population it should use direct benefit transfer (like LPG) to subsidise them. Cross-subsidisation of free or cheap power by charging the industry more will not work any more. It will leave manufacturing uncompetitive and hurt India's 'Ease of Doing Business' ranking.

To make all this possible and protect the interest of all stakeholders an independent regulator is essential. But State governments still prefer to appoint 'yes men' to this role just to satisfy a constitutional need more in letter than spirit.

Warts and all, the electricity sector in India is in a relative better situation. It has overcome the capacity problem and is today in a position to meet every unit of demand. India's per capita electricity consumption at 1,181 units is far lower than China's 4,475 units and the US'12,071 units. The headroom for growth is immense

A concerted effort to deal with the remaining pain points will ensure that it will be best placed to power India's growth into a developed economy.

A path forward for US-India economic ties

The first step is to build on our areas of economic convergence, and then secure at least a partial trade deal in the near-term

MUKESH AGHI

he last few months have witnessed a rising tide of bipartisan support for US-India relations. The Howdy Modi summit in Houston, featuring President Trump and Prime Minister Modi, was attended by a number of top US lawmakers. House Speaker Nancy Pelosi, in her remarks on Mahatma Gandhi's 150th anniversary, categorised US-India relationship as "a shining example of mutual cooperation, prosperity, and respect." Beyond just optics, these reaffirm a new era of greater strategic and economic convergence.

However, since 2018, the Trump administration has criticised India as a "tariff king", increased duties on 14 per cent of India's exports, and withdrawn India from the Generalised System of Preferences (GSP) programme. India retaliated by slapping tariffs on about 6 per cent of US exports. On the strategic side, too, our "natural alliance" cannot be taken for granted.

At a recent hearing on Capitol Hill, Democratic lawmakers questioned India's democratic credentials. None of these differences is

new, but they show the cracks in the relationship and tell us that it cannot claim automatic support even from the people who have

The US needs a richer and more powerful India to drive economic opportunity for the US private sector across the region. For its part, India needs the US in its fight against terrorism, counter a hegemonic China, and sustaining economic conditions and technology investments for growth.

Areas of convergence

It is time we set a geo-economic direction to the bilateral relationship, with economic cooperation as the bedrock of the relationship. The first step is to build on our areas of economic convergence that can ultimately work in the national interest of both countries.

For instance, US energy exports to India have grown rapidly in the past few years. This helps both to meet India's growing energy demands, and to shrink the US trade deficit with India – a major concern for the Trump administration. The US can support India's shift towards alternative energy source through exports of natural gas and bio-fuels,



Trade concerns must be ironed out

and investments in renewable energy technologies. Healthcare also stands to benefit from the US and India collaborating on innovative solutions to patient costs, regulatory, and access issues. On defence cooperation, the US

can help India meet its military modernisation goals. India has the world's fifth largest defence budget, and the US has become India's second largest defence supplier, following Russia. As US companies expand manufacturing operations in India, this should create additional opportunities for US Tier 2 and Tier 3 suppliers, allowing India to grow its manufacturing capacity and reduce trade deficit with

On the other side, US remains one

of the top destinations for India's services exports. The US is still supply-constrained when it comes to technology, and India is helping to fix the gap. Indian companies provide world-class IT services to global companies, and are now ecosystem through local hiring, innovation centres, and facilitating STEM education opportunities for the communities they work in.

Second, it is necessary to set the foundation for growing bilateral trade by securing at least a partial trade deal in the near-term. Remarkably, even without any formal arrangements, US-India trade has been on the upswing. According to a USISPF study, US-India trade is projected to grow to \$238 billion in 2025 from the current \$143 billion if the 7.5 per cent average annual growth rate is maintained.

A partial deal would be a great start to lay the groundwork for a future free trade agreement, providing policymakers a platform for binding our economies more purposefully. A US-India trade deal could also secure a political win for the Trump administration in an election year — especially if India's GSP benefits are reinstated, providing relief to American farmers and manufacturers to the tune of \$250

Trade matters

Finally, both Prime Minister Modi and President Trump need to "walk deeply entrenched in the American the talk" on free and fair trade. India needs to move forward on some much-needed market reforms, such as eliminating preferential market access and instilling regulatory coherence in the business environment. On the US side, actions like the Section 301 review of India's e-commerce policies or leaning hard on India to ban Chinese telecom giant Huawei from supplying equipment for 5G wireless technology deflects attention from current and future areas of economic collaboration.

> The commitment to build a strong US-India bilateral economic relationship with an eye towards the future needs to start now. The stakes for this relationship are way too high - businesses and governments on both sides cannot afford complacency to set in.

The writer is the President and CEO of the US-India Strategic Partnership

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Role of independent directors

This refers to 'Crucial role of a boardroom dissenter' (November 22). The co-relation between a karta of an HUF and chairman of the board made interesting read-

Coming to the role of independent directors, one issue that has gained currency in the last few years has been why they don't express their concerns over some plan or the functioning of the company at the board meeting.

This may be due to the fact that in a promoter-driven company, any dissent by independent directors may not be taken constructively and they may even lose their position in the company.

So it boils down to the board as well as promoters creating a conducive environment, where dissent and criticism are allowed and not brushed under the carpet. **Bal Govind**

PSU divestment

This refers to 'Strategic sale in 5 PSUs' (November 21). The government's policy on public sector units was not clarified by the Finance Minister while announcing the strategic sale in five PSUs. The government should have simultaneously announced the starting of new PSUs since the present sale will bring in good proceeds.

The PSUs, in general, have performed quite well and some of them have even been seen as role models for private companies. In the case of loss-making units like MTNL, the government should have kept a close watch on its performance when it started to show losses and quickly taken corrective steps including revision of tariff if found necessary. It is not late even

The unit should be subjected to a comprehensive examination by an expert panel to find out the causes for the losses and suggest

measures for making it a profitmaking company. TR Anandan

Lacunae in governance

Amidst the vigorous efforts to tackle NPAs, the revelation of ₹95,760 crore being ripped off from government banks in April-September reflects deep systemic disorder. The IBC was rolled out to sort things out but none factored in the time-frame of resolution, thus making the entire process ineffective. The focus of every segment of governance is on being seen to be doing something rather than on when, how and in what time-frame.

R Narayanan

IFS losing sheen

The recent trend of the IFS losing ground to the IAS as a career choice is alarming. IFS officers enjoy the privilege of global appointments along with diplomatic immunity — enjoyed only by a niche segment in bureaucratic circles. With the growing importance of geopolitics and trade bodies likes WTO, BRICS and RECP, an IFS officer's career is now much more exciting. The External Affairs Ministry has not expanded much by establishing more embassies and consulates and hence the number of candidates designated for the IFS has hardly gone up. Varun Dambal

Demonetisation effect

It was intriguing to learn that as per the latest income-tax data, quoted by the Finance Minister herself in the Rajya Sabha, close to half of the unaccounted cash seized during this fiscal was in ₹2,000 currency notes; it was more than 60 per cent in the previous two fiscals. Many experts and economists had criticised the government's move to issue ₹2.000 notes (in lieu of the ₹1,000 note) as a part of its over-ambitious 'demonetisation' plan, intended to strike at the roots of black-money. Three years after the 'fateful' announcement, the government is on a slippery pitch. The then RBI Governor, Urajit Patel, too had reportedly advised the government against such a move. But unfortunately he was 'conveniently' sidelined owing to excessive optimism over the plan.

No wonder then that the government's persistence with its illconceived stance seems to have backfired. It has reportedly advised the RBI to stop further printing of ₹2,000 notes even as the same have largely disappeared from the circulation amidst reports that this currency note too may be 'demonetised'.

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