

## 16 BUSINESS REVIEW

## Why do farmers go marching?

Farm distress is increasingly being triggered by excess output and falling prices, but policy fixes are yet to address this

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Why are Indian farmers perpetually in revolt? The question has been raised by many after the recent farmers' march to Mumbai and simmering rebellions across the States in recent years.

No doubt, agriculture is one segment of the economy on which vote-conscious governments haven't skipped on outlays. Over the years, Central governments have allocated ever-rising sums towards procurement, input subsidies and rural employment schemes, while States have periodically announced loan waivers.

But that farmer protests have persisted, and even intensified, perhaps shows that many of these schemes aren't addressing the right set of problems. The reasons for agricultural distress have changed quite dramatically in recent years.

**From shortage to plenty**

A few years ago, farmers seeking to register their protest used to do so beside wilted crops and parched farmlands.

But in the last couple of years, farmers from Mandasaur to Salem have given vent to their angst by dumping vast quantities of unsold produce – tomatoes, grapes, onions and milk – on lakebeds and national highways.

Historically, agricultural distress in India has been linked to truant monsoons, input shortages and lacklustre yields which frequently put growers on the road to penury.

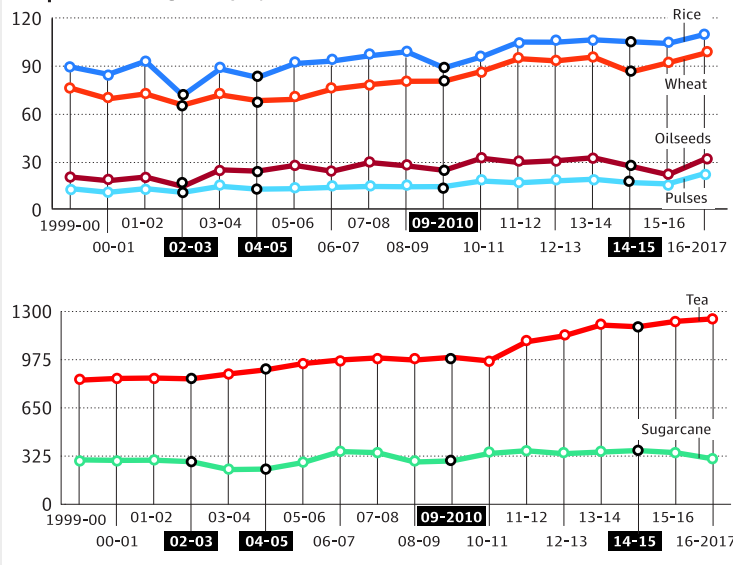
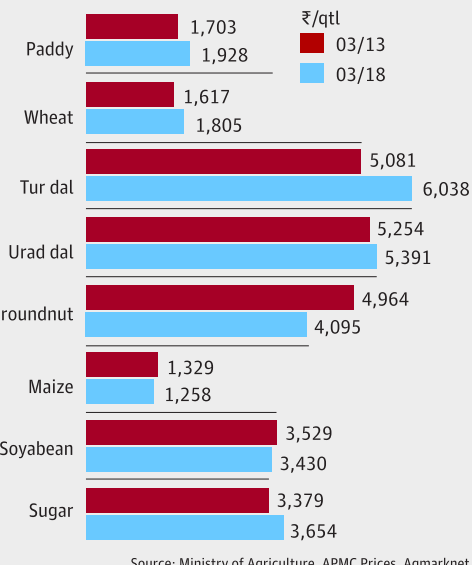
In recent years though, it is surplus output and unremunerative prices that have decimated farm incomes more often.

Trends in India's agricultural output over the last twenty years present an eye-opener to this problem of plenty.

For an extended period from 1998-99 to 2009-10, India's rice output stayed stuck at 85 million tonnes to 95 million tonnes, with drought years such as 2002 and 2004 seeing sharp downward blips.

**Show me the money**

Unit prices for rice and wheat have only inched up despite a rise in production. Though the Centre announces MSPs for 24 crops, the bulk of its procurement is restricted to rice and wheat. State-level procurement is even more ad hoc and lacks both in direction and funding. So, while a farmer may plant mustard, grapes or onions on the MSP promise, there's no guarantee he will get that price at the mandi

**Output trends** ● drought years**Wholesale prices have flatlined**

Source: Ministry of Agriculture, APMC Prices, Agmarknet

As consumption hovered at 80 to 90 million tonnes in this period, shortages were more frequent than surpluses.

But after climbing to 105 million tonnes in 2011-12, India's rice production has stayed well above the 100 million-tonne mark for the last six years, even scaling 110 million tonnes in 2016-17. With offtake still stuck at about 90 million tonnes, there's been persisting excess stock in the market. As a result, in the last five years, wholesale prices of paddy have crept up at a 2.4% annual rate.

The wheat story is similar. From a yearly average of about 75 million tonnes in the decade to 2010-11, wheat output leapt to average 94 million tonnes in the last six years. Output, now at 97-98 million tonnes, is now neck-and-neck with domestic demand (about 100 million tonnes) and it may only be a matter of time before it overshoots it. With rising supplies, wholesale wheat prices have inched up at a 2% yearly rate in the last five years.

Not too long ago, India was facing a severe shortage of pulses, with output struggling to keep up with the rising protein intake of the masses. But farmers have dramatically ramped up pulses production too. From

an annual average of 14 million tonnes in the decade to 2010-11, it has averaged 18 lakh tonnes in the last six years. India harvested a record pulses crop of 23 million tonnes in 2017, matching the official demand estimate, thus dampening once-high market prices for a range of dals. This script of galloping surpluses dampening prices has played out in commercial crops such as sugarcane and tea too.

If unremunerative prices have dogged other crops, fruit and vegetable farmers have been up against the high perishability of their produce. In the last fifteen years, India has doubled its potato output, trebled its tomato harvest and managed a fourfold increase in onion output. But poor storage facilities and State laws that keep farmers bound to their local mandis, have exposed farmers to wild swings in prices.

**Driving the output**

It is noteworthy that agricultural output has held up at relatively high levels in recent years, despite erratic monsoons. This could be because the droughts in 2014 and 2015 have been far less severe than those in 2009 or 2002.

In 2014, a drought year, the country still harvested 105 million tonnes of rice, 86

million tonnes of wheat and 17 million tonnes of pulses. Hefty hikes in the Centre's Minimum Support Prices (MSPs) have also had a big role to play in farmers ratcheting up output. In the last ten years, the support prices for wheat and paddy have risen 73% and 108% and those on pulses have trebled. In recent years, State governments have also competed furiously with the Centre, announcing bonuses and their own support prices for crops such as onions, tomatoes, potatoes and even green chillies.

**Illusory profits**

It is early days yet to say if recent improvements in India's farm output are here to stay. But after responding enthusiastically to signals from MSPs for many years, farmers have lately found the mechanism failing them. Market prices for many crops have tended to plunge and stay below their official MSPs for extended periods.

For one, though the Centre announces MSPs for 24 crops, the bulk of its procurement operations (via FCI) are restricted to just two – rice and wheat, with NAFED chipping in on pulses.

State-level procurement operations are even more ad hoc, lacking both direction and funding. Therefore,

while a farmer may plant mustard, grapes or onions in any given year based on the MSP promise, there's really no guarantee that he will get that price when he visits the mandi.

Two, even in crops where the Centre or State agencies are active, their market interventions tend to be too selective and sporadic to make any real difference to a majority of farmers. Despite the Centre doubling down on procurement in 2017-18, it will mop up only about a third of India's rice and wheat output and a tenth of the pulses harvest. So, if good monsoons result in more crops moving into surplus zone, market forces will continue to prevail over MSPs.

Three, given that the Centre's market interventions on rice and wheat have proved so ineffectual despite large spends, it is unclear how the Centre or copycat States will fund MSPs in a host of other crops.

**New fixes**

To be fair, the NDA has been trying out new policy fixes to address such problems. It is piloting 'price deficiency payments' in place of MSPs to compensate farmers for price-related losses.

It plans to replace input subsidies with direct cash transfers. It has kick-started

a national electronic market for produce and is nudging States to repeal their APMC Acts, which prevent farmers from selling in markets of their choice.

But its aggressive inflation-fighting efforts and on-off trade policies still work to the detriment of farmers. In the last couple of years, despite supply gluts, the Centre has continued with sizeable imports of wheat and pulses at low tariffs.

**Handling of spikes**

Seasonal spikes in prices of sugar, atta or rice are often met with export taxes, minimum export prices or even outright export bans.

States, on their part, continue to be quite adamant about levying high taxes and hanging on to the draconian mandis, which force farmers to rely heavily on middlemen.

This puts the Indian farmer in a 'heads I win, tails you lose' situation. If market prices of crops hit rock-bottom, the government is helpless to rescue them. But if prices soar, the government prevents them from making hay by clamping down.

All this makes it clear why Indian farmers are seething. It's for the same reason that salaried employees are often unhappy. Who would like being rewarded peanuts, after being highly productive?



**Old order changeth:** The government had estimated 2.8 crore vehicles to be older than 20 years. ■ M. KARUNAKARAN

## New vehicle scrappage policy may need tinkering

'Very few CVs conform to age criteria'

LALATENDU MISHRA  
MUMBAI

The new vehicle scrappage policy of the Centre is unlikely to have any significant impact on the automobile industry in terms of increased demand, according to rating agencies.

The policy, cleared by the Prime Minister's Office and awaiting the approval of the GST Council, targets to take polluting vehicles out of the roads and help the automobile industry register higher sales.

The draft policy, released by the Ministry of Road Transport and Highways in May 2016, mentioned about vehicles older than 15 years becoming eligible for benefits under the scrappage scheme but the criteria was reworked with benefits being applicable to vehicles older than 20 years.

The scheme would now come in effect from April 1, 2020, coinciding with the implementation of the BS-VI norms.

**Number of vehicles**

"If we look at the various vehicle segments in the commercial vehicles (CV) industry, very few vehicles would actually be older than 20 years in the current vehicular population," CRISIL Research said in its policy analysis.

"Medium and heavy commercial vehicles (M & HCVs) that typically have a life of 20 years, would be eligible under the scheme."

"The total population of

commercial vehicles that will be older than 20 years in fiscal 2021 would be 50,000 vehicles, much lower than the government's earlier estimate of 2.8 crore vehicles and our internal estimate of 6,40,000 vehicles," CRISIL Research said.

"In any case, 70,000 to 90,000 vehicles are scrapped every year. So, we believe the impact of the scrappage policy will be limited. However, the additional benefit from the scheme will prop up commercial vehicle demand to some extent when vehicle prices will increase because of change in emission norms (from BS IV to BS VI)," it added.

ICRA, in its report, said that the proportion of commercial vehicles above 20 years would be one lakh to two lakh units.

"The proposed scrappage policy is unlikely to be materially positive for commercial vehicle demand," it said.

Shamsher Dewan, vice president and sector head, ICRA said, "Most of these older vehicles are used in rural areas and smaller towns by small fleet operators who operate used vehicles and have limited financial resources to purchase new vehicles."

Moreover, around 70,000 to one lakh vehicles are scrapped on an annual basis. As a result, the potential impact of the proposed policy on commercial vehicle sales will be limited."

## GUEST COLUMN

## Unmade in India: the story of Tirupur's decline

External shocks apart, India's policy is unfavourable too

R. MOHAN  
KUMARAMANGALAM

The city of Tirupur was always known as an entrepreneur's paradise – a place where unskilled labour arrived from across the country to receive on-the-job training before ultimately starting their own micro to small units to service India's largest knitwear export cluster.

Demand was always growing, labour was continuously learning and moving up into higher skill jobs and credit, secured only by trust within the fraternity of over 20,000 small to medium units, was extended freely within the value chain. So, why then are there reports of young entrepreneurs committing suicide in Tirupur?

The reasons for Tirupur's woes are both external and internal. On the external side is the emergence over the last several years of strong competitors such as Bangladesh and Vietnam.

Rupee appreciation in real terms has hurt Tirupur's exporters, making it hard to compete on a cost basis with lower income countries such as Bangladesh. Further, in the new era of bilateral free trade agreements where countries across south and east Asia are rushing to sign agreements with the biggest export markets, India has faltered.

This has been primarily due to the FTA-related revenue losses for domestic manufacturers in sectors such



as auto and winery. Bangladesh has already signed an FTA with the EU which has given them a 10.5% cost advantage over India. Similarly, Vietnam is currently negotiating a free trade agreement with the EU and is already part of the Trans-Pacific Partnership.

**1-2 punch combination**

While Tirupur's exporters managed to overcome external shocks in the past, and ride through periods of slowdown such as the 2008 crisis, the cause of Tirupur's pain this time is domestic policy. The 1-2 punch combination of demonetisation and a hurried, faulty GST implementation has brought Tirupur to its knees.

Demonetisation completely decimated domestic demand by removing all liquidity from the market. GST has increased costs, not only of compliance but also of materials, services and working capital. Prior to GST implementation, the sum total of export incentives amounted to 13.65% of FOB

value. Subsequent to GST, this fell to 8%, a steep reduction of 5.7 percentage points

Of this, exporters can claim GST paid, which will be 2 percentage points, assuming it is paid on time by suppliers to exporters. So, the net loss in incentives is 3.7 percentage points.

The Centre had promised 90% of GST would be refunded within 9 days from the date of export, with the remaining being refunded in 90 days. However, most have still to receive their GST refunds or the promised refund of State levies that were part of the incentive package. This has led to a severe tightening of liquidity for exporters which, in turn, has led to a contraction in demand for downstream processing units, leading to their inability to pay back loans on their capital.

If this wasn't enough, the e-way bill bogey continues to hang over Tirupur's textile manufacturers. The many complications of a badly implemented GST are slowly eating away at India's largest cotton textiles export cluster. One can only hope the Centre expedites payments and institutes a mechanism for faster rebates in future. If not done soon, a labour-intensive industry that generates 2,400 jobs per ₹1 crore of investment will leave lakhs of low-skill workers unemployed, leading to a demographic disaster.

(The writer is president, Tamil Nadu Professionals' Congress)

## New telco rules may whet M&amp;A appetite

Concerns around pricing remain as Jio's recent cuts have meant lower subscriber additions for others

OOMMEN A. NINAN  
THIRUVANANTHAPURAM

Prospects for consolidation in telecom sector received a major boost with the recent Cabinet approval for capping of spectrum per operator at 35% of total spectrum compared with the 25% earlier. This was accompanied by the removal of a cap for intra-circle bands, and the 50% cap will now apply to combined spectrum holdings in the sub-1GHz.

It has also permitted stretching out spectrum payments over 18 years (including a two-year moratorium) instead of the earlier 12 years on equal net present value basis. "Industry is headed towards further consolidation," said investor and entrepreneur, C. Sivasankaran who is also a minority shareholder in Tata Teleservices Ltd (TTSL). "And, now spectrum will be more valuable," he said.

**'Spectrum purchase'**

"These relaxations mean that Jio can buy outright the crucial 850MHz from RCom instead of having to only use [spectrum] on a sharing basis to stay under the earlier cap," said G.V. Giri of IIFL Cap. Vodafone and Idea can now retain their 900MHz in all circles, besides getting some cash flow relief on spectrum, according to him. Bharti Airtel can also add more spectrum in a few circles in future auctions without breaching the cap.

Mr. Giri said the change in band-width cap rules was apt as the number of bands had been increasing. But, when the higher 5G bands arrive, this could again become an issue, he warned.



**Full compliance:** Analysts expect Vodafone and Idea to consummate their merger by Q2 of FY19, as they now don't need to sell spectrum before seeking DoT approval ■ GETTY IMAGES/ISTOCK

Vodafone-Idea will no longer be required to sell spectrum in the 900MHz band in five circles – the value of their excess 900 Mhz under old rules was a significant ₹6,200 crore. This was one of the issues preventing them from applying to DoT for the final merger approval of the two telcos. "Now we expect them to move fast, and merge by our original timeline of the second quarter of 2018-19," he said.

Bharti Airtel and Tata each with 22%-26% share of aggregate spectrum in five circles, can now add spectrum in these circles. Jio's overall spectrum share is well below the 25% mark in all circles. The Cabinet had also allowed stretching out of spectrum payments over 18 years compared with 12 years earlier, which will see a ₹1,500 crore-₹3,000 crore drop in annual spectrum payouts for most telcos. According to Mr.

Giri, Vodafone-Idea will benefit from having extra cash for capital expenditure at a time when their financials are stretched.

However, Mr. Giri ruled out aggressive acquisition of spectrum in the sector. "All major telcos have adequate spectrum in most circles and we don't see any appetite for more spectrum for now." The key issue would be whether Jio continues with aggressive pricing, following its price cuts in early January, which may have already had an impact going by subdued subscriber additions in that month reported by Bharti, Vodafone and Idea, according to Mr. Giri.

"The total mobile data traffic per month in India is expected to grow 11 times during 2017-2023 from 1.3 EB [exabytes] to 14 EB by 2023," according to the Ericsson Mobility Report of November. "India jumped to

top spot in data usage in a period of one year after Reliance Jio launched its 4G services," added Mr. Giri. Also, as spectrum becomes more valuable, shareholder value may also rise. However one proposal that has grown contentious is that between Bharti Airtel and Tata Tele.

**'Questions over value'**

In a debt-free, cash-free deal in October last, Bharti Airtel acquired the consumer mobile businesses of Tata Teleservices Ltd. (TTSL) and Tata Teleservices Maharashtra Ltd.

Bharti had agreed to pay only a part of Tata Teleservices' unpaid spectrum payment liability to DoT over the next 10 years. Now, this time period has also been extended with the Cabinet decision.

TTSL had sought to exit the mobile telecom business due to heavy losses and debt. But it will continue to

operate its enterprise, fixed-line and broadband businesses and retain stake in tower firm Viom Networks. However, this deal has disappointed minority shareholders who had hoped the enterprise would have been profitable in the future. Said Mr. Sivasankaran, "all shareholders should be treated equally and fairly and there is no reason to believe that valuable assets can be given away free." He is a minority shareholder with significant shareholding in TTSL.

"They (TTSL/TTML) have agreed to sell assets at zero value to Bharti while repayment of Tata Tele's loans for around ₹30,000 crore will remain a Tata group headache and that too with not one single paise haircut," he said. The move invited criticism from several investors, especially minority shareholders, who are planning to take up this issue with regulators. "We will take it up, once we get the representation from investors," said Kirit Somaiya, Member of Parliament and President of Mumbai-based Investors' Grievances Forum.

On February 23, the Bharti Airtel market cap reflected a rise of about ₹40,000 crore from October, before the proposal was announced.

Said a telecom industry specialist, "[Tata Tele's] spectrum across multiple banks, 40 million subscribers, fibre assets... all put together have a combined value estimated [at between] ₹25,000 crore and ₹30,000 crore. It is therefore a matter of the Tata group structuring the transaction so that [it does] not lose out, as seems to be the case today."