INTERVIEW | RAJIV AGARWAL

'Time is ripe for CEZs to propel growth'

Essar Ports eyes $500 million in investments as prospects seem bright, says its MD and CEO

LALATENDU MISHRA

Now is the time for Coastal Economic Zones to take India's growth story forward, according to **Rajiv Agarwal**, *MD and CEO, Essar Ports Ltd. In an interview, he said as the future prospects for the port sector seem promising, the privately held Essar Ports has chalked out a plan to invest $500 million to expand capacity. Excerpts:*

The government is keen on more transport through the sea route. What is the outlook for the port sector?

■ Prime Minister Narendra Modi's vision is to replicate the success of his ports-led development seen in Gujarat, in the past, at a national level. Exploiting India's long coastline to develop more ports will certainly see many other industries coming in and that is the genesis of government's ambitious 'Sagarmala Project'.

Developing inland waterways for transport and connecting them to coastal ports is the other major initiative of the government. This will lead to a holistic development of coastal economic zones located around ports.

Ports-led development will enable more movement of cargo, reduction in transportation cost and will benefit exporters and importers. Secondly, we will see multidimensional activities in the adjoining coastal areas such as development in terms of real estate, quality of life, setting up of new industrial units and will trigger a whole lot of other economic and social developments.

We are talking about development of coastal economic zones which are set up, not due to government incentives, like tax incentives, but come up due to the major benefits accruing from movement and transport of goods through the coastal route.

The Centre has cleared six new major ports including three in Maharashtra. Is it feasible to have so many ports? Is corporatisation of major ports the way to go?

■ There are ample growth opportunities for more ports to come up. Maharashtra has not been able to exploit its coastline to the extent that Gujarat has done. So, there is scope, as very barren and not very exciting regions in Gujarat have got developed because major ports were set up there. There is no reason why Maharashtra should not exploit its coastline's economic potential. Infrastructure has to come first and then industry will follow.

India's 12 major ports have created noteworthy assets and tremendous value. Instead of divesting its stake to private sector players, the government can create a corporate holding structure and go for an initial public issue by selling 25% stake to the public and retaining the remaining 75%.

This would bring in required funds, unlocking higher valuations and bringing in a more professional approach to managing these ports on the lines of other listed PSUs.

As Minister Nitin Gadkari said recently, these ports are making good profits and their potential market capitalisation, looking at their current valuations, could be close to ₹2-3 lakh crore.

What do you have to say about socio-economic development of coastal areas?

> **It will take 2 years after work starts to develop the port in Mozambique, our first overseas play**

■ With 72 coastal districts hosting 18% population of India, the development of these communities has become an integral aspect of the overall socio-economic development of the country. Skilling of coastal communities, livelihood enhancement, and employment-creation opportunities are at the core of the government's agenda.

I think corporatisation is essential for the government and this holding company structure can be used to even create a sovereign wealth fund.

We are struggling to raise funds and have to ask various small countries and multilateral agencies to invest in our infrastructure projects. We should have our own sovereign fund like Singapore and Middle-Eastern countries which are much smaller than India. Our sovereign wealth fund can be 100 times bigger.

Major developments have taken place with regard to Essar Oil, Essar Steel and Essar Projects. What is the role of the port business within the group now?

■ The group has taken a conscious decision to reduce its debt. The year 2017 and the first half of 2018 would be a transformation period for the group whereby debt will again come to a level from where further growth plans can be initiated.

The group has monetised some major assets. Also, major debt reduction programmes have been undertaken. I think, going forward Essar Group's different businesses like ports will get steady cash flows and funds to grow their businesses.

Essar Ports is already one of the largest players in India's private sector. The port business is not easy for new entrants as it takes 8-10 years for a new port to come up. From the time you identify the location, there are a lot of issues in terms of environment, relocation of people, land acquisition and [it can take a while] by the time the whole project is completed.

So, we have that head start as we have a large presence; we are the second-largest port operator in the private sector, we have captive and third-party cargoes and we have positive cash flows which can be reinvested in the business.

We also have reasonable liquidity and are well poised for further growth. We have capacity to grow in existing locations, we can also get into new locations, and we can also look at inorganic growth. In all respects, new cargoes included, I think Essar Ports is very well poised to grow in the port sector.

After the sale of your biggest port to Rosneft for $2 billion in the Essar Oil deal, what is your current capacity and where are you headed?

■ Our current cargo handling capacity is about 82 MMTPA and we are heading towards 110 MMTPA. Further, in Mozambique we will be setting up a 20 MMTPA project for a coal terminal, where we are looking at providing credible end-to-end solutions for miners. We are planning to start work by Q1 of FY19 or thereafter.

This is Essar Ports' first overseas investment. It will take two years to develop the port. We are also looking at diversifying and increasing our presence, especially at Salaya and Hazira in Gujarat.

We could also look at some other terminals like LNG. So, there are various plans we are looking at in the coming few years and these will definitely give a big push to our future growth.

When did you plan to get into the LNG business? What is the investment plan?

■ We are doing [LNG] in a different way; we are doing it separately.

Financially, how viable are you? What are your profits and topline?

■ In the infrastructure sector, debt is very high. EBITDA too is high at 10-11 times. EBITDA takes a long time to come in the infrastructure sector, because of many issues such as contracts, disputes and some policy issues.

But, debt has come on the books and has to be serviced. Almost all our projects are about to be completed or are already completed; so, things will certainly improve. Our real results will be seen in the next year.

How much has the group invested in ports so far and how much more is being planned?

■ Essar Group has invested $2 billion, of which around $400 million in book value terms has been sold. Now, we are investing about $500 million more for new projects.

How will you mobilise funds for this?

■ Equity will come from the group and debt will be raised in the international markets. After the Vadinar Oil Terminal deal [the terminal, with a book value of $400 million, was sold to Rosneft for $2 billion], we have reduced debt by 50% or more and the debt to equity ratio is now 1:1.

GUEST COLUMN

Agriculture needs more than just quick fixes

Policy should address credit, crop insurance, drip irrigation

T. SARITA REDDY

Bad surprise: The Budget saw no mention of policies to help counter the effect of climate change on farmer incomes.

The government's efforts to focus on the welfare of farmers in the Union Budget is admirable. However, in a zero-sum situation such as budget allocation, the government often finds itself trying to choose between short-term results and long-term benefits. Short term results might come with loan waivers and increasing of Minimum Support Price (MSP), but care should be taken to address the sector's competitiveness in a global scenario.

By taking a quick fix path, the government might be squandering its budget on suppressing symptoms instead of administering a cure. I believe the long-term cure will be in the form of policies that provide a boost to credit growth, crop insurance, drip irrigation, warehousing, mechanisation and availability of skilled farm labour. This will help the farmer more than double his income in the long run. Yet, there certainly are a few hits and a few misses:

The target for agricultural credit has been increased to ₹11 lakh crore from ₹10 lakh crore last year. This will empower farmers with much-needed funds to procure agricultural inputs in a timely manner. The Finance Minister has announced ₹2,000 crore for development of agricultural market infrastructure to link 22,000 local rural markets to the electronic national agriculture market platform. This will definitely help prevent undue volatility that creates stress for farmers.

Labour, a basic component of agriculture is becoming difficult. Last year, the Union Budget had an allocation of ₹48,000 crore for MNREGA. It is said that this year's budget may increase it to ₹60,000 crore. This scheme would provide long-term benefit if the labour force is tied up to assist farmers overcome scarcity in farm labour, the absence of which is forcing many to give up on agriculture altogether.

Dangers around MSP

The Budget announced that the minimum support price (MSP) is to be fixed at 1.5 times of all input costs to protect the farmer. Care should be taken not to give too drastic an increase, which will render the commodity uncompetitive in global markets and unaffordable to mill owners. This might affect the farmer adversely if prices have to be corrected in the future

The Finance Minister has launched 'Operation Green', and allocated ₹500 Crore to promote farmer producer organisations and agri-logistics associations. While it is a good measure, the amount allocated is quite meagre for a country of our size.

Enhancement of mechanisation, drip irrigation and crop insurance should be encouraged given that climate change and global warming will effect output negatively. But surprisingly, there has been no mention of it in the 2018 Budget.

It is heartening to hear that 100% deduction will be allowed to farmer producer registered companies having ₹100 crore as turnover irrespective of profit. This, along with new policies that will be announced to address procurement, demand and forecast, will give the much-needed impetus to improve farmers' incomes.

The agriculture sector gives employment to 50% of the total workforce and contributes 17-18% of the country's GDP. On announcement of the Union Budget 2018, agriculture sector stocks surged with the slew of initiatives for the rural sector, including liberalising exports of agri commodities.

However, based on the line of thinking that long-term competitiveness is better than short-term relief, this Budget is definitely a mixed bag. While the impetus given to agricultural credit and rural infrastructure is laudable, I think the Budget could have been truly progressive had it not put so much focus on the regressive policy of MSP.

In future Budgets, I hope the government shifts even more towards forward-looking policies that boost the competitiveness of the agro-industry, and secure long-term growth in farmers' income and quality of life.

(The writer is MD, Gayatri Sugars, and former president, Indian Sugar Mills Association)

EXPLAINER

Deciphering LTCG tax on equity

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What is LTCG?

■ LTCG or long-term capital gains refer to the gains made on any class of asset held for a particular period of time. In case of equity shares, it refers to the gains made on stocks held for more than one year. In other words, if the shares are bought and held for more than a year before selling, then the gains, if any, on the said sale are referred to as long term capital gains or LTCG.

Why is LTCG tax in the news?

■ It is in the news as Finance Minister Arun Jaitley re-introduced LTCG tax on equity shares. Investors have to pay 10% LTCG tax on gains exceeding ₹one lakh on the sale of shares or equity funds held for more than one year. Previously, short-term capital gains (STCG) tax of 15% was levied.

The Centre said if the gains exceeded ₹one lakh in a year, then 10% LTCG tax had to be paid without the benefit of indexation (adjusting the profit against inflation to compute the real taxable gains).

Was the tax levied on stock market trades earlier?

■ Such a tax existed until October 2004 when it was replaced by the securities transaction tax (STT) which was levied on all trades made on the stock exchanges.

STT is charged at 0.1% of the trade value in cash market trades. In the derivatives segment, 0.05% STT is

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charged on the options premium while it is pegged at 0.01% on futures. Incidentally, there was always a section of market participants that favoured LTCG tax over STT.

The issue of tax evasion through stock exchanges by paying a small STT component instead of LTCG had been raised regularly. Further, a study in 2016 stated that between 2005-06 and 2011-12, the Centre lost about ₹3.5 lakh crore by replacing LTCG tax with STT.

How will LTCG tax be computed?

■ Typically, when such a levy is introduced, it is structured in a manner so that prior investments get some kind of relief. In technical parlance, it is called the grandfathering benefit.

The government, while reintroducing the LTCG tax, said all gains made prior to January 31 would be grandfathered.

Here is how it works: for example, assume an entity bought shares in January 2017 at ₹100, which touched a high of ₹200 on January 31, 2018. Now, if he or she sells the shares at ₹300 in, say, May 2018, then his taxable gains would be ₹100. (₹300-₹200).

Will all investors be subject to LTCG tax?

■ All investors who trade on stock exchanges would be required to pay LTCG tax. Incidentally, the Centre has brought in LTCG tax while retaining STT as well. So, investors will have to pay both the taxes. However, foreign portfolio investors (FPIs), who invest in India from places like Mauritius and Singapore, would not be subject to LTCG tax, courtesy tax avoidance treaties.

This benefit, however, would be available only till the time the treaty benefit exists as the Centre is reworking all such so-called double tax avoidance agreements (DTAA).

For instance, the Singapore and Mauritius treaties also have a grandfathering clause plus a tax of only 5% on the computed gains. This, in effect, makes it more attractive for foreign investors to trade through the Mauritius or Singapore route.

How did the stock markets react to the introduction of the tax?

■ On Friday, a day after the Budget, benchmark equity indices — Sensex and Nifty — lost more than 2% each. The Sensex lost more than 900 points during intraday trading as it ended with its worst single-day fall in almost 15 months.

The introduction of LTCG tax can only increase the cost of trading stocks at a time when various market participants have been highlighting the 'export of capital' to other countries due to lower transaction costs in those nations.

Poll Budget: boon or bane for Bharat?

Why don't the needs of the rural economy garner attention in every Budget of every government?

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The message is clear. You can't ignore this segment. If you dare to, it will be perilous. If proof is required, by-poll results in Rajasthan offer them in plenty. Perhaps this truth has hit the NDA government hard as it enters the last leg of its term before facing the people in the 2019 general elections.

The word 'rural' has become the fulcrum around which the final full-fledged budget of the NDA-government is structured. Observers and analysts are quick to dub it as an election budget. The glass is half-empty or half-full as one sees it. And, it depends on which side of the political divide you are on. One can endlessly debate the budget.

This rural focus — nay, pinch hitting as in a T20 game — by successive governments in their final lap gives ammunition for wider interpretation. Is it an admission of failure to focus properly in the first instance? Or, is it an articulation of genuine course-correction? Whatever be the reason, it raises serious questions on the way governments prioritise issues impacting the economic status of a vast part of the population.

Occasional focus

Thankfully, elections happen every five years in India. But for that, the word rural, it appears, would have remained in the realm of a distant memory in the minds of political masters. If 'rural economy' is the core for India, why is it that the legitimate concerns of the rural population are sought to be addressed only in the eleventh hour (at almost the end of their terms) by governments?

Poll-eve promises: Commitment to the rural economy cannot be pledged just before the elections. • GETTY IMAGES/ISTOCK

Gas links, support price for farm products, electricity connections, toilet facilities and health cover are arguably the minimum that the underprivileged lot, who form the bulk of the rural society in India, rightfully deserve but are denied.

In a country like India, State-driven institutional support mechanisms for the masses — be it for education or healthcare — are conspicuous by absence. At best, it is minimal, and support comes largely from members of the extended family.

Given this, it is incorrect to indulge in comparisons with developed economies on the subsidy issue. The latest Budget has rightly focussed on these issues. The intentions are welcome.

The timing of its announcement — ahead of general elections — however, is a sad commentary on the governing class. Everybody understands that Bharat (rural economy) is the core of India. But why is Bharat invoked only when the nation is about to go for the elections? Is Bharat a handy seasonal tool used only for poll times? Will the focus on Bharat see delivery in time or remain a part of the Budget papers? Election 2019 will give a decisive verdict.

The contrast in the India-Bharat divide is sharp. You have, on the one hand, the extravagant style of recalcitrant businessmen such as Vijay Mallya and the like whose shenanigans have triggered a massive overhaul of the corporate and banking rules. On the other, you also the see rural poor demanding the conductor of a bus to issue a three-rupee ticket quickly as he has to get down at the next stop! The funny part is that Bharat never supplies any wishlist to anybody. It patiently chugs on.

And, it silently acts during the polls. It is the non-Bharat component of India that talks a lot, lobbies hard and makes heavy demands of rulers. In the din, the silence of the Bharat is left largely unnoticed. But then, Bharat has the power to change the electoral fate of parties.

Perception management

In an inter-connected world, perception management has become the primary avocation of the ruling class. Views of rating agencies, global institutions and the international investing community merit for more serious attention than the cries and murmurs at the ground level.

Not surprisingly, the opposing views of rightists and 'tie-wallahs' have found expression disproportionately in the media — be it on the decision to levy long-term capital gains tax or on the move towards taxation of the digital economy by proposing to expand the scope of nexus-based business presence rules by introducing the concept of 'significant economic presence'.

It doesn't matter that the Budget has a host of announcements that are friendly to businesses — such as tax exemption for property transfers to a fully-owned Indian holding company from subsidiaries and vice versa and import duty rationalisation for Make In India initiatives.

The problem for the Indian economy at the moment is a combination of excess capacity and inadequate demand. "Investment will come if there is growth," said R. Dinesh, MD, TVS Logistics, matter-of-factly. And, the onus lies on the government to revive demand. Rural India will have to necessarily form the core component of this revival exercise. How to put more money into the pockets of rural Indians? That task is better addressed by the government. That could be achieved only if India could care to foster at least an adequately nourished population in Bharat.

This cannot just be a poll-eve pledge. It has to be a permanent commitment. Policies and actions will necessarily have to be oriented towards satiating at least the bare minimum requirement of this vital cog in the economy wheel. Read against this, the 'populist' tag attached to the Budget is politically correct but largely uncharitable to Bharat. Subsidies to the poor and underprivileged must be viewed in the overall context of invigorating Bharat and bridging the chasm in the Indian economy.

If these are 'no-no' for developing a prudent economy, how could incentives and concessions to industry be right? The twin balance sheet problem (ie, the stress in balance sheet of the lender and borrower) facing the industry gives a clue about the misplaced trust that has indirectly hurt public depositors. India needs a robust Bharat to shine permanently. And, that calls for a 24X7 Bharat service. Sadly, this is looked upon as a late service call to retain power.