THE HINDU BusinessLine
TUESDAY, MAY 2, 2017

Making payments pay

While India Post's payment bank is uniquely placed in some respects, it needs more Central support to succeed

The idea of specialised payment banks in India has gone from red-hot to lukewarm in a mere two years. Of the 41 players who applied in August 2015, the Reserve Bank of India awarded in-principle licences to 11. But after bagging the coveted licences, three players dropped out of the race, with just two of the remaining announcing concrete launch plans. It is heartening that India Post is pushing ahead with a pan-India plan to open 650 new branches and recruit 55,000 Gramin Dak Sevaks. While India Post is certainly among the stronger contenders, it will have its task cut out in making a success of this foray. It may need both a change in mindset and policy support to ward off stiff competition from private rivals.

Payment banks were conceptualised to offer services such as remittance facilities, bill payments and distribution of basic investment products as a means to financial inclusion. However, most players who won in-principle licences cited the lack of a robust revenue model to sustain operations. On the revenue front, payment banks are wholly reliant on fee income as they are expressly prohibited from lending activities. For capital though, they will need to compete with the entrenched universal banks for demand deposits, setting a 4-6 per cent floor to costs. The cap on deposits at ₹1 lakh per account and the mandate that they park 75 per cent of their deposits in government securities, a far stiffer requirement than for universal banks, impose severe constraints too. Revenue projections have been further hit lately on g-sec yields declining below 7 per cent, and alternative avenues such as mobile wallets and UPI apps offering low-cost or even free services. True, India Post still enjoys a competitive edge over such players owing to its unique connect with the bottom of the pyramid, thanks to a vast network of over 1.5 lakh post offices, 89 per cent of them in rural areas. As a government-backed entity that already handles retail savings, it also enjoys the complete trust of its constituents — a critical prerequisite in banking. But despite this, it cannot afford to ignore the serious competition posed by telecom players such as Bharti Airtel, who have a comparable footprint and are sinking far more capital into their rollouts. To compete with such players, India Post will have to keep an extremely tight rein on its costs and leverage on technology, and more than an army of staff to deliver last-mile services.

If the Centre is keen to see India Post Payment Bank succeed, it first needs to offer more generous funding support; the FY18 budget allocation of ₹500 crore appears quite inadequate. It should also look to supplement India Post's fee income by routing its own payments through its network. A review of the overly stringent investment and deposit caps by the RBI would also not be amiss.

OTHER VOICES

FOUNDED BY QUAID-I-AZAM MOHAMAD ALI JINNAH
DAWN

Civil-military tensions

What ought to have been the end of a destabilising period in civil-military ties has instead erupted into a fresh, unnecessary and undesirable crisis. Nearly eight months since the publication of a report in this newspaper, an inquiry committee consisting of representatives of both civilian and military institutions produced a consensus report. Perplexingly, the government appears to have mishandled the public announcement of the committee's recommendations. Astonishingly, the military issued a stunning rebuke to the government. Cooler heads must prevail. KARACHI 1 MAY 2017

The New York Times

The cost of a speech

It is disheartening that a man (Barack Obama) whose historic candidacy was premised on a moral examination of politics now joins almost every modern president in cashing in. And it shows surprising tone deafness, more likely to be expected from the billionaires the Obamas have vacationed with these past months than from a president keenly attuned to the worries and resentments of the 99 per cent. As a couple and a family, the Obamas brought grace, empathy and high standards to the White House. Indeed, it's the example he set that makes it jarring to see him conform to a lamentable post-presidential model. NEW YORK 30 APRIL 2017

theguardian

Defending science: the battleground is culture

The Wellcome Trust's open letter to the leaders of all political parties (singles out) two possible consequences of a hard Brexit as potentially fatal to the health of first-rate science in the UK: a withdrawal from European cooperation, and — perhaps more obvious —a clampdown on visas for foreign researchers of any age and achievement. The crisis of science funding, and of faith in science more generally, is part of the wider contemporary rebellion against conspicuous elites. Science is the embodiment of the transnational elitism that voters everywhere have revolted against. LONDON 30 APRIL 2017

NPAs are a mess, but not a lost cause

If banks, government, regulators, and monetary and fiscal policy work in tandem, the problems can be overcome

ASHIMA GOYAL

During the mid-2000s boom, public sector banks were encouraged to lend for infrastructure to fulfil ambitious government targets. Development finance institutions had been closed but corporate bond markets had not developed. Despite financing with shorter-term deposits, banks were expected to be able to pass on their long-term loans using new financial structures. PSBs themselves thought growth would make the projects financed profitable. They were further pushed to support the coordinated stimulus following the global financial crisis of 2008. Debt-equity and prudential norms were relaxed for infrastructure.

But growth collapsed in 2011 after an initial V shaped recovery. The current account deficit widened after excess macroeconomic stimulus and high oil prices. Capital was flowing out. Continuing high food price-driven inflation contributed to macroeconomic instability necessitating fiscal-monetary tightening that reduced industrial demand.

Problems in infrastructure loans started before the demand slowdown, however, with delays in land acquisition and environment clearance. Later in 2010, corruption scandals erupted. Escalating property values triggered insider-grab and push-back from society. Policy paralysis worsened, making infrastructure projects unviable.

Possibly corrupt big borrowers made the Government reluctant to rescue the banks it owned, although it had influenced choices that turned out badly. As part of its Indradhanush restructuring plan it decided to provide only limited amounts conditional on improvements in governance.

In the late nineties, much higher NPA ratios were successfully reduced. One-time forbearance and asset classification benefits allowed restructuring borrower debt. Regulatory innovations, negotiated settlements, as well as growth recovery and booming real estate contributed. This time, however, repeated external shocks and conservative macroeconomic policy worked against the initial forbearance.

Reviving banks

Stressed assets need to be recognised and capital provided for them; impaired assets must be resolved, recycled to new ownership, and revived; balance sheets have to be cleaned through capital infusion or conservation so banks can lend again.

Since the Indian resolution framework was poor, the Reserve Bank of India introduced new restructuring schemes. For example, banks were allowed to convert loans to equity, and bifurcate stressed account debt into sustainable and unsustainable portions. But rigid conditions as well as missing skills and market-depth made the schemes ineffective. For example, the short restructuring window implied NPAs were only postponed.

The bar of 50 per cent sustainable debt was too high. There were too few asset restructuring companies or potential owners with capital.

Moreover, PSB incentives are distorted. Since they are subject to CVC or CBI investigation, inaction is rewarded. Haircuts arising out of restructuring could be questioned, and protracted legal battles are required for recovering promoter-dues.

Since bankers aim to protect the net present value of the loan, not the recovery from the borrower, credit given was inadequate.

Slow pace

Recovery was taking too long, and loan and deposit growth in burdened PSBs was the slowest. The RBI, therefore, imposed an asset quality review in 2015.

But recognition and provisioning without capital infusion only made the problem more explicit without solving it. NPAs jumped sharply in 2016.

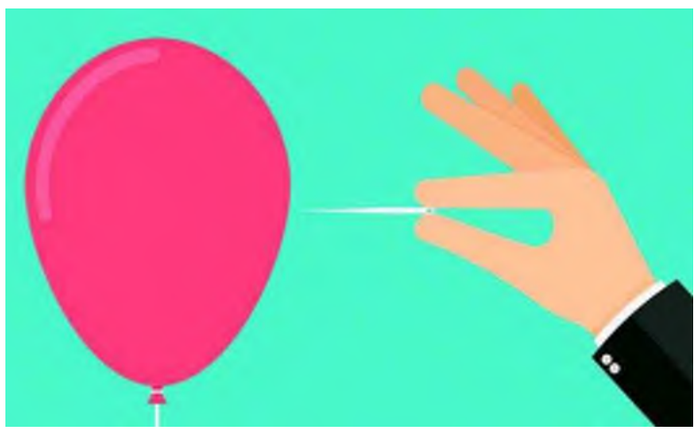
The considerable stigma NPAs carry worked against the regulatory objective to get banks to restart lending. They encouraged cosmetic rather than viable loans, e constraining borrowers' fund-raising, and hurting their business prospects. Resolution worsened.

The Government and regulators were focused on structural reform, but this takes time. Sale of bad loans to Asset Reconstruction Companies fell from about ₹50,000 crore over 2013-15 to ₹15,000 crore in 2016-17 when the Insolvency and Bankruptcy Code had been passed, but its supporting infrastructure had yet to be created.

Delays increased debt. High interest rates, low revenue growth, and absence of fresh equity meant double-digit growth in corporate debt over 2011-2015. Loans rolled over to cover interest payments added to debt; smaller firms, especially, were less able to service their interest burden.

The role of external shocks weakens the argument for closing down PSBs. But they must show signs of helping themselves, and their incentives improving.

Pragmatic contextual reform that identifies and removes obstacles to resolution, acting on a number of reinforcing fronts, is more likely to succeed. Apart from cleaning balance sheets, assets have to be revived since their potential value is large under severe infrastructure constraints. A sector-specific focus is required since, unlike the late 90s, NPAs are concentrated in a few big cases. There are large infrastructure projects with little owner-equity. If new private sector owners cannot be found, the Government has to take up ownership pending future disposal when asset values revive. This could be through a new type of development bank which deeper markets can now support.



All it takes To burst the bubble BYEMO/SHUTTERSTOCK.COM

Conserving assets

Since multiple bank lenders are normally involved, talks have progressed and in many cases agreement is in sight. Firms have also been making asset sales. But to avoid standoffs such as in joint lender forums, a committee that protects individual decision-takers' needs to include independent professionals and rating agencies to assess sustainability and haircuts.

Reducing the Government's bank share-holding to below 50 per cent could rescue banks from audit by CAG officials whose limited understanding of commerce means they do not make a distinction between corrupt and erroneous decisions. If asset sales or capital infusion is difficult, capital can be conserved in other ways, for example, through mergers, but only where these are indicated on economic synergy.

Current restructuring schemes could operate with more flexibility. Adequate provisions are necessary to withstand analyst scrutiny and allow debt to be sold at fair market value permitting sustainable borrower-balance-sheet restructuring. But if a firm is adequately recapitalised, and there is full disclosure, NPAs could be renamed and classified as a subset of standard assets with lower or staggered provisioning.

In the longer-run, broader governance reforms can strengthen PSB boards, improving accountability and skills and penalising decision-making delays, while diversity is maintained, and specialisation encouraged.

If markets, banks, government, regulators and monetary-fiscal policy flexibility work together, the problems are not insurmountable. Persistent excess capacity suggests that more than corporate debt, lack of demand constrains industrial growth.

The author is a professor of economics at the Indira Gandhi Institute of Development Research, Mumbai

Sinister algorithms driving major websites

Designed by behavioural scientists, they are successful in goading people to act in a certain way, besides eroding their privacy

ABHIJIT BHADURI

This started many years back when we signed up for 'free' email services. The big providers like Microsoft, Google, Yahoo and many others offered free email. The paid email services did not stand a chance. Maybe they made the best of a bad bargain and sold our data to the highest bidder before they pulled down the shutters and went home.

Who gave them the right to sell our data? We did, when we agreed to the End User Licensing Agreement for that company.

Most people simply press "I agree" (without reading) whenever that document comes up and start using the software. If you did, would you comprehend the legal jargon? For example, Apple users have agreed to not use their software to make nuclear weapons. Serious.

"You also agree that you will not use these products for any purposes prohibited by United States law, including, without limitation, the development, design, manufacture or production of nuclear, missiles, or chemical or biological weapons."

As software eats the world, tech companies need to pause and think if we need to have a common language around the ethics of algorithms. In 2012, Target was able to use its algorithms to know that a teen was pregnant even before her father did. While it was a great advantage to the retailer in acquiring the teen as a customer, human dignity and sensitivity were missed out.

Facebook's face recognition algorithms can pick a face out of a crowd with 97.25 per cent accuracy. Imagine what that algorithm could do if it was put to use for something sinister. Self-driving cars will have to make decisions about whose life is more precious — the owner's or the person on the road. These decisions will need to be thought out ahead of time.

There is cause to worry

When the Microsoft chatbot Tay was launched, the designers of the software never thought Tay would turn racist in all of 24 hours of interaction with users. Software companies do not allow scrutiny of their proprietary algorithms. There is intellectual property to be protected. Currently that leaves no mechanism for someone knowledgeable to step in if needed to go over the code to see if everything is kosher.

Safe hands? There's no way to ensure that MONTRI NIPPITVITTAYA/SHUTTERSTOCK.COM

The apps today are much more than a few lines of code thrown together to do something cute. They are capable of shaping our choices in a manner that are invisible to the one being prodded. Dopamine Labs, a small startup in Los Angeles, creates tools that can hook users to an app. Dalton Combs and Ramsay Brown are skilled neuroscientists who have designed this app. Combs has a doctorate in the field of neuroeconomics — a branch that helps in identifying and understanding the chemistry and biology involved in decision-making. Brown, the COO, graduated with a doctorate in neuroinformatics, which involved developing tools to help neuroscientists better understand the brain.

The apps have so far been used for positive purposes. Root, a teaching tool for university students, has been used to drive a 9 per cent improvement in student attendance after integrating the Dopamine Labs code. Micro-lender Tala saw a 14 per cent improvement in micro-loan repayment. What would happen if a tobacco company or alcohol maker or drug dealer were to buy the app to encourage addiction?

The fear is not far-fetched. E-commerce companies are using algorithmic nudges to encourages shoppers to buy more than what they need or can afford. The UK government is using behavioural scientists to get people to pay their taxes in time. What is to stop a totalitarian government from using algorithms for something sinister? These are not choices that can be left to individuals, companies or governments. We need to create a global language for these like we have for human rights. Is that going too far?

The writer is a talent management expert and the author of 'The Digital Tsunami'

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Need clear directives

The RBI recently sent a circular to banks advising them to instruct branches not to refuse ₹2000 and ₹500 denomination notes that have been scribbled on or are coloured or faded, but to treat them as 'soiled'. However, circular doesn't say if such notes continue to be legal tender or they become invalid.

A shop in my area refused to accept a brand new 2000-rupee note because it had a number written on it with pencil, apparently to denote the number of pieces in a bundle, a common practice in banks. If every newly issued currency note with even a pencil scribble has to be only deposited in banks, it won't be long before they disappear from circulation altogether. This is hardly likely to be the intention of the RBI or the Government.

S Ravindranath
Coimbatore

Count the informal sector

With reference to 'India's economy is not growing fast enough' by Raghavan Parthasarathy (May 1), the question is whether the informal economy which engages more than 90 per cent of the workforce in India is part of the overall exercise. It is this sector that, although earning less, is actively engaged in the highest amount of India's domestic savings. A major portion of what's produced in the informal sector is not sold through organised markets as a result of which the value of these services are not included for calculation of GDP/per capita GDP. This anomaly needs to be set right before measuring economic growth in real terms.

Srinivasan Velamur
Chennai

Cat and mouse

For the first time in its history, the Supreme Court has ordered a medical test for a judge, CS Karnan, who has been carrying on an unreasonable tirade against the SC itself. It is painful to watch him make a mockery of the judiciary. Isn't our Constitution equipped to come to the aid of the SC and get rid of him once and for all?

VS Ganeshan
Bengaluru

Real equality

Equality cannot be achieved by just doing away with red beacons. There should be equal opportunities for people in all fields. Also, it is imperative that representatives rub shoulders with the people and demonstrate that they practise the Gandhian dictum of simple living and high thinking. The privileges and perks MPs and MLAs enjoy must be drastically reduced. This is applicable to the PM's constituency too.

S Ramakrishnasayee
Ranipet, Tamil Nadu

Better law

This refers to 'New realty law in force from today' (May 1). The new Real Estate (Regulation & Development) Act 2016 would have better served buyers' interests if developers are mandated to give crucial information like earthquake resistant capability of projects and fire-fighting details. Advertisements give superficial details like the availability of a clubhouse, imported tiles, jogging area and swimming pool. Anyway, a beginning has been made. What is also required is a new law on cooperative housing societies which can empower members to deal with rogue managing committees. There is lack of transparency in the affairs of cooperative housing societies. Maharashtra has one common law for cooperative societies; a separate law is needed for housing societies.

Deendayal M Lulla
Email

Learning fraud

'Degrees of recklessness' by Payel Majumdar (BLink, April 29) provides further proof of our directionless education system. About 10 per cent of 266 private universities in India are fake and 14 of these 23 universities have been identified since 2000. Moreover, there are 311 foreign universities operating in an unauthorised manner. This has not pushed either the UGC or the HRD ministry to enact a law to punish owners of defaulting institutions. The consequences of this apathy are long-term.

When the education system promotes literacy but not knowledge, it adds to the number of unemployed educated youth, enhances frustration and reduces the advantage of a demographic dividend. Quality of learning is better than numbers.

YG Chouksey
Pune

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Laboured exercise

Draft social security code lacks clarity

KR SHYAM SUNDAR

The Unorganised Workers' Social Security Act, 2008 did not meet the aspirations of these workers and is not even an apology for a social security system for unorganised workers.

The Draft Labour Code on Social Security and Welfare published in April 2017 for public comments seeks to address these grave shortcomings and attempts to conceive of a universal social security cover in a 'Single Code' by merging all existing schemes and laws.

India's Constitution and some of the ILO Conventions on social security provide a framework for development of a social security system. The central labour laws provide for social security such as maternity benefit, accident and disablement compensation, provident fund and gratuity, but these cover at best around 8 per cent of the workforce in India.

Unorganised workers, though huge in number, have been ignored for long and it is only ironically in the post-globalisation period that they have entered into policy debates.

In a way, the Code is a welcome move as it covers employees and non-employees including domestic workers, farm workers, self-employed of all types, and so on. But there are many loose and bad constructions in the Code; for example, it defines "woman" as an "employee who is a woman in the context of maternity benefit under this code"; "monthly income" has not been defined.

It inadvertently legalises "oral contract" by defining it as an attribute of informal worker. But there are more serious concerns.

The Code starts on a bad note as the preamble to it states that it seeks to "Simplify, rationalise, consolidate, and amend the laws relating to social security of workforce so as to make them less complex for easier comprehension, implementation and enforcement" and hence has nothing to say on the "substantive" aspects which normally would be the case for any law.

The canvas of coverage is vast and this gives rise to an apprehension over the capacity of the State to enforce this Code. Again, the Code does not define "social security" nor provide the components of social security and the percentage benefits under each component.

The Code will immediately be welcomed by the employers as it reduces the payroll tax to 17.5 per cent and subsidises the gratuity cost to 2 per cent (employers put it at 4-5 per cent) of total salary cost. There are huge concerns about the funds for delivering varieties of benefits that the Code talks about.

One fears that the burden will be shifted from the employers to the wage earning class through higher taxes. The coverage is huge and the contributions apart from organised sector employers and employees are difficult to realise, if not impossible.

The Code also envisages a huge administrative architecture, namely, the National Council, the Central Board, the State Board, an Executive Committee, a Standing Committee, and Central and State Advisory Committees.

The Code lists numerous functions for each body (some overlapping) and bureaucratisation will be its greatest hazard. The tax mop-up required to support these bodies raises concerns.

The composition of these bodies needs a rethink; it omits employers or does not give adequate representation to unions. The top-down approach of this Code is a serious limitation. The law needs to be preceded by a fantastic and wide ranging dissemination and consultations exercises.

The writer teaches at XLRI, Jamshedpur

Don't write off Indian software yet

Digital India can throw up dramatic opportunities for its software sector. The companies must rise to the challenge

SUBIR ROY

Despite the tumultuous happenings all across the world, India's information technology sector is not condemned to a pedestrian existence henceforth. It has a good chance to return to its earlier stellar status, which is dependent on two factors.

Of these, one is in its own hands – transforming itself into a digital and innovative fighting machine. But the oxygen that it needs to sustain itself while it reinvents itself has to come in good part from the Indian economy by way of domestic demand, unlike the story so far in which it is global demand that powered the growth of this export driven industry.

There are takers

It is not as if global demand is doing badly right now. According to Gartner, global IT spending is likely to return to positive territory in the current year (2017) by recording a growth of 2.7 per cent. This, in itself, is heartening, particularly because IT spending fell by 0.6 per cent (2016) and a sharp 5.5 per cent (2015) in the two previous years.

The catch is that this rise in spending will be powered by the move towards digital, cloud and artificial intelligence. To take advantage of this Indian IT vendors will have to technologically transform themselves into deliverers of digital and innovative solutions for clients.

In post fourth quarter (2016-17) results, TCS's new chief executive officer, Rajesh Gopinathan, said it remained focused on digital and themes like agile, cloud and automation, increasing its digital revenues sharply by an annual 29 per cent.

Infosys CEO, Vishal Sikka, brought together both the short term pain and the long term gain by pointing out that while artificial intelligence was taking away the jobs of the past, it was creating the opportunity for the jobs of the future.

This has several implications. Top IT firms will (they already are doing so) drastically reduce their hiring and look only for a higher order of skills, far different from the coding hands that till now brought in bread and butter revenue through time and material development and maintenance contracts.

Undistinguished middle order firms will find it difficult to survive. For the nation as a whole, IT will cease to be the great job provider for the middle class that it had been for a decade and more.

But even as the top IT firms expend great effort to get a share of the rise in global spending, it is the domestic market that has the chance to offer a game changing opportunity. The government is set to take the entire country cashless and digital. Public policy is being geared to enabling this.

Data opportunity

The great bonanza that will emerge from this will be a mountain of data. With the government pushing digital payments, an exponential growth is likely to take place in transactions through e-wallets and apps based on the Unified Payments System, leaving debit card payments far behind.

What large and even medium sized companies can do by analysing the caches of digital data that they are able to generate is well understood, but what is not so well know is the tremendous opportunities that will emerge from this at the bottom of the pyramid by enabling what is called "flow based lending" to bring credit and finance to micro and small businesses.

For example, a small shop owner can use his weekly digital revenue flow data to get a weekly unsecured working capital loan which can be continuously rolled over.

The lender's security will be the borrower's need to maintain a good credit record as otherwise he will lose his working capital finance.

Ready to enter A new world of opportunities REUTERS

This has the potential to transform the economic scene among India's poor and is highlighted by the dramatic assertion by Nandan Nilekani that India will become data rich before it becomes economically rich.

Uniquely in the world, economic transformation at the bottom of the pyramid will be driven by data, not capital.

Sharad Sharma, a fellow of iSPIRT, the advocacy group for the software products industry, captures the possible change thus. "People who have the highest default rate have so far secured the lowest interest rate. We gave 70 years to the regulators to solve this problem. All we are saying is, give technologists seven years to find a solution. Because ultimately it is an information asymmetry problem which will get solved not only in India but in other parts of the world as well."

Need to innovate

A new and dramatic space will be opened up to Indian information technology as a result of the whole nation going digital.

But to use this space Indian IT will have to innovate, come up with innumerable applications (the payment app Bhim is just the beginning) and solutions.

With these it will analyse the digital data and devise solutions for both individuals and businesses. Exit the world of coders and programmers, enter the world of solutions developers working with automation and artificial intelligence tools.

Seen in this light, the restrictions on issue of visas to software professionals likely to emerge in not just the US but also countries like Singapore, Australia and New Zealand will hurt but not by all that much.

The impact will be partially offset by greater offshoring. More of local hiring in clients' countries will add to costs and impact margins but will be manageable. The market has already discounted it.

The price-earnings ratio of IT stocks is at a nine-year low now. What the market has not yet taken into account is the dramatic opportunities that a digital India can open up for its software sector.

The writer is a senior journalist and the author of Made in India: A Study of Emerging Competitiveness

5 THINGS to WATCH OUT for TODAY

- **Prime Minister** Modi is to hold a review meeting with the revenue department today to take stock of the anti-black money drive following the note ban and tax collected thereof. He will also review steps taken for the GST rollout. The meeting is expected to take up disclosures made in the tax amnesty scheme announced after demonetisation.

- **The SC** will hear today a plea challenging the Centre's decision to link Aadhaar with PAN card for filing tax returns and to apply for new PAN. On April 27, the Government had told the court that PAN will be made invalid from July 1 if not linked to Aadhaar.

- **Wage** talks between bank staff and managements will get off the ground today with the hope of finalising the package by end October. Bank organisations will work through the United Forum of Bank Unions, while the Indian Banks' Association would represent the bank managements.

- **Regional** transport offices in Tamil Nadu will start registering BS-III vehicles offline with a condition that the dealers should have sold them before April 1, according to TN Transport Commissioner Dayanand Kataria.

- **Microsoft** is to hold an education-focused conference in New York today. The event could see the firm reveal new hardware and software solutions aimed specifically at students. The tech world is still waiting for Microsoft to present its new generation tablet, the Surface Pro 5. The firm may use its education-themed event to do that.

All you wanted to know about...

INV-IT

SEETHARAMAN R

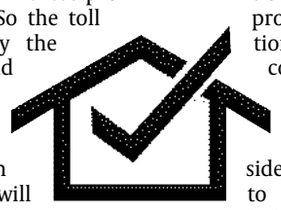
SLATE

Infrastructure Investment Trusts (Inv-IT) are all set to see the light of the day with IRB Infrastructure Developers launching its public offer this week. Infrastructure companies believe that these instruments will help them shed debt and raise some funds. But the infrastructure sector comes attached with all kinds of risk; so these instruments are restricted to only those with deep pockets and the ability to take risk.

What is it?

Inv-ITs help companies monetise healthy infrastructure assets and provide a channel for investors to buy a stake in infrastructure projects. The money raised through the fund can be used only to buy infrastructure assets, both in the form of equity as well as debt. But the catch is, that of the total assets bought, the fund is required to invest at least 80 per cent in revenue generating infrastructure asset. The rest can be invested in under-construction infrastructure asset or securities of infrastructure companies.

So, how are the investors benefited? The trust distributes a proportion (in the case of IRB Inv-IT fund, it is 90 per cent) of the income generated from these projects to investors. So the toll revenue earned by the road projects and other revenue streams including interest and dividend earned from other investments, will have to be distributed.



The Inv-IT is managed by an investment manager. Since these instruments carry higher risk, the entry barrier for investment is high. For instance, minimum investment in the primary offer of IRB Inv-IT is ₹10 lakh while the lot size in the secondary market is ₹5 lakh. The sponsor is mandated to hold minimum 15 per cent of the equity for a minimum period of three years from the date of issue.

Why is it important?

If this model is well accepted by the market, it will provide relief, both to developers of infrastructure project as well as to banks. Why so? An infrastructure project is plagued by myriad risks at every stage of construction.

During the initial stages of project construction, land acquisition and environment regulations pose risks to project materialisation. Once the asset is constructed, the risk of projected revenue materialising causes considerable anxiety both to equity and debt holders. For instance, take the case of poor traffic flow and toll collection in many road projects. When revenue does not materialise as expected, the project promoters and lenders are often caught in a logjam.

Through Inv-ITs, promoters of infrastructure projects can sell some of their stable, revenue generating projects. The funds thus raised can be used to reduce debt and invest in their other projects that could be stuck due to lack of funds. As the cash flow of the companies improves, their debt servicing ability will also improve, providing relief to banks.

Why should I care?

If you are a high net worth individual (HNI) with a penchant for risk, you can definitely look into this option to invest for the long term. The market regulator, SEBI, has taken enough measures to ensure that investors are not taken for a ride by promoters and that there will be sufficient cash-flow from the assets to enable a decent pay-out; far above the risk-free rate of interest.

But once you invest, do keep an eye on the investment manager. Because, the overall risk and return profile depends on the kind of projects he invests in.

The bottomline

The journey has just begun. We'll know soon if this road will be smooth or bumpy.

A weekly column that puts the fun into learning

BusinessLine TWENTY YEARS AGO TODAY

MAY 2, 1997

Norms modified for FDI in NBFCs

The Government has announced modified guidelines and specific sectors in which FDI in respect of non-banking financial services would be allowed. A notification issued by the Department of Industrial Policy and Promotion of the Union Industry Ministry said that all proposals for foreign equity investment in non-banking financial companies should be considered by the Foreign Investment Promotion Board.

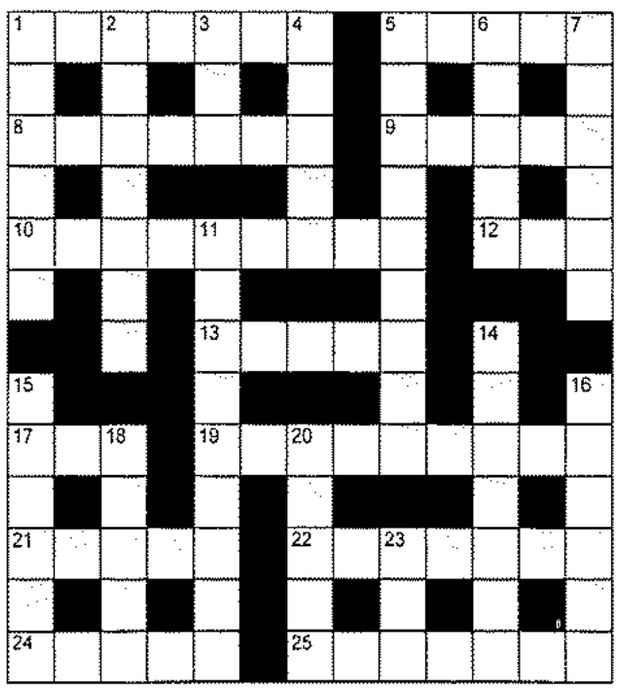
Bank rate may be reference for PLR: SBI chief

The reference rate for the inter-bank money market is likely to be the bank rate fixed by the RBI at 11 per cent, according to Mr. M.S. Verma, Chairman, State Bank of India. Speaking to Business Line, Mr. Verma said: "The only rate which is obvious to me is the bank rate. Another reference rate may appear like the Libor or the Mibor. It may take some time." For the biggest financial player in the Indian market, "it is quite possible that the bank rate may be the reference rate for the prime lending rate. I think in India it will have a relationship with the bank rate". The RBI has been pushing for the idea of the bank rate becoming the key rate for all money market players and by tying the deposit rate to the bank rate, it has set up the mechanism to transmit its intentions.

9th Plan export target at $100b

The Commerce Ministry has said the country's export target of $90-$100 billions could be achieved by the end of the Ninth Plan. According to the annual report of the Ministry of Commerce for 1996-97, released on Thursday, this would mean doubling of the present level of exports within the next five years. "It is our endeavor to achieve an increasing share of imports and exports in GDP and to improve India's share in world trade by 2001."

BL TWO-WAY CROSSWORD 840



EASY

ACROSS
01. Back end of bore of gun (7)
05. Talk foolishly (5)
08. Propriety of conduct (7)
09. Dull heavy blow (5)
10. Wind instrumentalist (9)
12. A woman's (3)
13. Stiff, unbending (5)
17. No longer available (3)
19. Tie in to the cost of living (5-4)
21. Small biting insect (5)
22. Change religion (7)
24. Deal with, handle (5)
25. Reach, extension (7)

DOWN
01. Those studying for commission (6)
02. Comes as an increment (7)
03. Preclude (3)
04. Transmit money etc (5)
05. Heretical, holding other opinion (9)
06. Guarantee to be true (5)
07. Sound of gunshot (6)
11. Fitted for the matter on hand (9)
14. Obvious, clear to the mind (7)
15. Consign; become guilty of (6)
16. Rough drawing (6)
18. Soft toffee-like sweetmeat (5)
20. Cuts tail short (5)
23. Neither (3)

SOLUTION: BL Two-way Crossword 839

ACROSS 1. Point 4. Canasta 8. Riper 9. Conform 10. Gel 11. Sportsman 12. Idea 13. Ayes 18. Aggravate 20. Mir 21. Intense 22. Shift 23. Naphtha 24. Sugar
DOWN 1. Peregrination 2. Impulse 3. Thrush 4. Cuckoo 5. Ninety 6. Storm 7. Administrator 14. Yomping 15. Cannot 16. Camera 17. Census 19. Get-up

NOT SO EASY

ACROSS
01. Place for a bullet where the assembly meets (7)
05. To own the right to talk nonsense (5)
08. Seemliness in breaking code is odd (7)
09. Thus endlessly a politician will pound heavily on the keys (5)
10. One playing a fanfare for a sort of swan (9)
12. The lady's principal male bas nothing to lose (3)
13. One entering the wrong grid without bending (5)
17. Away to one side of the field (3)
19. Tie it in to cost of living of kind in lex written out (5-4)
21. Dig me out a small gnat-like insect (5)
22. Change over to cornet arrangement including first vocal (7)
24. Deal with the case of a source of great gratification (5)
25. Pull it out for a time inside (7)

DOWN
01. Younger sons are in training for the forces (6)
02. Comes as an addition to a pleasure voyage, one is told (7)
03. Second award for decoration where people drink (3)
04. Terms of reference, or term one made of it (5)
05. How did Hood exert what was heretical? (9)
06. Bear witness with you French endlessly going to church (5)
07. Work as a journalist on an end-of-term assessment (6)
11. It could be right, in a penitent, to be to the point (9)
14. It is apparent one will need it changed when about five (7)
15. Promise to perpetrate a crime (6)
16. Drawing the front of sailing vessel (6)
18. Sweet sort of patch inserted in newspaper (5)
20. Makes a cut in wages as the ship puts in (5)
23. Neither negative is right (3)