Regulatory Deficit Shouldn't Halt Sale

Do not penalise real estate for missing Rera

The Centre has debarred real estate developers from marketing ongoing projects that are yet to be registered with the real estate regulatory authority (Rera) in the respective state, as per the Real Estate Act, 2016. The Union housing ministry needs to get real and reconsider. Most states have either not set up regulatory bodies under the newly notified Act, or are not ready with the attendant rules. The Centre needs to opt for a measure of flexibility on the issue, and allow marketing of real estate projects provided there's full disclosure and with the added provision that they are to be registered as soon as the state regulatory infrastructure is in place and functional.

Construction is a key driver of economic activity in general. Real estate and construction have not been doing too well and were hit by demonetisation. Yet, the outlook is bright, according to a recent study by Magicbricks (a sister concern of this newspaper) and KPMG, with potential buyers growing in numbers. Only when real estate developers can offload existing inventory can they start new projects and add their bit to reviving economic growth. Real estate sales should not stall because state governments have failed to put their regulatory structures in place. That would be not merely unkind but also unjust, and counterproductive from the point of view of giving a boost to economic growth.

True, section 3(1) of the Act does prohibit advertisement for projects — ongoing or future ones — without registration with the concerned Rera. When the Act was operationalised on May 1, a three-month period was deemed sufficient for the purpose. The Centre must urge all states to comply within the stipulated period. Reports say that of the 35 state and Union territories, 24 are yet to establish regulatory bodies as mandated by the law, and 16 are yet to notify the rules. The Act requires that all projects be registered online, but the reality is that 32 states and UTs have yet to develop websites for the purpose. And in such a scenario, simply going by the letter of the law may not be the best course of action.

Nitish Kumar's Game and Playing Nitish

After becoming chief minister of Bihar in 2015, Nitish Kumar of the Janata Dal (United) has been sending mixed signals to his alliance partners, Lalu Yadav-led Rashtriya Janata Dal (RJD) and the Congress. His statement that the onus is on the Congress to come up with a coherent agenda of its own, instead of merely reacting to the BJP, cannot be faulted. However, for the Congress and the RJD, it does not make political sense to push Kumar out of the alliance and into the waiting arms of the BJP. The RJD must dump any ambition to instal a chief minister from the party halfway through the assembly's term and rein in elements that can disrupt the present government's core USP: good governance.

In Bihar's 243-member assembly, the RJD has 80 seats, the JD(U) 71 and the Congress 27 — a solid majority. If Kumar breaks this mahagathbandhan and ties up with the BJP, which has 53 members, he can still form a government and remain a chief minister. This is the ace that the master pragmatist holds in his sleeve. As part of the Opposition, and a rather chaotic one, Kumar can be the big fish in the smaller, yet choppy, pond. If he returns to the NDA camp, he firms up a (pipe)line with the Centre, the original gateway chosen by him to come to power in 2005.

The Congress and the RJD must give him the space he needs to remain with the Opposition. The BJP-led NDA, on its part, will be only too happy to welcome him back in the fold whose mantra of good governance is in line with Kumar's actions. Kumar's support for the BJP's presidential choice, his teaming up with Hardik Patel in Gujarat, putting up own candidates in Delhi's municipal and UP assembly elections are signals of autonomy. His partners — present and future — should register this and do what is good for them.

With the British Parliament loosening up, can others be far behind?

Time-Honoured Ties That No Longer Bind

The beginning of the end of formal neckwear for men is nigh, now that even the British Parliament, that bastion of ritual and ceremony, has ditched ties as a mandatory male accessory in the House of Commons thanks to a ruling by the Speaker, with the Lords about to follow suit. Hoary private clubs in Britain that count many of these recently untied, emancipated parliamentarians will inevitably have to follow suit — though they would probably stop short at doing away with that gentlemanly accoutrement too. After that bulwark falls, there will be nothing holding back collars any more. And it will not be long before the contagion spreads across the Atlantic and across the Channel too, showing that despite its considerably straitened circumstances, Britain still has an impact in some crucial areas. One left-wing French lawmaker has already announced, "Before we had the sans-culottes, and now we will have the sans-cravates (no-ties)!"

Given the sheer diversity of male and female attire in India, it is not surprising that dress codes are more a convention in Parliament than a rule. But most parliaments would probably draw the line at hoodies and shorts, as the US has. With many other sectors traditionally linked to formal wear visibly loosening ties already, the western men's apparel industry should read the threads in the wind.

What should Air India's seller, Government of India, and any future buyer do to make the deal fly?

AIR APPARENT

How to Sell the Maharaja

V Ranganathan

At last, the government has decided to bite the bullet and sell Air India (AI). Now, the question is how: strategic sale, or sale through the stock market? Ratan Tata, possibly in alliance with Singapore Airlines, has shown interest, as have others like IndiGo and Qatar Airlines.

Strategic sale is a political landmine, which could invite charges of favouritism — or, worse, corruption. 'Strategic investors' will always pick up the stakes in the secondary market. But that is not the government's worry. The only downside of a market sale is that the Indian stock market may not be large enough to absorb this big a sale and fetch a good price.

So, should AI's assets be stripped and each component sold? Or to sell it as a going concern? Or to sell the profit-making subsidiaries — AI Express (low-cost carrier), AI Transport (cargo) and AI SATS (airport services) — land and office buildings separately, and the remaining as a 'going concern'?

The difference between the first and third options is that in the first, landing slots can also be auctioned independently. In the third option, it will be integral with the remaining portion of the airline. A detailed cost-benefit analysis has to be done to decide which is the best alternative.

Air Lanka was sold to Emirates as a total airline, which was rechristened as Sri Lankan. It was considered that the government could have got more if the landing slots were sold separately.

Severance pay and other obligations should be settled. The less GoI insists on the buyer to take on the existing staff, pilots included, the better price it can get. This is also the right time for GoI to bring a law that dilutes the job security of public sector employees and GoI's financial obligations to them in the event of privatisation.

Then comes the matter of how much to divest. The more the government holds a share in AI, the less will be the price it realises. At the same time, it has to retain its fiduciary responsibility. The British government did this, till recently, by holding one 'golden share' of the then-British Airports Authority (BAA, now Heathrow Airport Holdings), thereby holding overriding powers but without any dividends. This method could be ideal for AI's privatisation too.

Should foreign airlines be allowed to hold majority shares? The present rule allows, without breaching the existing cap, up to 100% with 'other' foreign players like sovereign wealth funds. This aspect needs a dispassionate and hard-nosed study.

Then, should AI be sold all in one go? Or should it be progressively divested? Either way, the government will be on the horns of a dilemma, as China had experienced in its selling of shares of petro company Sinopec in the market.

The Chinese government could not divest too much, as it would depress the price. And divesting slowly meant giving a signal to the market of continued government ownership, which meant prices going down after the sale.

Another possibility is the adoption of the Maruti-Suzuki model: parking some of its stakes in public sector banks and realising the value later when the prices move up. However, this option is open to the criticism that public sector banks are not much better than our public sector undertakings (PSUs). Selling these stakes in PSBs would still remain a task for the government to avail the benefits of a price appreciation.

Unlike a private-private sale, when the seller is not concerned with the events post-sale, in a government of India-private sale, the government has to be mindful of the post-sale consequences. This, again, creates a dilemma for GoI. A pro-monopoly structure post-privatisation will fetch a higher price and make the privatisation look successful in the eyes of the media and the public. But a pro-competitive structure post-privatisation will benefit the people in terms of a vibrant competition.

Back to the drawing board

In India, despite the presence of so-called 'low-cost carriers', prices have not come down to the extent that they are in the Far East Asian market. We still do not have vibrant competition. Incumbents have been sabotaging the entry of powerful competitive forces like Air Asia, which has significantly brought down prices by all carriers in the segments it operates.

The airline and mobile telecom industries are similar in a way in that both are high fixed cost and near-zero variable cost industries. Thus, during the period of excess capacity, costs can go down to self-annihilating levels. Their only saving grace is to wait for the good times — when demand picks up and excess capacity vanishes, a feature of the airline industry — as it follows the business cycle.

The writer is a former professor, IIM-Bangalore

How to Acquire the Maharaja

Aakansha Kaushik

On June 28, the Cabinet Committee on Economic Affairs gave its 'in principle' approval for considering the strategic disinvestment of Air India (AI) and five of its subsidiaries. After the announcement, many pundits recommended the immediate sale of GoI's entire stake in the enterprise. But hastiness in the disinvestment can cause losses not only to the exchequer but also to all other stakeholders in the process.

For instance, government-owned Air New Zealand was privatised in 1979. But the company went on to suffer massive losses and almost became bankrupt. Finally, in 2001, the government decided to renationalise the airline. British Airways took as long as seven years to finalise its plan to privatise.

First, a prospective new owner would benefit from an assessment of AI's strengths and weaknesses. The airline is often wrongly criticised as being 'un-modern'. A closer look suggests this perception may not be accurate. For instance, the average age of AI's fleet is 8.5 years, and that of the fleet of its subsidiary, Air India Express, is 7.2 years. Many US airlines with twice the fleet age of AI happen to be profit-making enterprises.

Overstaffing, too, is not an issue with AI anymore. In 2015-16, AI's employee-to-aircraft ratio was only 106 for a fleet size of 136. IndiGo, the only large consistent profit-making carrier, operated at a higher employee-to-aircraft ratio of 116 and a lower fleet size of 106. IndiGo also had a lower number of maintenance-and-overhaul personnel compared to AI.

The national carrier has its own maintenance and repair centre, which gives it cost advantage over other players.

AI's passenger load factor — used for measuring the capacity utilisation of an airline — has improved consistently over the years and has equalled the worldwide average for the airline industry. But it is still slightly below the level of other major players in the Indian airline industry. Air India Express reported a net profit of ₹296.7 crore in 2016-17. AI's attractiveness also lies in its large asset base, international flying rights, membership of the Star Alliance, three profit-making subsidiaries and valuable slots at big international airports.

On the flip side, the airline has been facing unending financial woes. While the aviation industry all over the world operates at meagre profits, AI's debt (with annual interest payments of ₹4,500 crore, which amount to 21% of its turnover) seems irrecoverable. This state of financial distress can be traced back to the 2007 merger between Indian Airlines and AI, and unplanned bulk purchases of aircraft. The airline never quite recovered after that.

Even if one assumes that GoI will partially restructure the company's debt, there are other problems facing the airline, the most serious of these being mismanagement. The airline's funds from operations have been negative. The inefficiency and operational delays have impacted the image of the company severely.

The Comptroller and Auditor General (CAG) had noted that even though the airline had high passenger load factor, it could not boost passenger revenue because of inefficiencies such as low utilisation of human resources. This is also the main cause for a massive reduction in its market share over the years. AI also flies on many unprofitable routes. It would be its new owner's prerogative to avoid these.

AI's next owner can take some cues from the way IndiGo has constructed its brand. The major reasons for IndiGo's success have been its employees' professionalism, regular on-time flights, short travel times and customer-centric policies. Creating that work environment in AI will be of utmost importance.

The new owner must take on board the concerns of AI's current employees. The Air India Employees' Union is certain to demand job security before the disinvestment. Properly handling of the situation will be crucial. The experience with disinvestment in companies, such as Balco and Jessop, shows that labour issues can make balance-sheets bleed.

Modalities of disinvestment would have large implications for the outcome of the process. Keeping political contingencies in mind, it is likely that foreign firms may not be allowed, and only existing market players will participate in the process. If it is going to be a merger of two existing airlines of the country, the new owner should be careful before merging with AI.

Across the world, larger fleets mean larger problems. Operational inefficiencies rise, and the task to keep seats filled and sustain profitability becomes more difficult. Many will attribute GoAir's profitability to its small fleet, which simplifies management concerns. If positive synergies are not generated, then the 2007 disaster of the Indian Airlines and AI merger will be repeated.

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ENERGY ECONOMICS

India Can Light the Way

Rajiv Shah

Prime Minister Narendra Modi's meeting with US President Donald Trump last week was a display of what the two leaders called "true friendship" reaffirming India-US relations. Against the backdrop of recent tensions and strong differences in position, not least on climate change, the visit demonstrated Prime Minister Modi's diplomatic skills and his stature as a global leader. Modi must now use this goodwill to assert his vision in driving the international community toward a low-carbon world.

Indeed, with the US' retreat from the Paris Climate Agreement, it may be Modi — with his bold renewable energy agenda, 'power for all' commitment, and push for widespread adoption of LED (light-emitting diode) light bulbs — who steps up to the plate. His leadership in energy will be even more critical as India flexes its economic muscles.

Energy access will be the cornerstone of India's economic development. It is an often-repeated fact that nearly 230 million Indians have little to no access to electricity, hampering their ability to join the modern economy.

The World Bank estimates that globally, delivering electricity to the energy poor could create 1.5 trillion additional productive hours, save $38 billion in energy expenditures, and enable nearly 300 million school-age children to study longer under better conditions. India can only truly rise if these 230 million rise as well. And it starts with reliable energy access.

Modi's government in New Delhi understands this well. Under its stewardship, India is growing into a laboratory not only for the development of clean technology but also for new models of power distribution, particularly of decentralised renewable energy. Today, India's largest cluster of renewable energy mini-grids, developed under the Rockefeller Foundation's innovative Smart Power for Rural Development programme, has powered more than 110 villages and illuminated the lives of 40,000 people.

These results are significant not only in scale but also in human impact. With tools and machines powered by reliable electricity, carpenters, tailors and small entrepreneurs have more than doubled their productivity. Cold storage facilities are being built, keeping fresh farm produce from spoiling, so farmers can sell more and at better market prices. Entrepreneurs have opened car washes, water purification and delivery systems, and computer training centres. Essential health services are now within reach.

Looking at the transformation of these villages, it's clear that access to sufficient and reliable energy is the missing link that can unleash their people's potential, empowering rural Indians to lift themselves out of poverty.

FILE PHOTO

Good morning, sunshine

In villages touched by the Smart Power for Rural Development programme, energy access has enabled enterprising Indians to raise their local economy by $18.50 per capita — accounting for an increase in economic productivity and the value of benefits to health, environment and social well-being.

Micro-enterprises have reported a 13% average increase in monthly revenues, and there is evidence that business is growing: 11% of businesses reported some form of expansion, and 7% of them are entirely new, established as a result of gaining access to energy.

Other countries can benefit from what India has achieved so far. Many emerging economies hunger for power that can help their citizens lift themselves out of poverty and reach their full potential. Because they know what India's government knows: if you provide reliable and sufficient electricity, social and economic development will follow.

This is where India can truly lead. Modi should leverage India's achievements to rally the world around a renewable energy revolution that uplifts people from poverty while driving forward the Paris agreement commitments.

It's already clear that large-scale programmes on solar, wind and hydropower will redefine India's emerging role as a leader in clean energy and climate change, and our work together on behalf of the poorest Indian families will change the lives of tens of millions of people.

If Modi stays committed to energy access for all Indians, India's renewable energy leadership will be an incredible legacy for the world.

The writer is president, Rockefeller Foundation, New York City

Citings

Why Teams Do Matter

SCOTT KELLER

The value of a high-performing team has long been recognised. It's why savvy investors in startups often value the quality of the team and the interaction of the founding members more than the idea itself. It's why 90% of investors think the quality of the management team is the single most important non-financial factor when evaluating an IPO....

"No matter how brilliant your mind or strategy, if you're playing a solo game, you'll always lose out to a team," is the way LinkedIn cofounder Reid Hoffman sums it up.... The topic's importance is not about to diminish as digital technology reshapes the notion of the workplace and how work gets done. On the contrary, the leadership role becomes increasingly demanding as more work is conducted remotely, traditional company boundaries become more porous, freelancers more commonplace and partnerships more necessary.

And while technology will solve a number of the resulting operational issues, technological capabilities soon become commoditised. Building a team remains as tough as ever. Energetic, ambitious and capable people are always a plus, but they often represent different functions, products, lines of business or geographies and can vie for influence, resources and promotion.

Not surprisingly then, top-team performance is a timeless business preoccupation.

From "High-Performing Teams: A Timeless Leadership Topic"

the speaking tree

Relax With Suryayog

ANITA MADAN

Suryayog, or Sun-meditation, is one of the most rewarding and natural of all human activities, says Swami Surya Jowel. It produces wonderful results at all levels of our being: physical, mental, emotional, intellectual and spiritual. It connects us with our very own inner powers of vitality, clarity, light and love. It helps us to improve ourselves. Suryayog is not just a technique for relaxation; it is the path of surrendering to the Absolute.

To man's eternal quest for answers to oft-repeated questions — Who are we? What are we here for? What is the nature of the universe? — the insight comes more from the subconscious rather than the conscious mind. This quest leads to stilling the mind. Meditation is neither a method, nor a process; it is the oneness with our inner Surya.

Concentration is a re requisite to meditation. Fixing the mind on an object, whether internal or external, for a given period of time is concentration. A person with the ability to focus his mind totally on the work at hand is able to complete it in record time and still turn out work of exceptional quality. This applies to people engaged in a varied spectrum of activities, physical or mental.

Meditation is a discipline. It has to be acquired. Sometimes, it is not easy for a layman to meditate no matter how much effort is put in. At that time, if there is a great desire to move on the spiritual path, a guru or guide comes to you. A mantra or a method given by him to you to enable meditation helps you to forget the world, body consciousness and desires.

Chat Room

Tackle Glitches on War-Footing

Apropos 'On a Wing and a Prayer' by Mythili Bhusnurmath (Jul 3), having rolled out GST on schedule without full preparedness, understanding of complexities and a trial run, the authorities have to iron out glitches on a war-footing. Initial disruptions in manufacture, supply and billing, as being witnessed now, will increase resistance to adopt GST may impact prices and consumers, leading to a temporary inflationary surge, as witnessed even in advanced economies during the short migratory period.

CL SURI
New Delhi

Meeting All the GST Challenges

This refers to 'On a Wing and a Prayer'. Three challenges must be addressed to better implement GST. Since most of the terminology of goods used in local markets have been adopted from the Central Excise Tax, there is a need to use appropriate vernacular words as the GST laws have the terms in English that is understood by only a few. The second challenge will be to ensure 24×7 internet connectivity. The third challenge is to pass on GST benefits to the consumer through audit trail, pricing by manufacturers, input credits claimed by the suppliers and rationalisation of MRP.

SANJAY TIWARI
Hisar

The Fruits of Creating Jobs

More than 10 million youth enter the job market every year. If each of them can be employed productively and each one adds a value of just ₹50,000 per month to the economy, they will jointly add value of over ₹6 lakh crore to the economy annually, giving an additional growth of more than 3% to the GDP. The economic impact and psychological boost would be immense for the nation. The PM should tap the immense business and technical skills available in the country to achieve this and propel the nation to greater heights.

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