

# When Markets Are On Cloud Nine...

...Don't be spooked if they hit an air pocket

The BSE Sensex and the NSE Nifty 50 closed at record levels Wednesday. In less than seven months, equities are up a staggering 19%. The market capitalisation of Indian stocks hit \$2 trillion, marginally behind Canada's and Germany's. The NYSE, of course, is the giant in the ring, with a market capitalisation close to \$20 trillion. Corporate performance has not been spectacular. Investment in the economy, particularly private corporate investment, is down. So, the fizz in the market cannot be explained by short-term considerations. India remains long-term high growth story. So, investors who are in the market for the long term need not be spooked by the mismatch between the bounce in the market and hard economic data. But short-term turbulence should not cause wild surprise.

The good news bolstering confidence is the ruling party's overwhelming victory in the Uttar Pradesh polls and the successful roll-out of the goods and services tax. These reinforce the long-term positive outlook: the government has lots of political capital and has the will to carry out significant reform. However, the short-term scenario could be bumpy. The price-earnings (PE) ratio is a good indicator of whether stocks are priced reasonably or not. The higher the ratio, the greater the chances that markets are overpriced. The PE ratio for the Sensex is now 22.71, a historical peak that overshadows the 20.72 number of 2006-07, before the global financial bubble exploded. It is not enough for fund managers to rely on 'momentum', a polite way to say investment sentiment moves in herds.

Though we believe that governments should interfere minimally in market operations, it certainly has a big role to play in reformist policy and action. Two areas are vital and urgent. One, to solve the bad-debt problem in our banks, without spooking bankers into lending paralysis. This will free up savings that can be invested. Two, create jobs—by supporting labour-intensive activity—for the trying to enter the employment market. Unless the latter is done, the economy will be dogged by social tensions.

# Rethinking Old Age To the Benefit of All

India has a young population with a median age of 27.6 years. Therefore, unlike in most developed countries and China, problems of the elderly, of the kind discussed in a recent survey of ageing by the Economist, are not a hot-button public policy issue. But that would ignore the higher proportion of the elderly in the southern states and among affluent sections elsewhere.

While the under-14s account for 28% of India's population, about 66% are in the age group 15-65. That leaves 6% of the population who are 65-plus. The potential support ratio, the number of working age persons per senior citizen is thus 11, a far cry from Japan's 2.1. But, while the problem lacks urgency, this is the right time to act. By creating the National Pension System's architecture of funded pensions while the country is still young, India has chosen to avoid the problems that befall a pay-as-you-go system of pensions when the working population shrinks in relation to that of the elderly who do not work. Similar prudential action is required in other ageing fronts. To begin with, we must reconsider the manner in which we view the ageing population. Given increases in lifespan and the capacity to earn and spend that an increasing proportion of those above 60 retain, seniors could be differentiated into three categories: those who can still work, even if not at the same pace as a youngster, those who cease to work but still retain sufficient health to retain a zest for life and would spend liberally if they could insure care for the third phase of not being able to look after themselves.

Such differentiation of the elderly is the key to opening up new markets for assorted products and services, spanning healthcare, obviously, skilling, entertainment and insurance and annuities.

Smiling for the right to criticise could have unpleasant wider ramifications

# Right to reply trumps right to block?

US President Donald J Trump is no stranger to lawsuits, both as plaintiff and defendant, but the latest one filed against him has obviously implications for all social media users. He is being sued for blocking seven people from viewing his tweets as a breach of the US's First Amendment that protects the right to free speech. However, given that he was earlier unsuccessfully taken to court last year by a woman who claimed he had "destroyed" her career by calling her a "dummy" – the judge ruled that the term was not defamatory – it is very likely that the combative POTUS will actually be very enthused by this attempt to enforce what is in effect the right to abuse on social media. Countless blocked trolls will also be keenly, if silently, watching the progress of this case.

There is, of course, merit in the plaintiffs' argument that blocking critical or mocking comments could skew perceptions of the true reactions to tweets and can be misused as a sort of summary gag order. But the litigants should really think hard about whether they really want their President to be encouraged – indeed, empowered – by the courts to also voice his unfiltered opinions on a bewilderingly diverse and often apparently inappropriate subjects and individuals. If they win their case, not only they but he will be unstoppable.

The true measure of India's tax reform will be its contribution to growth and competitiveness

# Real Fish in the Net Gains



Mark A Weinberger

This week, I arrived in India at an exciting time for its economic future. Since entering office, Prime Minister Narendra Modi has embarked on a series of economic reforms to increase transparency and enhance competitiveness. This month, he took a crucial step forward in that mission, when he worked with business, the states, and Parliament to implement the country's most ambitious tax reform in 70 years.

The new goods and services tax (GST) is designed to simplify India's tax structure across one common market of 1.3 billion people. By replacing a complex array of federal, state, and local taxes with a clear nationwide system, this reform will make it easier for businesses to operate across the country. In the short-term, of course, this kind of bold reform won't be easy. It will take time for the country to adjust. It will require patience from business, along with some flexibility and responsiveness from Govt.

But looking more broadly, India's introduction of GST recognises a critical fact about the global economy today. If a nation wants to attract investment and drive economic growth, one of the most important actions it can take is tax reform.

Why is tax reform so important? Because our global economy has

evolved – and our tax systems need to evolve with it. Today, competition comes from every part of the world. Businesses are grappling with increased mobility, fast-moving innovation, and pressure to be more agile than ever.

In the face of these growing challenges, reforms that simplify complex global tax requirements, increase transparency, and ease tax compliance are critical for businesses looking for opportunities to grow and invest. This is why countries around the globe have turned to tax reform to increase ease of doing business, attract foreign investment, and also to encourage domestic companies to bring their overseas earnings back home.

## Cut Corporate Tax Rate

One clear way to make the economy more attractive is to decrease corporate tax rates. And we've seen significant efforts to do this in developed and developing countries alike. For OECD countries, for example, from 2005 to 2015, the corporate tax rate has fallen from 28.2% to 25%.

Britain's rate is now at 20%. It is seeking further reductions to 17% and 15% over the next three years. In France, newly elected President Emmanuel Macron is pursuing a reduction from 33.33% to 25%. And we're having a similar debate in the US, where the president has proposed cutting corporate tax rate from 35% to 15%. Reductions have also either happened, or been, planned in Canada, Peru, Indonesia, the Philippines, and Italy.

Corporate tax reform is crucial for India as well. Movement towards broad-based adoption of the lower corporate tax rate of 25% will boost competitiveness. And this reform could also be strengthened by loo-



Stretching the growth potential

king at other areas, such as the dividend distribution tax (DDT), which can still increase the overall tax bill for subsidiaries of foreign companies operating in India.

Global tax reform trends can offer even more inspiration. Around the world, we're seeing countries consider and implement many other reforms that drive innovation and increase competitiveness. One is the movement toward a territorial tax system, where tax is levied in the country where that income was earned. This reform is under discussion in the US and a number of OECD countries have made this shift, including Britain and Japan. About a third of OECD's countries shifted from worldwide to territorial taxation over the last decade.

## Curbing Base Erosion

The US, Canada, Britain and Australia are offering tax breaks for research and development done by corporations, which attracts better talent and supports long-term innovation. And over 70 countries and jurisdictions – including India – recently agreed to sign a multilateral treaty to crack down on base erosion and profit sharing (BEPS) tax avoidance schemes, a move that could save these countries \$240 billion in otherwise foregone revenue every year.

India, like other countries, is focused on tax reform because it knows it can attract more investment and push its economic growth even higher. Real tax reform involves looking at the whole tax bill and establishing the most competitive overall system. India now has an important opportunity to identify other avenues to do just that.

We also need to pay attention to efforts to restore trust between businesses, regulators, and citizens. The decline in public trust has become a major global challenge, one that we're focused on in the US, and is equally critical for India to address. On the tax front, this will be possible, in part, by empowering institutions that mediate between government and business.

But, ultimately, trust can only be restored if we each commit to working together – negotiating compromises when necessary, and ensuring growth is focused on increasing opportunities in our communities broadly. The true measure of India's tax reform, and reform around the world, will be how it contributes to growth, strengthens competitiveness, and creates more jobs. Bold reform can yield bold results – for everyone.

The writer is CEO, EY

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## INVESTING IN INDIA

# How to Spot the Leapfroggers



Alok Sama

Investing in India is, to quote former British Prime Minister Winston Churchill in a different context, "a riddle wrapped in a mystery inside an enigma; but perhaps there is a key". Growth with political stability, the second largest consumer base in the world, 330 million internet users, a tech-savvy young population, a long history of entrepreneurship, and a government committed to nurturing innovation. In cricketing terms, this should be the equivalent of a half volley on the off stump, lobbed in at a friendly 70 mph on a flat track with a racy outfield.

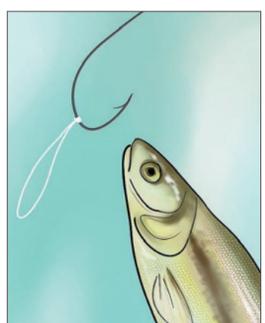
The enigma, of course – particularly in an environment dominated by febrile day traders – is why the instant gratification in blockbuster financial returns eludes investors. Broadly, the reasons for this are a function of two factors.

First, the inherent cyclicity of capital flows leads to a volatility in periodic valuations. In 2014/15, an over-abundance of risk capital did lead to unsustainable valuations. At SoftBank, one of the basic tenets of technology-investing is that with disruptive business models, entry

valuations are of limited relevance. Top-line growth and market share tend to be the most powerful variables explaining the statistical variability of returns.

As such, we look beyond quarterly mark-to-market volatility in valuations. While these valuation marks may generate headlines, they are driven purely by the mechanical application of accounting rules, and do not accurately portray the long-term potential of the underlying businesses.

To be clear, the gains on SoftBank's investments in Hike, Ola and Oyo more than offset the paper losses on our investments in Snapdeal and Housing. But in all cases, these are simply unrealised gains and losses on investments that will take many years to reach their full



Now to fish for compliments

potential.

Second, many investors fail to appreciate the extreme price sensitivity and sophistication of the Indian consumer, along with a balkanised market frequently more local than national. To be successful, business models need to localise, adapt, and frequently re-invent themselves to create a uniquely Indian product offering.

Kavin Mittal's Hike, for instance, is a star in the SoftBank Indian portfolio, and the ultimate stealth unicorn. Mittal has built a unique messaging platform focused on localisation of content to drive user engagement.

Similarly, Ritesh Agarwal's OYO Rooms is a uniquely disruptive model that takes many elements of the Airbnb model, but adapts these to an Indian context, leading the 100-year old industry stalwart, the Indian Hotels Company, to recognise OYO as a potent threat. Bhavish Agarwal's Ola Cabs continues to innovate to stay a jump ahead of Uber.

Active engagement on the part of SoftBank is frequently key to some of the pioneering initiatives launched by our portfolio companies. For example, Ola's recent announcement of its pilot e-vehicle project in Nagpur is part of a broader strategy developed by SoftBank's Chairman Masa Son – a million electric cars relying on giant solar-powered charging stations developed in partnership with local governments.

## SEN & SENSIBILITY

# No Kind of Mac for Maharaja



Rajyasree Sen

Coffee, tea or paneer? It seems that Air India (AI) has not only gone broke, but it has also decided to go vegetarian. One of the first signs of penury is when you start cutting back on 'unnecessary' food. AI has taken this ethos forward by deciding to do away with non-veg food on its domestic flights in the economy class. Let the cattle-class – a tricky phrase to use these days – eat (eggless) cake.

Now, we all know that the Maharaja has been in the news for all the wrong reasons. So if cutting down on kitchen costs helps AI bleed less, that should be welcome. But let's not forget that it is a service provider, and its clientele should not be punished for its lack of business acumen. Vijaya Mallya's King-fisher woes would have been then

largely resolved if instead of non-veg meals he had served non-veg beer to all and sundry.

The question is, is turning vegetarian really going to help? And whatever led it to take this decision?

The reasons put forward by the airline are manifold. One, it will save about ₹8 crore a year. Second, it "has taken a conscious decision not to have non-vegetarian meal in economy class on its domestic flights to reduce wastage and costs as well as in order to improve catering service".

Ashwani Lohani, AI chairman said, "We have made it veg only to reduce both wastage and cost... It also eliminates the possibility of mix-up: a non-veg meal getting served to a vegetarian passenger, as it had happened a few times in the past." If I was part of the AI crew, I would register a complaint pronto because the statement makes it seem that crew members either have dyslexia or are illiterate.

This is, of course, an extension of a December 2015 order, which had stopped serving non-vegetarian food on flights under 90 minutes

long. According to AI officials, "We have examined the issue and we have found that people are very health-conscious and many prefer veg meals over non-veg meals. As a result, a lot of non-veg food gets wasted." No statistics have been provided to support this view.

Without ever thinking that this may be part of some nutty, conspi-



We have both veg and non-veg

racy theory of a national 'go veg' policy, let's see this from the customer's point of view.

AI's hot meal with options – which you could choose to have or not – managed to ensure that AI remained at par with other 'full service' airlines, at least in this regard. Because it definitely failed to do so in staying on time.

Suppose serving us vegetarian food will indeed make a difference to the airline's bottomline. But we are not even being given a choice in the vegetarian fare on offer. You may be served paneer and tinda, and you will have to jolly well eat it. This is worse than being in boarding school where you could at least choose to eat the par-boiled aloo, or melted spinach, or if you lived dangerously, both.

So be prepared for 'healthy' fried parathas and aloo-puris to start off the day in a closed airborne metal container.

As for selling the idea of making AI's USP serving veg food only, that's like saying only AI can provide the option of flights staying grounded or flying. That would indeed be its unique selling proposition.



# Eternal Ganga

SHUBHRANGSHU ROY

The last time I visited my hometown, Allahabad, over a year ago, it was to rush my ailing father over to Delhi for treatment. Since his passing away, the city has begun to fade in my memory. Yet, from time to time, Allahabad flashes through my mind and dominant are images of the eternal Ganga. While everything about us is transitory, the Ganga seems eternal.

Both the Ganga and the Yamuna emerge from the Himalayas, and meet, mid-life at the Sangam. Yamuna gets subsumed into the Ganga and a third mythical river blends into the mighty Ganga.

The Triveni Sangam represents the ying and yang of life meeting the third, yet unknown force, lending a spiritual depth to the emergent tripartite Ganga. Is this holy union of three what makes the Ganga the giver and taker of life?

To me, the Ganga is really none of these. I am mesmerised by her and she remains focused on her long but purposeful journey. When you are destined to meet the Ganga, don't forget to take that plunge – the dip of life.

To the non-believer, she is just another silt river. But look deeper, and you'll find that the Ganga is so pure – that you want to take her home and offer her to the gods. You feel secure when she's there with you through life's journey, and at the end to purify your soul when your body deconstructs. You tuck the Ganga away in a corner of your room, all bottled up, because nothing else remains as fresh as long as the Ganga does.

## Chat Room

### Loan Waivers Hurt The Fisc

This refers to "Political Opportunity on the Farm" by TK Arun. Rightly, we need better solutions than loan waivers to address farm distress. Writing off bank loans hampers fiscal discipline. The problem is low prices, and the government must ensure procurement at minimum support prices. The long term solution is stepping up investment in irrigation, transport and storage infrastructure, and allowing markets to function in insurance, price discovery and raising productivity.

HEMANTH D PAI  
Bangalore

### AI Passengers Can Buy Food

This refers to 'Air India should be the first Satvik airline' (July 12). Passengers should be given the choice of what to eat or what not to eat. AI should desist making any particular type of food mandatory for them. If the aim is to save Rs 8 crore annually, the airline should stop inflight catering and start charging



passengers, just as some other airlines do. Controversies such as these are wholly avoidable at a time when the government wants to divest stake in the loss-making national carrier.

SKALYANASUNDARAM  
Bye mail

### For A Dialogue With Kashmiris

The enormity of the carnage of the Amarnath Yatra has yet to sink in. The tragedy is proof that the Kashmir Valley is now a changed place. The source of the problem resides in the fact that we often fail to imagine ourselves into lives of others and their religions and respect what is alien to our own experience. Religious tolerance is a must. The root cause of the problem must be addressed. The government should initiate dialogue with the disaffected Kashmiris for an enduring solution.

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