Economy

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GOOD GOVERNANCE

Narendra Modi, Prime Minister

At the core of our good governance efforts in India's villages is to leverage the power of technology for the welfare of people. An example of this is the SVAMITVA scheme which has given great results

Post-IPO, more LIC stake sale unlikely for a year

PRASANTA SAHU
New Delhi, April 24

AFTER DILUTING 3.5-5% stake in the upcoming initial public offer (IPO) of the Life Insurance Corporation, the Centre will not dilute any further stake in the insurer for at least one year to give market the space to gauge the performance of the insurer and its potential value.

"Over a period of time in the listed space, LIC will display the business growth rate and improvement in margins that the market is expecting. Further growth in its value will therefore be found," an official told *FE*.

In the life insurance industry, the real value of a company is its embedded value (EV). Thereafter, market valuation is driven by expectations of business growth.

The Centre will sell a minimum 3.5% stake in LIC, but the final size of the IPO could be raised to 5% as proposed in the draft red herring prospectus if sufficient demand is shown by anchor investors by Tuesday. The Centre could fetch between ₹21,000 to ₹30,000 crore from the issue, much lower than estimated earlier. With weak demand for foreign institutional investors, the Centre has reconciled to a much lower valuation of ₹6 trillion for LIC, though the state-run insurer was seen as worth around twice that amount by its owner in the Budget estimate for FY22. The valuation of the insurance behemoth is 1.1 times its EV of ₹5.4 trillion.

However, officials reckon the promising prospect of the long-term potential for the growth of life insurance business in India, where LIC has two-third market share.

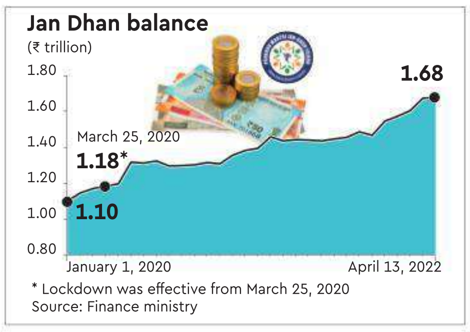
"The government is diluting only up to 5% via the IPO and 95% will still be with it. So, 95% of subsequent growth in EV will accrue to the government, which will realise a better value in subsequent stake dilution," another official said.

BALANCE BELIES CONCERNS OF RURAL DISTRESS

Jan Dhan net deposits soar to a record ₹1.68 trillion

The number of accounts has risen by 69.4 million in the past two years to 451.6 million

BANIKINKAR PATTANAYAK
New Delhi, April 24



* Lockdown was effective from March 25, 2020
Source: Finance ministry

NET DEPOSITS IN the no-frills Jan Dhan accounts hit a peak of ₹1.68 trillion as of April 13, having witnessed almost steady growth over the past four months despite the Omicron onslaught in January.

The net deposits haven't dropped even after the easing of localised curbs, imposed in the wake of the third Covid wave, that opened up avenues of spending since late February. The latest Jan Dhan balance was also way above the pre-pandemic level of ₹1.17 trillion (in the first week of March 2020).

This lends some credence to the view that farmers may have gained from a rise in commodity prices in recent months and concerns in some quarters about the persistence of wide-spread rural distress even after the third Covid wave may have been exaggerated.

Jan Dhan accounts had a net balance of ₹1.68 trillion as of April 13, higher than that of ₹1.45 trillion on April 14, 2021 and ₹1.34 trillion as of April 15, 2020, according to the finance ministry data (*see chart*). On March 25, 2020, when a Covid-induced lockdown was imposed across India, net deposits were to the tune of ₹1.18 trillion.

Of course, the number of Jan Dhan accounts has risen by 69.4 million in the past two years to 451.6 million as of April 13. The government's free grain supply under the Pradhan Mantri Garib Kalyan Anna Yojana in the past two years, too, has saved the poor households a tidy sum. Moreover, some amount of precautionary savings by the depositors for any Covid-related exigencies can't be ruled out. However, despite accounting for these factors, the net balance still remains higher than expected.

Public-sector banks accounted for 77% of the Jan Dhan deposits, while regional rural banks made up another 20% and private banks just 3%. The Jan Dhan accounts — originally intended to spur financial inclusion by making banking facility available to the poor — were used by the government to swiftly transfer funds for immediate relief in the aftermath of the Covid outbreak in 2020. On Saturday, the finance ministry asked state-run banks to come out with ideas to herald next-generation reforms in various financial inclusion initiatives, including the Jan Dhan scheme.

FROM THE FRONT PAGE

India Inc feels margin heat

The tech pack put up a reasonably good performance. TCS stole the show with a record haul of orders at $11.3 billion and despite it being a seasonally weak quarter, Ebit margins came in at a strong 24.96%, flat sequentially. Infosys missed estimates and is struggling with high attrition of 27%; the Ebit margin came in at 21.5%, a sharp compression of 200 bps quarter-on-quarter.

HDFC Bank's operating performance was lacklustre as operating profits were up just 5% y-o-y on the back of a tepid rise in revenues; the better net profit growth of 23% y-o-y was the result of a steep fall in provisions. However, ICICI Bank's was a good show with the pre-provisioning profits up a good 21% y-o-y on the back of a 17% y-o-y increase in the domestic loan book.

Rallis posted a net loss (after exceptional items) of ₹14.2 crore, even though revenues rose 7.7% y-o-y, led by calibrated price hikes for the domestic crop care business. The poor performance was attributed to, inter alia, supply chain constraints for certain intermediates as well as elevated freight and logistics costs and inflation in raw materials.

Producers of commodities are cashing in on the multi-year price highs. Revenues of Hindustan Zinc increased 27% y-o-y driven up by higher zinc volumes and prices and also favourable exchange rates. This resulted in strong operating margins of 56.4% which pushed up the Ebitda by 29%.

Ola Electric recalls 1,441 e-scooters

Ola added that the recalled scooters will be inspected by the company's service engineers and will go through "thorough diagnostics" across all battery systems, thermal systems as well as safety systems. Currently, Ola's battery pack claims to comply with AIS 156 standard rating, which is considered the latest proposed standard for India, in addition to being compliant with the European standard ECE 136.

Apart from Ola, Okinawa Autotech and Pure EV have recalled their 3,000 and 2,000 units of electric two-wheelers, respectively. The recalls were carried out after road transport and highways minister Nitin Gadkari last week constituted an expert committee to inquire into EV explosion incidents.

India, Canada resume FTA talks, eye interim deal

New Delhi and Ottawa launched negotiations for the Comprehensive Economic Partnership Agreement (CEPA), as the FTA is formally known, in 2010 and held the last round of formal talks in August 2017. During this period, they held ten rounds of negotiations on a broad range of issues, including goods and services, e-commerce, telecommunications, sanitary and phytosanitary measures, and technical barriers to trade.

The negotiations are a part of India's broader strategy to sign "balanced" trade agreements with key economies and revamp existing pacts to boost trade.

Scorcher of a summer for consumer companies

Ice-cream and beverage categories have witnessed a surge in demand and sales are expected to be much higher than the last two years, over 40-50% ahead of the same period in 2019," RS Sodhi, managing director, Gujarat Cooperative Milk Marketing Federation, said.

Mother Dairy's milk-based ice creams and dairy-based beverages have clocked a growth of over 50% versus the pre-Covid period. "There is a surge in demand for ice creams and consumption of dairy-based beverages like chhaach and lassi is huge. We are working to meet the demand and this summer in its current progression is going to be the best season for us," Sanjay Sharma, business head – dairy products, Mother Dairy Fruit & Vegetable, said.

Milkshake major Keventers has fresh ice cream flavours to offer even as it is seeing a growth of 30-35% since February, Agastya Dalmia, director, Keventers, said.

Brands have also discovered strategies for customer acquisition with new products and campaigns to aid demand this season.

Why Toyota & Honda have taken the hybrid route in India

"The government can give proportionate support to all new-age automotive technologies, ie have a technology-agnostic approach to mobility, instead of just focusing on BEVs," an analyst who didn't wish to be named said.

A reason India should support HEVs in the short term is the current energy mix. According to the India Energy Outlook 2021 analysis by the IEA (International Energy Agency), 70% of electricity generation in India happens by burning coal. The report noted that even though solar power is set for explosive growth, it will take about two decades for solar to match coal's share in the Indian power generation mix, by which time the share of both would be a little over 30% each.

Globally, Honda and Toyota have invested a lot in hybrids, and till the time that investment pays off, they will promote this technology in countries where it is unpopular and can be monetised.

Private traders make hay

But will India have enough wheat stocks to ship out such large quantities of the grain?

This is how the figures stack up: The 'opening stock' of wheat with the government (FCI) stood at 19 mt on April 1, 2022, which, though much higher than the buffer requirement of 7.5 mt, was way lower than the year-ago level of 27.3 mt.

As on Sunday, official procurement of wheat in the current season stood at 12.67 mt, down by a third on year. Given this pace and the feedback from assorted market participants, this year's procurement would at best be 25 mt, and could be even lower at around half last year's purchases of 43.34 mt.

Supposing FCI will procure 25 mt of wheat this year, its stocks would rise to 44 mt. However, of the current stocks, a sizeable quantity of almost 10 mt was purchased from MP last year and the bulk of it is understood to be of quality that doesn't conform to FCI's specifications due to loss of lustre. That leaves FCI with less than 40 mt or so for PDS supplies under the National Food Security Act and for the free ration scheme (PMGKAY), which has recently been extended till September. NFSA supplies require 26 mt of wheat and the PMGKAY requirement is in excess of 10 mt.

So, the supply situation is really grim. By the end of the year, the FCI may even be struggling to keep the buffer, let alone intervene in the market via open market sales to boost the supply of grains. No wonder private traders are stocking up now, eyeing the lucrative export markets and helping the mandi prices remain above the MSP.

Mandi arrivals of wheat in Punjab and Haryana peak during the last two weeks of April. As on last Wednesday, only 67,000 tonne of grain was procured from farmers in Haryana's Taraori mandi, including purchases of 11,500 tonne by private traders. "We are expecting another 5,000 tonne of grain to arrive in the market in the next couple of weeks before we wind up this year's purchase session," Pramjit Nandal, the official in charge of the market, said. In 2021, more than 0.1 million tonne of wheat was procured from this mandi. Under the scorching afternoon sun, a handful of farmers were waiting for their wheat crop to be cleaned by labourers.

So far this season, FCI has purchased 6.69 mt of wheat from Punjab mandis, on a par with last year's level, while purchases in Haryana was just 3.42 mt against 6.4 mt a year ago. In UP, the purchases as on Sunday stood at a measly 68,000 tonne, against the year-ago level of 0.53 mt.