Monthly Outlook April 2021

Stock Market Amidst Pandemic

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From Managing Director's Desk To Readers

The return of the second wave of Coronavirus cases has added an interesting dimension to the Monetary Policy Meet this April. The RBI is scheduled to announce the bi-monthly monetary policy of the fiscal year 2021-22 on 7th April after a 3-Day meeting of the Monetary Policy Committee. According to most analysts, the Reserve Bank of India (RBI) is most likely to maintain Status Quo on the 7th April 2021 Monetary Policy Committee meeting.

Most experts anticipate that the RBI is likely to wait for a more appropriate time to announce substantive measures and is likely to continue with the accommodative monetary policy stance. The RBI would like to ensure that the best possible results in terms of accelerating growth without missing out on the main objective of containing inflation can be achieved through this policy decision.

The policy repo rate or the short-term lending is currently at 4 percent, and the reverse repo rate is 3.35 percent. The RBI has been maintaining the status quo after May 2020. The RBI had last revised its policy rate on May 22, 2020, in an off-policy cycle to perk up demand by cutting interest rates to a historic low of 4 percent.

In a report, it was mentioned that the recent surge in the COVID-19 cases and the restrictions imposed by several states will impose further uncertainty and hurdles to the pace of revival of industrial production.

It is also seen that the long-term yields are hardening, leading to a rise in borrowing costs. In this context, the Reserve Bank of India faces the difficult task of managing the inflationary pressures while preventing a rise in the borrowing cost.

Despite the rising inflationary pressures, we expect the RBI to keep the policy repo rate unchanged in the forthcoming monetary policy review given the uncertainty posed by the sharp rise in COVID-19 cases.

When asked about his expectations from the next MPC, it was stated that with consumer inflation fluctuating and not yet stable and the policy repo rate also being substantially reduced by 115 basis points since February 2020, the RBI may consider keeping the rates on hold.

It is likely to keep an eye on how the inflation and the economic recovery pans out in the coming months amid the rising COVID-19 cases in the country. India is witnessing a second wave with partial lockdowns being imposed across different states and cities. In such a scenario, it is only likely that the RBI will maintain the status quo.

Moreover, Puri added that even while the real estate industry's perennial hope is fixed on lower interest rates, the prevailing lowest-best home loan rates starting as low as 6.70 percent are enticing enough for homebuyers.

In one of the reports by prominent economist, UBS Securities India economist Tanvee Gupta Jain expected the RBI to maintain comfortable liquidity in the near term to ensure the least disruption to the government's borrowing program and support the economic recovery at a time when COVID-19 cases are resurging in India.

We continue to expect the central bank to pursue policy normalization in the second half of FY22 to keep inflationary pressures contained and preserve financial stability. In our base case, we expect the MPC to shift towards a neutral policy stance and/or pursue reverse repo rate hikes (25-40bp) without recourse to policy (repo) rate hikes in FY22. We expect the repo rate to be hiked by 50 bps but only towards H2FY23.

Meanwhile, the reversal of the softening trend of retail inflation was seen in the past three months would put the RBI under pressure to review the extent of monetary and liquidity accommodation. Hardening of core inflation would be of special discomfort. Despite these, the continued growth concern is likely to keep monetary policy accommodative during 2021.

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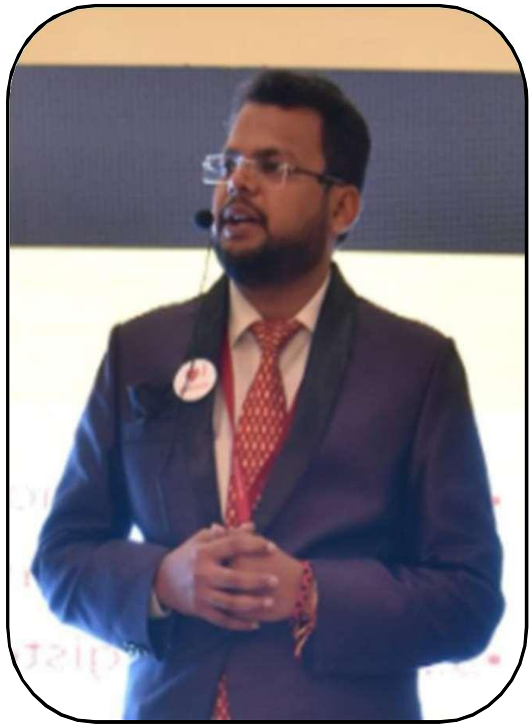
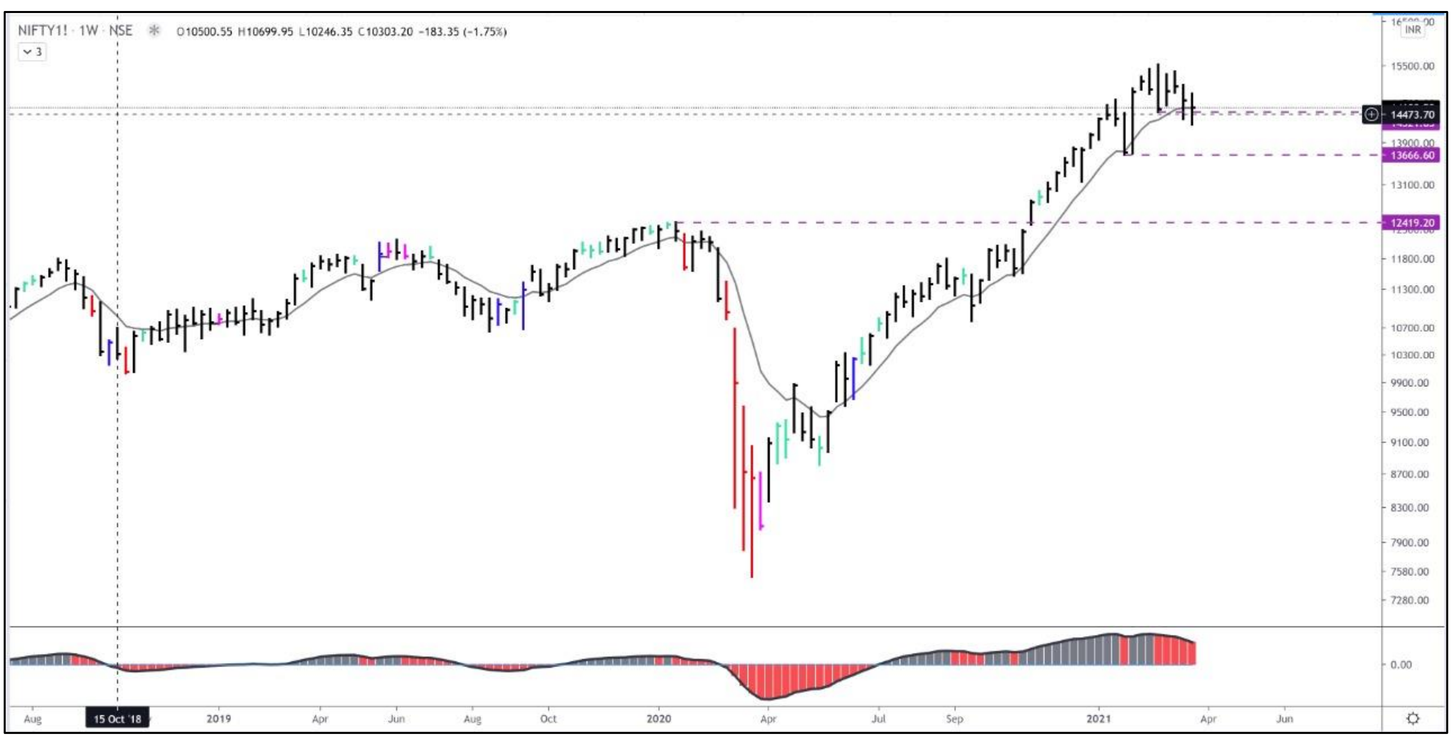
-- <u>Salil Kumar Shah</u>

Look What Our Research Analyst Has To Say…



The bears managed to breach below 5 weeks' lows but failed to hold on as the bulls made a strong comeback and made a close above the support line. The close of the previous 2 weeks has been in a tight range which indicates strong buying present at lower levels to pump in fresh money. On the south, the support range of 14500-14450 will remain key support for the bulls and will look to defend the same. A breach below 14450 will trigger a fresh round of selling and will head to test major supports placed at 13666. Rallies, on the other hand, will find resistance at 14900 where lies the daily axis line and only a move above 14900 will gain strength and momentum to trigger a fresh round of short-covering which will lead the index to 15050 range and above 15050 the index will head to test the monthly rising channel which coincides with horizontal resistance of 15400 and will act as major supply zone. On the other hand, the bears have started to weaken whereas bulls, for now, are lacking strength and above 14900 should get active. Mid-caps on the other hand look in the distributive phase hence should be sold on rallies and only technically strong stocks should be accumulated.



STOCKS TO WATCH

1. Johnson Controls-Hitachi Air Conditioning India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Consumer Durable	Rs.2635	Buy at LTP and add more at the Rs.2252	Rs.3047	Rs.3290	2 quarters

Shree Varahi Scrip Code	JCHAC
BSE Code	523398
NSE Code	JCHAC
Bloomberg	JCHAC:IN
CMP March 16, 2021	2635.00
Equity Capital (cr)	27
Face Value (Rs)	10
Eq- Share O/S(cr)	2.72
Market Cap(Rscr)	7268
Book Value (Rs)	253
Avg.52 Wk Volume	22621
52 Week High	3010.00
52 Week Low	1660.00

Share holding Pattern % (Dec, 2020)	
Promoters	74.25
Institutions	16.6
Non Institutions	9.15
Total	100.00

Our Take…

JCHAC is a joint venture between two global parents US-based Johnson Controls and Japan-based Hitachi Appliances. The company enjoys a strong brand recall. It has an established market positioning in the air-conditioning segment and has consistently expanded its product portfolio to include other appliances, viz., refrigerators and air purifiers. It has total installed capacity of 9,00,000 Room Air Conditioners (RACs) per annum (in a single shift). In addition to this, it also has the capacity to manufacture 1,20,000 tons of Ductable units, 9,000 variable refrigerator flow (VRFs) and 300 Chiller Units per annum.

The appliance industry has a huge dependence on China for components and parts. Any supply disturbance from China, therefore, may increase cost pressures. JCHAC sources ~31% of its total purchase value from its group companies, which has reduced its reliance on China. We believe it is well-positioned for a strong bounce-back with continuation of healthy demand and re-stocking in the trade channel for the coming summer season.

We believe changing customer preferences and up-trading by existing customers would drive growth of JCHAC's premium products. The company has made US$ 20 million (nearly Rs.140 cr) investment in manufacturing and R&D facilities. Its inauguration of the Global Development Center (GDC) in FY20 is one of the biggest steps towards globalizing its product development process. JCHAC now has a distribution network spread over 10,000 sales points, and includes 290+ exclusive sales and service dealers, 70+ Hitachi exclusive showrooms, and more than 1,500 service points.
In the near term, we expect its growth to take a pause, given the current situation, slow economic activity, liquidity challenges, and sluggish demand for Commercial Air Conditioning Systems from sectors such as offices, marriage halls, auditoriums, hotels and restaurants. We believe that due to the COVID-led lockdown and economic slowdown, FY21E would post de growth.

Valuations & Recommendations…

We believe the company would benefit from premium brand recall, pan-India presence, and product launches. However, COVID-induced lockdown has impacted inventories, worsened working capital cycle and disturbed the supply chain. Going forward, we expect a 8% CAGR in top-line and 25% CAGR in PAT over FY20-23E. Bottom line growth should be led by the corporate tax rate cut (the company has paid ~35% taxes in the previous years, which will now come down to 25-26%). JCHAC has a competitive edge due to its focus on backward integrated manufacturing plants along with India-specific R&D, technology and product development capabilities. We believe the base case fair value of the stock is Rs.3047 (50.1x FY23E EPS) and the bull case fair value is Rs.3290 (54.1x FY23E EPS). Investors willing to take some risk can look to buy at LTP and add more at Rs.2252 (37.0x FY23E EPS).

FINANCIALS

INCOME STATEMENT

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	488	436	12%	310	57%	2,241.3	2,197.4	1,812.8	2,429.2	2,745.0
EBITDA	67	32	109%	-5	LP	163.8	172.2	126.5	264.4	307.2
APAT	31	13	130%	-19	LP	85.9	84.3	36.3	135.7	165.4
Diluted EPS (Rs)	11.3	4.9	131%	-7	LP	31.6	31.0	13.4	49.9	60.8
RoE-%						15.0	13.0	5.1	17.2	17.7
P/E (x)						84.6	86.2	200.0	53.6	43.9
EV/EBITDA						44.6	42.4	57.7	27.6	23.8

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	2185	2241	2197	1813	2429	2745
Growth (%)	14.0	2.6	-2.0	-17.5	34.0	13.0
Operating Expenses	1987	2078	2025	1686	2165	2438
EBITDA	199	164	172	126	264	307
Growth (%)	18.5	-17.6	5.1	-26.6	109.0	16.2
EBITDA Margin (%)	9.1	7.3	7.8	7.0	10.9	11.2
Other Income	7.4	15.4	8.2	13.0	15.0	16.0
Depreciation	52.9	44.2	56.3	76.1	82.1	86.2
EBIT	153	135	124	63	197	237
Interest	2.0	2.7	5.0	14.3	15.2	14.9
Shares of Profit in JV (net of Tax)	0.0	0.0	0.0	0.0	0.0	0.0
PBT	151	132	119	49	182	222
Tax	51.2	46.4	34.8	12.8	46.4	56.6
RPAT	100	86	84	36	136	165
Growth (%)	23.1	-14.2	-1.9	-56.9	273.3	21.9
EPS	36.8	31.6	31.0	13.4	49.9	60.8

BALANCE SHEET

As at March	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS						
Share Capital	27.2	27.2	27.2	27.2	27.2	27.2
Reserves	508	586	661	698	828	987
Minority Interest	0	0	0	0	0	0
Other Equity & Liabilities	0	0	0	0	0	0
Shareholders' Funds	**535**	**613**	**689**	**725**	**855**	**1014**
Long Term Debt	0	0	0	0	0	0
Long Term Provisions & Others	49	62	74	90	113	138
Total Source of Funds	**584**	**675**	**762**	**815**	**968**	**1152**
APPLICATION OF FUNDS						
Net Block	245	325	406	416	426	436
Non-Current Investments	1	1	1	1	1	1
Deferred Tax Assets (net)	14	17	14	14	14	14
Long Term Loans & Advances	32	40	52	78	87	98
Other Assets	0	0	0	0	0	0
Total Non-Current Assets	**292**	**383**	**474**	**510**	**528**	**549**
Inventories	442	555	727	531	699	737
Trade Receivables	414	448	255	233	359	444
Short term Loans & Advances	24	22	7	9	9	11
Cash & Equivalents	36	30	18	74	47	153
Other Current Assets	48	100	103	124	134	148
Total Current Assets	**964**	**1156**	**1110**	**971**	**1248**	**1492**
Short-Term Borrowings	27.2	27.2	27.2	27.2	27.2	27.2
Trade Payables	12.0	12.1	14.6	14.6	14.6	12.0
Other Current Liab & Provisions	704.4	778.3	968.5	1192.6	1455.6	704.4
Short-Term Provisions	716.4	790.5	983.1	1207.2	1470.3	716.4
Total Current Liabilities	**672**	**864**	**794**	**666**	**809**	**890**
Net Current Assets	292	292	289	305	439	602
Total Application of Funds	**584**	**675**	**762**	**815**	**968**	**1152**

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	151	132	119	49	182	222
Non-operating & EO items	-7	-15	-8	-13	-15	-16
Interest Expenses	2	3	5	14	15	15
Depreciation	53	44	56	76	82	86
Working Capital Change	-102	-5	-37	67	-161	-58
Tax Paid	-51	-46	-35	-13	-46	-57
OPERATING CASH FLOW (a)	45	112	101	181	57	193
Capex	-36	-120	-133	-93	-92	-96
Free Cash Flow	10	-8	-32	89	-35	97
Investments	-1	-11	-9	-26	-9	-11
Non-operating income	7	15	8	13	15	16
INVESTING CASH FLOW (b)	-30	-115	-134	-106	-86	-91
Debt Issuance / (Repaid)	5	13	11	16	23	25
Interest Expenses	-2	-3	-5	-14	-15	-15
FCFE	13	3	-26	91	-27	107
Share Capital Issuance	0	0	0	0	0	0
Dividend	-4	-9	-9	0	-5	-7
FINANCING CASH FLOW (c)	-1	2	-3	2	2	4
NET CASH FLOW (a+b+c)	15	-2	-36	78	-27	106

KEY RATIOS

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)						
EBITDA Margin	9.1	7.3	7.8	7.0	10.9	11.2
EBIT Margin	7.0	6.0	5.6	3.5	8.1	8.6
APAT Margin	4.6	3.8	3.8	2.0	5.6	6.0
RoE	20.5	15.0	13.0	5.1	17.2	17.7
RoCE	26.3	20.0	16.3	7.8	20.4	20.6
Solvency Ratio						
D/E	0.0	0.3	0.2	0.2	0.2	0.2
Interest Coverage	77.4	50.2	24.7	4.4	13.0	15.9
PER SHARE DATA						
EPS	36.8	31.6	31.0	13.4	49.9	60.8
CEPS	56.3	47.8	51.7	41.3	80.1	92.6
BV	197	225	253	267	314	373
Dividend	1.5	1.5	1.5	0.0	2.0	2.5
Turnover Ratios (days)						
Debtor days	69	73	42	47	54	59
Inventory days	75	81	107	107	105	98
Creditors days	86	91	98	85	87	87
Working Capital Days	58	63	51	69	72	70
VALUATION						
P/E	72.6	84.6	86.2	200.0	53.6	43.9
P/BV	13.6	11.9	10.6	10.0	8.5	7.2
EV/EBITDA	36.7	44.6	42.4	57.7	27.6	23.8
Dividend Yield	0.1	0.1	0.1	0.0	0.1	0.1
Dividend Payout	3.4	4.7	4.8	0.0	4.0	4.1

2. Visaka Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Building Materials	Rs 482	Buy at LTP band & add on dips to Rs 432	Rs 555	Rs 635	2 quarters

Shree Varahi Scrip Code	VISAKAIND
BSE Code	509055
NSE Code	VISAKAIND
Bloomberg	VSKI IN
CMP March 12,2021	482
Equity Capital (Rscr)	16
Face Value (Rs)	10
Equity Share O/S (cr)	1.6
Market Cap (Rscrs)	794
Book Value (Rs)	348
Avg. 52 Wk Volumes	72,110
52 Week High	535
52 Week Low	94

Share holding Pattern % (Dec, 2020)	
Promoters	45.85
Institutions	1.3
Non-Institutions	52.85
Total	100.0

Our Take…

Mastek Ltd's 12 month order backlog was Rs 946.7 crore ($129.6m) as on 31 st December, 2020 as compared to Rs 940.5 crore (US$ 127.5 mn) in Q2FY21, reflecting a growth of 0.7% in rupee terms. The Company added 57 new clients in Q3FY21. Total client count as of 31 st December, 2020 was 618 (LTM) as compared to 542 (LTM) in Q2FY21. Mastek is expecting strong growth from multi-year deals led by integration of Evosys and its capability to offer end to end solution.

On Oct-2020, Mastek's material wholly-owned subsidiary -- Mastek (UK) was holding 20,18,192 stocks in Majesco (USA) had tendered its entire stake with the Acquirer of Majesco (USA) for cash, and has received the consideration aggregating to US$ 32.30 mn on October 19, 2020. This decision to sale its stake in Majesco could help Mastek (UK) to drive its growth strategy and reduce the borrowings.

On Feb-2020, Mastek acquired Evosys, the combined business significantly expanded the portfolio of services and market opportunities. Evosys operates in a high growth segment of Enterprise Cloud Applications where Oracle is one of the leading players for cloud applications in HCM (Human Capital Management), ERP (Enterprise Resource Planning), SCM (Supply Chain Management) and BI (Business Intelligence). Evosys is a recognised leader and focused on Oracle Cloud implementation & consultancy with 13 years of experience and 1000+ Oracle Cloud customers across 30+ countries. The cloud services market continues to grow faster than traditional IT segments and Mastek has seen healthy opportunity on digital transformation phase in the industry.

Mastek reported robust margins over the last three quarters and has many levers to improve margins like higher offshoring, SG&A rationalisation and optimisation of employee cost along with sales as well as administration cost. We expect, EBIT margin of ~17-18% in FY22E and FY23E. UK Government & Evosys which is likely to contribute ~70% of Mastek FY22E revenues are expected to deliver higher margins (UK Govnment-18 & Evosys-22%) while the remaining 30% of the is likely to be low margin at ~13-14%.

Valuations & Recommendations…

Mastek has witnessed a sustained improvement in its business profile and geographical presence over the past, supported by increase in scale and diversification of revenues across business segments while generating adequate returns. Mastek has a longstanding relationship with the UK government as it has been working as a subcontractor to large IT companies for execution of UK government's projects over the past. This long-term relationship, experience in Government as well as private project in various geographies and excellent execution capabilities could help to Mastek as a prime beneficiary of UK government's digital spends.

Acquisition of Evosys, has helped the company in diversifying its geographical presence, product and service mix, along with customer diversification. Market share gains on the back of inorganic expansion are expected to drive the company's long term growth. We think the Base case fair value of the stock is Rs 1273 (12.5x FY23E EPS) and the bull case fair value of the stock is Rs 1374 (13.5x FY23E EPS) over the next 2 quarters. Investors can buy the stock on dips to Rs 1118-1122 band (11.0x FY23E EPS) and add more on dips to Rs. 1016-1020 band (10.0xFY23E EPS). At the LTP of Rs 1172, stock trades at 11.5x FY23E EPS.

FINANCIALS

INCOME STATEMENT

Particulars (Rs Cr)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Total Operating Income	280.7	241.4	16.3	226.2	24.1	1,136.4	1,050.4	1,098.6	1,224.6
EBITDA	41.8	21.4	95.5	40.6	3.0	143.6	108.9	175.8	194.7
Depreciation	10.1	10.0	0.8	10.0	0.7	35.4	41.0	40.6	43.1
Other Income	2.2	1.4	52.4	2.4	-10.3	12.0	6.6	8.8	11.0
Interest Cost	2.7	4.3	-35.7	3.0	-9.3	20.0	17.4	12.2	13.5
Tax	8.1	2.4	239.9	7.7	5.8	32.9	7.8	32.9	37.3
APAT	23.0	6.2	274.6	22.3	3.3	67.4	49.3	98.8	111.8
Diluted EPS (Rs)	14.0	3.9	261.2	13.9	0.8	127.1	100.4	62.0	70.2
RoE-%						14%	10%	18%	18%
P/E (x)						11	16	8	7
EV/EBITDA						7	9	5	4

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**1136.4**	**1050.4**	**1098.6**	**1224.6**	**1351.0**
Growth (%)	12%	-8%	5%	11%	10%
Operating Expenses	992.8	941.5	922.8	1029.9	1134.8
EBITDA	**143.6**	**108.9**	**175.8**	**194.7**	**216.2**
Growth (%)	**-4%**	**-24%**	**61%**	**11%**	**11%**
EBITDA Margin (%)	**12.6%**	**10.4%**	**16.0%**	**15.9%**	**16.0%**
Depreciation	35.4	41.0	40.6	43.1	46.7
EBIT	**108.3**	**67.9**	**135.2**	**151.6**	**169.5**
Other Income	12.0	6.6	8.8	11.0	13.5
Interest expenses	20.0	17.4	12.2	13.5	15.1
PBT	**100.4**	**57.1**	**131.7**	**149.1**	**167.9**
Tax	32.9	7.8	32.9	37.3	42.0
RPAT	**67.4**	**49.3**	**98.8**	**111.8**	**125.9**
APAT	**67.4**	**49.3**	**98.8**	**111.8**	**125.9**
Growth (%)	0%	-27%	100%	13%	13%
EPS	127.1	100.4	62.0	70.2	79.0

BALANCE SHEET

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	15.9	15.9	15.9	15.9	15.9
Reserves	483.6	489.1	563.9	651.7	753.6
Shareholders' Funds	**499.5**	**505.0**	**579.8**	**667.6**	**769.5**
Long Term Debt	246.4	262.9	162.9	112.9	62.9
Net Deferred Taxes	20.0	14.2	14.5	14.8	15.0
Other Liabilities	0.4	0.2	0.2	0.2	0.3
Minority Interest	1.0	0.0	0.0	0.0	0.0
Total Source of Funds	**767**	**782**	**757**	**795**	**848**
APPLICATION OF FUNDS					
Net Block & Goodwill	418.7	406.0	440.4	467.3	490.6
CWIP	1.2	8.8	8.8	8.8	8.8
Other Non-Current Assets	14.1	15.1	22.0	18.4	20.3
Total Non-Current Assets	**433.9**	**429.8**	**471.1**	**494.4**	**519.7**
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	272.4	303.9	240.8	268.4	296.1
Trade Receivables	155.3	140.0	135.4	167.8	185.1
Cash & Equivalents	20.2	19.3	31.7	30.8	36.2
Other Current Assets	45.3	50.5	49.4	36.7	33.8
Total Current Assets	**493.2**	**513.7**	**457.4**	**503.7**	**551.2**
Short-Term Borrowings				0.0	0.0
Trade Payables	79.0	86.0	90.3	100.7	111.0
Other Current Liabilities	80.8	75.3	80.9	102.0	112.1
Total Current Liabilities	**159.8**	**161.3**	**171.2**	**202.6**	**223.1**
Net Current Assets	333.4	352.4	286.2	301.0	328.1
Total Application of Funds	**767**	**782**	**757**	**795**	**848**

श्री LAKSHMISHREE
Gateway to your Financial Goals

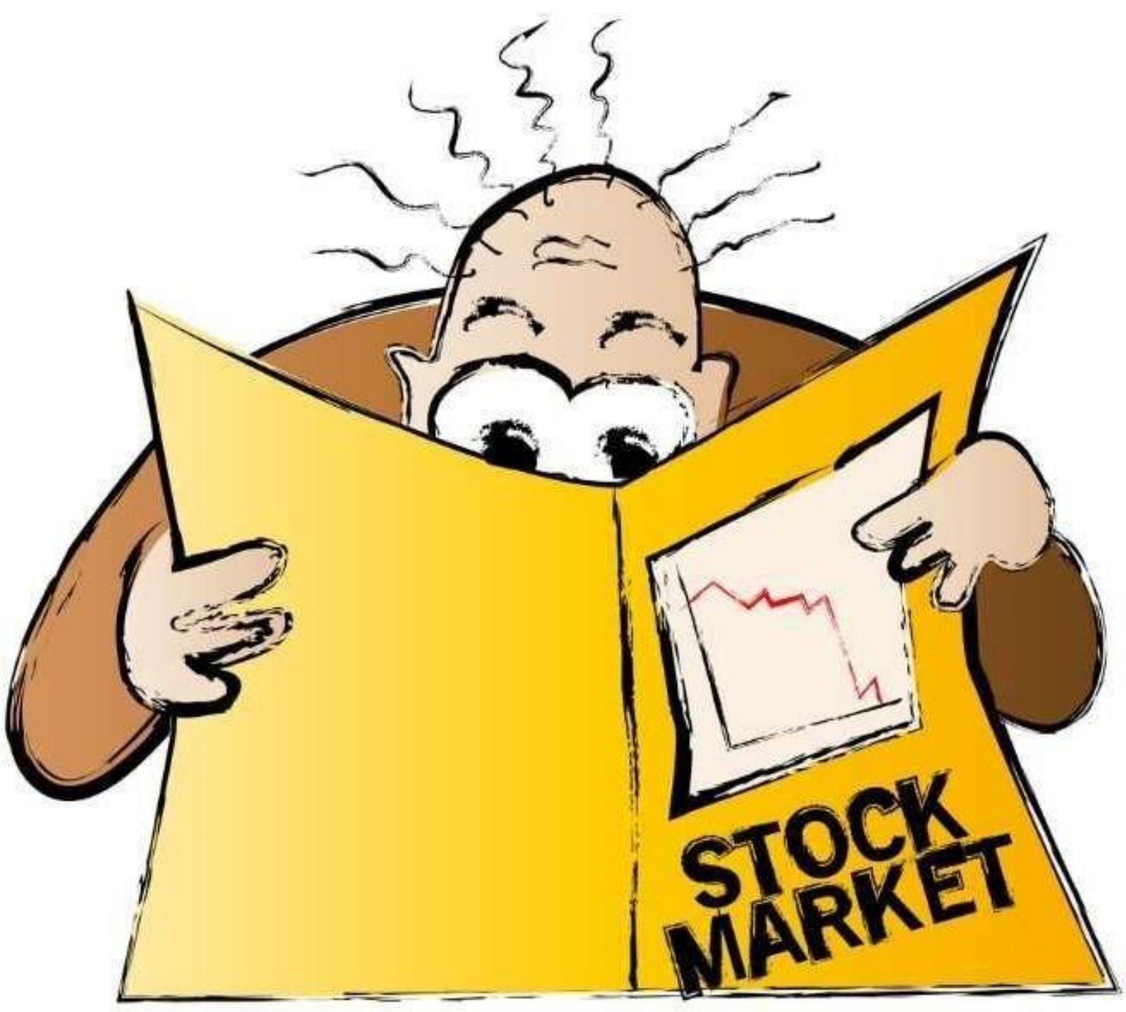
CASH FLOW STATEMENT

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	100.4	57.1	131.7	149.1	167.9
Non-operating & EO items	-2.3	-3.9	0	0	0
Interest Expenses	19	16	12.2	13.5	15.1
Depreciation	35.4	41	40.6	43.1	46.7
Working Capital Change	-54.3	-10.4	78.7	-15.8	-21.6
Tax Paid	-37.8	-16.3	-32.9	-37.3	-42
OPERATING CASH FLOW (a)	**60.3**	**83.5**	**230.3**	**152.7**	**166.1**
Capex	-49.5	-38.8	-75	-70	-70
Free Cash Flow	10.7	44.7	155.3	82.7	96.1
Investments	0	0	0	0	0
Non-operating income	1.6	4	-6.9	4.7	-0.8
INVESTING CASH FLOW (b)	**-48**	**-34.9**	**-81.9**	**-65.3**	**-70.8**
Debt Issuance / (Repaid)	5.6	16.7	-100	-50	-50
Interest Expenses	-18	-15	-12.2	-13.5	-15.1
FCFE	-1.7	46.4	43.1	19.1	31.1
Share Capital Issuance	0	0	0	0	0
Others	-2.7	-51.2	-23.8	-24.8	-24.8
FINANCING CASH FLOW (c)	**-15.1**	**-49.5**	**-136**	**-88.3**	**-89.9**
NET CASH FLOW (a+b+c)	**-2.8**	**-0.9**	**12.4**	**-1**	**5.5**

KEY RATIOS

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	12.60%	10.40%	16.00%	15.90%	16.00%
EBIT Margin	9.50%	6.50%	12.30%	12.40%	12.50%
APAT Margin	5.90%	4.70%	9.00%	9.10%	9.30%
RoE	14%	10%	18%	18%	18%
RoCE	15%	9%	18%	20%	21%
Solvency Ratio					
Net Debt/EBITDA (x)	1.6	2.2	0.7	0.4	0.1
Net D/E	0.5	0.5	0.2	0.1	0
PER SHARE DATA					
EPS	127.1	100.4	62	70.2	79
CEPS	12.9	11.4	17.5	19.4	21.7
Dividend	7	15	15	15	15
BVPS	313.8	317.2	364.2	419.4	483.4
Turnover Ratios (days)					
Debtor days	49.2	51.3	45	50	50
Inventory days	83	100	80	80	80
Creditors days	28	29	30	30	30
VALUATION					
P/E	11.4	15.5	7.8	6.9	6.1
P/BV	1.5	1.5	1.3	1.1	1
EV/EBITDA	6.9	9.3	5.1	4.4	3.7
EV / Revenues	0.9	1	0.8	0.7	0.6
Dividend Yield (%)	1.5%	3.1%	3.1%	3.1%	3.1%
Dividend Pay-out	5.5	14.9	24.2	21.4	19

THIS MIGHT IMPACT INVESTMENTS



Equity MFs: Are 2-yr CAGR returns a better indicator than 3- or 5-yr returns?

One of the criteria used by equity MF investors to shortlist a scheme is looking at prior period returns. Typically, they have access to returns across several time spans (example here) such as 1-year compounded annual growth rate (CAGR), 3-year CAGR, 5-year CAGR and so on.

Apart from these, various advisors/service providers have different criteria for ranking funds. How does an investor make sense of all this?

Here, we have tried to simplify the process of choosing a fund by analyzing prior period returns.

For this, we randomly picked 18 large cap funds and ranked them every month based on their 2-year, 3-year, 4-year and 5-year compounded returns starting from January 2005. We chose this month since before this only 7 large cap schemes existed. Due to tax incidence we did not use 1-year return and due to limited history not beyond 5 years.

Also, for a uniform outperformance / underperformance comparison we used a single and uniform index - Nifty 50.
Now, assume that an investor invests Rs 100 in a top 3 fund in January 2005. She then follows this investment strategy: every month exits her investment if the fund is no longer in the top 3 and reinvests the proceeds in a top 3 fund. If this monthly process continued till December 2020, this is what the returns would have looked like.

For example, if the investor chose the 4-year CAGR as the preferred yardstick and invested in the No 3 scheme in January 2005, it would have grown to Rs 1222 now. A key thing to note in the computation that led to Rs 1222 is this: the investor would have entered the scheme when it was ranked No 3 and sold it off when it was no longer No 3 and re-invested the proceeds in the new No 3 fund.

Using this method to enter, exit and re-invest in the top schemes based on different periods' CAGR shows that the returns on the top 3 funds in each time period comfortably beat Nifty returns. So, even if the investor had stayed invested in a particular scheme so long as it was in the top 3, her returns would have been higher than market returns.

In order to objectively analyse a scheme's performance, we computed the number of times a fund featured within the Top 3 performing schemes using different CAGR. So, greater the number of times a scheme features, then the returns delivered would also be higher and vice versa. Since different schemes were launched over different time period, we computed this on a percentage basis.

Frequency-of-a-fund-featuring-in-Top-3

For example: HDFC Top 100 scheme has been amongst the Top 3 schemes for 52 percent of the time based on 5-year CAGR. Similarly, based on 2-year CAGR, Axis Bluechip fund featured in the top three 43 percent of the time.

The figures in green show the maximum amount of time (on percentage basis) a scheme has featured in the Top 3 among different CAGR tenor.

Thus, for the eighteen schemes we find that seven schemes each have featured the maximum amount of time in the Top 3 in the 2-year and 5-year CAGR buckets.

Now, investors would want a consistent performer rather than one delivering superior returns sporadically. More consistency in outperformance over the benchmark index would not only make the investor stay invested in the scheme but such an investment strategy is also more likely to provide greater returns over the lifetime due to the power of compounding.

Hence, to identify which of the tenors provided more consistent returns, we calculated the number of times the Top 3 schemes did not outperform the Nifty in a particular month. So, the category which had the least number would have been more consistent.

In defence of small savings rate cuts

On the evening of March 31, the last day of a forgettable financial year (2020-21) by all metrics, the government put out a stunner. It announced sharp cuts in interest earned on a range of state-run savings schemes, including the popular public provident fund (PPF), the Kisan Vikas Patra (KVP) and other such deposits.

Early the next morning, on All Fools Day on April 1, finance minister Nirmala Sitharaman pulled out a bigger stunner. The government, she said in a tweet, has pulled back its decision to cut interest rates of small savings schemes announced the previous evening.

"Interest rates of small savings schemes of GoI shall continue to be at the rates which existed in the last quarter of 2020-2021, ie, rates that prevailed as of March 2021." The orders, she said, were "issued by oversight", and will be withdrawn.

The decision to withdraw the cuts in interest rates is being seen as politically-motivated, given that four states and one union territory—Assam, West Bengal, Tamil Nadu, Kerala and Puducherry—are in the middle of high-octane Assembly elections.

Lower earnings on these schemes could force millions of households to shuffle their savings portfolios. Middle-class Indians rely on small investment options offered at post offices for social security and parking surplus cash.

So, the dominant interpretation goes, lowering interest rates on these would have adversely affected earnings of this class of savers, an imprudent move from a political risk management standpoint.

While that may be the case, there was still a compelling economic and financial reason for the government to persist with its decision to lower interest rates on small savings.

In February 2016, the government had announced a decision to move to a new system for interest rates on state-administered schemes, making these market-linked. Market rates move in tandem with government bond rates that are currently on a downward trend. Under the new system, rates will be revised every quarter, as opposed to the previous system of an annual review.

The move was predicated on the premise that it will allow banks to pass on policy rate cuts by the central bank through lower lending rates.

Banks say they are forced to offer high interest rates to make their deposits more attractive for people ahead of post-office and other state-run savings schemes.

When you park money in a fixed deposit (FD), a bank is effectively borrowing from you by offering a fixed rate of return for a fixed period. Bankers say this limits the banks' ability to cut lending rates each time the Reserve Bank of India (RBI) cuts the repo rate, as banks cannot "borrow" at high rates through FDs and give out long-term loans at lower rates.

Banks also point out that they have to offer high FD rates to maintain their attractiveness in wake of competing instruments such as Public Provident Fund and Sukanya Samriddhi Yojana that come bundled with better tax incentives and high returns for customers.

The decision on March 31 evening to cut small savings deposit rates from 4 percent to 3.5 percent for the first quarter of the financial year starting April 1, 2021, was in line with the overall market-linked interest rates.

"These interest rate cuts are in line with overall interest rate movement in the financial system. When bank lending deposit rates fall sharply, small savings rates have to follow to align with the larger trend," the ministry had justified on March 31.

This reasoning appears perfectly in line with current data. The weighted average interest rates on domestic term deposits of banks stood at 5.39 per cent in February. Bank deposit rates have fallen by 1.13 percentage points in about 14 months since January 2020, while weighted-average of bank lending rates have gone down by 0.85 percentage points during the same period.

The weighted-average of bank fixed deposit (FD) rates in India currently range between 5.15-5.6 per cent for different maturity periods. From a returns point of view, for a customer, it is more attractive to park funds in post office time deposits than bank FDs.

A cut in government-administered small savings rates would have nudged banks to lower FD rates in the coming weeks as FD rates are usually lower than post-office time deposit rates. Lower FD rates, in turn, would have brought down banks' costs and prompted them to cut lending rates for individuals and corporate loans.

The volte face on April 1 would imply that the government has attached more importance to the individuals parking money in tax saving small saving instruments, as opposed to the borrowers.

In its decision to reverse the cuts and maintain status quo on small saving deposit rates, the government has knowingly established a saver-borrower trade-off when, in the broader analysis the lines between them are, at best, blurred.

Among millions who park surplus funds in small savings instruments are also those who are existing or potential borrowers from banks of loans to buy houses, cars and consumer durables. There are also tens of thousands of entrepreneurs—large, micro, small, medium and tiny—who save in such instruments and also borrow from banks to fund their businesses.

The decision to retain higher deposit rates will now delay the possibility of lower bank lending rates as banks will be forced to maintain higher FD rates to draw savings into their banks.

FDs, individual and corporate deposits are the lifeblood of banks that enables them to lend. Relatively higher FD rates would imply that home and other loan rates are not going to come down in a hurry, hurting prospects of millions of borrowers.

Was the decision to reverse the cuts determined by a statistically rigorous cost-benefit analysis between savers and borrowers?

The rollback decision sets a bad precedent on two counts. One, it raises the ugly prospect of making interest rate-related decisions to follow an electoral calendar. Two, it turns the clock back to administered rates, when a decision was taken five years to move to market-determined rates on a quarterly basis.

Where does the investor feature in Franklin Templeton's desperate bid to save its reputation?

The Franklin Templeton (India) debt fund saga took a bizarre turn as media reported intervention by its United States parent seeking the diplomatic route for a "just and fair" hearing by market regulator the Securities and Exchange Board of India (SEBI). Almost a year ago, Franklin Templeton Investment's India asset management arm announced the winding up of six debt schemes, locking up investor funds indefinitely.

Thus, transpired a yearlong sequence of events, leading up to the action mentioned above; court cases filed by investors, subsequent responsibility for monetisation of wound-up schemes to the SBI Mutual Fund, and media reports on findings from SEBI's forensic audit which claim allegations of insider trading, transgressions by the fund management team and biased handling favouring interests of promoters of bond-issuing companies.

When the news of winding up of the six schemes came last year, it shocked the industry as it was the worst-case risk scenario being played out among debt funds. The shock was also around the seeming lapse in fiduciary duty that Franklin Templeton India displayed and the lack of urgency in the regulator's response. Almost a year on, SEBI has not found any reason to levy penalties, albeit a show cause notice has been issued to the Franklin Templeton India AMC and its trustees for code of conduct violations.

A Strange Tone

Given this, the media report mentioned at the beginning turned shock to disbelief.

Franklin Templeton's Global Chief Executive and President Jennifer M Johnson's comment, taken from her note to the Indian Ambassador in Washington, read like a threat. "If we are hit by unfairly large penalties — whether by fine or disgorgement — that not only would discriminate against a major US-based global investment manager, it would also cause us to cut jobs and otherwise pull back our India operations." the quote read.

It's strange to see such a tone taken, given how events have transpired so far. If SEBI is asking for disgorgement of fees, it is a recognition of mismanagement in the running of these schemes. If that is indeed the case, forget withdrawing, the penalty needs to be harsh enough for the business to question its viability.

The added issue, as pointed out by an industry insider, is that a foreign-owned fund house perhaps has no real skin in the game. Consequently, senior management action is guided solely by incentives or bonus derived from profit contributions to the global parent. This is not something that can be penalised, but it does speak to the intent in managing mutual fund schemes.

It does not imply that a domestic asset manager guarantees fool proof investor accountability, neither do all foreign-owned asset managers shirk this responsibility. It's only that incentives may differ where there are interlinkages with domestic group companies who service a large domestic consumer base versus where profits are simply shipped overseas.

Harsh penalties by the regulator are needed to dis-incentivise any reason that corroborates low accountability towards the investor. Whatever the ownership pattern, ultimately, mutual funds operate as a trust, where fiduciary responsibility to the investor/unit holder should be a priority.

Insensitive Handling

This brings us to the question: where do investors feature in Franklin Templeton's process around this event?

Investors are in the process of getting some of their money back now that the SBI Mutual Fund has taken over the winding up of the schemes and is selling securities with due diligence. This was court ordered, and not driven by Franklin Templeton.

What we got to see instead, from Franklin Templeton, is insensitivity in handling of the entire episode. From poor communication at the start, shifting blame to COVID-19-led economic pressures and now the refusal to acknowledge that there may have been wrongdoing on the part of its senior management, it all shows low level of commitment to investors.

It's been pointed out that by locking the schemes, Franklin Templeton may have prevented a selling deluge by other debt funds across the industry, sparing investors some losses. Maybe, but we will never know.

What we do know is that the AUM for the credit risk fund category across asset managers collectively has nearly halved since April 2020; from around Rs 58,000 crore to Rs 28,000 crore. Investors spiralled out of credit risk debt funds.

Harsh Penalties

Yet, no one from the AMC has come forward to take responsibility for what has transpired and how it has jolted investor confidence across the industry. Unfortunately, arrogance of fund managers, even if it costs investors dearly, is not a criminal offence.

Now, a recent article alleges insider trading by showing details of large-sized redemptions by senior Franklin Templeton officials just before the schemes were wound up. If proven, it is a punishable offence; but the lines are blurred and proving wrongdoing for can take time.

Franklin Templeton India's AUM of around $11 billion (April 2020) is not a patch on Franklin Templeton's global AUM of around $1.4 trillion (FY20). If it's not about profitability, then could the reaction by Franklin Templeton's global leadership to use diplomatic channels be a desperate bid to preserve the reputation in the fast-growing asset management industry of the world's sixth largest economy? In the meantime, Franklin Templeton's share in the Indian mutual fund industry has shrunk from 7 percent 15 years ago, to around 3 percent now.

Despite all the upheaval, we continue to wait for concrete action from SEBI. It needs to set deadlines to conclude the audit and investigation with unequivocal penalties if wrongdoing is found. Along with polishing its own record in pronouncing deserving penalties within the deserving time frame, the move can firmly deter shirking of fiduciary responsibility by asset managers in future.

Target inflation? Just smell as sweet

As sweet cometh the hour, cometh the policy, whether clothed as inflation targeting, recession fighting or financial sector stabilising. What the conduct of the central bank has shown in the recent past is that whatever the nominal rigidity in the objective of monetary policy conduct, the policy, in practice, flexibly targets the immediate problem at hand. While the bimonthly setting of policy rates continues as a ritual, open market operations to increase or lower the supply of liquidity and correspondingly bend rates lower or higher and manoeuvres such as Operation Twist to alter short- and long-term rates make repo rates far less critical than they ought to be in a strict inflation-targeting model. And this is all to the good.

In a world of high levels of capital mobility across borders, financial stability is a very major consideration. Fiscal policy, monetary policy, exchange rate policy, export and import policy and capital controls must all move together to the choreography of macroeconomic stability in such a world. This is more than a little beyond simple-minded inflation targeting. The remarkable thing is that these individual policies have, indeed, been dancing as a practised ensemble, without necessarily being conscious of the coordination one has with another. Therefore, it matters little if the government retains the fiction that the goal of monetary policy is inflation targeting or not. More than setting policy rates, what must preoccupy the central bank is developing the market for corporate debt, complete with all the instruments required to mitigate the assorted risks that accompany the bond market.

Managing supply constraints is beyond the task of monetary policy. Whether the supply is of food commodities or of energy, policy would need to look through their first round price impact. The good news is that India's monetary policy has been far less dogmatic than labels for methodology suggest. Inflation forecasting must become more realistic, however, to avoid unrealistic expectations sending policy rates too high.

Let inflation-indexed bonds fix oversight

The government was wise to hastily withdraw the order slashing interest rates on assorted small savings schemes, not so wise to have announced such rate cuts during vital state polls. The government tweeted that the orders (read: to cut interest rates) were issued by 'oversight'. Elections are underway in five crucial states, inflation is rising, and the country is facing the second wave of the pandemic that has hurt incomes and livelihoods. A crucial policy decision on cutting the administered interest rates on small savings ought to have been thought through and not the subject of any oversight.

The interest rate on small savings is benchmarked to the yield on 10-year g-secs, that is around 6.17% now. But the revised rates on five-year post office fixed deposits (5.8%) and National Savings Certificate (5.9%) that have now been withdrawn were lower than what this benchmark would have warranted. This is absurd. Higher inflation would also lead to negative real return for investors, hurting small savers further, many of whom depend on income from investments. Most bank fixed deposits too offer only about 6% or so for senior citizens. Where will scores of small savers and pensioners, whose returns have dipped over the years, invest?

The best way the government can help them is to launch inflation-indexed bonds that protect both the principal amount and the interest from the harsh effect of inflation. This makes sense as the appetite for risk in this segment to invest in equity is low, and some savings can be invested in bonds. Preserving the value of the principal and offering a positive rate of interest in real terms, after netting out the rate of inflation, will be a decent savings option for savers.

Against senseless e-commerce terms

Certain proposals for a new ecommerce policy, backed by lobby groups, are currently doing the rounds. The government would do well to reject them in the interest of systemic efficiency, promoting small and medium enterprises and defending their interests against the domineering influence of big retailers, and fairness in the treatment of foreign investment in the country. Some of the proposals conflict with the government's desire to modernise the logistics of agricultural produce, for which it has brought in new farm laws at a significant political cost.

One proposal is to bar companies in which foreign companies that operate ecommerce marketplaces have any economic interest from selling on these marketplaces. Already, the rules cap, at 25% of total sales on the ecommerce platform, the volume of a seller in which a foreign ecommerce platform has a stake. The proposed change would defeat the essential gain for the economy from bringing in organised retail: to enable investment in the facilities and processes of modern logistics. If a foreign retailer is barred altogether from owning any stake in a company that invests in modern logistics to procure, process and sell on the ecommerce platform, that would rule out the possibility of realising the core efficiency that modern retail brings to the table. Unless, of course, retail is understood by policymakers as the science and art of attractive display of merchandise in the store, electronic or physical.

Another proposal is to permit foreign ecommerce firms to invest in logistics operations and to make their services available to one and all at fair and undifferentiated prices. This suffers from two deficiencies. Trade offers different rates to different customers, based on scale and regularity of custom, to begin with. Further, certain activities are too complex to be contracted out without loss of efficiency, and have to be internalised within a firm. This insight was awarded a Nobel prize in economics, and so, perhaps, is too highfalutin to inform government policy.

WHO Chief blames China for not sharing data on the origins of Covid-19 virus: Need to impose financial penalty

World Health Organisation chief Tedros Adhanom Ghebreyesus accused China of not sharing the proper data with the researchers appointed by the WHO to look into the origins of the Covid-19 pandemic. “In my discussions with the team, they expressed the difficulties they encountered in accessing raw data,” Tedros said. He also asserted that further probe was required on the allegations that the virus may have leaked from the Wuhan Institute of Virology, though he added that it was least likely. He expressed his desire to undertake additional missions with specialist experts for this task. This strengthened the global perception that the virus originated from the Chinese lab.

Chinese reaction was on expected lines. Chinese spokesperson Hua Chunying harped on the words that ‘the leak from the lab was least likely’ and tried to deflect the question for further probe by demanding that such investigations should be directed on other countries from where the virus could have leaked. The Global Times- a mouth-piece of CCP, selectively quoted Xin Qiang, a deputy director of the Centre for US Studies at Fudan University, who said that the virus could have many origins and some countries had reported earlier cases than China.

However, several authentic reports indicating that the Covid-19 originated in Wuhan are well documented. Dr Li-Meng Yan, a Chinese virologist, who had fled to the United States fearing persecution by the Chinese authorities, claims that the Covid-19 virus was created at Wuhan lab and is not natural. She also said that the genome sequence of Covid-19 looks like a human fingerprint and added that based on this, one can identify that the virus is not from nature. Last month, German scientist Dr Roland Wiesendanger from the University of Hamburg published his conclusion highlighting his reasons why Covid-19 could have leaked from the Wuhan lab. He asserted that there are no natural host for the Coronavirus which leads him to believe that it was created in the lab.

Broadly there are two theories on the origins of the virus. While some scientists concluded that the Covid-19 probably evolved naturally and infected humans via incidental contact with a wild or domesticated animal, others including microbiologist and biosafety advocate Richard Ebright, suggest that Covid-19 escaped from a biohazard laboratory in Wuhan. However, they all point out that it originated in Wuhan.

The Chinese state’s responsibility for checking the spread of the virus and concealing the report of its leakage from its lab gets confirmed by the Chinese authorities acts of destroying the evidence soon after its detection. That China took immediate measures to remove all the evidence from Wuhan are well-covered in media. It imposed strict censorship so that nothing should leak out from Wuhan. On December 30, eight doctors sent warnings on chat groups about the outbreak. Among the whistle-blower doctors was Li Wenliang, an ophthalmologist. The eight were hauled up by police for “spreading rumours” and forced to sign statements withdrawing their claims. Dr Li later died in February from the Covid-19. Media reports also suggest that Chinese labs studying the novel coronavirus in late December and early January received orders to destroy their samples.

China continues to project that the virus was also simultaneously detected in other countries or that the US Army was responsible for the spread of virus. It launched a high voltage propaganda to cover its responsibility. China is not only trying to project that the virus did not originate in Wuhan but also that it was the first country to report. Nothing can be farther from the truth. The world knows that it concealed the information on this issue for number of days-from end of December to the third week of January.

The world in now convinced of the Chinese culpability over the Covid-19. Since WHO Chief’s statement on non-cooperation of China, the US and the UK, along with 12 other countries, have issued a statement of resistance against the WHO’s report and have accused China of “withholding access to complete, original data and samples”. They have demanded that China shares the real data on the origins with independent investigators.

The anti-Chinese feelings are on the increase since its efforts to conceal information on the origins came to light. Earlier a study by Sweden-based Lowy Institute, concluded that China suffered a diplomatic hit in the wake of the pandemic after accusations of withholding information about the severity of the Wuhan outbreak.

It is extremely sad that China instead of sharing the information on this issue continues to reject any suggestion for sharing the real data that can help in containing pandemic in future. The current pandemic caused havoc. The entire world is suffering because of the Covid-19 that originated from Wuhan.

The moot question is what should be done. The demand for seeking financial compensation has been on the increase for causing unbearable damage to the entire mankind. While a German newspaper earlier called for compensation of $ 160 billion, the then President of the US Trump stated that he would seek a lot more money than what Germany was talking about. Trump's basic argument was that China could have taken steps to prevent the spread by issuing timely warning. The state of Missouri has filed a case in an American court against the Chinese government for failing to prevent the global pandemic. The current US President Biden has also blamed Xi for concealing information in the beginning. Similar voices were also witnessed in other countries inter alia UK, France, Australia, Italy and India that included well-established scientists.

Some experts have commented that it is difficult to make China accept the guilt based on the international principle of 'no harm'. They point out that regulations in this regard are very weak. The allegation of Brazilian education minister Abraham Weintraub that coronavirus is part of China's "infallible plan for world domination" has several takers in several countries, especially in those which perceive the Chinese hegemonic designs. But as biological and cyber-attacks have no visibility of conventional war, it becomes difficult to prove.

However, convincing circumstantial evidence is available. Not only there are indicators of Covid-19's linkages with Wuhan lab but the Chinese motive is also palpable. China tried to exploit the situation for its expansion in Eastern Ladakh and the South China Sea clearly indicating its sinister motive. China's image in international public opinion has taken a severe beating because of its role in spreading Covid-19. This impression cannot be erased even by its high voltage propaganda using different means including social media platforms. The argument that Chinese national were also the victims of the Covid-19, does not hold good as for China, its national are dispensable commodity for national-level objectives.

It may be mentioned when international regulations were weaker than the present system and there was no League of Nations or any international organisation in 1919, Germany was made to pay heavy reparations by the Treaty of Versailles. Similarly, after the Second World War, Germany and Japan were made to pay reparations after the Potsdam Conference 1945 and Treaty of Peace 1951 respectively. The current pandemic is compared to world wars in terms of fatalities and destruction.

While China's use of the Covid-19 virus as an instrument of biological warfare would be difficult to prove, the Chinese culpability at least in concealing the information is well established and supported by the current WHO Chief. This itself should attract a severe penalty. The comity of nations should seek reparations from China as an exemplary punishment so that such acts are not repeated in future.

Double vision: Islamabad's U-turn on trade with India is telling

In a sharp U-turn, Pakistan reversed its proposal to allow import of sugar, cotton and yarn from India within 24 hours of the announcement. Coming on the heels of the February ceasefire agreement between the two countries, the proposal was initially seen as willingness on Islamabad's part to begin a process of normalisation with New Delhi. But the quick reversal is a symptom of contradictory impulses informing Islamabad's approach towards India.

On the one hand Beijing is in "wolf warrior" mode, leaning hard on India on the LAC and raising the temperature on Kashmir, which excites certain factions within Pakistan for obvious reasons. These same factions are inclined to think that things are looking Islamabad's way in Afghanistan, with Taliban gaining ground. But on the other hand, the new Biden administration in the White House looks determined to step up resistance to Beijing's designs in Asia, and in an ensuing quasi-Cold War situation Pakistan could get stuck like a deer in the headlights. Smarter people in Pakistan realise that placing all their eggs in Beijing's basket is fraught with high risk, rhetoric about "iron brotherhood" between Pakistan and China notwithstanding.

In a piquant irony, Islamabad may well want to look for a non-aligned space as a Cold War-like situation develops, even as India becomes a frontier state and is willy nilly forced to choose sides as a powerful Beijing steps up pressure on it. Pakistan's economy has been hurting due to its investment in jihad, linked to its anti-India posture. Inflation jumped to 9.1% in March; if sugar imports from India had gone ahead it would have slashed prices by up to 20% for Pakistani households. There is thus a strong logic for normalising ties with India. Delhi must watch carefully which way the Pakistani elite is inclining, and respond accordingly.

Options on Myanmar: These are not binary. India and Japan must offer to mediate a peaceful resolution

Within a few short weeks, the military junta in Myanmar has reversed the democratic progress the country had worked so hard to achieve over the past decade. Amid the chaotic scenes of troops chasing down and shooting civilians in the streets, the country's immediate future resembles its troubled past. Time-worn images of confrontation between courageous protesters and a brutal military, convinced of their right to rule, highlight the need for transitioning to a modern era.

There's a difference though. The Tatmadaw (military) now appears less invincible and the opposition seems much stronger and more convinced of its ability to prevail over those wielding the guns. Set against this backdrop, India's cautious response to the violent repression, out of fear that China will reap benefits, will prove to be a shortsighted tactic that will come at a heavy long-term cost. Knowledgeable observers say that the Tatmadaw vastly underestimates the challenge it faces. The struggle may be long but when the Burmese people, backed by armed ethnic minority opponents of the regime, prevail India will lose – both morally and politically.

There's no denying the Tatmadaw's entrenched position in Myanmar's society and economy, although it has lost some ground to the Aung San Suu Kyi-led National League for Democracy (NLD). But in the years since 2010 democratic support has grown exponentially. The country's young are increasingly restless, unwilling to return to the dark days of the State Law and Order Restoration Council's military rule. Behind the façade of Chinese-Tatmadaw brotherly ties, there have also been signs of tension with Beijing tilting towards a popular Suu Kyi. A renewed civil war would jeopardise China's long-term plans for direct energy supply line and port facilities. Reports say the burning of Chinese factories near Yangon prompted a worried China to send troops to the border. Their mission: To protect a 770-km, $2.5 billion oil and gas pipeline built to serve as China's answer to its 'Malacca Dilemma' – a hostile blockage of Chinese oil tankers transiting the Malacca Straits.

India's options are not binary. New Delhi need not decide between embracing the regime to deny China advantage or lose out to Beijing by supporting the restoration of democracy. Other countries face the same dilemma. Japan, which has long cultivated good relations with Myanmar, is equally concerned by China's stronghold in the country. The current turmoil has also begun hurting Japanese business interests. The maker of Kirin beer has abandoned its partnership with a part military-owned Myanmar brewery. Several Chinese factories have been torched by demonstrators. If China tires of being seen as coddling a violent, incompetent dictator it could pressure the junta. US and European sanctions against Myanmar aren't expected to make too much difference to Tatmadaw, but any sign of China's exasperation could well rock the boat. If India and Japan, two leading regional democracies who have some influence on Tatmadaw, could jointly offer their good offices a path to peaceful resolution may be found. After antagonising the NLD with its support for Tatmadaw, India has crawled back in its favour over the last five years. It might use its residual goodwill to seek a peaceful resolution rather than simply remain paralysed by ambivalence.

Mindful of the reality of its diminished influence and economic interests, Tatmadaw might eventually accept new constitutional arrangements for sharing power, albeit far less than it has ever had. Although Asean is likely to keep out of any such diplomatic initiative due to its policy of non-interference in members' internal affairs and consensus decision making, individual member states such as Singapore and Malaysia may extend quiet support.

Tatmadaw's recent military strikes against the bases of ethnic minority insurgents, that sent streams of refugees fleeing to Thailand, are ominous reminders of the instability that only recently plagued the region. Responsible nations must decide whether they will sit back and watch the bull-headed junta push Myanmar and the region back to its violent and stagnant past.

Don't take us for granted: Small savings interest rate formula needs to be reworked to help savers

In less than 24 hours, government reversed Tuesday evening's decision to reduce the interest rate on small savings schemes. The episode highlights the flaws of the current approach to setting interest rates. These schemes are administered by government and their interest rate is linked to rates on comparable government securities, or GSecs. Since April 2016, government is supposed to reset these rates every three months. However, resets have been haphazard, rendering the formula of setting interest rates meaningless. There's a reason for it.

Interest rates on GSecs are not truly market driven, even if these bonds are traded. RBI significantly influences these rates, depending on its monetary policy approach. First, the monetary policy committee sets a policy interest rate. This is backed by RBI using an array of instruments to push GSec yields to levels that meet its aims. Over the last two years, as economic growth has been prioritised over inflation, interest rates have been pushed lower. RBI and banks may crib that inflexible small savings rates distort monetary policy signals but governments face a different set of constraints.

Small savings schemes have for long been of great benefit to the Centre and states. Their popularity also shows how important they are as a risk-free long-term savings option for people. Interest rates on these schemes do need to be linked to monetary policy, but the current formula is suboptimal. We are in midst of a spell of financial repression to boost growth and help government borrowing. But if savers are taken for granted, there will be higher risks of financial instability. The formula needs to be reworked to cushion savers from the fallout of financial repression. That’s better than the seeming arbitrariness in reset of interest rates. Yesterday’s rollback just acknowledges the need to change the formula.

Govt should bear cost of interest waiver

When the Supreme Court ordered that borrowers who had availed themselves of a moratorium on servicing their loans during the pandemic should not be asked to pay interest on the unpaid interest, it did not specify who should bear the cost. Now, the government reportedly says the banks should bear the cost. This is unreasonable. The government is best placed to bear that burden.

The financial system depends on debts being honoured, and compounding of interest is a routine practice of banking: interest for the overdue period is treated as a fresh loan on which interest is charged. After all, the banks cannot skip interest payments to their depositors, nor shed its cost of operations. The rationale for the SC’s verdict is that borrowers’ failure to service their loans stems not from delinquency or inefficiency but from a pandemic that forced an economic shutdown. Clearly, the cost of the waiver has to be borne by society at large. The government, on behalf of society, should shoulder the burden, not banks.

Reportedly, ICRA estimates the compounded interest for six months of moratorium across all lenders at ₹13,500-14,000 crore. If the cost were to be transferred to banks (read: a bulk of it would be transferred to public sector banks), it would have to be borne by shareholders, principally, the government, in any case, in the form of lower returns or fresh capital infusion. Depositors could also possibly be offered lower rates of interest on fresh deposits, although this could turn business away to banks that have not lent much to industry and have healthier books. Rather than bear the cost indirectly and have a weaker set of public sector banks, the government is better off bearing the cost directly and leave the banks no worse off.

Thus, the need to limit procurement to at the most 10% of the output of rice, wheat, tur, millet of any State, and limit its MSP= SMP only to this quantity, and fix it across States. While this policy benefits all States, Punjab and Haryana may not be happy as 100% of their rice, 80% of wheat is procured, while only 1% of rice produced in Karnataka is procured. What has been our experience in Sugarcane where MSP=SMP? In Sugar MSP is called FRP (Fair remunerative price), and thus no Sugar mill can buy below FRP. Demand for sugarcane is derived from demand for sugar, referred as “derived demand”. Sugar demand in India is 19 kgs per capita per year while global demand is 23 kgs.

Even then, India being global diabetic capital! About Rs 16,000 crores are yet to be paid to farmers for sugarcane purchased previously, of which Rs 11,000 crores is due in UP itself. Global sugar consumption is 185 million tonnes growing at around 2% per year, India's population growth is at around 1 %. With a FRP at Rs. 2850 per tonne for a sugar recovery of 10% no sugar factory can afford to buy at this price from farmers, since there is no corresponding demand for sugar. There is glut in sugar production to the tune of around 6 million tonnes. If India's per capita consumption rises to the global average of 23kgs per year, then domestic demand will climb by 5.2 million tons a year and this may help. So, shall we all begin consuming more sugar? Do we advise consumers to increase sugar consumption on the one hand and advise farmers to limit their sugarcane on the other? Ultimately market forces of demand and supply cannot be discounted.

Another solution is price deficiency payment scheme of MP. But, if farmers and traders collude which is not unlikely, trader can issue receipt even without buying, and claim the difference between SMP and market price and then share this difference with farmers and therefore Price Deficiency Payment scheme did not take off. Certainly, the truth is not popular. Farmers, consumers, policy makers, farm leaders, all the stakeholders for whom agriculture is crucial need to appreciate these issues.

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