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CHANAKYA
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Rahul Bhatia-owned IGE may back Rakesh Gangwal on exit norm relaxation

Rahul Bhatia-owned InterGlobe Enterprises (IGE) is likely to vote in favour of the resolutions proposed by co-promoter Rakesh Gangwal, at the extraordinary general meeting (EGM) on IndiGo on January 29. Support from Bhatia, who owns around 38 per cent in the company, is crucial for the resolutions to pass because they require 75 per cent of shareholder support.

The resolutions seek to relax rules on the sale and purchase of shares by its main shareholders, making it easier for the promoters to raise or cut stake in the company.

The Bhatia family and IGE together own 37.89 per cent, while Gangwal, his wife, and a trust hold 36.97 per cent.

Among the 16 clauses Gangwal intends to remove are restrictions that confer the right of first refusal on the partner that is prepared to stay on in the event of a stake sale by the other partner; a clause that prevents either of the co-founders from buying publicly listed shares of the company, potentially triggering an open offer for the rest of the shares; and one that prevents staggered sale by a partner.

A person aware of the matter said the IGE group had deliberations with lawyers on the proposed resolutions and felt that despite relaxing the rules on selling or acquiring shares, Bhatia would have controlling powers in the company and that would prevent any hostile takeover attempt.

Among the critical rights that IGE enjoys are the ones to appoint managing director, chief executive officer, and president of the company, and induct five of the 10 directors to the company's board.

The rights will exist even after the expiry of the bilateral shareholders' agreement between Bhatia and Gangwal because these are embedded in the Articles of Association of the company.

The Gangwal family had pointed out in its notice that the EGM was necessary to remove the restrictive clauses of share transfer.

"Even in the event of Gangwal trying to increase or decrease his shareholding, there is little change to the control of the company, which will stay with Bhatia. No new shareholder will come in without Bhatia's approval because he enjoys critical powers in the management of the company.

Any new shareholder will play second fiddle to him," the person mentioned above said. Experts tracking the company said the IGE group willing to support the resolutions was a positive sign because it signalled there it was a sign of a solution to the promoter feud, which has dragged down the company's stock.

"It is a good sign for investors. The resolution having the IGE group's support means that the promoters have mutually discussed the issue and Bhatia is willing to give an opportunity to Gangwal for cashing out. Considering that there is little chance of a hostile takeover, it is a positive move," said Sriram Subramaniam, head of InGovern, a shareholder advisory firm.

Though Gangwal in the past had said he did not want to dilute his stake in the company, over the past one year, since the feud between the promoters broke out, he, once integral to IndiGo's operations, has not been involved in the company's affairs.

There have been changes in key management positions with some expats leaving the company and old IndiGo hands close to Bhatia being reappointed. For instance, Rohit Philip, former chief financial officer brought in by Gangwal, quit.

Last week, Sanjay Kumar, former chief commercial officer of IndiGo who left to join AirAsia India, was reappointed chief strategy and revenue officer.

Kumar has been given key portfolios like domestic network planning, sales, and revenue management. Queries to Gangwal didn't elicit any response. After falling close to 30 per cent since the feud broke out, IndiGo's stock has rebounded after the announcement of the EGM and has gained close to 10 per cent in the year-to-date period.

Smaller towns driving demand for regional content, OTT viewership growth

The next wave of growth for over-the-top (OTT) platforms in India is coming from smaller towns and cities as adoption picks up, boosted by more people watching videos online.

The demographic shift is particularly true of the network-backed OTT platforms which show network content. However, this growth in Tier II and III cities is coming from the advertising-video-on-demand (AVoD) versions and not from the subscription-video-on-demand (SVoD) versions.

AVoD is the free-for-consumer platform, where revenue for the OTT comes from advertising and SVoD is the subscription-driven platform. Most network-backed OTTs follow a free-and-premium mix model, where some content is restricted for subscribers.

For example, Zee5 said that in the last month alone, the views contribution from Tier II and III cities for AVoD had increased from 44 per cent to

49 per cent. For SVoD, this has increased from 55 per cent to 61 per cent in Tier I cities.

A Zee5 spokesperson explained that AVoD grew in Tier II and III towns and that its growth was primarily on the back of Zee5 being present across the Reliance Jio feature phones that run on the KaiOS, while SVoD continued to grow in Tier I towns. For Hotstar, non-metros roughly accounted for 63 per cent of its online entertainment consumption in 2019, compared to 54 per cent the previous year. According to the India Watch Report 2019 released by Hotstar, cities like Lucknow, Pune, and Patna surpassed Hyderabad, Bengaluru, and Kolkata in video consumption.

Per capita data consumption in West Bengal and Bihar is higher than that of Maharashtra and Karnataka.

The share of regional content has predictably grown: 40 per cent of Hotstar's overall video content consumption comes from regional languages. Tamil, Telugu, and Bengali are the top regional languages. Interestingly, 35 per cent of Bengali consumption comes from outside the state.

Another network-backed OTT, Voot (from the Viacom18 stable), said that regional content was driving close to quadruple growth in contribution to views.

Akash Banerji, business head, Voot AVoD, recently told Business Standard that regional content was contributing close to 25 per cent of Voot's total consumption and that around 23 per cent of the platform's monetisation is coming from regional.

'Regional' denotes the non-Hindi-speaking markets.

More than 60 per cent of Voot's audience comes from Tier II and III cities.

This trend is obviously shaping the way the OTTs plan their content strategy. Voot, for example, launched Voot Telugu ahead of Viacom18 launching Colors Telugu.

Zee5, too, comes out with at least one original web series on average in five different languages every month: Marathi, Bengali, Telugu, Tamil, besides Hindi.

Demographically, India has thrown up some interesting trends. For example, 36 per cent of the views for Zee5 from Karnataka are from non-Kannada language users and 43 per cent of the views from West Bengal are for Hindi.

With an average monthly per capita consumption of 9.8 gigabyte per month, online video consumption is now

a mass phenomenon.

Star and Disney India Chairman Uday Shankar had noted at the time of the India Watch Report 2019 release that online video consumption was no longer an upscale phenomenon. He noted that the content, technology, and product had to be designed for India. Mainstream drama, sports and news, he felt, will drive content consumption.

However, multinational OTT platforms such as Netflix and Amazon Prime Video, which are both SVoD platforms, see most of their demand coming from the metros and big cities.

Amazon Prime Video did not respond to emails.

Income mismatch probe: 5,000 companies under tax department lens

About 5,000 mid- and small-sized companies have come under the gaze of tax authorities for alleged income discrepancies and mismatches between their goods and services tax (GST) returns and income-tax (I-T) declarations for 2018-19.

The Central Board of Direct Taxes (CBDT) has directed its tax sleuths to intensify enforcement action and launch search-and-survey operations against these firms, including owners of business houses, for supposedly overstating GST claims and understating income in tax filings.

This list has been prepared after scrutinising broad data mining by the GST Network (GSTN), which had detected discrepancies in summary sales returns after they did not match the final returns or system-generated purchase returns.

Action against these entities has been finalised in the recent video conference of the CBDT with tax officials held last week, said an I-T officer privy to the development.

According to him, the data has been used extensively and flagged by the GSTN, enabling the authorities to check revenue leakages.

The information has been sent to all states for immediate action. Sources said Mumbai itself showed about 2,000 cases of irregularities in filings.

Sources said the tax department had issued scrutiny notices to some for utilising input tax credit for paying most of the GST liabilities.

Mismatch has been detected after comparing important bits of information such as gross total income, the turnover ratio, and sales returns provided by the GSTN and other sources.

Explaining the modus operandi of evading tax, a tax source said companies used a lot of dummy firms to claim input tax credit. Filing GST returns showed transactions between companies that were not related or had no business history. Even then, the companies claimed input tax credit based on transactions that were not reflected in their return filings.

A tax expert said claiming input tax credit could be genuine where businesses had low margins and a large transitional credit pool. However, such exercises help the tax department detect fake claims.

The GSTN started sharing data with tax authorities in 2018 on mismatches in summaries and final returns filed by assessees. It has also decided to share information about those persons or entities that generate e-way bills but have not filed tax returns.

About 40 per cent tax returns include business income giving both sets of information (personal and business taxes) and any differences between them caught the attention of the authorities, said one of the officials cited above.

The GSTN is equipped with vast technology infrastructure, comprising business intelligence and analytics, which include a 360-degree profiling of taxpayers.

The Centre has been trying to check leakages in revenues and make sharing information between the direct and indirect tax regimes more effective.

The CBDT during the video conference also explored strategies to boost collection in all the regions, especially Mumbai, which had witnessed a dip of about 13 per cent in direct tax by the middle of January year-on-year.

Up to mid-January, direct tax collection in the country stood at a little over Rs 8.5 trillion. In the remaining period of the fiscal year, the department has to collect Rs 5 trillion to meet the Budget target for 2019-20, which is looking far-fetched.

Shriram Capital's consolidated profit after tax doubles in 5 years

Shriram Capital (SCL), the core investment company of the financial services and insurance business of Shriram Group, has seen its consolidated profit after tax more than double in five years.

Its total income grew to Rs 5,407 crore in 2018-19 (FY19), around 65 per cent in five years. Profit after tax grew from Rs 842.7 crore in FY15 to Rs 1,737 crore in FY19 (though there was a drop in FY16 (Rs 759.8 crore), according to company filings.

The amount grew 30.6 per cent in FY19 from the previous financial year's Rs 1,330 crore. This took place despite the non-bank finance companies sector seeing a crisis after IL&FS started defaulting on its loans in August 2018.

The holding company counts Shriram Life Insurance (74.56 per cent stake) and Shriram General Insurance (76.66 per cent stake) as subsidiary companies. It has listed entities Shriram Transport Finance Company (STFC) and Shriram City Union Finance (SCUF) as associate companies, with 26.08 per cent and 33.74 per cent shareholding, respectively.

It also has 26.06 per cent stake in SCUF's subsidiary, Shriram Housing Finance, and 11.62 per cent in STFC's subsidiary, Shriram Automall India.

One of the main operating subsidiaries, Shriram Life Insurance Company (SLIC), showed growth in turnover to Rs 1,644 crore in 2018-19, from Rs 1,080 crore in FY15. Compared to the previous year, FY19 showed 9 per cent growth in individual new business, as compared to 16 per cent growth in the segment's private sector and a one per cent fall for state behemoth Life Insurance Corporation, it said. Profit after tax was Rs 74.1 crore, compared to Rs 79.7 crore in FY15, after seeing a substantial decline in FY16 to Rs 18.4 crore and Rs 15.7 crore in FY17.

Shriram General Insurance Company showed growth in turnover from Rs 250 crore in FY15 to Rs 2,221 crore in FY19. Profit after tax also grew, from Rs 210 crore in FY15 to Rs 663 crore in FY19, according to company filings with the government.

SCL, which had 77.68 per cent stake in Shriram Value Services (SVSL), recently acquired the remaining shares in SVSL from the existing shareholders, including Nivedana Power and Syandana Energy.

An information technology and IT-enabled services entity, with domain expertise in financial and insurance services, SVSL is third largest among the 15 subsidiaries of SCL in terms of annual turnover. However, it registered a loss of Rs 2,155 crore during the year ended March, 2019.

Shriram Group has been considering merger of the unlisted holding company with STFC and SCUF. This would make it a larger entity listed on the stock exchanges and allow the investors of SCL an option to exit.

At end-March 2019, the major shareholders in SCL were Shriram Financial Ventures and Shrilekha Business Consultancy, which together hold the majority of shares in SCL. TPG holds 9.43 per cent stake and Piramal Enterprises around 1,000 shares.

chartThere were reports that the merger move was stuck, with the Reserve Bank of India asking SCL to cut its stake in the insurance business. However, Shriram Group founder R Thyagarajan denied any such instruction and had told this publication: "The merger proposal continues

to be under serious consideration. There has been no change in the situation over the past few weeks."

The merger is expected to pave the way for listing of SCL, he said earlier.

The proposed merger between the two listed entities came into the limelight mainly after talks between Shriram and IDFC Group for one were called off in October 2017.

The two sides failed to agree on a swap ratio, according to reports.

SCL saw its non-executive chairman, Ajay Piramal, resigning with immediate effect in November 2019, after expressing a plan to exit from the Group.

Saraswat, Cosmos to seek RBI approval for universal banking licences

Saraswat Co-operative Bank and Cosmos Co-operative Bank are set to seek the Reserve Bank of India's (RBI's) approval to convert into full-fledged commercial banks.

The two leading urban co-operative banks (UCBs) — with over 100 years of history each — will be the first to seek the central bank's nod after the revisit of regulations pertaining to the sector.

Saraswat Bank is expected to put forward its application to the central bank by the second half of 2020-21, while Cosmos Bank is

currently in the process of tightening its information technology systems, particularly on the payments and remittances front.

Both banks declined comment on their universal banking ambitions. While Saraswat Bank and Cosmos Bank had approached the central bank with universal banking plans a few years ago, the trigger for them to look anew at the same are the huge changes on the regulatory side.

The RBI has said that UCBs with deposits of Rs 100 crore are set up a board for management with the board of directors carrying out due diligence for their appointment.

These internal structures will add another layer of bureaucracy, even as it slows down decision-making.

The small finance bank route is also not an option, given the inherent curbs placed on this model — it would perforce mean they will have to wind down business on both the asset and liabilities side. Given this, it makes sense to directly apply for a universal banking licence.

The business size of Saraswat Bank in 2018-19 stood at Rs 61,811 crore (advances of Rs 25,797 crore and deposits of Rs 36,014 crore), while that of Cosmos Bank was Rs 26,952 crore (advances of Rs 11,599 crore and deposits of Rs 15,353 crore).

It may be recalled that the R Gandhi Committee on UCBs was of the view that a threshold business size of Rs 20,000 crore can be considered for voluntary conversion of multi-state UCBs into scheduled commercial banks to ensure uniform regulation. "This business size is appropriate as the biggest UCB should not end up being the smallest commercial bank.

Further, a proper transition period should be provided to UCBs for conversion into commercial banks," it had observed.

Of late, the central bank has tightened the regulatory framework for UCB — be it their exposure limits and priority sector lending — and brought in those with assets of Rs 500 crore and above under the Central Repository of Information on Large Credits.

Air India set to double its flights on Tel Aviv-New Delhi route from April

In view of the increase in passenger traffic on the Tel Aviv-New Delhi sector, India's official carrier Air India will double the number of flights on the route to six per week from April.

The national carrier created history by becoming the first commercial flight to fly to Israel over Saudi Arabia and Oman in March 2018, seen by many as a diplomatic breakthrough and often presented by Israeli Prime Minister Benjamin Netanyahu as a major achievement of his government signalling improving ties with Gulf countries.

The access to Saudi and Omani airspace shortens the flight path by almost two hours which lowers the fuel cost leading to reduction in fares.

The announcement was made by Indian Ambassador in Israel Sanjeev Singla during the Republic Day celebrations at the Indian Embassy here on Sunday."Direct Air India flight connectivity between New Delhi and Tel Aviv is a game changer in our bilateral relations reflecting the importance we attach to people-to-people linkages and connectivity. The direct flights have greatly enhanced movement of people between the two countries resulting in an increase in tourism and also facilitating the travel of the business community," Singla told PTI.

Alembic sees India sales recovering from Q1FY21, expects 10-12% growth

After nearly flat domestic sales growth in the December quarter, Alembic Pharmaceuticals says it expects 10-12 per cent growth from the April-June quarter.

"The first hint of it will be seen in the March (ongoing) quarter, though domestic sales (growth) would be roughly flat this (financial) year," R K Baheti CFO, said. Its financial results for Q3 showed the US business grew a little over 60 per cent. India sales growth was barely 1 per cent. It needs the latter to grow, at a time when it expects more competition for the US business.

Domestic sales were hit after the company stopped its discount scheme for institutional sales. "Instead of passing it on to institutions, stockists were found to be pocketing the discounts.

We stopped the discounts and that impacted domestic sales. However, it is not the stockist that drives our sales.

Hence, this was a one-time hit," said Baheti.

Analysts and broking firms tracking Alembic agree with him. Alembic Pharma's India business revenue grew only 0.8 per cent year-on-year in Q3; those from speciality therapies fell 3.9 per cent, on account of this restructuring of trade practices, said ICICI Securities in a note. "This is expected to normalise from Q1 of FY21 as the base effect kicks in," it added.

Anand Rathi Share and Stock Brokers speaks similarly, estimating 12-13 per cent growth in FY21 for the India business. "For the first nine months of FY20, domestic formulations (sales) have been flat at Rs 10.8 billion, as the streamlined distribution network had yet to show results. Most of the restructuring is now complete and from FY21 the management expects growth in double-digits," it said.