ENS ECONOMIC BUREAU @ New Delhi

THE Central Public Sector Enterprises Exchange-Traded Fund’s (CPSE ETF) Further Fund Offer (FFO) can be a very good alternative for retail investors as the government has allowed them to invest in the sixth tranche of CPSE ETF last month.

According to HDFC securities, “Discount, dividend yield and low P/E (price/earning ratio) are the main carrots in CPSE FFO5. Investors could look to encash these benefits in the first three to six months of allotment, provided the markets and the PSU sector are conducive for profit-taking”.

The government had allowed retail investors to participate in the ETF offering by investing a minimum of ₹5,000 and in multiples of ₹1 thereafter. For non-institutional investors, the minimum investment amount was ₹2 lakh.

Also, experts claim that for the first-time investors, the scheme has many benefits, if they stay. “First-time investors or investors looking to create wealth through equities as an asset class over the long term, are better off with diversified equity mutual fund schemes,” says Amol Joshi, founder, Plan Rupee. The ETF will have an expense ratio of less than 1 paisa, while actively-managed equity mutual fund schemes have expense as high as 2 per cent.

If one compares returns, the two public-sector ETFs have done better over the past year, but the Equity-Linked Savings Schemes (ELSS) category has done better over the trailing three and five years.

The government had already announced its plans to offer an investment option in ETFs on the lines of ELSS, experts claim that this move will draw many retail investors.

Currently, an ELSS offers investors a tax deduction of up to ₹1.5 lakh under Section 80C and comes with a lock-in period of three years.
Import Dependence Rises as Crude Oil & Gas Output Declines

Import dependence on oil up to 85.2% and on gas to 50.4%

Sanjeev Choudhary
@timesgroup.com

New Delhi: Crude oil and gas output has declined in the first quarter of the current fiscal year, further increasing India's dependence on imports to meet its energy needs.

Crude oil output fell 6.8% to 8.2 million metric tonnes (MMT) while gas slipped 0.5% to 8.03 billion cubic meters (BCM) in the first quarter from a year earlier. This raised India's import dependence in oil to 85.2% from 83.8% in the year-ago quarter. In gas, it increased to 50.4% from 48.7%.

Crude oil output in April-June shrank 4.74% from a year earlier for ONGC and 6.8% for Oil India. For private operators, the fall was sharper at 6.8%.

Natural gas production rose 3.7% and 1.5% at ONGC and Oil India respectively during the quarter but this was more than offset by declines at private operators such as Reliance Industries and Vedanta where output slipped 18%.

India has struggled to raise its oil and gas output for years. Policy reforms and initiatives by explorers in recent years have had little impact on output, leaving the country dependent on foreign suppliers and vulnerable to the geopolitics of the international oil market. Dependence on oil imports hurts local currency and affects the trade balance.

India will likely spend ₹800,000 crore on oil imports in 2019-20, as per an oil ministry's estimate that assumes an oil price of $66/barrel and average exchange rate of ₹71 to dollar.

In early 2015, Prime Minister Narendra Modi had set a target of cutting oil import dependence by 10% from 77% then. But imports have increased as output in ageing fields is falling and there are no major discoveries. Less-than-projected output from fields, operational difficulties, delay in drilling new fields and less off-take by consumers in some regions together contributed to production decline in the April-June quarter, according to the monthly production report from the oil ministry.
CSR Should Not Be Source of Harassment

Rethink penal provisions for non-compliance

In one additional step back towards the good old days of socialism and control raj, the government has amended the companies law to prescribe a jail term of up to three years for company executives who fail to obey the mandate to spend 2% of average profits of the past three years on corporate social responsibility (CSR), in addition to a fine of up to ₹25 lakh on the company. Time was when CSR was a voluntary activity, carried out by companies that wanted to engage the public imagination in ways at one remove from business. Then, the UPA government made it mandatory for any company with a net worth of ₹500 crore, turnover of ₹1,000 crore or net profits of ₹5 crore to spend 2% of profits on society in activities that would not add to the company’s bottom line. Now, penal rigour has been added to that mandate.

By generating jobs and incomes, meeting social wants and needs, paying taxes, allowing people’s savings to be converted into capital that generates returns for the suppliers of that capital and by carrying out research and development that produces new technology, companies do a lot for society just by being companies. Many companies go beyond such existential virtue to address problems of the environment and of social underdevelopment. Others go beyond mere rehabilitation of those displaced for their sake. Ethical investors and conscientious consumers favour them. The government should have left it at that. Mandating CSR is like levying an additional tax and asking the companies to spend the proceeds themselves. There is a lot of waste and scale diseconomies. Companies that are good at doing CSR would do it on their own, in any case.

The UPA's mandated CSR was bad, but non-compliance only called for a formal explanation. Now, it will fetch punishment. Mere abdication of State responsibility now morphs into outsourcing of State responsibility to companies. This is wrong at the level of principle and bothersome at the level of practice. It gives the inspector raj one more dimension on which to harass companies. This should be reversed.
Iran seizes another foreign oil tanker

Tehran: Iran has seized a foreign tanker in the Gulf, state media said Sunday, in what would be the third such seizure in a month amid heightened tensions with its foe the United States. The ship was allegedly carrying around 700,000 litres of smuggled fuel.
IOC-Adani JV to invest ₹9,600 cr in CGD projects

INDIAN OIL CORP (IOC) and its partner Adani Gas Ltd would invest about ₹9,600 crore on infrastructure to retail CNG to automobiles and piped natural gas to households in 10 cities for which they recently won licences, the state-owned firm said last Monday. The two firms had in 2013 incorporated a 50:50 joint venture company, the Indian Oil-Adani Gas Pvt Ltd (IOAGPL), for the implementation of city gas distribution (CGD) projects in various cities. Over the years, IOAGPL has participated in various bid rounds for city gas licences conducted by the PNGRB. As of now, it has licences for 19 geographical areas (GAs).
CAG, finance ministry spar over off-Budget financing

ARUP ROYCHOWDURY & SUBHOMOY BHattacharjee
New Delhi, 6 August

The Comptroller and Auditor General (CAG) has told the government that off-budget liabilities such as the raising of money by entities like IRFC, Power Finance Corporation (PFC) and Food Corporation of India (FCI), and special banking arrangements for fertiliser companies, totalling about ₹3 trillion, should be included in Budget numbers.

The numbers, once added to the fiscal deficit, expand it close to 6 percent of gross domestic product (GDP) for 2019-20, instead of 3.5 percent, as shown by Finance Minister Nirmala Sitharaman in the Budget papers tabled in Parliament on July 5.

The issue has been flagged in audit reports by the CAG tabled in Parliament in February this year, as well as in its recent presentations to the 15th Finance Commission. India's supreme auditor has advised the government to consider putting in place a policy framework for off-Budget financing, which, among others, should include disclosure to Parliament. It has also pointed out that this is not a one-off development and has been rising in scale for almost a decade. Since aggregate numbers are hard to come by, the CAG has instead provided illustrative figures since 2011-12 to prove its point.

Finance ministry officials said the legal framework of the Fiscal Responsibility and Budget Management Act empowers them to keep off-Budget financing, or extra budgetary resources, out of the fiscal deficit calculations.

“The CAG’s assessment is a subjective one. One can debate and argue at a theoretical level on off-Budget financing, as part of fiscal deficit, but an audit needs to be formally done against a framework, which is the FRBM law in this case. And the law clearly tells us that debt includes off-Budget financing and extra budgetary resources, and fiscal deficit does not,” a senior government official told Business Standard.

“Because the government is wrong is an incorrect assessment, because it is right according to the law. The legal framework clearly includes extra budgetary resources in debt, but excludes them from fiscal deficit,” the person said.

In its assessment, the CAG has stated that the key element of the disclosure to the legislature should be — the rationale and objective of off-Budget financing, the quantum of such financing and the extent of budgetary support and details during a financial year through all state-owned agencies.

The 15th Finance Commission is expected to take a sympathetic view of the CAG’s observations. Earlier too, a revision in the two-decade-old FRBM Act was made on the basis of the observations made by the CAG.

According to India’s supreme auditor, the push for off-Budget borrowings has risen because the government is trying to meet both, a rising demand for subsidy and for capital expenditure. The carry forward liability for just food and fertiliser subsidy since 2011-12 has ballooned and is averaging 0.5 per cent of the GDP. (see table)

While the finance ministry has gone some way to meet the same in Budget 2019-20 showing for the first time, some of the extra-Budget borrowing, it has been conservative. It has also informed the CAG that “all off-Budget borrowings remain within the scope of Union Budget since both the provision of repayment of principal and interest of off-Budget borrowings is being made through the Budget”.

On the impact of food subsidy, the CAG observed that the Centre has forced the FCI to borrow through government-supported bonds, unsecured short-term loans and even through dipping into the National Small Savings Fund, which risks the returns on them meant for providing safety net to those with fixed income.

“IT is evident that there was increase of about 350 per cent in carried over subsidy arrears in the five years preceding 2016-17, which require financing from a number of methods, including very high interest cash credit facility, which increases actual cost of this subsidy substantially,” it has said.

The auditor has also pointed to the huge market borrowing by Power Finance Corporation of over ₹2 trillion by the end of 2016-17.
Spurt in premium for cargo transiting the Strait of Hormuz puts Indian oil firms in a fix

Refiners scouring global re-insurance market for stand-alone war risk cover

State-owned GIC is quoting an extra premium of 0.15 per cent on the cargo value to reinstate war cover.

PMANOJ
Mumbai, Aug 9

Indian entities importing crude oil, petroleum products, chemicals and fertilizers from the tension-ridden Arabian Gulf are paying phenomenally higher cargo insurance premium to cover war and strikes after global marine underwriters imposed extra premium to insure cargo transiting through the Strait of Hormuz — the world’s busiest oil shipping lane — in the wake of tough measures taken by the US on Iran over its nuclear programme.

Typically, cargo insurance clauses exclude war and strikes, but by attaching the war and strikes clauses, they get restored. Before tension started building up in the region, a fully-fledged cargo cover was available at about 0.0005% of the cargo value, as intense competition among global underwriters to grab more market share and volumes drove down premium costs substantially.

Since then, marine insurers have issued notice of cancellation to withdraw the war and strikes cover on cargo transiting though the High-Risk Area such as the Strait of Hormuz.

India’s state-owned reinsurer GIC has issued such withdrawal notices and is quoting an extra premium of 0.15 per cent on the cargo value to reinstate the cover for cargo such as crude oil, petroleum products, chemicals and fertilisers, industry sources said. “The Middle East is the place where India gets most of its crude and petroleum products from. Each ship carries on an average Rs 300,000,000 worth of cargo. Suddenly, when the war and strikes risk cover gets withdrawn, they are in a jam,” said R. Balasundaram, Executive Vice-President, Global Insurance Brokers Pvt Ltd.

“Couple of our clients have paid up. But, the larger sufferer is going to be the oil companies. Their premiums are going to shoot through the roof. They buy phenomenal quantities from that region,” he said.

To deal with the situation, oil companies have started asking for war risk cover separately and they are scouring the international re-insurance markets to see if they can get a better, cheaper deal. “I believe some of them have been able to get also. Certain brokers in London markets have quoted almost half the rate — instead of 0.5 per cent, they have quoted 0.86.5 per cent, which again is 500 times higher than what it used to be,” he added. The 0.0005% per cent rate charged earlier included war, strikes and cargo risk. But, now insurers are withdrawing the war risk cover and asking for an extra premium of 0.5 per cent to compensate.

People are in for a shock, it is phenomenally higher,” Balasundaram said.

India imports more than 80 per cent of its oil and around two-thirds of that comes from the Middle East. Every 10 per cent increase in the price of a barrel of crude widens the nation’s current-account deficit by about 0.4 per cent of the gross domestic product. Ultimately, the price impact is there, possibly, the price of petrol can go up,” he noted.

“T he case of fertilizers, the prices are subsidised by the government. The subsidy is not going to increase but the premium cost is going up substantially. And, you may not be able to pass on everything to the customers. The only saving grace is that, not all of India’s fertilizer imports are coming from the Gulf region. You can get it from other sources as well,” he added.
CCI rejects abuse of dominant position charge against ONGC

Fair trade regulator had ordered a probe against Oil and Natural Gas Corporation Ltd in June 2018 after prima-facie finding the oil major in violation of competition norms.

NEW DELHI: The Competition Commission of India (CCI) has dismissed a complaint against ONGC alleging abuse of dominant position with regard to certain contractual provisions for hiring offshore support vessels.

The fair trade regulator had ordered a probe against Oil and Natural Gas Corporation Ltd (ONGC) in June 2018 after prima-facie finding the oil major in violation of competition norms.

The complaint was filed by Indian National Shipowners Association (INSA), a representative body of various ship owners.

To support its offshore exploration and production activities, ONGC requires offshore support vessels (OSV). In this regard, it issues tenders for OSV suppliers with detailed technical eligibility requirements and special contract conditions (SCC), among others, collectively referred to as CHA.

INSA had complained about the Charter Hire Agreement (CHA) of ONGC which had a particular clause that gave unilateral right to the state-owned firm to terminate the agreement. The said clause was one-sided and abusive in nature, INSA alleged.

By terminating the agreement unilaterally, ONGC violated Section 4 of the Competition Act which pertains to abuse of dominant position in the relevant market, INSA alleged.

For the case, CCI considered “market for charter hire of OSVs in the Indian EEZ (Exclusive Economic Zone)” as the relevant one and found that ONGC was dominant in it.

The prevailing circumstances also need to be taken into consideration to establish whether the firm abused its dominant position or not, CCI said.

It is an undisputed fact that the crude oil prices started falling drastically from mid-2014, from over $100 per barrel to under $30 per barrel by January 2016, which affected oil companies worldwide, including ONGC, the fair trade regulator said.

With drastic fall in oil prices, ONGC in April 2016 issued de-hiring notice to 27 vessels by invoking the unilateral termination clause.

Regarding invoking of the clause, CCI said that there was an objective necessity to bring down the costs in new market circumstances and the termination was driven solely by this necessity and obligation.

Besides, the clause was invoked by ONGC in an exceptional situation which was not an ordinary change of circumstances, it added.

The clause “which gives unilateral right of termination without assigning any reasons to ONGC, in itself is not found abusive given the disproportionate risk that ONGC has to bear in case of such termination by the OSV, especially when the Commission has found, in the given facts and circumstances, that the invocation of such clause was not in bad-faith”, CCI said in an order dated August 2.

The regulator further said that it had been found that ONGC invoked the clause frequently in order to make illegitimate gains at the expense of the other contracting party, the Commission may have had the occasion to look at this case differently.

No such situation seems to exist in the present case, it added.

Accordingly, the “Commission is of the considered view that in the present case the conduct of ONGC does not tantamount to an abuse of dominant position within the meaning of Section 4 of the Act”, CCI said and directed the case to be closed.
Before jail over CSR, govt should have seen this data

Total spend by firms has gone up in the last 5 yrs from 70% to over 90%

SANDEEP SINGH
NEW DELHI, AUGUST 4

THE AMENDMENT to the Companies Act, introducing harsh penalties including jail term for non-compliance on CSR (corporate social responsibility), comes at a time when firms have been successively improving their record on the front. Data sourced from Prime Database (a leading provider of data on capital market), shows that in the last five years, the total CSR spend of companies has progressively jumped from 70% to over 90% now.

According to the data available for 224 companies for the year 2018-19, against a required CSR spend of Rs 4,366.8 crore, the firms spent an aggregate of Rs 3,994 crore or 91.5% of the requirement. The percentage stood at 79% in FY'16, 83.8% in FY'17 and 83.2% in FY'18.

Data further shows that both the number of companies eligible for mandatory CSR spending and their total spend have shown a significant rise. While the amount stood at Rs 6,446

CONTINUED ON PAGE 2
224 companies as of now for 2018-19, they have spent 4,525 crore.

India Inc has termed the government's decision to impose prison sentence over CSR as retrograde and sought a relook. Industry participants say the move is also strange given the improved compliance. "I think in the first two or three years several companies struggled to spend as they did not have a mechanism in place, however, over the last couple of years, most large companies that are reporting CSR have been able to meet the requirement of 2% of average net profit of last three years for CSR spend," said Naresh Reddy, co-chairman of Forbes Marshall.

The data also shows that the number of companies spending their full CSR funds has also been improving. While nearly 62% of 526 companies in its study, had unspent CSR amounts in 2014-15, this number had come down to 50% in 2015-16, further falling to 45% and 39% in FY17 and FY18 respectively. In 2017-18, 422 companies out of the 1,277 companies under study had unspent CSR funds.

Pranav Haldea, Managing Director, Prime Database, admitted that the data had to be taken with some scepticism as one does not know how much of the companies were doing CSR, and there was no impact assessment. But, he added, "these things can't be mandated and it has to come from your own social commitment." Calling the amendment as a step in the wrong direction, he said, "The move to impose prison term is ridiculous. We can't have these things as mandatory and if the companies pay their taxes, that is good enough."

The amendment to the Companies Act, passed last week, specified that unspent CSR funds be transferred into an escrow account. It also said that any unspent annual CSR funds must be transferred to one of the funds under Schedule 7 of the Companies Act such as the Prime Minister's Relief Fund.

The amendment to Section 135 of the Companies Act adds, "If a company contravenes the provisions of sub-section (5) of sub-section (5) of the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both."