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THE GLOBAL ANALYST

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BUDGET 2014
Rekindling Revival Hopes

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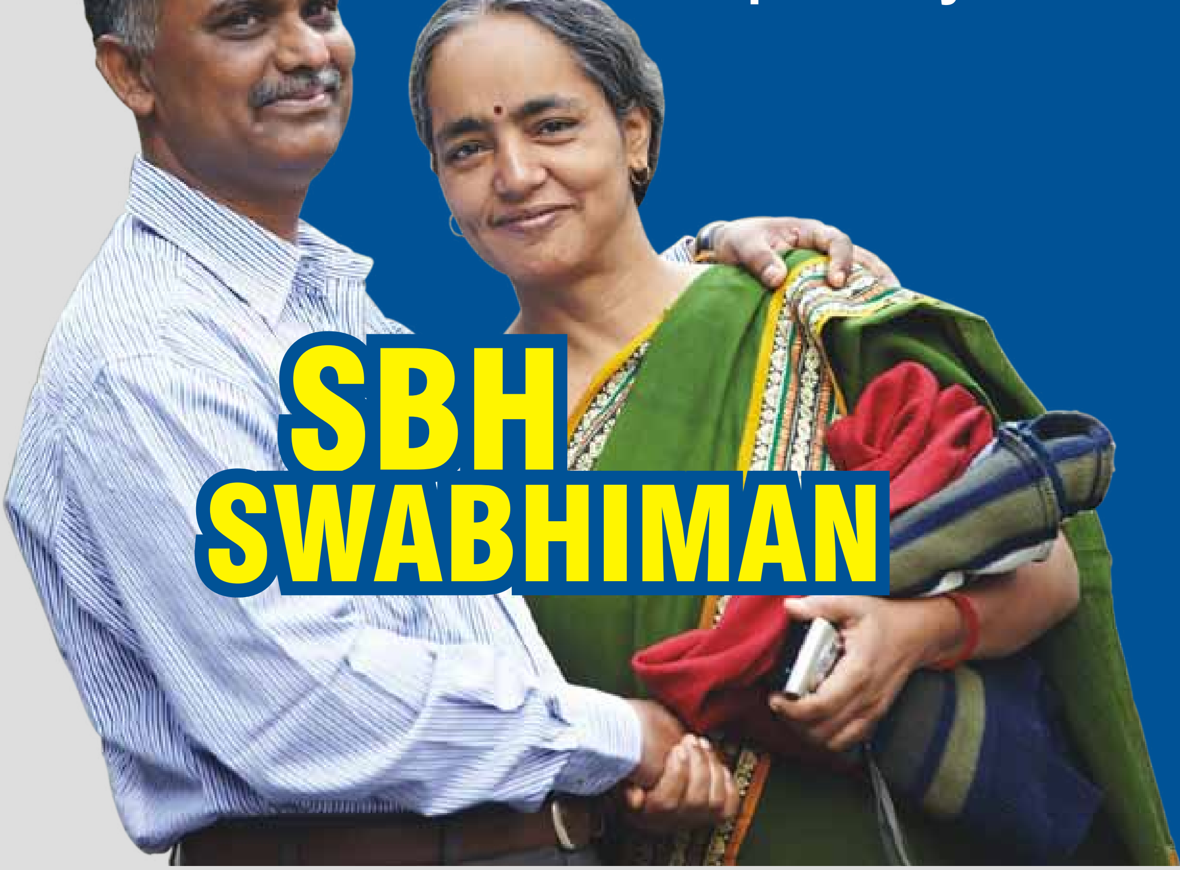

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EDITORIAL

Budget Boost for Entrepreneurial Ecosystem

In a landmark step, this year's Budget proposes to set up a Rs 10,000-crore fund aimed at giving a major boost to the startup ecosystem in the country. Aptly recognizing the funding needs as being one of the major stumbling blocks in promoting entrepreneurship in the country, the Finance Minister Arun Jaitley said, "While there have been some efforts to encourage, one principal limitation has been availability of start-up capital by way of equity to be brought in by the promoters." This fund would act as a catalyst to attract private Capital by way of providing equity, quasi equity, soft loans and other risk capital for start-up companies, the FM averred while presenting his maiden budget. Besides this, the FM also proposes to set up a Rs. 200 crore fund for establishing technology centre network to promote innovation, entrepreneurship and agro-industry. The FM has also given hints at reviewing the definition of MSME so as to allow for a higher capital ceiling. To enable easy exit for SMEs, the FM has also assured of devising entrepreneur-friendly legal bankruptcy framework.

While these measures were no doubt long awaited, they are bound to give the much needed fillip to the entrepreneurship in India, and help it play catch up with countries like Singapore and Taiwan not to mention China, which is giving some real competition to the US, the original hotbed of start-up activities. In fact, China's remarkable progress in promoting startups, especially in tech space is posing significant challenges to America's long held image as a startup nation. Hubert Thieblot, the CEO of the US-based gaming business, Curse, admitted in an interview to the Forbes that he got the idea for his startup's new communications platform Curse Voice from China's YY. The Chinese startup's gaming platform that lets multiple gamers interact with one another in real time has been a huge success and has even allowed the company to go for a successful NASDAQ listing. But the biggest compliment to China's resurgence as a startup nation comes from no less than the legendary Bill Gates, the founder of Microsoft.

The legendary entrepreneur said that the US is the birthplace of the Internet, but China is catching up as a competitor in tech startup innovation, thanks in part to an education system that is in some ways more efficient than America's. "Many US cities and foreign countries try to replicate Silicon Valley as a center of software innovation but the place that it has really happened outside of the United States is in China," Gates told The Atlantic. "You have a little bit in [South] Korea, a lot in China." He attributed America's success as birthplace of startups to a large business market and good universities which are key to creating a situation where "success breeds success" to promote risk-taking entrepreneurship. In China's case, more than the government's policy interventions, it has been the vision and foresight of local entrepreneurs that has led the phenomenal growth of Chinese startup ecosystem. Rather than looking at government support, Chinese entrepreneurs used their first hand knowledge of unmet demands in the local markets, avoided reinventing the wheel and developed products that cater to the local needs, entered those sectors which have found favor with the government, etc.

Given, one thing is for sure: the Budget measures would not have come at a more appropriate time, as the economic recovery seemingly around the corner and more and more individuals aspiring to take the entrepreneurial plunge.

Editorial Director

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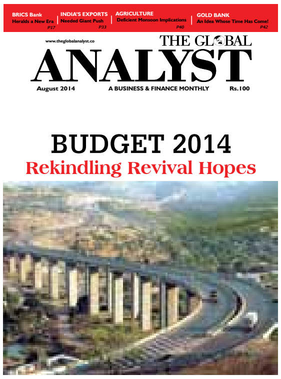
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BRICS BANK

Spotting Financial Fraud now as simple as 1, 2, 3!

A new paper, from two US professors and a research scholar, claims that you don't need to be a finance wizard to unearth cases of financial chicanery. Sounds unbelievable? Yet, as the researchers suggest, it is as easy as 1, 2, 3! Prof Dan Amiram, PhD student Ethan Rouen, also from Columbia Business School (CBS), and Prof Zahn Bozanic of The Ohio State University's Fisher College of Business, apply Benford's Law, invented by Frank Benford, an electrical engineer at General Electric in the 1930s, who rediscovered the importance of the frequency of the first digit in a set of nonrandom numbers, to detect financial frauds; in 1880s, an astronomer named Simon Newcomb who used tables from logarithm books to multiply large numbers, noticed that the earlier pages of his tables – the pages containing the lower digits one, two, and three – were more worn than the pages with the higher numbers seven, eight, and nine. He thought that was an interesting observation and published a paper on it.

Coming back, according to the authors of the new research paper, anecdotal evidence suggests that a significant portion of financial statement irregularities are ignored or missed by reporting firms, their auditors, and the SEC. "Motivated by a method used by forensic investigators and auditors to detect irregularities in a variety of settings, we create a composite, red-flag financial statement measure to estimate the degree of financial reporting irregularities for a given firm-year," say the authors of the paper, "Financial Statement Irregularities: Evidence from the Distributional Properties of Financial Statement Numbers". The groundbreaking approach provides a novel way to identify irregularities in financial statements by examining how the numbers in these statements relate to naturally occurring statistical properties, said a CBS press release. Further, the report adds, unlike existing strategies to detect fraud that can be gamed by determined managers, this new approach has no specific relationship to a company's business model, making it more difficult to fool and potentially leading to the unearthing of numerous undetected frauds in the US.

The measure, which has several significant conceptual and statistical advantages over available alternatives, assesses the extent to which features of the distribution of a firm's financial statement numbers diverge from a theoretical distribution posited by Benford's Law, or the law of first digits. According to Wikipedia, Benford's Law, also called the First-Digit Law, refers to the frequency distribution of digits in many (but not all) real-life sources of data, the leading digit is distributed in a specific, non-uniform way.

According to Ken Stalcup, CPA, CFE, Benford said that in a set of data more of the numbers begin with a one, two, or three than with a seven, eight, or nine. This is counterintuitive; most people think the leading digits in a data set are equally likely to begin with a one as with a nine. Benford proved this isn't true, and the result – Benford's Law – has been the downfall of fraudsters and a boon to fraud examiners.

Three steps to detecting financial fraud

The researchers identify three effective steps which make detecting financial frauds easier. These include:

- **Applying a Well Known Tool for a New Purpose**

For many years, forensic accountants looking for potential financial fraud in a company's internal books have relied on Benford's Law. This law relies on recurrent numerical patterns to detect fraud. For instance, if the dollar amounts in a company's financial statements contain as many numbers beginning with five as they do beginning with three, it's a red flag for auditors to further investigate the numbers, which may have been invented! The new approach is the first of its kind to apply Benford's Law to annual financial statements.

- **Spotting Irregularities with a Special Score**

The new approach can also help the SEC, auditors, and investors generate a Financial Statement Divergence (FSD) score. A higher FSD score indicates a greater likelihood of financial irregularities. Investors, auditors, and regulators would be able to use the FSD Score to quickly and efficiently spot irregularities in financial reporting in a cost–effective manner. The FSD score has numerous advantages over existing measures as it does not require forward looking information and is available to virtually every firm with accounting information.

- **Saving Time and Improving Quality of Misstatements Discovery**

There is a significant time lag between the occurrence of fraudulent financial reporting and SEC enforcement actions. As the FSD score is predictive of SEC Accounting and Auditing Enforcement Releases (AAERs), it can help to close this gap while accelerating and improving the quality of the auditing process itself.

"Our approach complements the SEC's Accounting Quality Model, better known by its street name of 'Robocop'," claims Prof Bozanic. "It allows the SEC to quickly flag financial reports for review as soon as they are filed on Edgar."

"Accounting fraud is a threat to businesses and investors across the globe that, as some studies have suggested, costs investors billions of dollars annually. Our approach is easy to implement, effective, and much needed given the current rise in the volume and amount of electronically–filed corporate disclosure," asserts Prof Amiram.

The research paper also suggests that once misstatement firms have issued corrected financial statements, the restated financial statements have significantly lower divergence from Benford's Law, as exhibited by lower FSD Scores. Further, as the paper emphasizes, FSD scores successfully predict which firms materially misstate their financial statements.

Tackling Climate Change: And Profitably Too!

A group of global cities and businesses have joined hands to take On Climate Change. And they're doing it profitably too!

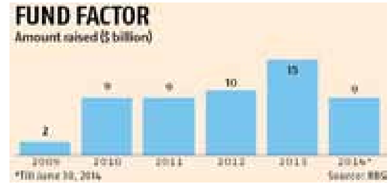
According to a new report, the majority of cities view climate change as a physical risk to their local businesses also, and they see financial benefits to taking action. The report, produced by the climate nonprofit organization CDP, C40 Cities Climate Leadership Group (a network of the world's megacities taking action to reduce greenhouse gas emissions), and the engineering design firm AECOM, says that the majority of the world's major cities have disclosed that climate change presents a physical risk to the businesses operating in their cities. This real and current threat is driving local governments to take concrete action in response, so finds the new report from CDP, formerly Carbon Disclosure Project. The report analyzed data on climate change strategies and concerns from officials in 207 cities around the world, including Tokyo, Sydney, and New York. 76 per cent of the cities researched said that climate change could impact business, while 75 per cent of the biggest climate-related risks highlighted by businesses are also seen as threats by their respective cities.

Some of the major financial risks highlighted by businesses include an uptick in insurance costs, loss of tourism due to environmental degradation, supply chain issues, disruptions in supply of raw materials, etc. In terms of weather events, cities and business are most concerned about storms and flooding, sea level rise, and temperature increases. Drought is recognized as a bigger issue by businesses than government, for reasons that are unclear. The report contains several examples of how cities and businesses are collaborating to counter the threat emanating from climate change. Some of them include:

- London's planning policy requires new buildings to prioritize energy efficiency. Great Portland Estates, a large property investor in the city, has started designing buildings that feature natural shading and passive cooling as a way to cut down on energy bills and increase resilience during periods of extreme heat.
- Threatened by rising seas, Singapore has set minimal height levels for reclaimed land and has commissioned a study to look at areas along its coastline that could be impacted by sea level rise in the future.
- Post-Hurricane Sandy, New York City has implemented a number of climate change resiliency measures, including setting $293 million aside to assist businesses in becoming more resilient and developing a plan to rebuild Sandy-destroyed communities and beef up resiliency of the city's infrastructure and buildings.
- Sao Paulo (Brazil) isn't the most walkable city in the world, but it is sinking $22 billion into its transportation infrastructure--a move that will make it easier to transport products, supplies, and people across the city. It's also working with Sabesp, the biggest water company in Brazil, to create sewage networks for the city's many poor neighborhoods and slums.

India Inc expected to raise $1.5 billion to refinance debt in 2014

As per a latest report from RBS, Britain's leading bank, Indian companies will need to raise fresh foreign capital to the tune of $1.52bn in CY'14 to refinance their old debt. According to Wikipedia, refinancing may refer to the replacement of an existing debt obligation with another debt obligation under different terms. In its report, the British bank further warns the refinancing needs of Indian firms to jump over 50 per cent to $2.3bn in



2015 and to a mammoth $9.1bn by 2016. "We expect to see significant refinancing transactions from Indian corporates. The same will help in reducing overall cost and adding tenure thereby further balance sheet strengthening," said Manmohan Singh, Head - Debt Capital Markets at RBS India. He further said that the demand for fresh funds for refinancing to drop to $3.5 billion in 2017, before rising again to $8.87 billion the next year. The demand for refinance will again decline to $7.55 billion in 2019, he observed. Several companies, however, are expected to focus more on equity issuances than debt markets, given the current bullish sentiment in the global equity markets. Nevertheless, some financial sector experts opine that the time is opportune now given the favorable investment climate in India and foreign investors' renewed interest in India.

The refinancing, according to experts, is expected to help companies, faced with high interest costs, to trim down cost of debts. "The current negative interest rate regime by the European Central Bank will add impetus to issuance volume across the globe."

Indian firms raised about $9bn in debt in the January-June period of the current calendar year (against $13bn raised in the same period of the previous year; Indian corporates had raised foreign debt to the tune of $15bn in whole of 2013), representing 6.9 per cent of the entire debt of $144 billion in Asia, excluding Japan, according to Singh of RBS. The companies that hit the overseas debt market included Bank of Baroda, Bharti, BPCL, Exim Bank, ICICI Bank, IDBI Bank, IRFC and SBI. Foreign debt issuances from India have seen a drop in the first half of 2014, as most of the re-financing activities took place last year due to which the need to raise funds was not much this year, said experts. TGA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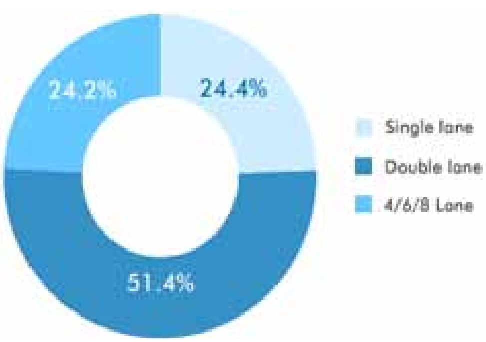
Highways in India Progress and Prospects!

- India has the world's second largest road network, spanning a total of 4.7 million km, next only to the US but ahead of neighboring China.
- Double-lane highways constitute the largest share of highways in India (40,658 kilometers).
- The length of the national highways has grown from 21,378 km during the late 1940s to 71,772 km by the end of the 11th Five-Year Plan (2007–2012).
- This network transports over 60 per cent of all goods in the country and 85 per cent of total passenger traffic.
- With greater connectivity between cities, towns and villages in India, road traffic has increased over the years. This growth in automobiles and freight movement necessitates a better road network in the country.
- The Government of India has reserved US$ 1 trillion for infrastructure for the 12th Five-Year Plan (2012–17).
- The Centre is looking to develop a total of 66,117 kilometers of roads.

Courtesy: CII

Lane composition of national highways in India



India's first canal-top solar power Plant

The country reaches another milestone with the successful launch of the 'world's first' canal-top 1 MW solar project. The ambitious project on Narmada branch canal network in Gujarat, which was commissioned within a record time of 1,000 days of conception, is an engineering marvel. The power plant, located at Chandrasan village near Mehsana, about 45 kms from Ahmedabad, will generate 1.6 million units of clean electricity per year and will help prevent 90 lakh litres of water from getting evaporated. The plant was set up at the cost of around Rs 17.50 crore by the US-based Sun Edison and has been developed by Gujarat State Electricity Corporation Limited (GSECL) with support from the Sardar Sarovar Narmada Nigam Limited (SSNNL).

The project, which was commissioned over two years ago in February 2012, virtually eliminates the need to acquire huge tracts of land.

An Engineering Marvel Bandra-Worli Sea Link

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World's Top 10 Countries by Total Road Network

Rank	Country	Road length (km)	Expressway length (km)	Date of Information
0	World	64,285,009	-	2013
1	US	6,586,610	76,334	2012
2	**India**	**4,689,842**	**1208**	**2013**
3	China	4,356,200	104,400	2013
4	Brazil	1,751,868	11,000	2013
5	Russia	1,283,387	39,143	2012
6	Japan	1,210,251	7,803	2011
7	Canada	1,042,300	17,000	2009
8	France	1,028,446	11,100	2010
9	Australia	823,217	-	2011
10	Spain	681,298	15,152	2008


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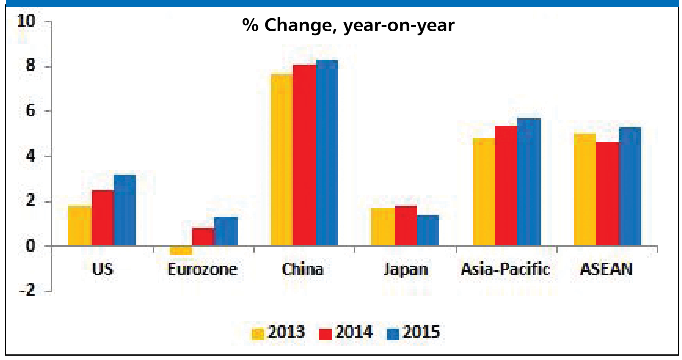
Canada's Trade Deficit Narrows in May

Canada's trade deficit fell drastically in May, thanks to a sharp rise in exports. According to data from Statistics Canada, the nation's merchandise exports grew by 3.5 per cent in May, while imports rose 1.6 per cent, which helped reduce the trade deficit with the world to $152-million from $961-million in April. According to Thomson Reuters, economists had expected the nation to clock a deficit of about $250-million. The official statistics showed that Canada's exports surged to its second highest at $44.2-billion, falling just short of its all-time high, led by motor vehicles and parts, while imports too jumped to $44.3-billion, driven by segments such as vehicles and parts, metal ores and non-metallic minerals. Canada, the North American nation, is the world's second-largest country by total area and the fourth-largest country by land area and boasts of the eighth highest per capita income globally, according to Wikipedia.

The US continued to be the top destination for Canadian exports, growing by 2.1 per cent to $33.5-billion in May, while imports slipped 0.2 per cent to $28.7-billion, thereby boosting the trade surplus with the US to $4.8-billion from $4-billion in April. Exports to rest of the world grew 8.3 per cent to $10.7-billion, while imports were up 5.1 per cent to $15.6-billion, narrowing trade deficit to $4.9-billion from $5-billion in April.

World Growth Forecast



Source: IHS Global Insight

Top economies' growth stutter in June

According to the Organization of Economic Cooperation and Development (OECD), the world's top economies shrank in the June quarter of 2014, triggered by slowdown in demand, despite a slight rise in private consumption. According to the Paris-based think-tank, economic activity in the 34-nation group shrank 0.2 percent overall in the first quarter of 2014, compared with 0.5 per cent recorded in the March quarter of 2013.

The most shocking news came from the US, which recorded a fall of 0.7 per cent in the first quarter, its sharpest pullback in the past five years after recovering from the worst recession since the Great Depression of 1930s. Weather disruptions at home and weak demand abroad caused a contraction of rare severity in the US economy in the first quarter, renewing doubts about the strength of the nation's five-year-old recovery, comments Wall Street Journal. According to the US Commerce Department, the GDP declined by 2.9 per cent annual rate, instead of the 1.0 per cent pace it had reported last month.

In Japan, boosted by consumer spending ahead of the April increase in the consumption tax, private consumption was the main driver of GDP growth (1.6 per cent), contributing 1.4 percentage points, followed by a substantial positive contribution of investment (1.0 percentage point). However destocking (minus 0.5 percentage point) and net exports (minus 0.3 percentage point) partially offset these positive contributions. In Germany, private consumption and investment also contributed significantly to GDP growth (0.8 per cent), in addition to stock building. These positive developments however were partially offset by net exports (minus 0.9 percentage point).

In the United Kingdom, the main contributors to GDP growth (0.8 per cent) were again private consumption and investments, although to a lesser extent than in Germany and Japan. Differently from the latter two countries, net exports provided a positive contribution (0.3 percentage point). In France, stock building almost exclusively contributed to the flat economic growth, with 0.6 percentage point. All other demand categories, with the exception of a slightly positive contribution of government consumption, were a drag on economic growth.

For the third quarter running, private consumption was the biggest contributor to business activity, posting an increase of 0.3 percent in the first three months of this year, the OECD said in a statement. The contribution from government consumption and investment added marginally to GDP growth, while net exports contributed negatively with 0.1 percentage point. Destocking reduced GDP growth by 0.2 percentage point in the first quarter.

Switzerland signs trade deal with China

Switzerland outdoes its European counterparts by signing a landmark trade deal with China, the world's fastest growing economy. The free trade deal is said to be crucial to boosting ties with the world's second-largest economy, AFP reported. The free trade agreement (FTA), which came into force recently, is China's first with a mainland European country and was sealed in 2013 after two years of talks. "We look to the huge Chinese market, but on the other side, China will find in Switzerland partners on a top technology level and a top innovation level," said Economy Minister Johann Schneider-Ammann. According to the AFP report, the deal will cut red tape and tariffs on Swiss farm and industrial exports to China, giving them access to the country's 1.4 billion increasingly wealthy consumers.

China already imports mainly Swiss machinery, pharmaceuticals, chemicals and watches, and experts expect the FTA to benefit the small- and medium-sized technology and engineering businesses that form the bedrock of Switzerland's economy. In turn, Chinese manufacturers will get duty-free access to Switzerland, where their primary products will be cheaper for factories to use, the AFP reports. "Customs duty savings can provide a decisive edge compared to competitors from countries who have no agreement with China," said Swiss customs service chief Rudolf Dietrich. Citing experts, AFP says the deal could pave the way to making Switzerland a centre for Chinese companies in Europe as they increase their international investments. The accord also bolsters intellectual property protection for Swiss goods - a persistent concern for Western firms in China.

"Experience has shown that FTAs give an extra push to trade growth," Jan Atteslander, head of international affairs at Swiss business federation Economiesuisse, told AFP. "The FTA is also a positive message for global trade because China proves its commitment to open its markets."

Eurozone needs more reforms, says IMF

A latest report from the International Monetary Fund (IMF) prescribes more reforms for the eurozone in order to strengthen its nascent recovery. According to it, though the euro area is recovering, policymakers must address deep-seated obstacles to growth to ensure a strong and durable recovery. The euro area (also known as the eurozone) consists of those European Union countries which have adopted the euro as their currency. It currently has 18 member states.

While the eurozone economy is gradually recovering and financial markets are upbeat, thanks to strong policy actions that have helped engineer this turnaround, the recovery, however, is turning out to be weaker than expected. Further, not all countries are growing. Output and investment are still well below pre-crisis levels. High unemployment, large debt burdens, higher real interest rates in stressed economies, weak banks and contracting credit pose obstacles to the resurgence of domestic demand. This leaves the region too dependent on foreign demand, and exposed to external risks, be it geopolitical fissures, or slowing growth in trading partners. The outlook for growth is modest, says the report from the IMF. The Washington DC-based IMF is a specialized agency of the United Nations. The IMF came into existence in 1945 with the aim to provide financial assistance and advice to member nations. It currently has 188 member nations. Over the years, the IMF's role has expanded several folds and today it promotes international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provides resources to help members in balance of payments difficulties or to assist with poverty reduction.

Low inflation is pervasive, says the report while adding that, if inflation remains well below the price stability objective of the European Central Bank (ECB), debt burdens will grow more onerous, real interest rates will remain unnecessarily high, stifling demand, and central bank credibility could be eroded. There are also supply-side roadblocks to growth, the report noted. Rigidities and gaps in capital, labor, and product markets continue to hamper productivity, job creation, and the shift of resources from the non-tradable to the tradable sector. Persistently high unemployment and low investment could reduce the economy's capacity to grow in the foreseeable future. Reform fatigue is setting in, the report observed. The outcome of the European elections may not bode well for further integration within the eurozone, jeopardizing reforms necessary to support the recovery. To counter these risks, the report has called for concerted policy efforts to strengthen the recovery and raise inflation.

TGA

BREAKING THE GLASS CEILING

Barclays bets big on companies with women in leadership roles

Barclays launches an investment instrument that invests in companies with women in leadership roles.

Britain's top bank is aiming to cash in on investor's growing interest in companies with women managers in leadership roles, with the launch of ETNs or exchange traded notes; ETNs are valued based on the performance of the underlying companies' shares, but Barclays does not actually purchase the shares, so investors have no actual ownership stake in the companies. The new investment instrument will follow the performance of major US companies with female CEOs or directors.

Barclays has created an index of 85 companies that either have female CEOs or have at least 25 per cent female directors on the board. The newly launched Barclays Women in Leadership exchange traded notes will track this index. The notes began trading on the NYSE Arca Exchange (ticker WIL) on July 10th. Some of the companies which form part of the index include IBM, with Ginni Rometty as CEO, Yahoo Inc., led by CEO Marissa Mayer, General Electric Co., which has 29 per cent female directorship, and AT&T Inc., also with 29 per cent female directorship.

The ETNs are designed to provide investors with exposure to US companies with gender-diverse executive leadership and governance. The Index, which uses data compiled by Institutional Shareholder Services Inc. ("ISS"), is designed to provide exposure to US-based listed companies that have gender-diverse leadership and which meet market capitalization and trading volume thresholds. To be included in the Index, a company must, among other things, have a female CEO and/or at least 25 per cent female members on the board of directors.

According to Barclays director, Sue Meirs, who is also overseeing the new product, research studies suggest companies with more women in leadership have better financial performance. "We're not taking a stand on it, but there certainly is research out there suggesting there is a correlation between greater female leadership and better stock price performance." If the new index had been in existence for the past five years, it would have outperformed the S&P 500 total return by an average of 1.3 per cent annually," she commented. She added that many investors are also looking for ways to invest in companies that "match what they feel is the right thing to do." "They want to be supporting those companies that have policies they agree with - in this case promoting gender diversity at the leadership level," she quipped.

Barclay's ETN is the second such instrument that aims to capitalize on investors' interest in companies with women in leadership roles. The other one is Pax Global Women's Leadership Index Fund, a mutual fund, managed under a partnership between Pax World Management LLC and Ellevate Asset Management LLC. But euphoria apart, ETNs are not risk-free instruments.

According to Barclays, an investment in the ETNs involves significant risks, including possible loss of principal, and may not be suitable for all investors. The ETNs are riskier than ordinary unsecured debt securities and have no principal protection.

Workforce Diversity

Tech biggies have a long way to go

The likes of Google and LinkedIn are still not on track as far as reaching the goal of greater workforce diversity is concerned. LinkedIn, the world's largest professional social networking service, becomes the second major tech firm, after Google, to disclose that it has more work to do in creating a diverse workforce. The Mountain View, California–headquartered company said that women employees represent less than 40 per cent of its total workforce of 5,400. In May, Google said that just 30 per cent of its 50,000 employees are women.

Workforce diversity has become a hotly debated issue at companies in not just technology space but in fact across sectors, globally. Back home too, companies are facing the heat to step up efforts to boost women representation among their workforce. Barring a few sectors like banking and financial services, there are not many sectors where women have any sizable presence. But the Best Companies to Work for 2014 survey, conducted by the Great Place to Work Institute, throws some pleasant surprises. According to the survey finding, a company called CACTUS, which ranked 10th among the 600 companies that participated in the 2014 survey, scores a perfect 10/10 when it comes to gender diversity. The company has a gender ratio of 1:1; in fact, women comprise 55 per cent of CACTUS', according to the official website of the company. CACTUS, a global scientific communications company, which made it to the list of Top 20 companies to work for in India for the fourth year in a row, is also recognized for its unique collaborative culture and family-like, close-knit working environment.

Let's hope, more companies take a leaf out of the CACTUS' book.

Caselet - The Fujitsu Way

In 2008, the Japanese giant set up the Diversity Promotion Office as an organization to promote respect for diversity throughout its global operations.

The Diversity Promotion Office's vision for Fujitsu sets forth the following two objectives:

- Improving individual growth and job satisfaction

That all employees will have mutual respect for one another, that each will demonstrate their own personal added value and that everyone will contribute to the organization.

- Improving corporate competitiveness and growth

That the company will continue to create new knowledge and technologies through free and active discussions from a variety of viewpoints.

Efforts at Promoting Diversity

To review the status of its diversity promotion, Fujitsu has been carrying out an annual survey of all corporate officers, employees and temporary staff. Based on the results of this survey we are focusing on the following three measures: (1) a reform of mindset and culture in the organization; (2) support for individual success; and (3) promotion of diverse styles of work and improvements to productivity and individual satisfaction.

From FY 2008 through FY 2010, as the first medium-term plan, Fujitsu worked to create policies that foster awareness and understanding of diversity so as to create a basis for diversity promotion. In addition to publishing the results of questionnaires and interviews with top management in internal publications, it has introduced role models and various efforts on its Diversity Promotion Office website (in both Japanese and English).

It also held a variety of company events, including companywide diversity promotion forums, various networking events, and forums with individual themes, which were well attended by its employees. At the end of FY 2010, it conducted an e-learning program open to all executives, regular and temp employees called "Striving for Workplaces Where Everyone Can Thrive," designed to put diversity promotion into practice in the workplace.

In addition to past and ongoing activities, with understanding and achievement of diversity as the goal, the company is working to achieve the following three objectives in light of individual problems that came to light through earlier activities, setting goals, and implementing solutions in the workplace as its second medium-term plan for the period from FY 2011 through FY 2013:

- Support workplace activities designed to promote diversity
- Support active participation by female employees
- Promote measures among Group companies in Japan

Source: Fujitsu

Gender GEDI Index Launched

GEDI's women's entrepreneurship index – the Gender GEDI – measures the development of high potential female entrepreneurship worldwide. Defined as "innovative, market expanding, and export oriented," this gender specific Index utilizes GEDI's unique framework, methodology, and global approach in order to capture the multi-dimensional aspects of entrepreneurial development. The index was launched in June in Istanbul, Turkey at the annual meeting of the Dell Women Entrepreneurs Network (DWEN). The aim of the GEDI is to identify the entrepreneurial North Star, the destination on the economic growth horizon fostering high potential female entrepreneurship.

The Gender-GEDI is the world's first diagnostic tool that comprehensively identifies and analyzes the conditions that foster high potential female entrepreneurship development. This initial 17-country pilot study provides key insights across several regions and levels of national economic development. Female entrepreneurship at large includes a vast array of activities – ranging from petty market traders and shopkeepers to biochemical company start-ups. Globally, women and men are not on a 'level playing field' in terms of access to resources, which continues to impact women's ability to start and grow businesses. The Gender-GEDI focuses specifically on identifying and assessing the 'gendered' nature of factors that, if addressed, could allow high potential female entrepreneurs an equal chance to flourish.

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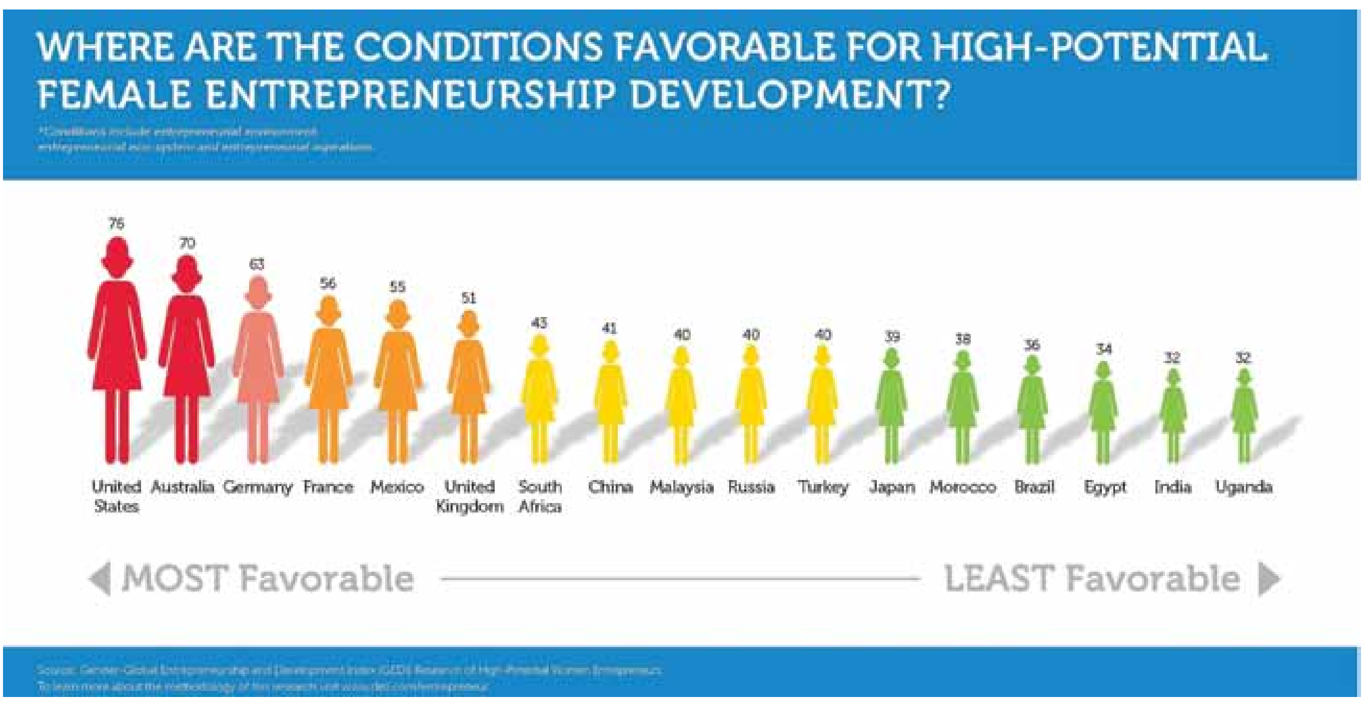
Google's WeOW initiative to help women's start-ups connect online

Google India is launching its Women Entrepreneurs on the Web (WeOW) initiative to help women entrepreneurs connect, grow their online presence and utilize Google products to launch and scale their businesses in tier-II and tier-III towns. WeOW focuses on women entrepreneurs. "We tell them: 'Get your business online. We will build it for free'," says Rajan Anandan, managing director, Google India. Google estimates the number of women entrepreneurs in India at 1.3 million, more than any other country barring the US and China!



BRICS Bank

Heralding a New Era

The launch of the BRICS Bank heralds a new era in the history of global financial system. The new development bank, which will be headquartered in China with an Indian as its first head, could play a key role in accelerating infrastructure development in the member nations as well as other developing economies.

When the Goldman Sachs economist Jim O'Neill came up with the term BRICS in a 2001 paper, "Building Better Global Economic BRICs," he would have hardly imagined that his concept would gain so much popularity and would be taken so seriously by the governments of the nations, which form what is fast emerging as a strategic group, that they would be setting up a international bank with the same name! But thanks to the enthusiasm and earnestness on part of the BRICS nations namely, Brazil, Russia, India China, and South Africa, that BRICS Bank becomes a reality now. The new international bank, formation of which was announced during the 6th BRICS Summit in Fortaleza, gives Brazilians, who're still smarting from their national team's shocking loss to Germany in the FIFA World Cup semifinal, something to cheer about! The BRICS nations came together in 2009, eight years after the acronym was first coined, in an aim, which many see as the move to seek greater say in the global trade and offer a counter-force to America's long held dominance over international financial institutions such as IMF.

While the announcement gives concrete shape to emerging nation's long cherished dream of having their own exclusive bank which could help foster their developments, some experts have been critical of the move, on part of BRICS nations, and even termed it as a desperate attempt to offer an alternative to the powerful IMF and the World Bank. Nevertheless, merits outnumber any shortcomings. The ground for the new development bank was getting prepared in the aftermath of the worldwide economic crisis of 2008. Post-the global financial crisis and in the wake of volatile currency markets, the long-held hegemony of the US dollar's hegemony as the preferred global reserve currency, languishing growth in a majority of developed economies, the emerging nations, with India and China playing the growth engines to the world economy, obviously have been looking to play a greater role in the global trade, courtesy their growing economic clout. Further, they also felt a need for a specialized funding agency which could take care of the financing needs of large developmental projects in areas such as electricity, ports, roads, drinking water, etc., in these nations, which account for 20 per cent of the global economic output. A collaboration thus was long overdue. The proposed bank is aimed at playing such a role. In fact, a World Bank report too admits of the funding gap that is faced by infra projects in the developing countries. "The gap is estimated at $1 trillion in low and middle-income countries, and the demand for infrastructure continues to grow as countries develop," says a report on the official website of the World Bank. The newly conceived bank with its head quarter in China, regional headquarter in South Africa and with an Indian at its helm of affairs as its first president, will provide multilateral development finance to the member nations as well as other developing countries. The member nations can also tap into the bank's corpus of $100bn during contingencies.

Surprisingly, the western world too has been receptive to the idea of an exclusive development bank for the emerging economies. In fact, the development has been hailed by several top notch economists including the Nobel Prize winner Joseph Stiglitz. According to Stiglitz, "So, this new institution reflects the disparity and the democratic deficiency in the global governance and is trying to restart, to rethink that," said Stiglitz. The World Bank too has welcomed the announcement (of setting up of BRICS Bank). "The only competition we have is with poverty," said World Bank's President Jim Yong Kim, playing down the talks of rivalry from the newly formed BRICS. "Any bank or any group of institutions that try to tackle the problem of infrastructure investment to fight poverty, we welcome," he added.

The formation of BRICS Bank undoubtedly marks a major milestone in this nascent trade block, which could only grow from here on. However, the founding nations of the new development bank, which is based on the principle of 'one country one vote', must also ensure that they learn from the experiences of the IMF and WB and put in place a governance structure which is in sync with the ground realities and necessities of other emerging economies.

Amit Singh TGA

DAIKIN IN INDIA
R'AC'ing Ahead

The Japanese major takes rivals by surprise as it races to the second spot in India's lucrative AC market, courtesy an improved focus on 3Ps: Penetration (a distribution network that has grown fast and continues to be growing), Product portfolio with more choices on offer for customers and also importantly Price (growing localization has helped it compete effectively on pricing front vis-à-vis its rivals).

While the mercury might not have soared as much as many would have expected it to be, but the summer of 2014 has not been so kind to the rivals of Daikin, the Japanese air conditioner manufacturer, which has left behind many established and well entrenched rivals to emerge as India's second largest AC maker, behind only to Voltas. Daikin made its India entry by setting up a joint-venture (JV) with the Usha Shriram group (where it held 80 per cent stake). In the beginning it focused on the premium category of the commercial markets. Daikin operates in three segments – commercial, industrial and residential. However, after spending nearly a decade, the company began tweaking its strategy, which saw it shifting focus on residential or consumer segment.

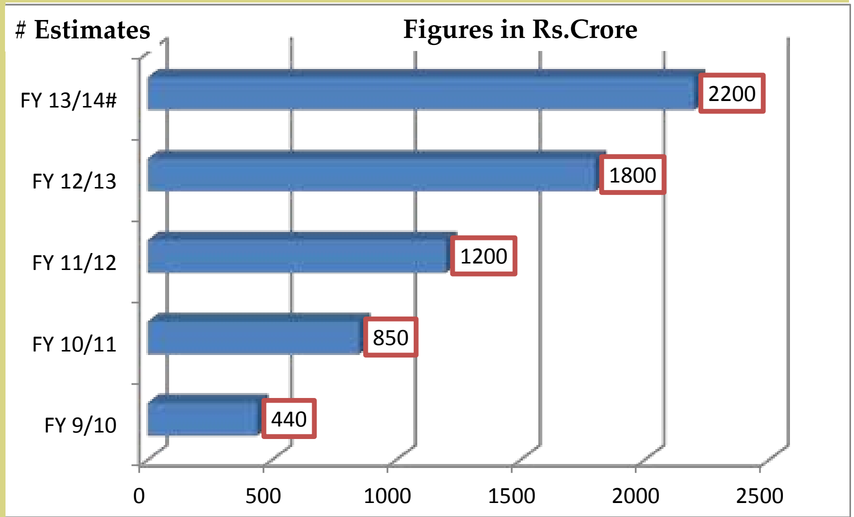
Rejigging its strategy

Daikin Airconditioning India Pvt. Ltd. (DAIPL) is a 100 per cent subsidiary of Daikin Industries Ltd., Japan, a global leader in the manufacturing of commercial-use and residential air conditioning systems. While the company's efforts on rejigging its 3Ps strategy has delivered good results, it's the shift in focus – from commercial to residential segment - a strategy that has largely gone unnoticed – has paid huge dividends.

The company derived 30 per cent of its revenues from retail segment in 2012, but today it earns 70

ON A ROLL

Daikin India's Revenues have soared in the last four years



Source: Company reports

per cent of its revenues from this category, while its revenues from the commercial segment has gone down to 30 per cent from 70 per cent, during the same period. In terms of number of units sold during the last four years too the figures are equally impressive. The company which sold 34,000 units in 2009-10, grew this number several folds to nearly 400,000 units by 2013-14, while revenue jumped from Rs 440 crore to Rs 2,200 crore by the same time. Such a scintillating performance has made Daikin the second largest AC maker after Voltas in terms of revenue.

The company attributes its new-found success to two key factors: growing localization and improved focus on service. "The turnaround in Daikin's fortunes in India is in large measure an outcome of higher localisation," said Kanwal Jeet Jawa, MD of Daikin's Indian subsidiary, and the architect of the company's turnaround strategy. "Till about two years back, Daikin was only making commercial ACs and chillers in India, and was importing all its residential ACs from Thailand and Japan.

By 2012, Daikin stopped all imports and started manufacturing residential ACs at the Neemrana plant," he adds. Besides, the company has also increased focus on improving after-sales service to the customers. "The company has devised a five-point strategy which revolves not only around products, but also people, service, systems and the brand," according to Jawa. According to a Business Standard report, local sourcing has helped Daikin's Indian subsidiary to trim costs by nearly half (45 per cent) of its overall costs. "By eliminating costs in the value chain, the company can now pursue a low-price strategy," BS report says. While the Daikin non-inverter AC range starts from Rs 29,600, its inverter AC range starts from Rs 35,400. "The price-points give it a smooth entry into Tier I and II cities."

The company has also benefitted from growing penetration – it now boasts of a pan India presence with 1,800-strong dealer network, which is expected to reach 2,500 by the end of FY15, while it also aims to boost the number of 100 exclusive Daikin Solutions Plazas to 200 during the same period.

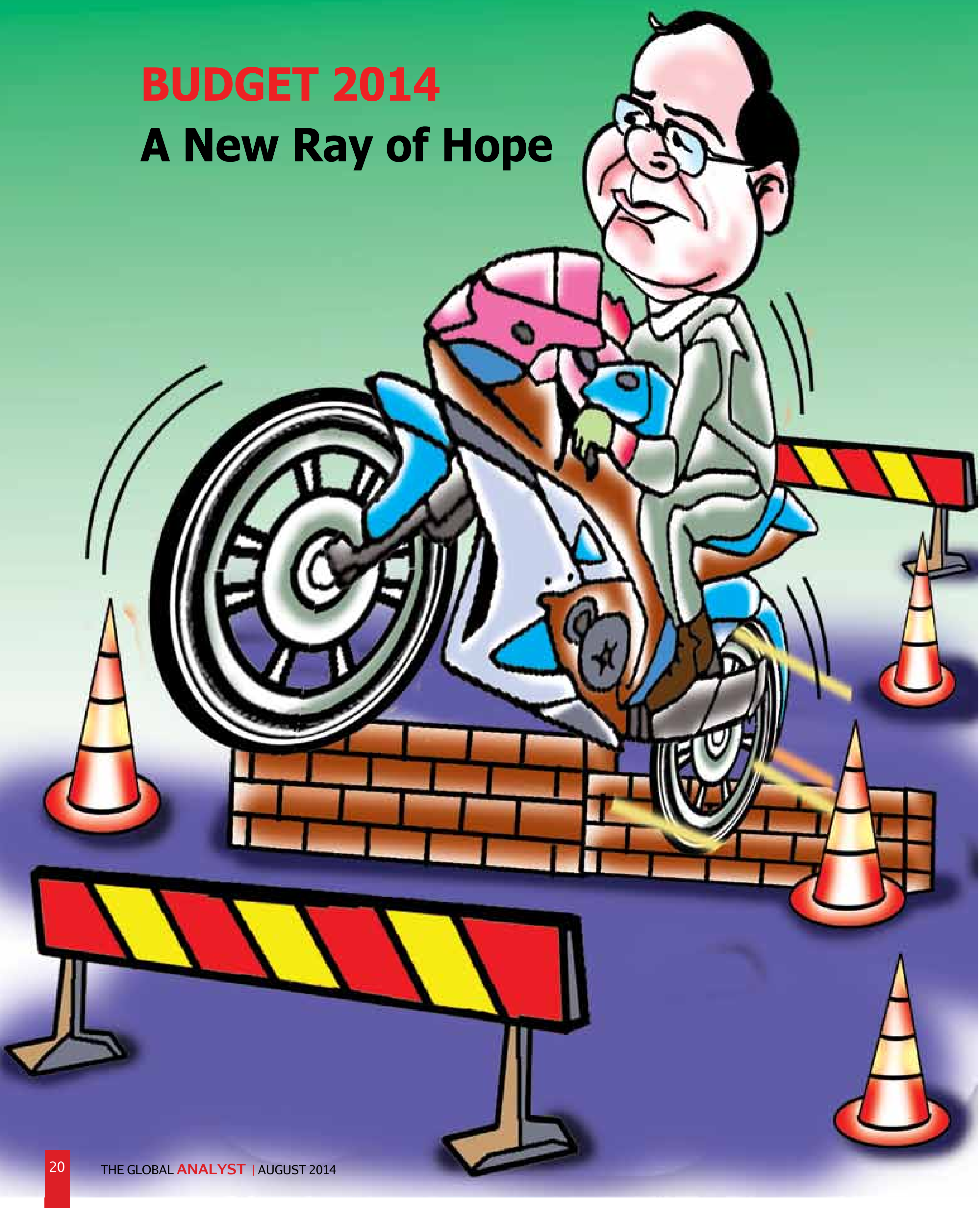
Daikin, for which engineering is its "core asset", is now aiming for the top slot as it endeavors to offer the very best in HVAC (heating, ventilation and AC market) technology, be it the introduction of the 'greener' HFC32 refrigerant or the 'energy-efficient' inverter AC technology," according to Jawa. Rivals better watch out!

Aiming for sustainable growth through two pillars: contributing to the Enrionment while Expanding business and nurturing Human Resources.

- Masanori Togawa President & CEO Daikin Industries Ltd.

TGA

BUDGET 2014
A New Ray of Hope



The Finance Minister has tried to please everyone, while prioritising fiscal prudence over mere populism. Aiming to fulfil the government's promise of development, the FM announced steps to achieve sustained growth of 7–8 per cent in the next 3-4 years, along with macroeconomic stabilisation that includes lower inflation, lesser fiscal deficit and a manageable current account deficit. Investment clearly has been the underlying theme in this budget. Overall, with this eagerly awaited budget, the government has made all the right noises and has taken some baby steps to revive the economy.

- Seemant Shrivastav, Managing Partner, ixCFO Services, Mumbai.


Seemant Shrivastav

The first Union Budget of the newly elected NDA Government for 2014-15 was presented by the Finance Minister Arun Jaitley in the Parliament on 10th July 2014. The Indian economy has been through challenging times that culminated in lower than 5 per cent GDP growth for two consecutive years, i.e., 2012-13 and 2013-14. In addition to growth slowdown, high inflation continued to pose significant challenges. This indicated the importance of addressing the domestic structural constraints that have engendered a gradual recovery.

The agenda for the new government was clear – revive investment which is essential for creating new jobs and boost income, put in place a framework for monetary policy and fiscal consolidation to ensure low inflation, and put public finances on a sustainable path through tax and expenditure reforms. It was in this economic backdrop that the Finance Minister had to present the Union Budget 2014-15.

The Finance Minister has tried to please everyone, while prioritising fiscal prudence over mere populism. Aiming to fulfil the government's promise of development, the FM announced steps to achieve sustained growth of 7–8 per cent in the next 3-4 years, along with macroeconomic stabilisation that includes lower inflation, lesser fiscal deficit and a manageable current account deficit. Investment clearly has been the underlying theme in this budget. Realizing that growth rate of the economy is correlated with the investment rate, the budget contains proposals for development of industrial and economic corridors, with smart cities linked to transport connectivity, as the cornerstone of the strategy to drive India's growth in manufacturing. The budget has made an attempt to boost agricultural productivity by linking the subsidies in MNREGA to quantifiable output. The budget has some significant proposals for the real estate and infrastructure sector such as grant of a pass through tax status for REIT and INVIT that would raise capital by way of issue of units to be listed on a recognized stock exchange. Finance Minister's commitment to provide a stable and predictable tax regime that would be investor friendly and spur growth is welcome.

Impact on Key Segments

Infrastructure: Perhaps the biggest focus of the budget is on reviving the infrastructure sector. The finance minister has approached this issue from a number of angles. By extending the 80 IA tax benefit by three yeaRs, the government has provided tax incentive for investment in the sector.

Apart from this, the FM has made investment in this sector easier for banks by allowing them to avail of long term deposits as well as lending to the sector will make them eligible for SLR and CRR exemption. The target for building roads has been increased to 8,500 km while budget outlay for the sector has been set at Rs 37,880 crore. Another important announcement related to the setting up of 16 new ports. Setting up of new ports will lead to increase in associated infrastructures like roads and rails apart from being an important hub of development.

Real Estate: 'Pass through' status has been granted for Real estate investment trusts (REITs) & Investment Trusts (INVIT). Dividend distribution tax is to be payable at SPV level (exempt at trust and individual unit-holder level). Tax efficient REIT structure is likely to encourage the development of the REIT market. This will improve fund flow of developers who have considerable lease income.

Capital Goods: The FM has extended the incentive scheme for manufacturing companies by allowing investment allowance of 15 per cent for three years for those players who invest over Rs 25 crore in plant and machinery. The Budget also announces measures to revive the power sector by assuring coal linkage and helping closed units to restart. Tax holiday for power project under 80 IA has also been extended.

Steel: The steel sector, in line with the benefits given to the infrastructure sector, has received special attention from the finance minister. Import duty on stainless steel products has been increased from 5 to 7.5 per cent, giving them buffer room as their selling price is pegged to the landed imported price. Further duties on inputs like steel scrap and coking coke has been reduced, which can further help in improving their margins.

Jewellery: Though the FM did not reduce import duties on gold, which was largely expected on account of a comfortable current account deficit situation, he has given some relief by rationalising duties on inputs like diamond and precious stones.

Consumables: The consumer sectors, both durable and non-durable sector, are likely to benefit from the personal tax measures announced by the finance minister. Higher tax exemptions would leave more money in the hands of the buyers for purchases. Import duties on computers, TV sets and raw material for soaps have been reduced. The intention clearly is to increase demand for these goods. The footwear sector will also benefit from a reduction in duty.

Retailing and FMCG sector are expected to gain from a reduction in excise duty on food processing and packaging machinery.

Agriculture: Over the medium term, the government plans to boost agriculture growth to 4 per cent. It has indicated implementation of a second green revolution to increase productivity. Other policy measures that support growth in the sector include improving irrigation facilities and creation of a long-term rural credit fund to improve access to credit.

MSME: The budget also announced measures to promote the MSME sector, which employs close to 8 per cent of the total labour force. It proposes to establish a Rs 100 billion fund to act as a catalyst to attract capital for start-up companies. Also announced were measures to make the legal environment entrepreneur-friendly for easy exits. These initiatives will lead to an increase in self-employment. The government has also showed an inclination to bring in suitable amendment of the Apprenticeship Act, which will boost employment in the MSME sector.

Insights into Tax Proposals

Direct Taxes:

- Income-tax rates for individuals remain unchanged, however, exemption limit increased by Rs. 50,000 from Rs. 200,000 to Rs. 250,000. Income-tax exemption limit also increased by Rs. 50,000 for senior citizens from Rs. 250,000 to Rs. 300,000.
- Surcharge of 10 per cent on personal income-tax applicable on income exceeding Rs. 10 million and education cess of 3 per cent has been retained.
- Rates of corporate tax remain unchanged for both domestic and foreign companies.
- Deduction under section 80C on account of savings and investments increased by Rs. 50,000 from Rs. 100,000 to Rs. 150,000.
- Deduction for interest on housing loan for self-occupied house property increased by Rs. 50,000 from RS. 150,000 to Rs. 200,000.
- Dividend Distribution Tax is to be paid after grossing up net profits distributed by the company or income distributed by mutual fund as the case may be.
- Applicability of concessional tax of 15 per cent on gross dividend received by an Indian company from specified foreign company has been extended to all future assessment years without any sunset clause.
- Unlisted securities and mutual funds (other than equity oriented funds) to be treated as long term capital assets, where the same are held for a period of more than 36 months.
- Disallowance on account of non-deduction/late deductionand deposition of tax at source extended to cover all payments to a resident on which tax is deductible. Amount of disallowance to be restricted to 30 per cent of the amount ofexpenditure.
- Expenditure incurred on activities related to Corporate Social Responsibility not to be allowed as deductible expenditure.
- To provide further impetus to the manufacturing

A Watershed Moment?

Robin Roy, Associate Director, Financial Services, PricewaterhouseCoopers(Pvt) Ltd.

Budget 2014-15 is perhaps the most holistic, covering the essentially all the pillars of the economy. It puts in place a less uncertain tax regime and brings in a sense of finiteness in terms of liabilities.

Each year the Budget is looked upon as a cornucopia of benefits for all sectors of the economy. This year in the wake of raging inflation (CPI=9.5 per cent), eroded value of the rupee in turn a consequence of CAD (Current Account Deficit, 2013-14 of more than 1.7 per cent) and a fiscal deficit 2013-14 of 4.5 per cent, (below target), the budget sets the right tone for the remaining period of the NDA government.

Without being over ambitious and touching upon (in different degrees) on various sectors, the budget has made serious efforts at changing the strategic direction of policy making and economic decisions. In my view, this is a document that goes beyond the numbers under revenue and expenditure heads and needs to be seen on a longer term view.

Let's look at some new tailwinds that are expected to reduce the fiscal deficit/GDP and rein in forces that have been stoking inflation through supply- side bottle necks. To give a fillip to falling household savings, the FM has given a fiscal incentive by increasing the tax exemption limit. The bigger challenge still remains though: how to increase our Tax to GDP ratio from 10 per cent or so close to 15 per cent. Some quick comparisons show (as per World Bank 2012): USA 10 per cent, UK 27 per cent, and South Africa 26 per cent. To help the commercial banks further which have the twin challenges of maintaining CAR (Capital Adequacy Ratio), especially Tier 1 (pure equity) capital and reducing ALM (Asset Liability Management) mismatches, they have been allowed to raise long-term bonds with higher returns (without any SLR+CRR as pre-emption costs).

The budget strives to keep the fiscal deficit to 4.1 per cent of GDP for FY 2015 but leaves behind some questions on the assumptions for divestments and tax collections. Such a level of deficit would help restrain the falling rupee and rein in the CAD. Measures by the RBI to curtail demand for gold (second largest item in import basket after oil) have had muted impact and thus the other question is how close would FY 15 be towards the CAD target.

To turn the tide of negative sentiments among investors (overseas and domestic), it attempts to provide a mix of fiscal (retrospective tax amendments would be reviewed) and policy measures (increasing FDI limit in Insurance to 49 per cent), and giving loud hints that the banking sector needs consolidation. It coaxes the corporate sector to raise funds for its capex through long-term bonds in the years to come. This along with banks being allowed to create investment trusts clearly indicates that as we are not an export-led economy but with a high domestic savings rate, we need to create a deeper capital markets where the purveyors of credit and liquidity help to reduce the crowding out of investments by the government to manage its deficits. Key recommended policy measures attempt to bring in simplicity and efficacy on tax & legal issues, covering loan recoveries, supporting corporate bonds market and increased use of new/nascent products like covered bonds, municipal bonds, all towards a deeper and sustainable market. To give comfort to both FIIs and retail investors, the increased push of trades and settlements to exchanges is a step in the right direction as trust and guaranteed settlements are synonymous with increased participation and risk dispersion.

The oft repeated trillion-dollar infra story has left the question of resources unanswered. Perhaps for the first time over the last 5 years, the importance of having term lending institutions has been brought centre stage and post budget comments by the government would indicate that reviving DFIs (Development Financial Institution) has become an imperative. While the erstwhile DFIs like ICICI, IDBI, UTI (In the category of long term providers of credit) transitioned into commercial banks, they left a gaping hole in the market as there were no term lending institutions that could step in. Keeping in view the typical ALM mismatches of banks and the preemption costs of reserve ratios, the budget recommends issuance of long-term bonds by banks and a special dispensation from maintaining CRR and SLR ratios on such bonds. This is bound to increase liquidity in the system and it's up to the banks to deploy proceeds of long-term bonds as per laid down prescriptions.

A Futuristic Budget

The budget 2014-2015 is perhaps the most holistic, covering the essentially pillars of the economy and thereby addressing the entire ecosystem of financial markets. It puts in place a less uncertain tax regime and brings in a sense of finiteness in terms of liabilities. It also encourages retail investors to invest in instruments created earlier as a hedge against inflation (inflation protected bonds), in housing to fulfill their dreams, etc. It aims to convert the high domestic savings pool into a liquid source of long-term funds for infrastructure. It will also enable banks to play the lead intermediary role and have the assurance of a more effective legal framework to recover its bad loans quickly and protect erosion of market value of loan collaterals.

Within the federal structure of governance, a lot of focus is on introduction of GST, DTC and other proposed steps to bring the best out of interstate goods and trade movement and towards less "government" and more of "governance". In that sense the budget is a watershed moment.

Views are personal

sector, new investment based deduction scheme introduced for allowing 15 per cent of the investment made for acquisition and installation of new plant and machinery from 1 April 2014to 31 March 2017.

- Sunset clause for commencement of business for claiming tax holiday in power sector extended from 31 March 2014to 31 March 2017.
- Investment linked tax deduction extended to taxpayers engaged in laying and operating a slurry pipeline for the transportation of iron ore or setting up and operating a notified semiconductor wafer fabrication manufacturing unit. Certain amendments made in the scheme of claiminginvestment linked deduction.
- Capital gain exemption on investment in a residential house property available only if the investment is made in oneresidential house situated in India.
- Sum of money received as an advance for transfer of a capital asset will be chargeable to tax as income from other sources if such advance is forfeited.

Indirect Taxes

Customs Duty

- Peak rate of Basic Customs Duty (BCD) remains unchanged at 10 per cent
- Mandatory pre-deposit prescribed as 7.5/10 per cent depending on the stage of appeal.
- Advance ruling option made available to resident private limited companies.
- BCD and CVD rates rationalised on various types of coal at 2.5 and 2 per cent, respectively.
- Free baggage allowance increased from Rs. 35,000 to Rs. 45,000.
- Excise duty
- No change in the basic Excise duty rate of 12.36 per cent.
- Advance ruling option made available to resident private limited companies.
- Mandatory pre-deposit prescribed as 7.5/10 per cent depending on the stage of appeal.
- Excise Valuation Rules have been amended to prescribe that the sale price shall be deemed to be the transaction value even if goods are being sold below cost (if no additional consideration flows from the buyer), provides relief from the decision of the Supreme Court in case of Fiat India Private Limited.

Service tax

- No change in effective Service tax rate of 12.36 per cent.
- Advance ruling option available to resident private limited companies.
- Amendments in scope of negative list and list of exempt service.
- Reverse charge mechanism made applicable for two more services.
- Mandatory pre-deposit prescribed as 7.5/10 per cent depending on the stage of appeal.
- Location of service provider to be the place of supply for an intermediary of goods.
- Powers granted to revenue officers to undertake search and seizure.
- Graded increase in interest rates for delay beyond six months (ranging from 24 to 30 per cent).
- CENVAT Credit of inputs and input services now required to be availed within six months from the date of invoice.

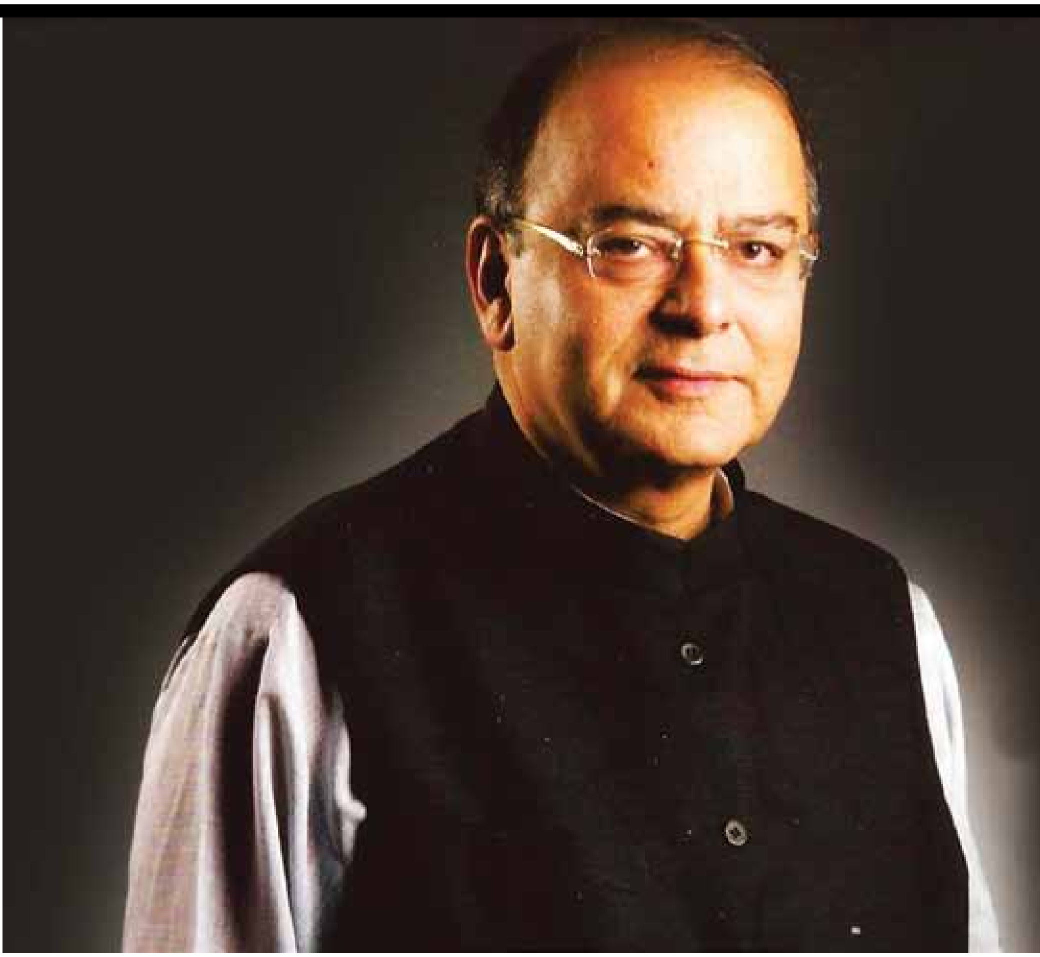
Impact on Markets

The stock market will now be more focussed on the long term roadmap. Clearly, the market recognises that within 45 days it is difficult for the government to lay out everything on the table, but there are certain things on which the market is looking forward for long term guidance. Overall the budget has had a positive impact on the stock markets.

Putting the economy back on track

Overall, with this eagerly awaited budget, the government has made all the right noises and has taken some baby steps to revive the economy. The government reaffirmed its commitment to the Goods and Services Tax (GST) and the Direct Taxes Code (DTC), although it would have been good to have a timeframe for their implementation. The FM also mentioned that the government would avoid retrospective taxation, being committed to providing a stable and certain tax regime. However, there was no respite for the existing disputes which would take their own course. The thrust areas are very clear, reviving economy, scaling up infrastructure & agriculture, creating jobs, pushing up savings & reinvestments.

We hope these potentially transformative steps will strengthen the Indian economy further and boost its chances of playing a bigger role in the global arena. TGA



"THE NEW GOVERNMENT IS TRYING TO RESTORE THE CONFIDENCE OF DOMESTIC AND FOREIGN INVESTORS BY BRINGING "CIVILITY" TO THE TAXATION SYSTEM."

- Arun Jaitley, Finance Minister.

A Budget for Aam Investors!

- Sanjay Matai, Personal Finance Advisor, The Wealth Architects, Pune.

The not-so-healthy state of the Indian economy is a well known fact. Deceleration in the GDP growth rate from 9%+ levels to around 4-5% range has deflated the unprecedented buoyancy witnessed during 2004 to 2007. As such, it was widely believed that the new Finance Minister, of the new political regime after a decade, would have to primarily focus on bringing the economy back on rails.

Given this background of faltering economy coupled with rising oil prices, crisis in Iraq, Ukraine and Israel, missing monsoon, stalled infrastructural development, high inflation and high fiscal deficit, not much was expected in this year's budget. More so when not even two months had passed since the new Finance Minister took charge of the office.

Yet, contrary to all expectations, the Finance Minister Mr. Arun Jaitley has delivered a lot for the aam investors to rejoice. However, there are some negatives too that may require some portfolio readjustments. Elaborated in this commentary on Union Budget 2014-15 are the key provisions that would be of prime importance to the investors.

Sec 80C deduction and PPF limit enhanced

As is widely known, Sec 80C of the Income Tax Act allows deductions from taxable income up to a sum of Rs.1 lakh; a limit that has remained unchanged for almost a decade. As such, it is nowadays proving to be quite inadequate. For many taxpayers the mandatory deduction under provident fund, home loan principal repayment and the insurance premiums put together are enough to exhaust the 80C limit.

Thankfully, the Finance Minister has enhanced this limit to Rs.1.50 lakhs. The additional deduction of Rs.50,000 allowed would translate into a tax saving of Rs.5150 / Rs.10,300 / Rs.15,450 for tax payers in the 10% / 20% / 30% tax bracket respectively.

This, in addition to (a) increase in the personal income tax exemption limit from Rs.2 lakhs to Rs.2.50 lakhs (for senior citizens from Rs.2.50 lakhs to Rs.3 lakhs) and (b) enhancement in the limit of home loan interest on self-occupied property allowed as deduction u/s 24 from Rs.1.50 lakhs to Rs.2 lakhs, brings lots of money to the investor's table to suitably add to his investment portfolio.

PPF is one of the eligible investments u/s 80C. Consequently, with the increase in sec 80C deduction, even the annual ceiling in PPF has been enhanced from Rs.1 lakh to Rs.1.50 lakhs. This is indeed a great opportunity for investors. PPF is an excellent investment as it is exempt from tax at all three stages i.e. investment, accrual and maturity; besides offering highly competitive and safe returns.

Equity Linked Saving Scheme (ELSS) is another excellent investment for investors who have the risk-appetite for investing in the equity markets. Since ELSS too features in the eligible list of investments u/s 80C, aggressive investors get a chance to enhance their ELSS investment.

That apart, the proposal to (i) introduce new products namely NSC with insurance cover and a special small savings scheme for girl child, (ii) reintroduce Kisan Vikas Patra scheme and (iii) provide uniform tax treatment to pension fund and mutual fund linked retirement plans, will enlarge the bouquet of products available to the investors.

Real Estate Investment Trusts likely to make a debut

In addition to equity, real estate is one of the best creators of wealth. It also offers the opportunity to earn inflation-adjusted rental income.

However, investing in real estate comes with numerous issues. Till now retail investors in India have had primarily only one way to invest in real estate — put in

Sanjay Matai

some down-payment, take a bank loan and buy a property.

In this process, he has to manage everything — from search and purchase; to verification and registration; and finally to renting and maintenance. Moreover, his exposure is limited to one or, at best, a few properties. And that too mainly land and residential. Number of retail investors owning a commercial property is minuscule.

In such a scenario, Real Estate Investment Trusts (REITs) provide a new and exciting opportunity to invest in properties, more particularly commercial ones.

REIT, as the name suggests, is a trust that raises small deposits from a number of investors to create a large pool of money. This money is then primarily

1. Invested in a number of ready commercial properties. The objective is to generate a regular source of rental income, which is passed on to the investors as their returns. Besides this, the fund value (and accordingly the NAV) also appreciates with the appreciation in property prices, and/or

2. Lent as mortgages to property buyers / invested in mortgage-based securities. The objective is to generate interest income.

In short, REIT functions like a typical mutual fund; the advantages being

- exposure to a wide variety of commercial and premium projects (such as shopping malls, office complexes, hotels etc.)
- search and investment done by the property experts
- verification done by the legal experts
- no cumbersome paperwork
- no maintenance worries
- low investment threshold amount
- faster transactions and much lower expenses
- high liquidity and part-redemption possible
- earning high rental income

Despite all the aforesaid advantages and SEBI's attempt in creating appropriate regulations in the past, no REITs have seen the light of day till date.

In this budget, the FM has proposed that REITs will be a pass through for the purpose of taxation. Capital gains and dividends would enjoy tax benefits similar to equities / equity-oriented mutual funds. This would remove one big impediment and hence provides a glimmer of hope that REITs would soon be a reality.

Removal of Tax Arbitrage on Debt Mutual Funds

This budget removes the tax arbitrage enjoyed by debt mutual funds vis-à-vis fixed deposits and such other debt investments.

Earlier, debt mutual funds (or rather, more specifically, all non-equity oriented mutual funds) were classified as long term capital assets if held for more than a year and such long term capital gains were taxed at 10% (without indexation) or 20% (with indexation). Comparatively, interest income on fixed deposits, being taxed as per investor's marginal tax rate, was tax-inefficient for investors in the 20% or 30% tax brackets.

Henceforth,

a) The debt and other non-equity oriented mutual funds would be classified as long term capital assets only if the period of holding is more than 3 years as against 1 year till now.

b) In addition, the concessional tax rate of 10% (without indexation) will not apply to these funds. Instead, they would be liable to pay 20% (with indexation) long term capital gains tax.

c) Investments up to 3 years would now classify as short term capital gains and taxed as per the investor's marginal tax rate.

This is a massive opportunity loss for an investor looking for safe and tax efficient investment for a period of 1 to 3 years.

The solution to this lies in

- Extending the holding period to 3 years wherever feasible. With 3 years of indexation benefit, the actual tax liability would be minimal. Hence, long term debt investors are not likely to be much affected by this amendment.

- Considering equity-oriented Arbitrage Funds if the time horizon is less than 3 years. For period less than a year, arbitrage funds are taxed at 15%. And for period exceeding one year the tax liability is Nil. [Note: Arbitrage funds are designed to offer safe debt-like returns despite the exposure to equity.]

Income / Dividend Distribution Tax to be levied on the Gross amount

Dividend distributed by the company or the income distributed by mutual funds is subject to additional tax (plus surcharge and cess, if any) which, in common parlance, is known as the Dividend Distribution Tax (DDT).

Prior to the introduction of DDT, gross amount of dividend was taxable in the hands of the shareholders / unit-holders at the applicable rate which varied from 0 – 30%. However, since DDT has been introduced, the applicable rate is being levied on the amount paid as dividend, after reduction of the distribution tax.

Therefore, the effective tax which is computed with reference to the net amount, works out lower than the prescribed rate.

To ensure that the tax is levied on the proper base, this budget has amended the relevant clause such that the amount of distributable income and the dividends actually paid need to be grossed up for the purpose of computing the additional tax.

Impact on dividend distributed by companies

The DDT rate for dividends works out to 16.995% (15% DDT + 10% surcharge + 3% cess) and is presently being calculated as under:

Distributable surplus = Rs.100

Dividend paid = 100/1.16995 = Rs.85.47

DDT = 100 – 85.47 = Rs.14.53

Effective DDT received by Govt. = 14.53/100 = 14.53%

This is being revised to as under:

Distributable surplus = Rs.100

DDT = 100*16.995% = Rs.17

Dividend Paid = 83

Thus, henceforth the shareholders will receive around 3% lower payout.

Impact on income distributed by mutual funds

DDT is applicable only on the non-equity oriented mutual funds. The DDT rate for income distributed works out to 28.325% (25% DDT + 10% surcharge + 3% cess) and is presently being calculated as under:

Distributable surplus = Rs.100

Income paid out = 100/1.28325 = Rs.77.93

DDT = 100 – 77.93 = Rs.22.07

Effective DDT received by Govt. = 22.07/100 = 22.07%

This is being revised to as under:

Distributable surplus = Rs.100

DDT = 100*28.325% = Rs.28.325

Income paid out = 71.675

Thus, henceforth the unit-holders will receive around 8% lower payout. Investors will now have to explore the options to take out money in the form of capital gains rather than dividends.

While equity-oriented funds will not be directly impacted as there is no DDT on the income distributed by such funds, they would receive lesser dividend payout on their equity investments as explained earlier.

Ambiguity in application of capital gains tax exemption clause removed

Under section 54EC, gains on sale of capital assets such as property, held for more than 3 years (termed as long term capital gains), are exempt from tax provided

a) the gains are invested in specified bonds issued by REC / NHAI within a period of 6 months from the date of sale; and

b) the investment in these bonds in any financial year does not exceed Rs.50 lakhs.

The wording 'in any financial year' was creating an ambiguity.

A person selling his property after Sept in any financial year was able to claim tax exemption up to Rs.1 crore by investing the capital gains up to Rs.50 lakhs in the financial year in which the sale happened and balance gains up to another Rs.50 lakhs in the next financial year. He had to only ensure that both investments were completed within the deadline of 6 months. This was not the intention of the Govt. when it provided this tax relief.

An amendment to section 54EC has removed this ambiguity. The clause will now state that the investment in these bonds in the year in which the sale takes place and in the subsequent financial year will not exceed Rs.50 lakhs.

So the Govt. has plugged this loophole.

This, in a nutshell, is what the Union Budget 2014-15 offers to the investors.

TGA

IMPACT ON INFRASTRUCTURE

Budget 2014-15 which was presented on July 10th 2014 focused mainly on the infrastructure sector. The present government is keen on improving infrastructure in all sectors including roads, port, airports, railways, urban, rural and industrial infrastructure besides ensuring adequate flow of funds and financing of projects.

CA Rishabh R. Adukia, Advisor, Meridien Business Consultants (P) Ltd, Mumbai.

As the growth of the economy in general and the manufacturing sector in particular is largely dependent on creation of suitable infrastructure, the policy focus in India has been on infrastructure investment. The Twelfth Five Year Plan (2012-17) has laid special emphasis on infrastructure development as quality infrastructure is important not only for sustaining high growth but also ensuring that the growth is inclusive. Large infrastructure investment during the last decade or so has helped India emerge as one of the fastest growing economies in the world.

Budget's impact on infrastructure in a nutshell –

- measures to encourage development of smart cities (smart city is one that completely runs on technology—be it for electricity, water, sanitation and recycling, ensuring 24/7 water supply, traffic and transport systems)
- development of Metro rails in PPP mode;
- 16 new ports to be set up (India already has 13 major ports and 176 non-major ones)
- new airports to be developed through PPP mode in tier-II and tier-III cities (tier-I cities are the metros, followed by tier-II cities which are usually regional hubs or industrialized centres like Pune, Jaipur, Lucknow etc. and lastly tier-III cities that includes minor cities like Nasik, Baroda, Trichy, Madurai, etc.)
- in order to complete gas grid, 15000km of additional pipeline to be developed through PPP mode
- conducive tax regime for infrastructure and real estate investment trusts
- modified REITS type structure for infrastructure projects known as Infrastructure Investment Trusts (InvITs)
- integrated project based infrastructure in the rural areas
- raise the corpus of Rural Infrastructure Development Fund (RIDF)

Before we go into the impact of budget on infrastructure, we need to understand the role and importance of infrastructure.

Importance of Infrastructure

"Poor infrastructure impedes a nation's economic growth and international competitiveness. Insufficient infrastructure also represents a major cause of loss of quality of life, illness and death. This raises the importance of infrastructure services from a good investment to a moral and economic imperative." - (Delmon, an infrastructure specialist with the World Bank)

Research has shown that well designed infrastructure investments can raise economic growth, productivity and land values, while also providing significant positive spillover to areas such as economic development, energy efficiency and public health. It goes without saying that poorly planned, non-strategic, infrastructure investments are not only a waste of resources, but can negatively impact future economic growth.

Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact economic growth and affect income inequalities and poverty in a variety of ways. A well-developed transport and communications infrastructure network is a prerequisite for the access of less-developed communities to core economic activities and services.

Government Role in Infrastructure Sector

Historically, the combination of a society's primary need for services and its technological potential has been the fundamental catalyst for the formation and execution of large-scale physical works projects. Effective and enduring investments in transportation, telecommunications, and sanitation continue to be a basic measurement of societal development, and public sector efficacy.

As a commanding public interest, infrastructure can also be characterized as an emerging public trust. Traditionally, Governments have appropriated all aspects of infrastructure. This is particularly true in developing countries. Throughout the first half of the twentieth century, for many industrialized countries private participation had been essential; but the trend from the late 1940s until the 1980s was overwhelmingly towards government provision. There are a number of reasons for this dominant public sector role in infrastructure development: recognition of its economic and political importance; a belief that problems with technology required a highly activist response by Governments; an expectation that Governments could perform where private markets could not.

Highlights of the Economic Survey - 2013-14 with respect to Infrastructure

- From the infrastructure development perspective, while important issues like delays in regulatory approvals, problems in land acquisition & rehabilitation, environmental clearances, etc. need immediate attention, time overruns in the implementation of projects continue to be one of the main reasons for underachievement in many of the infrastructure sectors.
- Major sector-wise performance of core industries and infrastructure services during 2013-14 shows a mixed trend.
- India has one of the largest road networks in the world, spread over 48.65 lakh km. It comprises national highways, expressways, state highways, major district roads, other district roads, and village roads. A total length of 21,787 km of national highways has been completed till March 2014 under various phases of the National Highways Development Project (NHDP). In spite of several constraints due to the economic downturn, the NHAI constructed 2844 km length in 2012-13, its highest ever annual achievement.
- Significant changes have been made in the FDI policy regime in recent times to ensure that India remains an increasingly attractive investment destination. As a result, total FDI inflows into major infrastructure sectors registered a growth of 22.8 per cent in 2013-14 as compared to a contraction of 60.9 per cent during 2012-13. Sectors recording positive growth included railway-related components, telecommunications, air transport (including air freight), and power.
- According to the Twelfth Plan projections, during the Plan period, i.e. 2012-17, an investment of US$ 1 trillion is required in the infrastructure sector in India. About half of this is expected to come from the private sector.

Measures to improve the state of infrastructure under Budget 2014-15

1. An institution to provide support to mainstreaming PPPPs called 4PIndia to be set up with a corpus of Rs.500 crores.
2. A sum of Rs.7060 crore is provided in the current fiscal for the project of developing "one hundred Smart Cities'.
3. Requirement of the built up area and capital conditions for FDI to be reduced from 50,000 square metres to 20,000 square metres and from USD 10 million to USD 5 million respectively for development of smart cities.
4. A modified REITS type structure for infrastructure projects as the Infrastructure Investment Trusts (INVITS). Will attract long term finance from foreign and domestic sources including the NRIs.
5. Conducive tax regime to Infrastructure Investment Trusts and Real Estate Investment Trusts to be set up in accordance with regulations of the Securities and Exchange Board of India.
6. Shyama Prasad Mukherji Rurban Mission for integrated project based infrastructure in the rural areas.
7. Rs.500 crore for "Deen Dayal Upadhyaya Gram Jyoti Yojana" for feeder separation to augment power supply to the rural areas.
8. New programme "Neeranchal" to give impetus to watershed development in the country with an initial outlay of Rs.2142 crores.
9. 500 urban habitations to be provided support for renewal of infrastructure and services in next 10 years through PPPs.
10. Rs.100 crore provided for Metro

Projects in Lucknow and Ahemdabad.

11. Mission on Low Cost Affordable Housing anchored in the National Housing Bank to be set up.

12. An amount of Rs.100 crores set aside for "Agri-tech Infrastructure Fund".

13. Corpus of Rural Infrastructure Development Fund (RIDF) raised by an additional Rs.5000 crores from the target given in the Interim Budget to Rs.25000 crores.

14. Allocation of Rs.5,000 crore provided for the Warehouse Infrastructure Fund.

15. A sum of Rs.4000 crores for NHB from the priority sector lending shortfall with a view to increase the flow of cheaper credit for affordable housing to the urban poor/ EWS/LIG segment is provided.

16. Slum development to be included in the list of Corporate Social Responsibility (CSR) activities to encourage the private sector to contribute more.

17. Master planning of 3 new smart cities in the Chennai-Bengaluru Industrial Corridor region, viz., Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh and Tumkur in Karnataka to be completed.

18. Perspective plan for the Bengaluru Mumbai Economic corridor (BMEC) and Vizag-Chennai corridor to be completed with the provision for 20 new industrial clusters.

19. Development of industrial corridors with emphasis on Smart Cities linked to transport connectivity to spur growth in manufacturing and urbanization will be accelerated.

20. Scheme for development of new airports in Tier I and Tier II Cities to be launched.

21. An investment of an amount of Rs.37,880 crores in NHAI and State Roads is proposed which includes Rs.3000 crores for the North East.

22. Work on select expressways in parallel to the development of the Industrial Corridors will be initiated. For project preparation NHAI shall set aside a sum of Rs.500 crore.

23. An exercise to rationalize coal linkages to optimize transport of coal and reduce cost of power is underway.

24. Comprehensive measures for enhancing domestic coal production are being put in place.

25. Rs.2250 crore provided to strengthen and modernize border infrastructure.

26. Banks to be encouraged to extend long term loans to infrastructure sector with flexible structuring.

27. Banks to be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL).

PPP in Infrastructure Sector

PPP (Public Private Partnership) is often described as a private business investment where 2 parties comprising government as well as a private sector undertaking form a partnership. The deficit can be overcome by ensuring much more private capital investment. Expert guidance is the only way out for enabling efficiency through subsequent reduction in cost. These schemes are sometimes referred to as PPP, P3 or P3.

PPP involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project.

"PPP means an arrangement between a government or statutory entity or government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or related services for public benefit, through investments being made by and/or management undertaken by the private sector entity for a specified time period, where there is a substantial risk sharing with the private sector and the private sector receives performance linked payments that conform (or are benchmarked) to specified, pre-determined and measurable performance standards."

A key motivation for governments considering public private partnerships is the possibility of bringing in new sources of financing for funding public infrastructure and service needs.

A PPP typically has the following characteristics:

- The private sector is responsible for carrying out or operating the project and takes on a substantial portion of the associated project risks;
- during the operational life of the project the public sector's role is to monitor the performance of the private partner and enforce the terms of the contract;
- the private sector's costs may be recovered in whole or in part from charges related to the use of the services provided by the project, and may be recovered through payments from the public sector;
- public sector payments are based on performance standards set out in the contract
- often the private sector will contribute the majority of the project's capital costs, although this is not always the case.

The use of PPP for infrastructure projects should only be considered when:

- The public sector environment is suited to supporting PPPs – a PPP is a complex arrangement that requires support from the Public sector during development and operation. The likelihood of PPP success will be increased when the public sector supporting environment is strong.
- The project is suitable to being carried out as a PPP – certain characteristics make a project well suited to being a PPP, while others imply that the PPP approach will be difficult or inappropriate.
- The potential barriers to successful project implementation have been identified and can be overcome – many of the common obstacles to successful PPP implemen-

tation can be identified in advance. If these are insurmountable then the project should not proceed as a PPP. If they can be overcome, as will often be the case, then this needs to be factored into the PPP development and thoroughly planned for.

- Given that these conditions are satisfied, the project must be commercially viable for the private sector and offer value for money (VFM) for the public sector —the choice of PPP should allow the project to be undertaken at lower cost on a lifetime basis, while delivering the same or better quality services than could be achieved through implementation by the public sector or private sector on their own. It must also be commercially viable in order to be attractive to private investors.

Infrastructure Investment Trusts

To boost investments in the infrastructure sector, launch of infrastructure investment trusts was mentioned in the budget of 2014. Market regulator SEBI is expected to notify the regulations for InvITs by August 2014. Earlier in December 2013, SEBI had issued a consultation paper to introduce a framework for Infrastructure Investment Trusts (InvITs) primarily to aid financing/refinancing of infrastructure projects and enable developers to unlock capital.

To be run on the line of REITs that work on pooled investments, the infrastructure investment trusts (InvITs) will help project developers free up their balance sheets from ongoing projects and raise cheaper and longer duration funds for new projects. Under the plan, project developers can create and register a trust under the Indian Trusts Act to which they can sell 100 per cent of the special purpose vehicle that holds their ongoing projects such as tolled roads or airports. The trust would have a controlling stake in the infrastructure projects, allowing the developer to exit. Based on the underlying shares, the trust would then issue shares to investors, which would be listed on the bourses. Earnings from the projects would be distributed by the trust to investors as dividend while the project developer would only get a management fee. The InvITs would help developers unlock their capital and take up more projects.

There are several infrastructure companies whose funds are locked up in completed/substantially completed infrastructure projects which can otherwise be used for furthering infrastructure development in the country. InvITs may be an enabling vehicle for refinancing such assets as well as creating an investment option which may otherwise not be possible for smaller investors.

Rural Infrastructure Development Fund (RIDF)

The RIDF was set up by the Government in 1995-96 with a corpus of Rs 2,000 crore, for financing ongoing rural Infrastructure projects. The Fund is maintained by the National Bank for Agriculture and Rural Development (NABARD). Domestic commercial banks contribute to the Fund to the extent of their shortfall in stipulated priority sector lending to agriculture. The main objective of the Fund is to provide loans to State Governments and State-owned corporations to enable them to complete ongoing rural infrastructure projects. The Corpus of Rural Infrastructure Development Fund (RIDF) has been raised by an additional Rs.5000 crores from the target given in the Interim Budget to Rs.25000 crores.

World Scenario – Infrastructure Sector

According to a recent research on the infrastructure investment market released by a global business consultancy, while infrastructure demand will remain tilted toward China and India, countries around the globe are seeing common themes in their infrastructure gaps. Globally, the main sectors of infrastructure demand are power & gas utilities, oil & gas, and transportation. In addition, private investment is expected to increase its role in current share of global investment from its current total of roughly 15 percent. Weakened public finances are triggering a worldwide influx of private capital, at a time when private investment capital has been steadily accumulating, and is now eager for long-term, low-risk, inflation-protected returns that are better insulated against economic cycles. The strong demand for infrastructure and its insufficient provision imply a global investment gap of about US$ 1 trillion yearly through 2020.

Another study estimated that global infrastructure investment would need to increase by nearly 60 per cent from the 36 trillion dollars spent on infrastructure over the past 18 years to 57 trillion dollars in 2013-30. The historical spending pattern of countries indicate that global investments on roads, rail, ports, airports, power, water and telecommunications infrastructure has averaged about 3.8 percent of global GDP.

Way Forward

"The task before me today is very challenging because we need to revive growth, particularly in manufacturing and infrastructure to raise adequate resources for our developmental needs," - Finance Minister Arun Jaitley

As pointed out by the honorable finance minster, Infrastructure development is the key plank of Budget 2014. The government's focus will hopefully spur economic growth and address the various issues plagued by the infrastructure sector. Even developed countries like the US and China has focused on infrastructure development first and has had a phenomenal impact on the overall economic development. Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy.

TGA

INDIA'S EXPORTS
Needed Giant Push

As China's manufacturing might takes hit, primarily owing to rising labor costs, India is well poised to replace it. However, it would require giant-, and not baby steps, says Hyma Goparaju. Managing Director, Indigen Technologies (P) Ltd.

"China is also a low-cost manufacturer. But there is something unique about India's frugality of engineering and management. If I have to fight the battle on low cost, I am going to do it (with a base) in India."
– Carlos Ghosn, CEO, Nissan Motor Company

This summer, the trade scene in India had a reason to cheer. The HSBC composite index for India stood at 50.7. The same was 50.2 for China, 49.8 for Brazil and 47.1 for Russia. The reason for cheer: an index measure over and above 50 indicates expansion. Another reason for cheer: the index bettered China's. Yet another reason is that India's exports grew in double digits for the first time in seven months in May on the back of improved demand for engineering, petroleum and textile products.

While in the recent decade, China took over the global trade and established its firm foothold as the factory of the world, the tide is now in a reversal mode for various reasons, chief of them being rising labor costs in China due to which the game is now in favor of India, and the Indian economy is now looking forward to repeating the blockbuster Chinese success story in manufacturing and reaping dividends out of it. However, China clinging on to its share of around 13.7 per cent of global manufacturing share up from a mere 2 per cent before 1998 throws a daunting challenge to the Indian exporters who until now have had a share of less than 2 per cent (around 1.8 per cent).

Moreover a recovery of the economic situation in the US signals a positive flag-off as the country accounts for close to 12 per cent of India's exports, second only after the UAE which incidentally became the leading export country for India on account of an increase in gems and jewelry exports. The USA recovery, however, holds solid ground for India and beacons the return of good times for India's IT and Pharma sectors.

The year 2013 was witness to a massive current account deficit which the government reined in by imposing heavy curbs in the form of increased gold import duty. It is worthwhile to note that India's CAD ballooned disproportionately from $8 billion in 2007 to an all-time high of $90 billion in 2012. This clearly means that the country has been importing more than it has been exporting and if the trend were to continue it would be hazardous for the health of the economy. Though the government has been successful in trimming the CAD to levels below 2 per cent, the looming Iraq crisis poses a threat as India is largely dependent on oil imports and hence a thorough relook at its exim policy to achieve a sustainable revival of the economy is imperative.

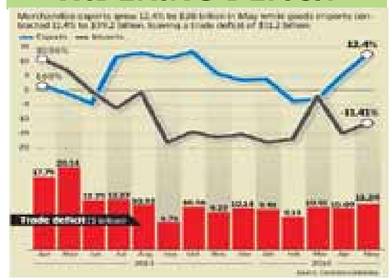
Baby Steps to Turning into a Manufacturing Tiger

While India did lose out by many laps in the race to becoming the frontrunner in global trade, countries like Germany, Japan and USA were always among the front runners with China eating into the shares of Germany and Japan to emerge as the single biggest winner in the recent years. A strong vision coupled with focused development of world-class infrastructure accelerated China's manufacturing ascendance. Low labor wages helped further as the government built mega-sized SEZs, making things and exporting them from there seamlessly. However, the same advantage is now turning into a liability for the Chinese manufacturers as rising wages are pushing away manufacturers out of the country. China has a current average labor rate of $3 per hour while the same in India stands at $1 per hour and with a $2 advantage, an Indian manufacturing base promises billions of dollars of savings for global powerhouses!

The infrastructure scene in India continues to be laggard but with the new government at the helm now, elected on the promises of development and growth, it has assured of and restored confidence in the business and economic outlook of the country. The National Manufacturing Policy (NMP) envisaged in 2011 aims to leapfrog India's share of manufacturing in its GDP from the current 16 per cent to 25 per cent by 2022 and plans to create an additional 100 million jobs. Also the creation of National Investment and Manufacturing Zones (NIMZs) - 50 kms to 900 sq kms range industrial parks - which would be larger than the traditional SEZs in select places in the country where land has been rendered unfit for agriculture is a positive step in the direction of setting up mega parks which would ensure large global and domestic businesses not only fiscal benefits but also would offer huge economies of scale which is where Chinese manufacturing has scored over Indian manufacturing. It is rather an interesting point to note that most of the Chinese manufacturing story has been revolving around six economic zones strategically located along the coast so that manufacture and transport activities operate seamlessly. Shenzhen, the largest of them covers around 49,300 hectares. In India this kind of scale has been unthinkable, given that some SEZs are as tiny as 10 hectares.

Till 2013, the 170-odd SEZs operational in India apparently generated direct employment for roughly 10 lakh people and accounted for under a third of India's total exports, according to the commerce ministry data, against the earmarked 17 lakh odd jobs by 2009. Clearly in the last decade the Indian SEZs have not performed upto expectations. A global downturn can be said to be one of the reasons while imposition of MAT on the SEZs is said to be another reason which led

WIDENING DEFICIT



to the domestic manufacturers losing out opportunities to low wage countries like Cambodia, Vietnam etc.

But with the world now looking for new and emerging low cost manufacturing hubs, Indian manufacturers stand a great opportunity to grab the lion's share of it. With NIMZs focused on providing the scale and as India continues to be a relatively lower wage economy compared with China, many global manufacturers are expected to set up shop here.

The Economy of Exports

For the financial year ending 2013, India's imports stood at $491.2 bn while exports were $300.6 bn with a deficit of $190.9 bn. India imported $60 bn worth crude and an equal amount of gold during the period. While India's top five exports – petroleum products, gems and jewelry, organic chemicals, vehicles and machinery - continue to do well, it is equally important to note that these top five export items are also hugely dependent on imports and a currency fluctuation or depreciation inflates their import expenditure, nullifying the export revenues ultimately. A net loss due to dependence on imports for exporting is hurting the Indian economy and if this systemic correction is not undertaken on high priority, it would continue to hurt the domestic economy.

Moreover, when a country continues to export in large numbers to some countries or a group of countries, it runs a surplus, and when it imports in large quantities it runs a deficit with the corresponding countries. As the current account balances of the world must sum up to a zero, it becomes essential for economies to ensure the balancing act takes place, else it runs the threat of losing employment to countries with which it is running a surplus and an ensuing deflation. On the other side, if a country is running a deficit and does nothing about it then it has a threat of sudden stoppage of capital inflows and subsequent financial crisis.India also recorded a historic trade deficit with China to the tune of $40.78 bn in 2012. India is currently running a surplus with SAARC countries. India's exports to SAARC countries registered a 14.71 per cent growth in 2013-14 at $17.3 billion. While South Asia accounts for 5.5 per cent of India's exports, imports from the region have a share of just 0.55 per cent. India's imports from the region declined 8.31 per cent in the last fiscal at $2.4 billion, leaving a trade gap of $15 billion. The correction of the balance of trade would help the Indian economy grow in a balanced and sustainable manner which is the most critical requirement of the day as the economy continues to grapple with rising unemployment issues.

Advantage India!

Rising wages in China is compelling global manufacturers to look for low cost offshore alternatives. The Chinese government has been exploring the possibility of setting up industrial parks in India. An MoU for the same was signed in July 2014 in the backdrop of addressing the trade deficit of an average of $35 billion of a total bilateral trade of around $65 billion between the two countries. China has already made investments of nearly $ 1bn in India and is expected to open the door to Indian IT and Pharma companies. An idea which was earlier resisted by the SME sector in the country has got the green signal with five states having been identified for Chinese investments in key areas such as electronics and agro-processing units, the strong domains of Chinese SEZs. An investment from an economy which is treated as a rival is an interesting proposition for India as it would stand to gain enormously from Chinese experience of running mega parks. The Chinese investment plan is expected to replicate the Japanese success story in India. Spread over 1,166 acres in Neemrana, Rajasthan, the Japanese zone is emerging as an important manufacturing hub for Japanese companies. The zone, which was developed in 2007, has seen investments of Rs 4,200 crore so far and employs 5,000 workers. About 48 Japanese companies have bought land, 34 factories have begun production and seven more are under construction and employees more than 5000 employees currently, a number which is poised to go up soon with more Japanese investments waiting in line.

Countries like China, South Korea, Thailand, etc., have a share of manufacturing of over 30 per cent in their GDPs. These countries have through massive manufacturing activities, successfully increased their per-capita incomes. Nonetheless, repeating the success in Indian business climate, which has been perennially plagued by ills such as bureaucratic red-tapism, land and labor issues, fluctuating currency and ambiguous IPR, will be a huge challenge by itself. However, availability of manpower, success in service sector and availability of natural resources would be a large bonus for establishing units

in India.

According to a recent survey by Edelweiss Securities, while China continues to lose the low wage battle at $3 / hour compared to $1 / hour in India, labor supply too is adding to its woes. In 2013, China faced an acute labor supply and is expected to touch zero by 2017 and slip into a negative territory after that. Huge inflows of foreign exchange have put an upward pressure on the Chinese currency and the low capital advantage too continues to slip away with deposit rates moving northward. Edelweiss has identified four sectors: Transportation, Chemicals, Engineering and Textiles, which will stand to gain if India dominates the exports market because of the inherent strengths of Indian manufacturing base in these sectors. All these, according to Edelweiss, are tilting the balance in favor of India, as the vacuum created by China is expected to be filled by its Asian neighbor which has more or less the same demographics as China's. One-fourth of the working age population is expected to be active soon and contribute to the sector since India's labor costs are in the bottom quartile among countries with large labor pool.

Companies like Ford have already begun to reap rich dividends. Ford India invested over $ 1 billion in a 2.5 lakh car plant in Sanand, Gujarat. India is the worldwide hub for Ford's flagship products like Figo and Eco-sport which are rolling out from the country and Ford plans to double the number of countries serviced from India to between 100 and 120 from the current 50.

The Way Forward

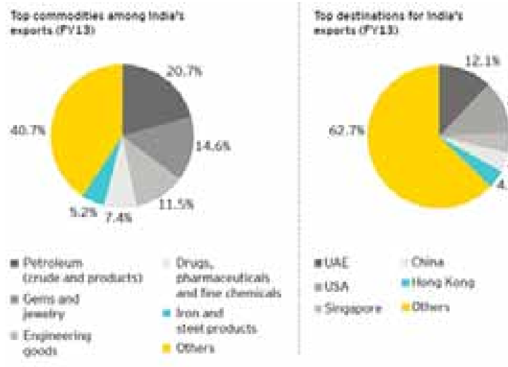
According to the Federation of Indian Export Organizations (FIEO), Indian exports have been hovering around $300 bn for the last three years. The FIEO forecasts exports from India to touch $360 billion this fiscal in the backdrop of massive investments being planned by large industrial organizations. However, nagging issues like infrastructural bottlenecks, fiscal policy shifts and labor legislation would continue to apply brakes to the revival and growth of the manufacturing sector in the country.

India ranked 132 out of 185 countries in the World Bank's 'Doing Business Survey' in 2013 and the low placed rank certainly does not reflect the country's lofty ambition of becoming the global manufacturing superpower. Many Indian businesses have bemoaned over the circuitous processes for clearances and a survey has stated that as many as seventy clearances are required to set up a large unit in India. The divergent state and central laws add to the confusion. Further, the dismal power situation in India is another major drawback and back-up costs have severely spiked capital costs in addition to the existing logistics' concerns. On the credit front, the SMEs have been the worst hit with banks and financial institutions upping their collateral requirements citing reasons such as higher risk.

Besides bringing in serious structural changes, the government also needs to move at a fast pace to shore up infrastructure in the country which is and will remain the spine of successful manufacturing hubs. A wobbling infrastructure can never lift an economy and place it on the medal stand. India suffers a severe energy crisis and blindly replicating the model of the west might not be feasible. Though India is blessed with plenty of sunshine, it is unfortunate that the country has failed to harness its true potential. Given, it is imperative that the government must work proactively and identify potential sectors that deserve to be given a boost if possible through subsidies for a certain period of time and allow innovation to flourish in all sectors.

Good manufacturing has to be backed by strong R&D which has always remained India's Achilles heel. The country's academia, industry and government have to come together to work in tandem to ensure the manufacturing plan becomes a hit as it is the need of the hour. The employment scene in the manufacturing sector too has been bleak with a dip in the overall workforce share to 10.5 per cent at 50 million in 2010 from 12.2 per cent in 2005 at 55 million.

A clustered approach to manufacturing which has been the norm till date in India needs to be shunned. Think manufacturing and export in India and one can recall only a handful of states. Agreed that one cannot compromise on agricultural land requirements and environmental regulations, however, the concentration of manufacturing in the hands of a few states where presumably the heads of states are aggressive taskmasters does not provide for a level playing field. A uniform country-wide plan where states complement rather than compete with one another will be the elixir



Source: Directorate General of Commercial Intelligence and Statistics; Ministry of Commerce & Industry

and hopefully with such a unified focus, India would be in a position to take over the global trade.

The recent NSSO survey results have thrown up several questions to the politicos and economic pundits. Despite an 8.5 per cent growth rate, the economy has been able to generate only 2 million jobs as against 58 million promised by the Planning Commission during the period 2007-12. Also the Institute of Applied Manpower Research estimates that an additional 8 to 9 million young persons will join the labor force annually between 2012 and 2022 for which the Indian economy has to create 200 million jobs outside of agriculture by 2025. This humungous task can be accomplished by the manufacturing sector alone and the sector which has seen a negative growth in 2012 and 2013 and is currently growing at 2 per cent needs to gallop at 4 per cent growth rate to ensure 9 per cent GDP growth rate for the economy in the coming years. In a country where nine out of ten diamonds worldwide are processed at Surat, the diamond hub, India has tremendous potential waiting to be tapped and if done in the right manner it would shape up both domestic and international trade for the economy that has turned sluggish in the last couple of years owing to policy paralysis and uncertain business environment.

TGA

Giftinghappiness.com

It is not just another e-commerce site, rather it's a platform to promote the concept of gifting and spread happiness across the globe. The idea to start Giftinghappiness.com (GH), a brain child of Prashant Jain, a serial entrepreneur and a technocrat, resulted from a strong desire of the founder to create a social media site that would bridge the existing gap in how people express their love to their loved ones; a social media site that could connect the virtual world of Facebook with the tangible world of gifting. And that's how Gifting Happiness was conceptualized as India's first f-commerce site for gifting.

In an exclusive conversation with **The Global ANALYST**, founder Prashant Jain talks about his entrepreneurial journey, what led him to launch GH, the USP of his unique site and his future growth plans. Read on.

TGA: What made you jump on the Entrepreneurial bandwagon?

I started my first entrepreneurial venture in Hyderabad with the launch of India Domain Web Services Pvt Ltd in the summer of 1998 after completing my Masters from the Wright State University at Dayton, Ohio, USA. India Domain Web Services was a pioneer in the web design, web presence and the web hosting solutions and continues to deliver these solutions even today. Then during the dot com boom, I established and setup the first few e-commerce sites like countryoven.com, hyderabadbazaar.com, bangalorebazaar.com, which for the first time had credit card payment gateway facility. Over the past decade I have started and run several successful companies in areas such as e-commerce, retail, gifting, online portals, consulting, call centres, and IT and IT infrastructure companies, many of which were acquired by larger venture capital funded and listed companies over time.

TGA: What led you to launch giftinghappiness.com, your latest entrepreneurial venture?

Giftinghappiness.com is a result of my love that combines my interest in digital media marketing, human psychology, online user behaviour, social media and brand building.

TGA: When did the idea of getting into online gifting space strike you?

It was early 2009 when I actively started micro-blogging on a number of sites. The advent and progress of the social media sites has ever since always impressed me not just in how they make the world completely connected, but also at the same time much more virtual! Today, out there, be it personal conversations or be it business conversations, it is a world of SMSs & whatsapp messages, skype calls, conference calls and video conference calls.

Today's generation is fast turning out to be one of wall-wishers where though we trot all over the globe for business and pleasure, we greet and meet individuals more through conversations on our virtual walls. The days of looking up a loved one's special days and celebrate with a call, a hug, a smile or a gift are fast being replaced with comments and messages and likes, and tweets which have become our way of life.

From my growing interactions with friends from all over the world and on Facebook, and the constant virtual wishes bouncing to and fro, grew a seed of an idea – the inspiration to create a social media site that would bridge the existing gap in how one expresses their love to their loved ones; a social media site that could connect the virtual world of Facebook with the tangible world of gifting. And that's how Gifting Happiness was conceptualized as India's first f-commerce site for gifting.

Our Facebook page www.fb.com/giftinghappiness.com provides its users the end to end experience of shopping and gifting – from likes and comments to a shopping cart and a payment gateway that can be used without leaving the comfort of one's Facebook account interface.

TGA: Tell us about the core team behind GH?

My inspiration source for Giftinghappiness is the result of the fusion of my teacher-mentor's mission to spread happiness across the world with the amount of time spent on Facebook as well as the realization of the life of virtual connections that we lead in a geographical separated world. I began to see that sharing our ideas

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and thoughts and feelings are much more important ways of being happy and spreading happiness as the world becomes smaller and smaller day by day.

As I dwelt into a spiritual quest to discover myself, Giftinghappiness seeded, harvested, simmered and conceptualized in my mind for the past few years – in its growth from ideation and creation to its execution and actualization in June 2013 when I registered the domain name and the Facebook page. The logistics of the company came into place in early July 2013 - on 4th July 2013 - when my senior operations manager Saritha Kota joined in the first few days of the launch of the company.

TGA: How does it feel as you celebrate the company's first anniversary? How satisfying has been your journey?

In the past 12 months, we have seen some of the most intensely rewarding experiences of my life. From the social media buzz that we created with videos of people talking about their gifting experiences on our YouTube and Facebook channel to the rave reviews we have received on our concept, thought and execution of everything from our name, logo and our services has been overwhelming. From the troubles and tribulations of setting up a payment gateway on Facebook to the learning of executing multiple large orders for the festive Diwali season this year within a couple of months of inception, we have learnt a lot that has brought to our attention various minute details. Our openness to feedback from our customers has also helped us immensely to enhance, grow and fine-tune our products as well as execution in a short period of time. During our growth from ideation to execution in the fastest possible time, we have learnt the multiple ways in which we need to be enthusiastic as well as cautious in delivering the expectations that we have set.

We are an extremely customer-centric company where everything from our product catalogue to our strategic operations are defined by our customers – through daily execution of orders on our Facebook page or feedback from our corporate orders, to the amount of references and recommendations that we receive on the social media, particularly through the large network of people on Facebook.

Our 'Colors of Happiness' event launched 0n 27th April and running at the Muse Art gallery at Hotel Marriott has been received amazingly well by our patrons. Everyone who relates to happiness walked in and shared a bit of themselves dipped in a dash of yellow and magnified happiness around.

TGA: There are a lot of ecommerce websites offering to help one send gifts. Given, how does GH differentiate itself from the competition?

GH is not just an ecommerce site. With our 6 divisions of retail stores, tele-gifting, ecommerce, f-commerce and merchandising & corporate gifting, GH covers the end to end market of gifting.

An as ecommerce site it provides safe and secure transactions through debit/credit cards/cash on delivery/options and provides gifting advisory based on relationship, personality and occasion. As an f-commerce site it works in the same way as an e-commerce site. The "shoponfb" button right below our cover page picture on our Facebook site www.fb.com/giftinghappinessdotcom is all that the user needs to click to shop on Facebook. Like all other games and apps on Facebook, this option is not available on mobile yet, however, people using Facebook for all other interfaces can see a catalogue of items from which they can choose and add items to their shopping carts.

Prashant Jain, Founder

The main difference of this from an e-commerce site is that here, the user remains within the comfort of Facebook and does not leave the Facebook page. Unlike other ecommerce sites which use Facebook as a lead generation mechanism and then route end users to their e-commerce site, our unique interface lets them use the shopping cart and a payment gateway inside the comfort of Facebook itself. When the user is ready to checkout s/he is presented with an option to pay by cash on delivery, PayPal or credit/debit card. Clicking on the credit card payment option from within Facebook leads them safely to the bank site for entering their credit card details. Once the payment is done they are brought back to our Facebook page with a confirmation of their order.

Besides, we also have our own in-house delivery team that handles the gift and the emotion of the sender together to deliver to the receiver. Our in-house team is specially trained to be customer centric and place the emotions of the sender-receiver / corporate-employee above all.

TGA: What kinds of products are available on your site?

We have over 1500 products on offer to be delivered to 240 cities throughout India and the US giving the global audience a choice of gifting not just from perishable items such as cakes, flowers, chocolates & sweets but also other personalized, unique and creative gifts in the retail segment.

Our corporate gifting solutions range across logo-based gifting, personalized gifting and branding solutions like t-shirts, mugs, key chains, laptop accessories, bags, stationary, awards and mementoes, etc.

The hottest sellers have also been cakes, flowers, t shirts and mugs. However, our experiential gifts category and the serenades category which includes midnight, hourly and daily surprise options have been getting a lot of traffic.

TGA: Which is your target market?

While the younger "like generation" has been our primary clientele, heavy Facebook users in other age groups have also tried this option of gifting. We have also seen an overwhelming response for the corporate orders through the references and recommendations of our customers. Both our retail as well as corporate clients feel free to post their feedback on our wall and we also encourage users to actively use the hash tag #giftinghappiness so that they can provide transparent feedback without any editorial censorship by us. The power of social media lies in its ability to aggregate customer feedback and references and that has helped us with the enthusiastic response to this unique model of delivery from the customers.

TGA: Tell us about the event, Colours of Happiness. What is the idea behind the concept?

'Colors of Happiness' is an initiative by Prashant Jain, Founder of Gifting Happiness and his team to bring together the people in the city of Hyderabad to celebrate happiness.

Through a unique photography and art exhibition capturing the moments of truth of GH with its customers, employees, partners and other stakeholders, the event encourages everyone to walk in with a dash of yellow to magnify one's joy and happiness in this world.

TGA: What are your future growth plans? Do you also intend to open stores apart from strengthening your online presence?

In today's virtual world, tangible gifting is the need of the hour to spread love and magnify happiness. Our plans for giftinghappiness.com include retail outlets in all major cities in India in the next five years as well as a full-fledged mobile based app on Facebook and other social media sites. We plan on increasing our network of products, vendors and our virtual world reach through various new and innovative options for retails and corporate gifting. **TGA**

ADVERTORIAL

Air Costa announces launch of second flight between "Chennai - Madurai -Chennai" Effective 6th August 2014

Air Costa Airlines, a part of LEPL Group, is a regional scheduled operator airline based out of Vijayawada and currently operates more than 34 daily flights to 9 Indian cities. The cities of Chennai, Bangalore, Hyderabad, Vijayawada, Vizag, Coimbatore, Madurai, Jaipur and Ahmedabad are connected using Embraer E Jets of E170 and E190.

India's fastest growing airline is further enhancing its customer experience with the launch of second flight to Madurai connecting Chennai, Hyderabad and Vijayawada, effective August 06, 2014. With this connectivity, Air Costa guests can enjoy same day return flights between chennai to Madurai, Vijayawada & Madurai and Hyderabad & Madurai.

With the launch of these new flights, Air Costa will now operate 36 daily flights connecting 9 destinations in India.

Speaking on the launch of additional flights from Madurai, Mr. LVS Rajasekhar, MD, Air Costa, said, it gives me immense pleasure in announcing this additional flight between Chennai and Madurai. "Chennai-Madurai-Chennai" have emerged as sectors that have started attracting both leisure and business passengers in the recent past, and hold immense potential for Air Costa.

LVS Rajasekhar

New Second flight schedule between "CHENNAI - MADURAI- CHENNAI" Effective August 06th 2014 is listed below

Depart Station	Arrival Station	Frequency
Chennai (10:40 Am)	Madurai (11:35 Am)	Daily
Madurai (11:55 Am)	Chennai (12:50 Pm)	Daily

Our existing Flight schedule between Chennai-Madurai-Chennai is listed

Depart Station	Arrival Station	Frequency
Chennai (4:45 Pm)	Madurai (5:55 Pm)	Daily
Madurai (6:25 Pm)	Chennai (7:25 Pm)	Daily