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VIEW FROM THE CORNER OFFICE IS NOT TOO ROSY

Challenges at the policy implementation level has held up India's economy, caution industry veterans

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A larger mandate means a bigger promise and higher ambitions. The Bharatiya Janata Party-led National Democratic Alliance, backed by an even larger majority this time, promises to pick up from where it left off in its last term with the Union budget announced on Friday readying to deliver a $5 trillion economy by 2025. Among the key announcements in this budget, finance minister (FM) Nirmala Sitharaman has extended the benefit of the lowest corporate tax threshold to companies with an annual turnover of up to ₹400 crore, up from those having ₹250 crore currently. She has proposed to increase the foreign direct investment (FDI) limit for select sectors and announced several measures to inject liquidity in the tight credit environment, including a capital infusion of ₹70,000 crore in public sector banks (PSBs).

But vaulting ambitions also bring sceptics in their wake: a growing tribe of corporate India's CEOs advise caution, citing pressing challenges that have simply refused to subside despite policy initiatives taken by successive governments. According to many of the industry's top decision makers, these are challenges at the policy implementation level which are often amplified by numerous local factors. The combination of obstacles has held up India's transition to a sustainable, robust economy, they say.

TOUGH ENVIRONMENT

While India has jumped 23 places to rank 77 in the World Bank's ease of doing business 2019 index, performing better on several parameters, it still remains a tough place to start a business. New projects are often marred by delays in approvals that typically involve multiple stakeholders at central, state and local levels, resulting in slower decision-making.

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"There is still a long way to go for some existing sectors," said Anand Kripalu, managing director and CEO, Diageo India, one of the world's largest distillers. "Despite being a major contributor to state revenue, the sector is inhibited by complex and non-harmonized regulations, most of which are archaic. While all countries impose regulations on the alco-bev sector, India is the only country where our industry is subject to both taxation and price controls by almost every state."

India also figures among the top corporate tax paying countries. "While everyone expects the government to be spending to revive growth, FM will have to exercise fiscal prudence," said B. Gopkumar, executive director and CEO, Reliance Securities. "The withdrawal of long-term capital gains tax would cheer the market. This would lead to higher equity participation by companies and help in channelizing household savings into the economy," Gopakumar added.

To be sure, India's score in the World Bank's ease of doing business index improved on all 10 parameters, except "paying taxes". The jump in overall ranking was driven by a marked improvement in "dealing with construction permits" and "trading across borders" through measures such as enforcement of a single-window clearance system with centralized decision-making.

"The business ecosystem can function smoothly if processes were simplified. For instance, the government has set up a large corpus of funds for direct subsidies for both electric vehicles and charging stations." said Tarun Mehta, CEO of electric scooter maker Ather Energy. "There are fiscal incentives for R&D, GST and even setting up plants but the process to access these funds or even get refunds for spends is complicated and time-consuming. The industry needs a more simplified and direct access to funds with a special focus to prevent capital blockage for long periods of time."

LONG ROAD TO APPROVALS

It's not just approvals that hinder smooth functioning of business. In April last year, Saudi Aramco, the world's top oil producer signed a preliminary deal to partner with a consortium of Indian refiners to build a $44-billion refinery and petrochemical project in Ratnagiri.

The huge project was touted as a gamechanger for both parties—offering India steady fuel supplies and meeting Saudi Arabia's need to secure regular buyers for its oil. Despite the obvious benefits, the project ran into trouble as thousands of farmers began opposing the refinery, refusing to surrender land citing potential damage to the region's ecosystem and their livelihood.

While the protests may be justified in many cases, the Aramco episode highlights the fault lines that exist in the land acquisition policy where differences often arise between the Union and state governments on the amount of compensation for landowners. It also highlights how politics determine random allocation of projects to certain geographies, without taking either civil society or the local population into confidence.

"Delays in land acquisition or likely delays in approvals play a part in deciding the target states for operation—we prefer to operate in states where such uncertainties are low. Scarcity of skilled manpower affects the deployment of machinery or usage of advanced construction methodologies, thereby resulting in higher construction time," said Sandeep Garg, managing director and CEO, Welspun Enterprises Ltd. "The multiple approvals takes so much time and with interest rates ranging anywhere from 12% to 16%, a day's delay means cost of money going up every day," said Rajeev Talwar, CEO of DLF Ltd, one of India's largest real estate developers.

CLEARING BOTTLENECKS

Adding to the bottlenecks is lack of funds, problems with fuel and raw material, and unfavourable market conditions. "Financial sector reforms are paramount for bringing accountability and capital productivity. It is also important to liberate public sector companies so that they become accountable to free markets," said Rahul Sharma, CEO of Vedanta Alumina, which is part of Vedanta Resources, one of India's leading mining conglomerates.

"The government can look at more tax-friendly laws including bringing down corporate tax, strengthening India's position in global trade and protecting domestic industry from dumping."

"Lack of liquidity is giving a tough time across sectors. It's not about growth anymore. It is lack of liquidity which is bringing the industry to a grinding halt. Until you solve this issue, I don't think this GDP number is ever going to come up," said Niranjan Hiranandani, co-founder and managing director of Hiranandani Group, which has presence in real estate and oil and gas.

Tanya Thomas, Kalpana Pathak, Bidya Sapam, Amit Panday and Rhik Kundu have contributed to the story.

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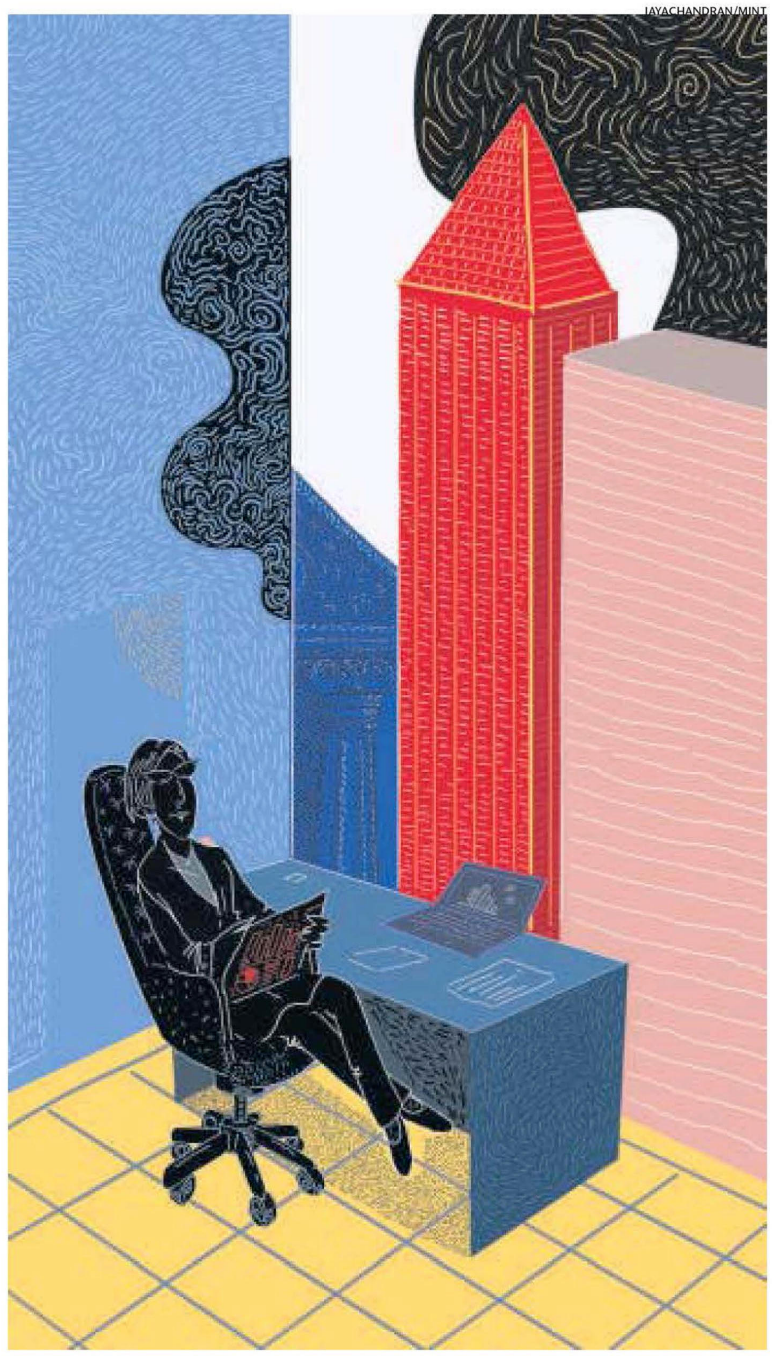

MINT GRAPHITI

A MIXED BAG FOR TOP EXECUTIVES

Their companies pay less tax

Companies with annual revenues of up to ₹400 crore will now be taxed at the lower rate of 25% (as against 30%). Previously, this ceiling was ₹250 crore. This will now cover 99.4% of companies.

CEOs pay more tax

A surcharge has been levied on the income tax paid by the super-rich. Individuals earning ₹2-5 crore a year will see their tax outgo rise by 3 percentage points; those earning above ₹5 crore, by 7 percentage points.

Increased public shareholding

The government has asked the capital markets regulator to consider increasing the minimum public shareholding in listed companies from 25% to 35%. If passed, it could force many firms or promoters to sell shares.

Taxing buybacks

Listed companies will have to pay 20% tax in the case of buyback of shares, just like unlisted companies do. This is partly also aimed at bringing buybacks at par with dividends.

Data compiled by How INDIA Lives