Daily Economic News Summary: 10 May 2018

1. Whopping $16-Billion Deal: Walmart Raises India Stake With Flipkart Buy
Source: Financial Express (Link)

Walmart announced on May 9 it was buying a 77% stake in Flipkart for approximately $16 billion, of which $2 billion would be added to the e-retailer's equity capital. The world's biggest retailer, which throws up $20 billion of cash every year, told analysts Flipkart was a unique opportunity and not just an e-commerce platform but also a payments system, a logistics outfit and a fashion vertical in what was one of the biggest and fastest-growing e-retailing markets in the world. "We've been in India for a while and we know the market. We will do everything we need to to grow the business," the management said, adding that it would race to build scale. Flipkart, it asserted, had the infrastructure, technology and management capability to cash in on the opportunity though the deal will not be value accretive immediately. he transaction saw Flipkart co-founder Sachin Bansal, who held a near-6% stake, walking off with $1.2 billion while SoftBank and Naspers also exited. Binny Bansal, also co-founder, remains invested, as do Tiger Global, Tencent and Microsoft. The $2-billion infusion will help Flipkart in its war with Amazon India for a bigger market share. Amazon, which has so far invested some $3.5 billion in India of the committed $5 billion, and has picked up a 5% stake in Shoppers Stop, is expected to up the ante. Between them, Flipkart and Amazon own 70% of the e-retailing market, estimated at just about 5% of the total retailing market in India.

2. Looming US Sanctions: India May Not Cut Oil Imports From Iran
Source: Financial Express (Link)

US President Donald Trump's move to reimpose sanctions on Iran after more than two years of reprieve given to the Persian Gulf country could keep global crude prices elevated in the short to medium term, analysts reckon. Imminent production cuts by Iran come at a time when global supplies are already hit by falling crude production in Venezuela, increasingly a key supplier to India. Even though only 10% of India's oil imports was from Iran in FY18, a cut in oil exports by Opec's third-largest oil producer could manifest in India's twin deficits — current account and fiscal. Sweet-grade Brent crude has around 28% representation in the Indian import basket. "As far as quantity of import from Iran is considered, there are alternatives. Also, comparable grade of oil is also available. However, there were discounts given by Iran (which others may not offer)," said MK Surana, chairman and managing director, Hindustan Petroleum Corporation (HPCL). Trump has decided to withdraw JCPOA, also called the Iran Nuclear Agreement, which was agreed upon in 2015 with the UK, France, Germany, Russia, China wherein the Persian Gulf country was to curb its nuclear programmes in return of lifting financial sanctions.

3. Finance Commission Sets Up Experts Panel For Advise On Its Tor
Source: The Hindu, Business Line (Link)

The 15th Finance Commission on May 9 set up an expert committee which will advise it on matters related to the Terms of Reference (ToR) that have come under attack from some non-BJP ruled states such as Andhra Pradesh and Kerala. Some southern states have criticised the ToR saying progressive states would lose revenue if 2011 census was taken as base for devolution of central funds. The Advisory Council, a government release said, has been constituted by the Commission "to advise on the matters related to its Terms of Reference". The panel will advise the Commission on any issue or subject related to the ToR and provide assistance in the preparation of any paper or research study which would enhance the Commission's understanding on the issues containing in its ToR. Arvind Virmani, former Chief Economic Advisor, Surjit S Bhalla, Part-time Member of PMEAC, Sanjeev Gupta, a former IMF deputy director, Pinaki Chakraborty, Professor (NIPFP), Sajjid Chinoy of JP Morgan and Neelkanth Mishra of Credit Suisse India are the members of the panel. Pointing to the specific inclusion of reference—efforts and progress made in moving towards replacement rate of population growth—Jaitley had said it recognises the efforts of all the states which have done well in population control. "This specific ToR would allow the 15th FC to propose a specific incentive scheme to reward the states which have achieved replacement level of population growth, and also, if the 15th FC wishes to do so, to assign appropriate weight to the progress made in population control while allocating resources," Jaitley had stated.

4. Government Likely To Withdraw Tax Notice On Free Banking Services
Source: Business Standard ([Link])

The tax department will likely withdraw a show-cause notice issued to several banks asking them to pay the service tax on 'free services' provided to customers, following the finance ministry's intervention. The department of financial services (DFS) has presented the views of the banks that have opposed the tax to the revenue department. "We have spoken to the revenue department and requested them not to pursue the case. The matter will be settled and the case might not be pursued further," said a senior finance ministry official. Some of the Directorate General of Goods and Services Tax Intelligence (DGGSTI) offices had issued the notice to some private banks, including ICICI Bank, HDFC Bank and Axis Bank, and a few public sector banks, including State Bank of India (SBI), asking them to pay penalty and interest on the unpaid service tax in this regard for the period July 2012-June 2017. The DGGSTI was in the process of issuing similar notices to other banks when the finance ministry intervened, senior officials said. The tax demand was made for customers maintaining a minimum balance in their deposits and availing certain free services from banks, including a few cash withdrawals from ATMs, cheque books, account statements, internet banking, debit cards and PIN change. The EPFO had raised the issue with the finance ministry through the labour ministry, following which the case was not taken forward.

5. Road Ministry Moves GST Council For Lower Rate On Replacements For Scrapped Trucks
Source: The Hindu, Business Line ([Link])

In what could come as a relief to owners of old commercial vehicles, the Ministry of Road Transport and Highway has asked the GST Council to consider lowering the tax rate on replacement vehicles to 18 per cent from 28 per cent. A positive decision will benefit around seven lakh CV owners, said a senior official in the Ministry. The Ministry's proposal to the GST Council comprises two components: First, either exempt the transaction related to the scrapping or levy 5 per cent GST under the Reverse Charge Mechanism. Second, prescribe a GST rate for the replacement vehicle. Elaborating on the first proposal, the official told *BusinessLine* that, usually, it is the responsibility of the party scrapping the vehicle to pay the GST, but if the supplier is not registered and the transaction size exceeds ₹5,000, then the registered receiver has to pay the tax.

As the mechanism of paying the tax is getting reversed, it is called Reverse Charge Mechanism. On the second proposal, he said that since replacing vehicles will generate volumes, a lower rate will not affect the tax mop-up. “We will ask the OEM (Original Equipment Manufacturer) to offer some special discount on such vehicles to ease the buyers’ burden,” the official associated with the proposal said. Separately, the Ministry has circulated a Cabinet note on a scrapping policy for commercial vehicles.

6. Govt Approves Green Licence Plates For Electric Vehicles
Source: Business Standard (Link)

To promote electric vehicles in India, the government has approved green licence plates bearing numbers in white fonts for private e-vehicles and yellow for taxis, Union Minister Nitin Gadkari said on May 9. The government also plans to allow youth in the age bracket of 16-18 years to drive electric scooters, besides mandating taxi aggregators to have a certain percentage of e-vehicle fleet." The government has approved distinctive green licence plates for electric vehicles to encourage people to use electric vehicles. Such vehicles will be fitted with green licence plates bearing numbers in white fonts for private cars and yellow font for taxis," Gadkari said. A notification in this regard will be out in a week's time, the minister, who has been advocating electric mobility promotion, he said. The purpose behind distinctive number plates is their easy identification for preferential treatment in parking, free entry in congested zones besides other proposed benefits like concessional toll, the road transport and highways minister told PTI. The measure is aimed at promoting e-vehicle's use and the government is considering exemption from permits for such vehicles. "Exemption from permit will be a game changer as restricted permit regime is a major concern. E-rickshaw growth is attributable to the permit exemption and there is scope to extend the exemption to the e-buses, e-taxis, e-autos and e-bikes. E-auto and e-buses may have a big impact since getting a new permit is extremely difficult," the minister said.

7. World Sugar Exporters Prep Review Of India, EU, Pakistan Support Programs
Source: Firstpost (Link)

The world's top sugar exporters have initiated a legal review of government supports in the European Union, India and Pakistan that may violate World Trade Organization restrictions on direct subsidies, according to an industry executive. The Global Sugar Alliance launched an investigation this year into whether the EU, India and Pakistan are in violation of WTO rules, with plans to conclude by July, the group's secretary, Warren Males, told Reuters along the sidelines of New York "Sugar Week." The group represents top exporting nations, including Brazil, Australia and Thailand. Members of the Global Sugar Alliance met during the annual industry conference in New York, with plans to reconvene after finishing the review, Males said. The group will discuss next steps, with plans to ask their governments to either step up talks with counterparts in the EU, India and Pakistan or to take action with the WTO, he said. Raw sugar prices traded in New York are languishing near 2015 lows as global supplies swell, outstripping production at record levels. That has the world's millers and refiners churning out sugar for prices below production costs.

8. Relam Plans $250 Million Investments In India
Source: Livemint (Link)

Dubai-based Relam Investment LLC plans to begin its India journey with an initial investment of around $250 million (Rs16,800 crore) in real estate and technology start-ups, a top executive said. The investment company, which launched its India operations on Tuesday, will revise its fund allocation for the country within a year. Relam Investment is an equal joint venture, or JV, of Dubai's Vault Investments LLC and Vietnam's MIG Holding. "Dubai and India have a history of strong trade and cultural relations. India will be a very important market for us, considering the growth potential it offers, especially under the current government," Sultan Ali Rashed Lootah, chairman and managing director at Relam Investment, said in an interview. Apart from investing on its own, Relam Investment will also explore co-investment opportunities with strategic and financial partners, Lootah said. "We are in talks with multiple financial institutions and Indian companies for partnership. Considering the fact that we are new to India, we would like to partner with Indian firms to better understand the market before taking a larger exposure," Lootah said. Unlike many private equity companies that invest in completed real estate projects, Relam Investment will prefer new projects with an investment time frame of between 10-15 years. Relam Investment will also be looking to form a joint venture with an Indian company for investment purposes. The investment firm will focus on blockchain, app-based and big data start-ups for its technology portfolio.

9. Ministry Says No To Merger Of Jet Airways And Jetlite
Source: Financial Express (Link)

The Ministry of Civil Aviation on May 9 said it has not approved the scheme of merger of JetLite, the wholly owned subsidiary of Jet Airways, with the parent company, and that the two companies will continue respective operations as separate legal entities with their respective air operator permits or AOPs. The ministry's decision, however, is not likely to hurt Jet Airways and will not have any negative impact, aviation experts say. "JetLite was just the fleet with cabin and cockpit crew, but the entire operational, administrative and airport functions were already taken over by Jet and this directive of the ministry will not hurt Jet in any negative way," said KG Vishwanath, an independent aviation consultant. Vishwanath questions the Jet's move to merge JetLite with itself and terms it as not a very 'wise' one. In 2015, Jet Air had approached the shareholders to approve such a merger as it wanted to draw upon synergies between the two operating companies and achieve operational efficiencies. Since then, the two entities have been working in coordination for the planning of routes and cross selling. The airline had stated then that post merger, existing equity shares of Jet Airways and its nominees in Jet Lite will stand cancelled without any financial consideration, and Jet Lite will stand dissolved without winding up, and importantly, its AOP will be retained as a separate division of Jet Airways.

10. AAR Order: All Businesses Covered By RCM To Register For GST
Source: Financial Express (Link)

A business is required to register under the goods and services tax (GST) even if it qualifies to be exempted according to the GST Act, but has liability to collect tax under the reverse charge mechanism (RCM), the authority for advanced ruling (AAR) on GST in Delhi said in a ruling. The GST Act provides exemption to businesses with less than Rs 20 lakh annual revenue from paying indirect taxes. Further, exemption from registration is also available to companies which are exclusively engaged in supply of goods and services that are not liable to tax or are completely exempt from tax. For instance, a firm dealing in supply of non-packaged rice would not be required to register as the commodity is not taxed under the GST. However, the authority read section 24 of the GST Act, along with the other sections on exemption from registrations, and concluded that businesses required to collect tax under RCM are liable to register even if it is exempted on the other two counts. “The applicant is liable for registration if it has GST liability under reverse charge mechanism irrespective of the situation that it has no liability to pay GST as supplier of goods and/or services,” the ruling said. This means that a rice dealer in the above example would also be liable to register on the GST Network portal if he employs a goods transport agency (GTA) or an advocate. According to the GST Act, a supplier is liable to collect tax from GTA or a lawyer and deposit the same to the government.

11. Bogibeel, India's Longest Road-Rail Bridge, To Be Inaugurated By PM Modi This Year
Source: The Economic Times (Link)

In a major boost to defence logistics along the border with China, India's longest road and railway bridge connecting Dibrugarh in Assam to Pasighat in Arunachal Pradesh is likely to be inaugurated later this year by Prime Minister Narendra Modi. While all the civil work would be completed by July this year, two more months would be needed to finish the electrical and signalling work on the 4.94 km bridge, said Mahender Singh, Chief Engineer, construction, Bogibeel project. he Bogibeel bridge is likely to be inaugurated by Prime Minister Narendra Modi by the end of this year, officials said. The bridge, which is the second longest in Asia, has three lane roads on top and double line rail below. The bridge is 32 metres above the water level of the Brahamaputra and is fashioned on a bridge that links Sweden and Denmark. For the government, the bridge, officials said is both a symbol of development in the northeast as well as part of a strategic move solving logistical issues for the armed forces stationed at the China border to get supplies from Tezpur. Bogibeel is part of infrastructure projects planned by India to improve logistics along the border in Arunachal Pradesh. This includes the construction of a trans-Arunachal highway on the north bank of the Brahmaputra, and new road and rail links over the mighty river and its major tributaries such as the Dibang, Lohit, Subansiri and Kameng.