Daily Economic News Summary: 8 May 2018

1. Google Tax May Be Broadened To Cover Non-Digital MNCs
Source: The Economic Times (Link)

A budgetary proposal to tax multinationals with a substantial user base in India such as Google and Facebook is now being widened to include non-digital companies. This could mean that any company that merely sells goods or services in India could see domestic taxes of up to 42% on their profits, said two people with direct knowledge of the matter. The government is planning to introduce rules to effect the change proposed in the budget in the coming weeks, said one of the persons quoted above. Many tax experts fear this could impact several multinational companies that only export goods or services to India. Drafting of the rules must be water tight so that the rules don't get misused and any company that merely trades with India doesn't get burdened with tax at 42% on net profit method," said Vijay Iyer, national leader, transfer pricing, EY India While the focus is on multinationals operating in India through tax havens, the government could look at negotiating tax treaties with several countries. This could multilateral instruments (MLI) or bilateral negotiations. MLIs are basically common tax agreement which could lead to uniform tax regulations for all investors, irrespective of which destination they come from. MLIs are part of the base erosion and profit sharing (BEPS) framework.

2. Government Scraps Plan To Privatise Oilfields
Source: The Economic Times (Link)

The government has shelved the plan to privatise several key ageing fields of ONGC and Oil India following strong opposition from the state-run companies and consultations between the oil ministry and the Prime Minister's Office. The two companies will now draw up their own proposals to boost output from the fields. The oil ministry drew up a detailed plan last year to sell up to 60% participating interest in 11 ageing fields of ONGC and four of Oil India to private companies under the so called Production Enhancement Contract (PEC) aimed at raising output. The plan also included another 44 older fields of ONGC and Oil India that could take on private technological partners under a process managed by the government. ET was the first to report on May 31 last year that the government planned to privatise some of the ONGC and Oil India fields.

Soon after the Directorate General of Hydrocarbons (DGH), the technical arm of the oil ministry, began circulating its draft policy paper on oilfield privatisation, ONGC launched a strong protest, triggering a pause among policymakers and exchanges between the oil ministry and the PMO. ONGC had already launched a similar plan independently for two of its ageing fields in Gujarat and Assam. It's seeking partnerships with oilfield service providers under a long-term contract in which private partners will get a predetermined fee for every unit of oil and gas produced.

3. Government To Examine Proposal To Merge CPSEs In Key Sectors
Source: Financial Express (Link)

In what could push consolidation of central public sector enterprises (CPSEs), the government will examine a proposal to merge NHPC with NTPC and combine Power Finance Corporation (PFC), Rural Electrification Corporation (REC) and Indian Renewable Energy Development Agency (IREDA) to create a huge power-financing entity. In a recent presentation to Prime Minister Narendra Modi, the CPSEs have proposed creation of public sector behemoths by merging firms based on commonalities of functions to benefit from economy of scale, global competitiveness and access to cheaper capital. Integration of CPSEs engaged in the same business would limit the number of CPSEs in a sector and create profitable entities which will have capacity to bear higher risks, take higher investment decisions and create more value for stakeholders, officials reckon. Bigger entities would be able to compete globally to acquire assets and raise cheaper funds, reducing their dependence on the government. NTPC, the largest thermal power producer in India, has also ventured into the hydro power generation business and a merger with hydro power firm NHPC would be synergistic. NTPC's net profit in FY17 was rs 9,385 crore while that of NHPC stood at Rs 2,796 crore. Both the power generating firms are listed on the stock exchanges.

4. NITI Aayog, Google In Partnership To Grow AI Ecosystem In India
Source: The Hindu, Business Line (Link)

NITI Aayog is partnering with tech giant Google to work on a range of initiatives to help build Artificial Intelligence (AI) ecosystem across the country. Amitabh Kant, Chief Executive Officer, NITI Aayog, said in a statement: "India is embracing future technologies such as machine learning and AI to augment its capacity in healthcare, improve outcomes in education, develop innovative governance systems and improve overall economic productivity of the nation." Google and NITI Aayog will conduct hands-on training programmes that aim to sensitise policymakers and technical experts in governments about relevant AI tools and how they can be used to streamline governance. To help bolster the research ecosystem, one of the initiatives includes funding Indian researchers, scholars and university faculty for conducting AI-based research. There is an incubation programme wherein start-ups working in AI/ML space will be mentored by Google to better leverage AI in their respective business models. NITI Aayog and Google will organise a AI/ML hackathon that will focus on solving key challenges in agriculture, education, healthcare, financial inclusion and transportation/mobility.

5. Walmart-Flipkart Deal: High Stakes Tax Fight In India Can't Be Ruled Out
Source: Financial Express (Link)

US-based retail giant Walmart is most likely to encounter an aggressive Indian taxman, who could deny it a certificate of withholding tax waiver over the proposed mega deal to purchase a substantial stake in Flipkart from existing investors in the Indian online retailer. Walmart, tax experts said, could try and obtain a nil-tax-liability order from the Authority for Advance Ruling (AAR) before going ahead with the deal, but even that won't guarantee that the imminent purchase would not precipitate a high-profile Vodafone-like tax fight. It is also possible that the US major is protected by a commercial indemnity clause, in which case it would be immune to an India tax cost from the deal. At least one or even both of sellers Tiger Global and SoftBank may cite residency in a treaty-protected country to escape/reduce a capital gains tax liability here. (In case of a tax liability, the buyer withholds the tax while the burden is on the seller.) Under Section 79 of the I-T Act, carry-forward and set-off of losses in a closely held company shall be allowed only if there is a continuity in the beneficial owner of the shares carrying not less than 51% of the voting power, on the last day of the year or years in which the loss was incurred.

6. Delhi-NCR Is Preferred Office Market For Chinese Firms: Report
Source: The Hindu, Business Line (Link)

Delhi-NCR has emerged as a top pick for office space destination among Chinese companies outside their country, followed by Madrid and Bangkok, according to a report released by a real estate services firm JLL. According to the report, in 2015-17, the estimated leasing of office in Delhi-NCR by Chinese origin companies was approximately 5,16, 667 sq ft, while in Mumbai it was about 85,537 sq ft. The report, titled 'China 12: China's Cities Go Global', said that nation's biggest corporates are growing rapidly and are creating a strong global economic system that is influencing global markets. "Chinese companies have been making their presence felt in Asia and have set up offices in major markets including India. Even though leasing is still largely driven by US- and EU-based companies in India, Chinese companies are fast setting up base to take advantage of the market size and the accelerated growth of the economy," said Ramesh Nair, CEO and Country Head, JLL India. He added that several Chinese companies have expanded their footprint in India in recent times, including Vivo, Oppo, Alibaba, ZTE, Huawei and Xiaomi.

7. Will Liquidate Insolvent Companies If Prices Are Suppressed, Says SBI Chairman Rajnish Kumar
Source: The Economic Times (Link)

Rajnish Kumar, chairman of State Bank of India, has said that banks will force insolvent companies into liquidation if potential bidders try to suppress prices under the bankruptcy process. "It is important that we give a message that if potential bidders are trying to suppress the values, then banks are not going to accept it," Kumar said in an interview to Bloomberg Television. Proposed resolution plans must either bring value to the enterprise or a meaningful recovery for creditors, he said. Alok Industries and Lanco Infratech are headed for liquidation after bids to buy the insolvent firms were rejected by the committee of creditors because they required steep haircuts on outstanding debt, Bloomberg reported. The Reserve Bank of India was empowered through an ordinance in May last year to direct banks to initiate insolvency proceedings against borrowers for resolution of stressed assets. The regulator shortlisted 12 companies with a total debt of over Rs 2 lakh crore in June for bankruptcy proceedings, about 25% of all non-performing bank loans. They included Essar Steel, Bhushan Steel, Lanco Infratech , ABG Shipyard, Bhushan Power and Alok

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8. Blackrock Exits India Mutual Fund Business
Source: Livemint (Link)

BlackRock Inc., the world's largest asset manager, said on May 7 it will sell its 40% stake in DSP BlackRock Investment Managers Pvt. Ltd to joint venture partner DSP Group, marking the exit of yet another foreign asset manager from the Indian mutual fund industry. While the financial details of the deal were not disclosed, two people familiar with the transaction said DSP BlackRock Investment Managers is valued at around Rs5,000 crore. "DSP BlackRock has total assets worth around Rs1.1 trillion, which includes mutual funds, alternative investment funds (AIFs) and assets under advisory services," said one of the persons mentioned above. "As of now, BlackRock is exiting the JV. BlackRock has been in talks with DSP for about a year and initially they were interested to buy DSP's 60% stake. DSP rather chose the option of retaining its footprint in India," he added. US-based BlackRock is the biggest asset manager in the world and, as of 31 March, the firm managed around $6.32 trillion in assets worldwide. DSP BlackRock manages assets worth Rs35,000 crore across 12 equity mutual fund schemes and Rs50,000 crore in fixed income schemes. The rest of the assets are in AIFs and under advisory services. DSP BlackRock had average assets under management (AUMs) of Rs86,000 crore as March, according to data from Association of Mutual Funds in India.

9. Going It Alone: Kothari's DSP Buys Out Blackrock Stake
Source: Financial Express (Link)

Veteran investment banker Hemendra Kothari's DSP Group has bought out BlackRock's 40% stake in DSP BlackRock Investment Managers. While the price was not known, deals in the Indian mutual fund industry are typically valued at 5-7% of assets under management. As such, the transaction would have been priced at anywhere between Rs 1,700 crore and Rs 2,400 crore. The average assets under management (AAUM) at DSP BlackRock Mutual Fund in the January-March quarter were Rs 86,325.70 crore, data from Association of Mutual Funds in India showed. The total AAUM across 42 players is about Rs 23 lakh crore; flows into MFs among the biggest in 2017-18 at Rs 1.71 lakh crore on the back of flows of Rs 70,300 crore in 2016-17. DSP BlackRock manages and advises Indian assets in excess of Rs 1.10 lakh crore. Over the past few years several foreign players JPMorgan MF, Fidelity MF, Morgan Stanley MF, ING MF, Goldman Sachs MF and Deutsche MF have exited the asset management business. While Edelweiss AMC bought out JPMorgan's business, Deutsche Mutual's assets were taken over by DHFL Pramerica. Again, Kotak Mutual Fund bought out Pinebridge AMC and Reliance Mutual Fund acquired Goldman Sachs' business. Many of the 43 AMCs remain unprofitable.

10. Falling Re, Rising Crude Reignite Inflation Fears
Source: The Hindu, Business Line (Link)

The Narendra Modi government approaches its fourth anniversary on a distinctly inauspicious note, with crude oil prices touching a four-year high and the rupee sinking to below 67 to a dollar. This is likely to lead to higher inflation and a further hardening of interest rates. The deepening economic crisis in Venezuela and suspense over the US decision regarding sanctions on Iran fuelled a rally in Brent crude oil futures on May 7. It opened at $75 a barrel and hit $75.95, its highest since November 2014. This movement will affect the price at which Indian refiners buy their crude. The Indian basket of crude oil represents a derived package, comprising Sour grade (Oman & Dubai average) and Sweet grade (Brent Dated) crude oil processed in Indian refineries in the ratio of 72.38:27.62. Coupled with the rise in crude prices, the rupee dipped to a new 15-month low. It closed at 67.13/14 against the US dollar. The markets expect the rupee to sink further, which in turn will ramp up oil prices. The price of Indian crude basket was $71.60/barrel on May 4 with an exchange rate of ₹66.77. Shubhada Rao, Chief Economist with YES Bank, felt that hardening of international crude oil price was likely to manifest itself via higher pressure on India's twin deficits along with inflation, while also having a marginally negative spillover on growth. However, according to Rao, higher oil prices would translate into higher remittance inflows into India from oil exporting countries. State VAT collections linked to oil, which are *ad valorem* in nature, would improve.

11. Aurobindo Launches $1.6 Billion Bid To Buy Novartis Generics Unit
Source: Livemint (Link)

Aurobindo Pharma Ltd has submitted an initial bid to buy Novartis AG's dermatology generics drug business for about $1.6 billion, two people directly aware of the development said on condition of anonymity. Hyderabad-based Aurobindo Pharma is the only Indian company that has put in a bid for the assets, which includes an array of dermatology brands, production facilities and associated infrastructure, mostly in the US, said one of the two people, both of whom declined to be named. "Aurobindo has already put in a non-binding bid for the asset which has also drawn interest from other suitors which include private equity funds and other drug companies," the person said. "Aurobindo is being advised by Credit Suisse on the transaction." The last date for placing binding bids is 15 June, said the second person cited above. Emails sent to Aurobindo and Credit Suisse were not answered till press time. Novartis is considering a sale of its dermatology generics drugs business under the Sandoz brand as it seeks to sell some of its less profitable businesses, *Bloomberg* reported in November.

12. Indian Seafood Revenue May Soften In FY19
Source: The Economic Times (Link)

After two years of robust growth, India's seafood exports may ease in 2018-19 due to an increase in supply of shrimps, sluggish purchases by the US and the impact of higher anti-dumping duty, according to Crisil Research. Growth in India's seafood export revenue may drop to 17% to 18% in 2018-19, the research house said in its latest report. That compares with growth of 21% and 31% in the previous two financial years, which was triggered by a crunch in supply as production in China, Vietnam and Thailand was hit by early mortality syndrome disease. Crisil said a spurt in supply following the increased production of vannamei shrimps in India and other key exporting countries and slower purchases by the US, a major importer, could crimp revenue this year Export realisation in dollar terms is expected to fall 10% this year. However, steady volume growth – at 20%-21% in the past couple of years – and expected depreciation in the rupee will limit the impact, it said. Currently, the US is the largest importer of Indian shrimps, clocking a compound annual growth rate of 26% in the past five years. However, realisations from the US have started to taper due to a pile-up of inventory, Crisil said. The impact of declining demand is already visible as international shrimp prices traded 7% lower between December 2017 and February 2018 from a year ago. Prices fell by 11% in March and are poised to decline further.

13. **H-1B: Indians Accounted For Highest Number Of Visas Issued In Last Two Years, China Comes Distant Second**
Source: Firstpost (Link)

In 2016 technology professionals from India accounted for 74.2 percent of the total number of H-1B visas issued by the US and the next year the figure increased to 75.6 percent, a government report said. However, there has been a drop in the number of new H-1B beneficiaries from India, the official report has said. China with a little over nine percent, comes a distant second after India in terms of number of H-1B visas. The figures for China were 9.3 and 9.4 percent respectively for 2016 and 2017. The number of beneficiaries from India approved for initial employment decreased by 4.1 percent in fiscal 2017, while the number of beneficiaries approved for continuing employment increased by 12.5 percent in fiscal 2017, the United States Citizenship and Immigration Services (USCIS) said in its latest report titled 'Characteristics of H-1B Specialty Occupation Workers'. In 2016, as many as 70,737 Indians received initial H-1B visas, which dropped to 67,815. During the same period, Indians accounted for 185,489 visas for continuing employment, which increased to 208,608 in 2017. In all there were 256,226 Indians on H-1B visas in 2016 and 276,423 in 2017.