PRIMUS PARTNERS

Monthly Policy Notes

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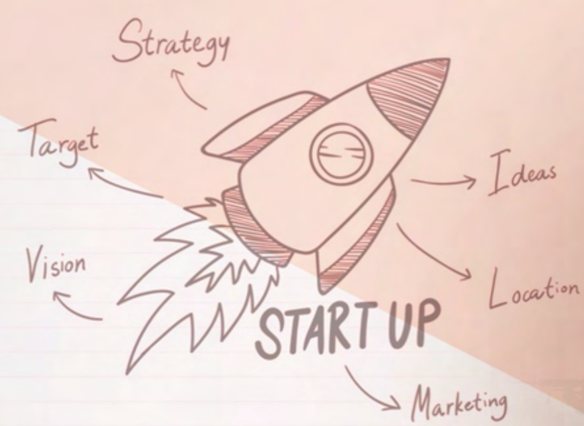

India - Economy needs both Lives and Livelihood

The Indian economy faced its largest downturn ever, with the pandemic forcing lockdowns as the last resort to save lives. With cases increasing in the second wave of the COVID-19 outbreak, there is noticeable uncertainty amongst citizens for the near-term outlook, which is seen to be increasing by the week. But India's vaccination drive, increased testing capacity, lower Infection Fatality Rate is likely to mitigate the impact.

With the country having touched 4 lakh confirmed COVID-19 cases per day, the economic growth of the country is likely to be affected in the first quarter of the financial year due to deepening contraction in retail activity, localised lockdown, and increased uncertainty. With India having maximum gap between the first peak and start of the second wave, unlike most countries, it is important to have a targeted approach to deal with key sectors of the economy.

The economy had taken a hit due to the nationwide lockdown last year which led to the unemployment rate going as high as 23.5% in April 2020. With the country opening and the economy reviving, the unemployment rate fell to 6% in January 2021. Due to the recent exponential surge in COVID-19 cases, and inevitable need of restrictions, the unemployment rate saw a 50% increase to 9% within a quarter. This is worrying given warnings about poverty is increasing rapidly, with the number of people below the poverty line (BPL) in India reaching 50 million.

Thus, it welcome that authorities have avoided a nationwide lockdown as a quick solution to break the transmission chain and reduce the rate of new infections. The Government giving more power to States to decide on the kind of restrictions that they want to impose rather than taking centralised decisions is an important step to balance Life Vs Livelihood. The States should take coordinated decisions in ensuring smooth supply chain and movement of goods, and promote e-commerce and the logistics sector to ensure liquidity and door-to-door delivery of services and other essential commodities to consumers within the safety of their homes.

For the country to reach the growth of 12.5% as forecast by the IMF, **it is important to consider sustainability of businesses and employment together with aggressive vaccination drives and community led, decentralised tracing, as well as community monitoring.**

'Non-essentials' are equally 'essential' - change the lens

As India reels under the impact of COVID-19 on healthcare infrastructure, a number of states have opted for phased lockdowns / weekend lockdowns / (night) curfews in a bid to relieve pressure on strained health capacities.

E-commerce operations have faced an immediate disruption as a result of the various lockdown guidelines, with state governments segmenting deliveries as essentials and non-essentials; and with some state governments disallowing deliveries of non-essential products.

Rather than repeating our practices from last year and capping e-commerce deliveries to essential products, **our focus should be towards allowing 'safe' access and delivery of all products.** Limiting e-commerce deliveries to essential products only may cause serious disruptions to lakhs of citizens studying and working from home who may need electronics, stationaries or other home-appliances. **The term 'essential' is highly subjective to individual needs and cannot be satisfied by a blanket definition. A laptop and a smart phone is also essential in today's WFH environment.**

The MSME sector in India faced dire-threats to its survival last year, with its access to market and consumers cut-off as a result of the lockdowns. E-commerce services enabled a number of MSMEs to explore online marketplaces as an additional revenue stream, helping them sustain sales and meet payroll obligations.

A repeat of lockdowns and sales-disruption is an unaffordable scenario for MSMEs in India, and thereby makes it imperative to strategize lockdown-guidelines in a manner that protects both lives and livelihoods. It would be recommended to leverage e-commerce and hyperlocal delivery services to allow both online sellers and traditional retailers to safely home-deliver all products and continue serving their customers.

With a widening set of commodities seen as essential by consumers, as indeed must happen in a growing economy, the debate on what is essential and what is not is a zero-sum game. Instead, India needs to put in place COVID-compliant hygiene standards in supply chains, and ensure continuity of business operations.

Trump Still Rules - two sides of the same coin?

It has been 100 days into President Biden's Presidency, yet we chose to mention Donald Trump for two reasons.

First, despite being 45th, as one headline in the US said, "Trump's Florida clubs remain a must stop for Republican stars and hopefuls alike". As of now (although some very recent polls seem to suggest a change**), if you are a Republican, you need Trump on your side to win primaries.**

Next, hyper-nationalism is getting deep-rooted in the US. **'America First" was on full display when the US initially did not agree to India's request for vaccine raw material ban to be lifted**, and the US State Department essentially said that their first obligation is to take care of the requirements of the American people. It is also true that President Biden eventually gave more than what we may have asked, and his 45 minutes call with PM Narendra Modi was seen by many as very positive. The US administration is scrambling to deliver on the promise that the President made.

So what does that mean for India?

First, every US President (Republican or Democrat) is only driven by what is good for USA. To expect that a change of administration will dramatically alter existing policy is probably not a good way to plan Indo-US relationship in the long term.

Second, recognizing that security establishments in both countries currently play an outsized role. The fact that the NSAs of the two countries spoke to get the issue of the raw material export ban lifted is very telling.

India has to better leverage its large Aerospace & Defence market to deepen this relationship, especially in hi-tech and next-generation technologies, while strongly supporting the long term vision for Atmanirbhar Bharat.

Third, **India must establish robust commercial understanding with the US that facilitates trade and commerce**. We need to fast track and work on our differences in a trade deal. United States Trade Representative (USTR) has proposed to impose tariffs that would roughly total the amount of India tax revenues, and India must begin conversations that prevent this impact on trade.

The foundation for laying a trade deal exists: US headquartered technology companies and others have strong interests in the Indian market – both with consumers and local partners.

If both countries approach the negotiations as two partners looking at the next 10 years, these platforms will be enablers for the trade deal. The time is now.

Asset Monetization - time to generate commercial value from assets

There is a lot of interest generated in the Infrastructure Investment Trusts (InvITs) space. There are many public and private sector companies looking at the InvITs route to raise funds.

For example, Power Grid's first InvIT 'PowerGrid Infrastructure Investment Trust' opened its IPO for bidding on 29th April, 2021. Power Grid plans to raise INR 7735cr and the expected yield from the cash flow is expected to be around 7-12%.

To meet the expected demand of companies wanting to take the InvITs route there are major players including LIC and NIIF who are exploring ways to invest in InvITs. Regulators are also supporting this move with IRDA allowing insurance companies to invest in similar new instruments. This will allow big players like LIC & GIC to invest in InvITs.

In addition, the government is also contemplating giving NIIF the task of setting up an independent entity to act as an investment manager for all infrastructure investment trusts and real estate investment trusts, floated by ministries and Central Public Sector Enterprises. The government is also exploring opportunities for EPFO to play a larger role in the infrastructure space using instruments like InvITs.

As part of these initiatives, NIIF, LIC and EPFO are exploring opportunities to work together and leverage debt instruments to help accelerate infrastructure investments.

Earlier attempts may not have produced desired results for various reasons but today is the most opportune time to unlock value and push for growth. It would however require significant level of consultations, co-ordination and detailed due diligence.

It can be a game-changer. The question is whether all stakeholders are ready to take the plunge and take it to the finish line.

PLIs in defence for MSMEs – Sum of the parts will make it whole

In the current pandemic-hit scenario, India's ambitions of being Atmanirbhar and being able to meet the targets as set out in the defence production policy are at stake. The more than ~8000 MSMEs who form the backbone of the industry are the most impacted – both structurally and financially.

In the last one year or so, production plans have been impacted, the supply chain is disrupted, expansion plans have been postponed, work force is idle or has been laid off, and plant and equipment are idle or are being under-utilized. There have been many measures taken by the government that provide relief to the manufacturing community – some for the short term and some for the long term. **The PLI Scheme is a long term plan designed to enhance capabilities and capacities.**

The current scheme targets 10 sectors across industries which have some overlap with aerospace and defence. Sectors like batteries, electronics, textile products, speciality steel and telecom have a stake in the A&D sector also. However, most of the above, like batteries, electronics or speciality steel, will be useful only when India has the technology know-how and know-why or the requisite raw material supply. There will be few MSMEs who will be able to take benefit from the technology given the high capex requirements. That said, it is also not possible to prepare an exhaustive and exclusive list of individual A&D linked sectors.

It is therefore **essential to have an umbrella PLI scheme for the aerospace and defence industry** (which forms ~15% of the Union Budget) as a whole, potentially making it the 11^{th} sector / industry. This would ensure a comprehensive coverage for companies in the forging and casting, materials, mechanical systems and other allied industries while also giving companies in the space segment a fillip to further expand their businesses.

Moreover, **PLI in A&D would ensure a further increase in export potential for existing and new product / service lines.**

To stock or not to stock - that is the question

Indian defence forces are mandated to maintain critical stocks of weapons and ammunition averaging around 20(I) and 20(N), meaning 20 days of intense war and 40 days of a normal war. That apart, there are spares and maintenance parts that are stocked by the forces and a good percentage of those are also common across the three forces.

However due to its decentralized nature, this stocking sometimes also results in multiple procurements of such common stock individually by each force. This may **result in excess spend and inventory obsolescence** that can be avoided. A few reports of the CAG have also highlighted the issue of having additional or 'in anticipation of orders' inventory. For e.g. Report no 19 of 2017 stated how inventory of six additional engine kits worth ~INR 107cr ordered against production of engines in anticipation of order were received in 2013-14 and were lying in stores until at least January 2017, resulting in blocking of funds and consequential loss of interest.

Steps have been laid down to solve for this challenge, but execution is what probably requires more streamlining. One of the guidelines in DRDO's Procurement Management Manual, 2020 (and even as far back as the 2006 edition) also recommends avoiding purchasing quantities in excess of requirement (not applicable for critical items) to avoid inventory carrying costs while also taking into consideration expiry of shelf life. Steps in this direction will ensure savings in time and money while also providing an opportunity to Indian companies including MSMEs. A domestic supply chain will reduce logistics costs and also the lead time in procurement while ensuring the industry has scope to grow.

One of the responsibilities of the CDS has been identified as bringing about jointness in operations, logistics, transport, training, support services, communications, repairs and maintenance etc of the three services. Hopefully in due course, inventory management will be more streamlined for the defence forces. Standardization of parts across the three services must also be begin to be done jointly by the present directorates of standardization.

In this context, two critical factors that can ensure reduced inventory procurement and carrying costs as well as reduced procurement lead time are (1) **gradually identifying domestic suppliers for products currently being imported (via ToTs or organic product development) and (2) ensuring logistics is not a reason for a lag between order and delivery.**

This will be a process and processes take their due time. However, it is important to initiate and follow them in a sustained manner.

It is time to step up on gender equality - it is a humanity issue

The **World Economic Forum's Gender Gap Index 2021 ranked India at 140 out of 156 countries on gender equality**. While the challenges remain immense, India has made substantial progress across many aspects of gender equality and empowerment, with further improvements expected with newer government initiatives.

With respect to political empowerment, the index measures political participation at the highest level, finding that the share of women ministers declined from 23.1% in January 2019 to 9.1% in January 2021, with the share of women in parliament being 14.4%. It should be noted that the index does not measure some areas in which India is performing well. For instance, it does not capture participation in local government, where one-third reservation for women has led to 1.3 million women in Panchayats.

The next area considered by the index has been enabling equal economic participation and opportunity, which has been a challenge for India with women's labour force participation rate having fallen from 24.3% to 22.3% (being around a quarter of the men's rate of 79.6%). **There remains over a 50% gender gap on wage equality for similar work, with women's earned income being one-fifth that of men.** Actions like strengthening of maternity benefits, women's creches and working women's hostels for formal and informal sector workers, along with strengthening enforcement of existing legislation and that of the entrepreneurship ecosystem towards jobs that meet women's socio-cultural expectations are likely to improve women's economic participation. **Organisations such as Frontier Markets Consulting which target to work with 1 million rural entrepreneurs provide a ready platform for such transformative change.**

With respect to educational attainment, parity has been achieved in enrolment in primary, secondary, and tertiary education. Yet, **gender gaps persist in literacy rates with 34.2% of women being illiterate as compared to 17.6% of men. Much of this gap exists for those aged 25 or over, with the literacy gap having been closed for younger age groups as India has made substantial strides in school enrolment for both genders over last two decades.**

That said, the need for adult education that remains is being met through initiatives such as the Ministry of Education's ***Sakshar Bharat*** **programme and the National Education Policy 2020** which recommends extension of Open Schools to adult literacy.

Going forward, the 13.77 lakh strong *Anganwadi* ecosystem has potential for mass-scale night schooling, while 12th standard pass girls can act as *Shiksha Sakhis* ('education friends'). The Self Help Group movement with its 30 million+ membership also provides a platform for adult literacy.

Finally, gender equality in 'health and survival' is measured by indicators including the Sex Ratio at birth, which has increased substantially from 918 in 2014-15 to 934 in 2019-20, which compares to the naturally optimal ratio of 944 girls per 1000 boys. This has been the result of active efforts to change attitudes towards the girl child (e.g., ***Beti Bachao Beti Padhao*** **campaign**). Continued Information, Education and Communication initiatives, alongside the renewed vision of the Government and the Ministry of Women and Child Development as well as the Ministry of Health and Family Welfare towards safety, health and malnutrition eradication are expected to lead to improvements in women's healthy life expectancy, the second indicator for 'health and survival'.

ARHC scheme - towards ensuring a 'roof for all'

Rental housing is a crucial part of urban housing response across the world. However, India has historically given little attention to this. In Switzerland, 56.6% of population lives in rental housing, Hong Kong 49%, Germany has 48.1% of population living in rental housing, South Korea 44.8%, Austria 44.3% and so on. **However, in India, almost all Government interventions were focused on the creation of ownership housing stock and Rental Housing was neglected**.

For the First Time, Government of India Introduced **Affordable Rental Housing Scheme (ARHC)** to encourage development of social rental housing by both the public and private sectors. This scheme aims to provide access to quality housing to urban migrants and poor. This scheme is the first step towards establishment of a vibrant rental housing sector in India. Many states are now waking up to the need for rental housing and evaluating the legal framework and policies to promote rental housing.

ARHC Scheme has tremendous potential and with concerted efforts, it can grow exponentially thereby reducing India's housing troubles. Therefore, the **ARHC Scheme, which is currently till March 2022, needs to be extended and to be extensively promoted ensuring faster implementation of projects** as well as enhanced private sector investments and community partnerships in rental housing in India.

Start Up India Seed Fund Scheme - investing in the future unicorns

DPIIT launched the Startup India Seed Fund Scheme (SISFS) on 21st April 2021 for which funding was announced during "Prarambh: Startup India International Summit". **The Scheme with an outlay of INR 945cr is designed to fund seed stage startups across the country.** The Scheme aims to **benefit an estimated 3600 entrepreneurs through 300 incubators in the next four years**. Grants of up to INR 5cr will be provided to eligible incubators selected by an Experts Advisory Committee being constituted. The Incubators will be granted up to INR 20 lakh for proof of concept or prototype development or product trials and grants of INR 50 lakh will be provided to startups through convertible debentures or debt linked instruments for market entry, commercialisation or scaling up.

Startups registered with DPIIT and founded less than two years ago and who use technology for their core product / service can apply for funding under the Scheme. The funding scheme is sector agnostic but will give preference to certain sectors like social impact, waste management, water management, financial inclusion, education, agriculture, energy, mobility, space, etc.

It is very encouraging to see funding interventions from the Centre for the promising startup community of India This Scheme will enable critical and hard to secure funding at the seed stage.

Making incubators drive the selections and funding is a unique and refreshing feature that will enable appropriate reach of this scheme across regions and will also play an important role in being able to select the right startups as most incubators understand the potential and scalability of startups' solutions or products. It is also an efficient means to drive scheme implementation and hand hold startups in their journey. The government has also provisioned for a management fee for the enlisted incubators to bear the cost of selection, due diligence and monitoring of the progress of beneficiary startups with the help of a Seed Management Committee that shall be constituted by each of the Incubators.

Success of this promising Scheme will come from effective execution & administration by government and incubators. While detailed guidelines have been released, it will be important to create awareness about the Scheme, ensure Incubators across States participate, make sure Selection Committees at all levels have suitable & eminent Chairs and members, and ensure appropriate measures are taken for a fair, seamless mechanism being built for selections.

Warehousing is back - more modern and possibly backed by innovative financing

India has made significant progress in the past few years in the domain of logistics infrastructure development and various regulatory and structural reforms. The reforms in the warehousing industry were triggered by Goods & Services Tax (GST) implementation in 2017. Prior to the GST regime, most enterprises had several, small warehouses across States solely to reduce taxes. With GST, companies have started to concentrate on building efficient supply chains by setting up optimum warehouses in fewer locations.

The Warehousing Development and Regulatory Authority (WDRA) has a mandate to regulate and ensure implementation of the provisions of the Warehousing (Development and Regulation) Act, 2007. As per the CARE Rating report, approximately 90% of the warehouse market is controlled by unorganised players, which manage small-sized warehouses with limited mechanisation. Because of the limited amount of mechanisation, a fragmented warehousing footprint results in higher overall product keeping, as well as higher warehouse and handling losses.

The MoF announced in Union Budget 2020-21 that more warehouses that comply with the requirements of the WDRA will be developed. Steps like establishment of a Development Financial Institution (DFI) to monetise existing assets of public sector entities, abolishing tax deduction at source on REITs and InvITs, and issuance of zero-coupon bonds by infrastructure companies are expected to increase investment in organized warehousing.

Further, a greater push is required for developing modern warehousing facilities with application of latest technologies. Incentivizing implement of technologies like AI, IoT, Blockchain, robotics and drones will significantly increase the overall supply chain efficiency.

All the feasible elements of the warehouse sector in India have fallen into place – government policy support, large amounts of private capital, facilitating trunk infrastructure and, most importantly, acceptance by end-users. The time has come for the humble godowns of India to turn into the modern, integrated warehouses with all these growth engines.

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc.), and with varied specialization (engineers, lawyers, tax professionals, management, etc).

PASSION
for providing solutions to help clients achieve their goals

RESPECT
For all and alternate viewpoints

INTEGRITY
of thoughts and actions

MASTERY
of our chosen subject to drive innovative and insightful solutions

US
Representing the Primus collective, where each individual matters

STEWARDSHIP
for building a better tomorrow

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