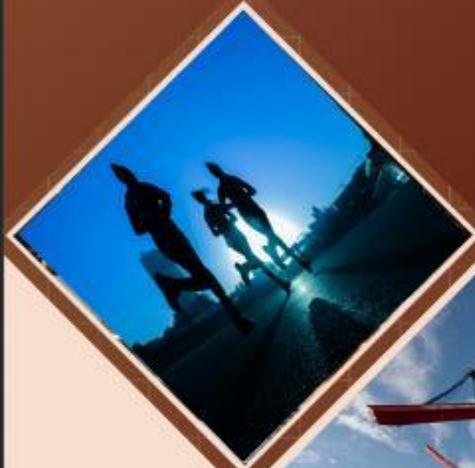


Monthly Policy Note

November
2021





FDI Quality framework: “Green or Blue – The intent of investments is equally important as is its hue”

With the pandemic hopefully waning off, a sharp economic recovery, the market bull run and an increasing traction of enquiring investors, the clock seems to be turning towards a somewhat cautious euphoria in India. This if managed carefully could do wonders to the economic indicators. The recent announcement of neighboring tax havens having bailed from the Financial Action Task Force (FATF) grey lists is further expected to churn the wheels of FPIs making headways into the bullish market.

India has attracted FDI at record levels even during the COVID-19 pandemic with 10% higher YoY total inflows of ~\$81.72 billion in 2020-21. The massive behavioral change experienced by the vast population of the country with huge shifts in how services are experienced even before the pandemic struck is not just an amazing story of transformation at epic historical scales but also reflects on the Governments' willingness and belief that there is a greater need for downstream indicator integration for large scale social reforms.

This, therefore, brings us to a crucial point of **a need to find a structure to answering ‘Which Investments’ vs. ‘How much Investment’**. The intention is not to put another layer of regulation that the investor experiences, but greater visibility in understanding how these investments impact the social indicators of the country. For example, designing a framework that allows the investment to be scored based on how it is helping the country attain goals such as empowering the cause of women employment, direct jobs created amongst the underprivileged,

utilized floor ratio area, carbon footprints, value chain contribution and the list goes on.

The Reserve Bank of India has the **Foreign Investment Reporting and Management System (FIRMS) portal** where an FDI Investor is to fill a form with transactional details of their investments and company information, however, Department of Promotion of Industry and Internal Trade (DPIIT), which is the champion authority under the nodal ministry of commerce and industry, facilitating the grounding of these investments is dependent on data being received from RBI. This greatly limits the information to mere transactions only. This, hence, is a starting point for the lack of quality information available on any such investments in the country.

Is there therefore a greater need to work on a common system that gives greater visibility on how these investments will behave over time in meeting the social goals and the very reason why we need these investments in the first place?

With the digital transformation of services and centralized integration of the databases, imagine the real data gold mine that we are sitting on. **Now imagine the cadence effect that would follow if at all this had to be piloted in the close future. Your inquisitiveness is as good as ours!**



A critical lens is equally important for incoming investments and such a framework will help in “seeing” the numbers with discretion



Disinvestments / Divestments – “Lead or follow, but May the force be with you”

**“Historic and Unprecedented”...
“Better late than never”...**

The conclusion of the sale of Air India is a successful use case of the Government's realization that it has no business of being in business.

A decision which bore fruit after 3 attempts and 20 years since the seed was sown, has raised hopes that more such disinvestments / sale of public entities are now going to be fast tracked. The event will likely be a watershed moment post which we hope to see a fast-tracked momentum

of privatization of PSUs across sectors. What the Air India deal has arguably achieved the most is fine tuning of inter ministerial processes. A precedent has been set and a message has been sent. The Air India case can be used as a template for the many other transactions planned including BPCL, BEML, SCI, NINL etc.

If Air India can be sold, anything can! Many of the white elephants (read “loss making PSUs”) will now be under a more critical lens. There will hopefully be more decisions that ensure a larger private sector presence which should also lead to higher efficiency.

Supporting MSMEs: "Big businesses start small, give the latter your all"

With a recent push from Govt of India on Exports and focus on 'Local goes Global', a great opportunity is created for State Governments to up the ante on internationalization of MSMEs in select sectors. As an illustration the processed food products and agri produce export of India declined by 12% in FY 2019-20. While COVID had an impact on exports, but overall the contribution of sector's exports remained low.

Realizing the importance, the Govt of India recently released the Market Access Initiative Scheme 2021 to encourage State Governments / Industry councils and chambers to participate in the scheme and take benefit of the market enablement measures. This scheme provides a great opportunity to promote products from North-East region and the other Tribal Belts as it lays additional emphasis to promote exports from such regions.

The impetus is on both new markets, new products and new exporters while also consolidating the existing Indian exports market.



*The fact that there is a portal "Champions" dedicated to MSMEs launched in June 2020 is indicative of the importance this segment holds for Indian industry. The portal caters to **Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength** – a one stop portal for MSMEs to register grievances, make suggestions, seek guidance, find resources, provide feedback, identify relevant new schemes as well as for new registrations and applications.*

Policy decisions and procedural initiatives like the above require efficient implementation to get the best results.

India Monetary Policy – "Towards a private-capital-fueled and technology-driven sustainable growth"

Few of the recent RBI decisions including:

- no additional GSAP but room to use tools like OMOs, and
- use of fortnightly variable rate reverse repo (VRRR) calendar with option to look at additional auctions.

clearly indicated that RBI is having a growth bias and looking at gradual withdrawal of liquidity measures.

The continuous fall in CPI to 4.35% in September from 5.3% in August and 6.3% in May of 2021 has also helped RBI maintain an accommodative stance.

We believe, with the growth picking up steam and with significant improvement in profitability for corporates the lower interest rate environment will help kick start the private capital cycle which is the key for sustainable growth.

Also, RBI has increased its focus on leveraging technology. The proposed creation of framework for retail digital payments in offline mode across the country and geo-tagging of the payment system touch points will help increase payments reach beyond the current limits of internet penetration.

Launch of new cohort as part of the RBI Sandbox in the "Prevention and Mitigation of financial frauds" and On-Tap application for existing themes will help in accelerating rollout of new innovative solutions with reduced systemic risk and frauds.

We believe these actions together with government initiatives and programmes will help achieve true financial inclusion taking financial services to the remotest part of India.



Remunerating the innovators – “Rewarding the mind, in kind”

Innovation is key to success and economic growth for any country. Our Hon. Prime Minister Shri Narendra Modi while speaking on the occasion of the 107th Indian Science Congress last year had given the motto of “**Innovate, Patent, Produce and Prosper**”.

With the number of global patents filed by India accounting for only ~1% of those filed globally, this area clearly requires a more targeted approach.

One aspect which can accelerate the focus on innovation, and thus growth is adequately encouraging, compensating and providing benefits to the innovator or the inventor. A deterrent for the same is the fact that India presently lacks a law or legal provision which can provide guidance or a framework for providing remuneration to inventors in India.

The Indian Patents Act 1970 doesn't clearly clarify the ownership of the patent or IP invented by an employee under the aegis of the employer.

Thus a law or legal provision is needed for inventor remuneration in India. Many countries including Germany, Japan, South Korea and China have similar laws or provisions to support inventor remuneration. Japanese patent law (article 35) in fact provides an employee with a right to receive remuneration for inventions made within the scope of employment.

Therefore, it is prudent that India also looks at amending the Indian Patents Act to include provision for just remuneration of employees and innovators. This would usher in a culture of innovation and invention in the country and would be good for the economy and the research community as a whole beckoning more interests in the future.



Chemicals – Loffer thy industry ambitions, stronger should be thy foundation in chemicals



Chemical industry globally is quite trade dependent. India has the opportunity to increase its share in this global trade. Investment decisions should dial in a strategic approach and long-term viability rather than short term returns.

Government can play an important role in increasing production and competitiveness of chemical industry in India.

In order to decide which chemicals should be made in India, it is important to have a structured approach:

- **Economic approach** – taking in factors of production and cost to serve. Here private company play is enough.
- **Strategic approach** – taking in factors beyond current economics. Here Government intervention is required.

We have seen recently prices in China spiraling up due to disruptions. **Based on our analysis, we predict that in the long term, Chinese chemicals will become more costly:**

- 2015 disruption due to Tianjin fire incident
- 2016-19 disruption due to blue sky policy led chemical factory closures
- 2020 – disruption due to Covid
- 2021 – disruption in chemical value chain due to coal & electricity shortage in China

Since chemical value chains take time to develop, it is important to take a strategic view and approach to develop promising chemicals in India.

Feedstocks: are mostly oil & gas derived and are a function of its availability

Bulk and Intermediate Chemicals: India imports many bulk chemicals like methanol, acetic acid, styrene monomer, MEG, PTA, Toluene, EDC and intermediate chemicals like heterocyclic compounds, oxygen function amino compounds etc. from countries including China.

Specialty, Fine & Consumer Chemicals, here we have a large diversity of products and a lot of scope for import substitution and in exports. Helping the ecosystem in this segment may make the industry more competitive.

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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