Economy This Week (2nd Oct to 8th Oct 2021)

TABLE OF CONTENTS

1. India's coal crisis brews as per demand surges (FE 2/10/21)

- The power plants are trying to secure higher supplies of coal as -
    - The demand from industries for power has increased
    - Sluggish imports due to record global prices
- Central govt recommends holding at least two weeks supplies of coal but over half of India's 135 coal-fired power plants have fuel stocks lasting for around three days.
- India is competing against buyers such as China.
- The power producers are locked in with the distributors under long term agreements and they will not be able to pass on the cost.

2. As FCI stocks pile up, centre prunes paddy purchase at MSP (FE 4/10/21)

- The procurement by FCI in 2020-21 has been very high and the volume of stocks has reached unmanageable levels.
- Hence the centre is planning to regulate the purchase from farmers at MSP in the current year.
- It has also reduced the procurement target this year to 50 mn tonnes, from 60 mn tonnes last year (was almost half of the total production).
- This is expected to anger the farmers from states Punjab and Haryana who have been the biggest beneficiaries of the open-ended procurement policy.
- The centre has asked the states to enforce caps on the paddy procurement in 2021-22 based on the landholdings records of the farmers and average yields.
    - Punjab and Haryana have decided to buy 25 quintals per acre.
- Farmers' organisations have raised concern against this and have demanded that there should not be any such cap as the yield varies across districts.

- FCI's carrying cost (handling, storage and interest) increases with high procurement and adds to the FII's subsidy bill.

3. RBI removes boards of 2 Srei Cos (ET 5/10/21)

- RBI has superseded the respective boards of Srei Equipment Finance and Srei Infrastructure Finance and has appointed an administrator to recover ₹ 28000 Cr.
- There are allegations of misappropriation and mismanagement of funds.
- RBI would be shortly initiating the insolvency proceedings against the company under IBC.

4. SEBI proposes changes to IPO price (ET 5/10/21)

- IPOs of companies can be done either through a book building process or a fixed price method.
    - In the book building process, the issuer provides a price band (the upper price band should not be more than 20% of the floor of the band).
    - In case of the fixed price, the issuer will issue the shares at a fixed price which has to be disclosed in the offer document.
- SEBI has proposed changes in the fixing of price bands and allocation of shares to rich investors in the initial public offerings (IPO).
- In the case of the price band, the regulator wants to introduce a minimum price band wherein the upper price should be at least 5% more than the floor price.
    - Recently there are cases where the companies have proved a price band that is very narrow as small as ₹ 1, ₹ 2 or ₹ 3.
    - This has diluted the book building process.
    - If the company has a narrow band then the companies have camouflaged the fixed price method in a different way.
    - This helps the companies to circumvent the conditions attached to the fixed price method.
        - Allocation methodology
    - It has also proposed to split the non-institutional investors (NII) under which High Networth Individuals (HNIs) invest, into two categories:
        - One-third of the allocation earmarked for applications ranging above ₹ 2 lakh and up to ₹ 10 lakh
        - Two-thirds of the allocated shares would be for applications above ₹ 10 lakhs
    - Currently -
        - Investors in IPOs are classified as QIBs, NIIs and retail investors.
        - Book building process - 35% of the overall issue size is allocated to retail investors, 50% for QIBs and 15% for NIIs.

- Fixed price issue - 50% of the overall issue size is allocated to retail investors and the remaining 50% can be given for both QIBs and NIIs.

5. PM-MITRA approved by cabinet (IE 7/10/21)

- Govt, to make the textile sector internationally competitive, has approved ₹ 4445 Cr scheme to set up 7 parks under PM-MITRA (Mega Integrated Textile Region and Apparel).
- The scheme aims to integrate the entire value chain in textiles - spinning, weaving, processing/dyeing, printing to garment manufacturing at one location.
- The scheme also aims at reducing logistics costs.
- Currently, the value chain is spread across the country.
    - Cotton is made in Maharashtra, Gujarat
    - Processed in Tamil Nadu
    - Then shipped to Karnataka or Noida for further processing and exported
- The central govt would be providing ₹ 500 Cr or ₹ 200 Cr for the development of each greenfield and brownfield project respectively.
- In addition to this, it will also provide ₹ 300 Cr as Competitiveness Incentive Support for the early establishment of textiles manufacturing units in each of these parks.
- Each of the parks is expected to generate 1 lakh jobs directly and 2 lakh jobs indirectly.
- The investors setting up anchor plants will be eligible for incentives up to ₹ 10 Cr every year for up to three years.

6. Issues with QES (7/10/21)

- **Limited coverage -** It will not provide a full picture of employment/unemployment. Hence drawing conclusions on the loss of employment during the pandemic is misleading.
    - Establishments with 10 or more workers account for a small proportion of all non-agricultural establishments - 1.66% as per the 6th Economic Census 2013-14.
    - A large number of workers - 81.3% (as per PLFS 2018-19) have worked in the unorganised sector.
- The QES sample includes 11000 establishments and this is based on the EC 2013-14. Hence it does not cover all the establishments set up after 2013-14.
- The EC is a census conducted throughout the year and QES is a sample survey; comparisons cannot be made.
- EC asks questions on how many people were working on the previous day of data collection whereas the QES asks questions regarding employment details for a particular quarter.

- EC is not a good tool for estimating the size of the workforce or for analysing the trend of employment.

7. CoC to come within IBBIs regulatory fold (BL 2/10/21)

- Committee of Creditors (CoC) will be coming under the regulatory purview of the Insolvency and Bankruptcy Board of India (IBBI).
- CoC is the most important decision-making body under the IBC regulatory framework.
- IBBI will be framing guidelines and the COC and its members will have to work within the ambit of IBBI.
- This comes amidst the concern that the creditors are purposely delaying the resolution process.

8. Moody upgrades outlook on India (LM 6/10/21)

- Moody's has revised the outlook for India from negative to stable.
- This has been done on account of the receding risk posed by the financial sector to the overall economy.
  - Higher capital cushions and greater liquidity are reducing the risks banks and non-banks pose to the overall economy.
- India's credit rating has remained unchanged at Baa3 (the lowest in investment grade).