RBI Governor - Another term for Shaktikanta Das is the right vote for stability

It now looks like Shaktikanta Das will get another term as RBI governor. Das had taken over after the abrupt exit of Urjit Patel and in the midst of the NBFC crisis. Das has done an amazing job.

Continuity is the real need

India is at a crucial stage of its growth and the need of the hour is continuity. The monetary policies followed by the RBI during and after pandemic as well as amidst rampant inflation, have stood the Indian economy in good stead. As India shifts to a $5 Trillion economy, the big challenge is to have very pragmatic monetary policies that can balance, the multiple challenges like growth, jobs, price stability etc. In the last 5 years, Das has held the balance quite well.

Handling two major crises

Above anything, Das deserves plaudits for handling two very complex crisis at a time when most of the central banks were struggling to find answers. Das not only handled the pandemic-triggered slowdown admirably; but also handled the post-pandemic inflation surge very well. We are not even talking about the scores of mini crisis that he had to put up with; like the Russia-Ukraine war, the tension in West Asia, strained oil supply lines globally etc. Through all this tumult Das has navigated the Indian economy out safely and also emerged stronger. That, by itself, justifies giving the RBI governor another term in Mint Road.

Avoid policy disruptions

India really has to debate whether it is essential to change the RBI governor after every 5 years or whether we can look at something like an apolitical sort of appointee as the RBI governor. While the RBI governor is apolitical on paper, we have seen frequent changes in the RBI governor with changes in the seat of power. In the last 46 years since 1979, the US Federal Reserve has had just 5 chiefs, while India has had 12. The average minimum tenure of the Fed chair has been 8 years, with Greenspan continuing for a full 17 years. When the combination of fiscal and monetary policy appear to be working in tandem, it is best to let the status quo remain.

Challenges for Das

Assuming that Das does get another full term, he would become the longest serving RBI governor in more than 60 years! However, the next 5 years could see some key challenges. Central banks the world over will have to balance GDP growth and inflation and India will be no different. Also, sustained geopolitical problems would mean that safe haven money keeps flowing into dollars, and that will put further pressure on the INR. Above all, Indian companies are now feeling the pinch of high cost of funds and the lending rates have to be brought down, without triggering off a credit binge. These are tough tasks, but as Das has shown; he is cut for it!

Adani Story - Another attack on Adani group, and this could be more serious!

Almost 2 years since Hindenburg saga led to a massive rout in Adani stocks, it is a new story that is cooking up. The only difference is that this time, the brickbats are coming from the SEC.

What is the issue this time?

This time around, the US Securities and Exchange Commission (SEC) and the US Department of Justice (DOJ) accused Gautam Adani and his nephew of hiding the fact that there were bribery related investigations going on against them. Under US regulations, such disclosures are mandatory and the regulators look at such lapses quite seriously. This was during the period when Adani group was raising dollar loans and such cases of non-disclosure can even lead to the bond issue being cancelled by SEC.

May be more serious this time

For now, it looks more like allegations and there is no instance of any evidence to back up such allegations. It is also not clear, if the US SEC or the US DOJ can really summon an Indian company or initiate elaborate proceedings against them, unless the allegations are really serious in nature. For now, the SEC may have to go through its Indian regulatory counterpart, SEBI, to initiate the steps. However, Gautam Adani himself has denied any wrong doing and has stated categorically that no bribes were paid to any Indian official at that time. At the end of the day, they have to be proved.

A warning signal for India Inc

There are several warning signals in this episode for India Inc in particular. As India takes a bigger role on the global stage, its role and functioning will come under increasing scrutiny. As the saying goes, “Caeser’s wife must be seen to be above suspicion.” Secondly, there could be a lot of hardball games from other developed countries. China has been doing that for some time. Canada has started that recently and the US is not going to be left behind. Thirdly, a very key lesson for India Inc is that corporate governance has to take centre stage for Indian companies. If India has to work on the global stage, it should also be mentally prepared to play by the rules.

Time for double standards to go

For the US and for the developed world, it is time for double standards to go. They must learn to manfully accept that India is a growing power and they must get used to talking on equal terms. They cannot insist on disclosure standards, but refuse to disclose end beneficiaries of FPIs when asked for. They cannot call the same payouts as lobbying charges in the US and call it bribery in a third world country. Much of the problems that the West has with China is due to reluctance to deal with China as a big power. US does not give IT business to India out of any altruistic reasons, but because they offer the best risk-return trade-off. It is time for both sides to meet half-way!

Tata Sons IPO - Can the Tata group manage to sidestep IPO plans this time?

For all those who were anticipating the Tata Sons IPO to meet SEBI listing norms, there may be a disappointment. Tata Sons may not be listing at all and may continue to remain a private entity.

Understanding Tata Sons IPO

In 2022 when the new rules for key finance companies were passed, the rule was that all such large finance companies had to get listed on the bourses in a span of 3 year and also adhere to all relevant listing norms and procedures. Tata Sons, the holding company of Tata group, had turned private during the stand-off with Cyris Mistry. However, considering its asset size and importance, Tata Sons was classified as a Core Investment Company (CIC). This automatically put them in line for an IPO by September 2025. Tatas felt that the time was just not enough.

Even through Tata Sons is a privately held company, it had to come out with a public issue under the new listing norms for systematically important NBFCs. Tata Sons was huge in the sense that it had an asset base of Rs1.30 Trillion and also had debt to the tune of Rs21,500 crore. The only way the RBI would not insist on a public issue for Tata Sons would be if Tata Sons gave up its CIC status. The CIC status could be given up under 2 key conditions. Firstly, it can be done if the asset base is less than Rs100 crore. That was not feasible. The second was if Tata Sons became a zero-debt company. It is the second option that Tatas are trying.

What is Tata Sons doing?

Tata Sons has been of the view that the time would be too short for them to plan a listing. For a company of the size and importance of Tata Sons, listing would need at least 8-9 months of planning. That may not be possible. Also, the asset size of Tata Sons is just too large and that condition may not help them avoid the listing liability. Hence the only option for Tata Sons was to repay its liabilities and then surrender its CIC registration. Accordingly, in March 2024, Tata Sons had applied to RBI for cancellation of its CIC certification of registration (COR) and let it continue to remain a private limited company and closely held. The final decision of the RBI is awaited.

For now, decision is on hold

As of now, the RBI has put the decision on hold and it is expected to give out the decision shortly. There can be arguments both ways. For instance, one can argue that Tata Sons is about promoter control over the group and hence forcing such a stock to list may be antithetical to the idea of promoters retaining control of the companies they founded. Tata Sons has repaid half the debt through sale of TCS shares and if they reduce debt to zero, there is no reason to not cancel the CIC registration. However, others like Bajaj Finance, LIC Housing and L&T Finance are preparing for more intense rules and regulations. Can Tata sons be exception to the rule? Rather wait and watch!