

COMPETITION DISTORTIONS IN INDIA – A CUTS DOSSIER

(CDI 64: April-June 2024)

For earlier Dossiers please see: <https://cuts-ccier.org/competition-distortion-in-india/>

This periodic dossier produced by CUTS International looks at the interface of policy issues that impact competition in India, which can be both negative and positive. News, as published, is used without ascertaining its accuracy. The purpose is to flag issues to the layman and the specialised policymakers and regulators, rather than be judgmental about them. This would require greater analysis, particularly in terms of cost and benefits in addition to that.

Dear Reader,

Greetings!

We are pleased to present the Competition Distortion Dossier #64 for the second quarter of the year, i.e., April-June 2024. We have extensively covered the most significant news stories from the last quarter that have impacted the competitive landscape in India both positively and negatively. Taking forward from previous editions, we have divided the dossier into three parts: Trade Policies; Policies Promoting Competition, and Policies Inhibiting Competition. The central emphasis of this dossier revolves around India's commitment to liberalising its economy by reducing protectionist measures and implementing strong initiatives aimed at eliminating monopolistic practices across sectors.

The initial segment discusses India's trade policies related to the export and import of both essential and non-essential goods, examining their effects on India's market susceptibility on the global stage.

The dossier's second section provides insights into policies that foster competition in India. It delves into the intricate details of financial sector policies during this period, offering a comprehensive roadmap for the sector reforms following the state elections. Additionally, the dossier explores merger and transportation policies, specifically in the civil aviation sector, providing a nuanced understanding of the regulatory landscape and the implications on market dynamics. Despite facing fierce competition from other emerging markets, India's robust growth narrative and anticipated policy improvements are poised to drive its growth in the upcoming decade, thereby influencing global power dynamics.

The final segment addresses policies that disrupt competition within the country, impartially highlighting the impact of growing dominance of the Big Four multinational auditing firms in the Indian market. The concerns regarding the high taxes and levies on aviation fuel and other charges in India, which are placing significant financial strain on airlines operating in the country, has also been discussed.

We hope you enjoy reading these stories as much as we did, reporting them. Kindly also circulate this bulletin within your networks so as to build higher awareness which can aid our efforts to grow our economy.

Cheers!

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1. Trade Policies

1.1 India-South Korea to Enhance Bilateral Air Rights

There have been ongoing talks between India and South Korea to enhance bilateral air rights between the two countries. These negotiations focus on expanding the number of flights and destinations that airlines from both nations can operate aiming to foster greater connectivity and tourism opportunities.

The discussions include potential increases in flight frequencies and routes, which could benefit airlines like Korean Air and Asiana Airlines from South Korea and Indian carriers such as Air India and IndiGo. This move is considered crucial for boosting economic ties and facilitating easier travel between India and South Korea, aligning with efforts to stimulate post-pandemic recovery in the aviation sector.¹

Food For Thought

The ongoing negotiations between India and South Korea to enhance bilateral air rights represent a significant development with potentially far-reaching implications for India's competition landscape, particularly from a trade policy perspective. Expanding bilateral air rights is likely to result in increased flight frequencies and the addition of new routes, thereby enhancing market access for both South Korean and Indian airlines.

This move could promote greater competition, with South Korean airlines known for their strong service quality and operational efficiency posing competitive pressure on Indian carriers like Air India and IndiGo. Consequently, Indian airlines may need to improve their services and cost structures to maintain their market share.

Economically, improved connectivity between India and South Korea can facilitate more efficient trade, potentially increasing bilateral trade volumes. Enhanced air cargo services could reduce transit times and costs, benefiting businesses and consumers in both countries. Additionally, greater connectivity could spur tourism, boosting both countries' hospitality, retail, and transportation sectors. Increased tourist arrivals from South Korea might stimulate local economies in popular Indian destinations, creating new business opportunities and employment.

¹ [India, South Korea in talks to enhance bilateral air rights | Mint \(livemint.com\)](https://www.livemint.com/mint-india/india-south-korea-in-talks-to-enhance-bilateral-air-rights-11375202221111.html)

Regulatory and policy considerations will be crucial for effectively implementing enhanced air rights between India and South Korea. Aligning regulatory frameworks, including safety standards, operational protocols, and customs regulations, can streamline operations and reduce entry barriers for airlines. Indian policymakers may need to support domestic airlines with subsidies, tax incentives, or infrastructure development to maintain competitiveness.

Enhanced air rights could lead to strategic alliances, such as code-sharing agreements, and attract foreign investment into India's aviation sector, fostering innovation and growth.² Improved connectivity might position Indian airports as significant regional hubs, benefiting ancillary services and aligning with broader efforts to deepen economic ties, support post-pandemic recovery, and foster regional stability and growth. Policymakers and industry stakeholders must navigate these changes to maximise benefits and ensure a fair and competitive market environment.

1.2 Private Ports Outpace Central Peers in FY24

Private ports in India have outperformed major peers in the fiscal year 2023-24, achieving double-digit growth. This growth is attributed to increased cargo handling volumes and improved operational efficiencies at private ports compared to their state-run counterparts.

Private ports have capitalised on infrastructure investments and technology adoption to enhance their capabilities, thereby attracting more shipping traffic. The article underscores the competitive advantage of private ports in India's maritime sector, reflecting their significant contribution to the country's trade and logistics ecosystem.³

Food for Thought

The impressive performance of private ports in India, outpacing their state-run counterparts with double-digit growth in FY24, marks a significant shift in the competition landscape of the country's maritime sector. From a trade policy perspective, this development can have several far-reaching implications. Enhanced operational

² <https://www.researchgate.net/publication/308761295> The effect of code-sharing alliances on airline profitability

³ https://www.business-standard.com/industry/news/pvt-ports-outpace-major-peers-in-fy24-register-double-digit-growth-124050201156_1.html

efficiencies and increased cargo handling volumes at private ports highlight the impact of infrastructure investments and technology adoption.⁴ These advancements provide private ports with a competitive edge, which may prompt policymakers to re-evaluate the strategic priorities and regulatory frameworks governing the port sector.

Private ports' success underscores the importance of private sector participation in developing and managing critical infrastructure. This trend could lead to rethinking trade policies to further encourage private investment in port infrastructure. Policies that foster a favourable investment climate, such as streamlined regulatory processes, tax incentives, and public-private partnership models, could be pivotal in driving the growth and modernisation of the maritime sector. Encouraging more private sector involvement can stimulate innovation, enhance service quality, and reduce logistics costs, ultimately benefiting the broader trade ecosystem.

The growing dominance of private ports in India necessitates a balanced regulatory approach to ensure fair competition and prevent monopolistic practices. Trade policies should address disparities between private and state-run ports by promoting transparency, efficiency, and competitive neutrality.⁵ This could involve implementing performance benchmarks, fostering best practices, and ensuring equitable access to port services for all stakeholders. Such measures can help maintain a level playing field, allowing both private and public ports to thrive and contribute to the national economy.

The success of private ports also underscores the potential for regional development and economic diversification. By attracting more shipping traffic and fostering ancillary industries such as warehousing, logistics, and manufacturing, private ports can become catalysts for local economic growth. Trade policies that support the development of port-centric industrial clusters and logistics hubs can harness this potential, driving job creation and regional economic integration.

⁴ <https://www.mdpi.com/2071-1050/14/10/6255>

⁵ <https://cuts-ccier.org/pdf/Competition and Regulation in the Indian Port Sector.pdf>

2. Promoting Competition

2.1 Government Notifies Post Office Act 2023

The Indian government's notification of the Post Office Act, 2023 aims to modernise the country's postal services. This new law replaces the outdated Indian Post Office Act of 1898 and introduces measures to enhance the postal sector's efficiency, security, and service quality. Key provisions include introducing digital services, improved tracking systems, and stricter penalties for postal offences.

The Act also focuses on expanding financial services offered by post offices, leveraging technology to better serve rural and remote areas. This modernisation effort is intended to align India's postal system with contemporary needs and international standards, thereby improving overall postal service delivery and customer satisfaction.⁶

Food for Thought

The introduction of the Post Office Act of 2023 marks a significant step towards modernising India's postal services, which can substantially enhance the competitive landscape in the country's logistics and communication sectors. By replacing the outdated Indian Post Office Act of 1898, the new legislation aims to improve efficiency, security, and service quality within the postal sector. This modernisation effort can create a more competitive environment by pushing the Indian postal system to adopt contemporary practices and technologies, thereby aligning with international standards and enhancing overall service delivery⁷.

One of the Act's key provisions is the introduction of digital services and improved tracking systems. By leveraging technology, the postal sector can offer more reliable and efficient services, which is crucial for maintaining competitiveness in an increasingly digital world. Enhanced tracking systems can improve transparency and accountability, giving customers greater confidence in postal services. This technological upgrade can also drive innovation within the sector, encouraging private players to adopt similar advancements to stay competitive, ultimately benefiting consumers with better service options and improved delivery times.

⁶ [Govt Notifies The Post Office Act 2023, Law To Mordernise Postal Services \(abplive.com\)](https://abplive.com/govt-notifies-the-post-office-act-2023-law-to-modernise-postal-services/)

⁷ <https://indianexpress.com/article/explained/explained-law/post-office-bill-shashi-tharoor-9070808/>

The Post Office Act of 2023 introduces stricter penalties for postal offences to promote fair competition by enhancing security and accountability, thereby deterring malpractices and building trust. This creates a level playing field for public and private postal service providers, fostering a robust postal ecosystem in India. Expanding financial services in post offices, particularly in rural areas, can drive economic activity, create business opportunities, attract private investment, and bridge the urban-rural divide.

The Act aims to improve service quality, security, and efficiency by modernising postal services to meet contemporary needs and international standards, thus boosting customer satisfaction and competition. Continued regulatory support is crucial to fostering innovation and competition, strengthening India's logistics and communication infrastructure, and positioning the country as a global leader in the postal sector.

2.2 FEMMI Urges 'One Nation-One Mineral-One Tax' Policy

The Federation of Mining Associations of Andhra Pradesh (FEMMI) has urged NITI Aayog to recommend a "One Nation, One Mineral, One Tax" policy in order to streamline the tax regime in India's mining sector. FEMMI argues that the current state-specific tax variations create inefficiencies, increase administrative burdens, and lead to legal disputes.

A uniform tax structure simplifies compliance, enhances transparency, and attracts more investment by providing a stable and predictable regulatory environment. This policy aims to reduce litigation, promote ease of doing business, and support sustainable economic growth in the mining industry.⁸

Food for Thought

The call for a "One Nation, One Mineral, One Tax" policy by the FEMMI presents a transformative opportunity for India's mining sector. By advocating for a uniform tax structure, FEMMI aims to eliminate the inefficiencies and complexities caused by state-specific tax variations. This shift could significantly reduce administrative burdens and legal disputes, fostering a more streamlined and efficient operational environment for mining companies. A standardised tax regime would simplify compliance and enhance

⁸ [FEMMI urges NITI Aayog to recommend 'One Nation-One Mineral-One Tax' policy - The Hindu](#)

transparency, making the sector more attractive to both domestic and international investors.

A uniform tax policy would also level the playing field for mining companies across different states. Varying tax rates can create competitive imbalances, where companies in states with higher taxes are disadvantaged. By harmonising taxes, the policy would ensure that all companies operate under the same financial conditions, encouraging fair competition. This could lead to increased investment and innovation as companies would no longer need to navigate a complex web of state-specific regulations, allowing them to focus on improving their operations and productivity.

Moreover, the predictability and stability provided by a uniform tax structure could bolster investor confidence. A stable regulatory environment is crucial for long-term investment decisions, and a single tax policy would reduce the uncertainty that often accompanies fluctuating state taxes. This increased investment can spur technological advancements and sustainable practices within the mining sector, driving growth and development. As the industry grows more competitive, it could also lead to job creation and economic upliftment in mining regions, contributing to broader economic development goals⁹.

Finally, the policy aligns with the broader objective of promoting ease of doing business in India. Simplified tax compliance reduces the administrative workload for businesses and government authorities alike, fostering a more business-friendly environment. This initiative could serve as a model for other sectors, demonstrating the benefits of streamlined regulatory frameworks in enhancing competitiveness and supporting sustainable economic growth. By embracing a "One Nation, One Mineral, One Tax" policy, India can strengthen its mining sector and reinforce its position as an attractive destination for global investment.

⁹ <https://www.pwc.in/research-and-insights-hub/transforming-indias-mining-landscape-with-autonomous-technology.html>

2.3 UPI Boosts RuPay Credit Cards

Integrating Unified Payments Interface (UPI) with RuPay credit cards significantly boosts their distribution and usage in India. This integration allows RuPay credit cardholders to make seamless and instant payments through the widely adopted UPI platform, enhancing convenience and accessibility. This move is expected to increase the adoption of RuPay credit cards by leveraging UPI's extensive user base and merchant network.

It also discusses the broader implications for the digital payment's ecosystem, including increased financial inclusion and promoting a cashless economy. The collaboration between UPI and RuPay is seen as a strategic effort to enhance the digital payment infrastructure and offer a more integrated and user-friendly payment experience.¹⁰

Food for Thought

UPI with RuPay credit cards marks a significant milestone in India's digital payment landscape, with profound implications for competition and innovation in the financial sector. This integration allows RuPay credit cardholders to make seamless and instant payments through UPI, enhancing user convenience and accessibility.

By leveraging UPI's extensive user base and merchant network, this move will likely accelerate the adoption of RuPay credit cards, positioning them as a strong competitor against other established credit card brands. The increased distribution and usage of RuPay credit cards can stimulate competition among payment service providers, encouraging them to innovate and offer better services to attract and retain customers.

Moreover, this strategic collaboration enhances the digital payment infrastructure in India, promoting financial inclusion and supporting the transition to a cashless economy. The ease of using RuPay credit cards through UPI can attract a broader segment of the population, including those who previously relied heavily on cash transactions. This democratisation of access to credit can spur competition among financial institutions to cater to the needs of a more diverse customer base, driving product and service innovations tailored to different user segments.

¹⁰ <https://economictimes.indiatimes.com/tech/technology/upi-integration-gives-a-fillip-to-rupay-credit-cards-distribution/articleshow/110948248.cms?from=mdr>

Integrating RuPay credit cards with the Unified Payments Interface (UPI) significantly enhances the digital payments ecosystem by improving transaction efficiency and user experience, thereby increasing consumer trust and adopting digital payment methods. This move fosters competition among credit card providers and digital payment platforms, driving innovation and better services.

The strategic collaboration between UPI and RuPay promotes a more cohesive, user-friendly payment environment, serving as a model for other sectors. This integration underscores the importance of interoperability and innovative partnerships in advancing market competition, contributing to the growth and modernisation of India's financial ecosystem, and positioning the country as a leader in the global digital economy.

2.4 Smooth Flying: India to Simplify Immigration Checks for International Trips

The article discusses India's plans to streamline immigration checks for international travellers, aiming to enhance the ease of travel into and out of the country. Key points include proposing a 'One Nation, One ID' initiative to integrate various identification documents for seamless immigration processing. This initiative aims to simplify procedures and reduce wait times at airports, thereby improving the overall travel experience for passengers.

Additionally, India plans to expand e-visa facilities to more countries and simplify the visa issuance process to attract more tourists and business travellers. The article highlights the government's efforts to modernise immigration infrastructure and policies, aligning with global standards to boost tourism and facilitate smoother international travel to and from India.¹¹

Food for Thought

India's plans to simplify immigration checks for international travellers through initiatives like 'One Nation, One ID' and expanding e-visa facilities have the potential to significantly enhance the country's competitive landscape in tourism and business travel. By integrating various identification documents into a single ID for seamless immigration

¹¹ [Smooth flying: India plans to simplify immigration checks for international trips - The Economic Times \(indiatimes.com\)](https://www.indiatimes.com/Smooth_flying_India_plans_to_simplify_immigration_checks_for_international_trips_The_Economic_Times.html)

processing, the initiative aims to reduce wait times and simplify airport procedures, thereby greatly improving the overall travel experience. This modernisation of immigration infrastructure aligns with global standards and positions India as a more attractive destination for tourists and business travellers. A smoother, more efficient travel process can boost tourism, increase business travel, and stimulate economic activity.¹²

Furthermore, expanding e-visa facilities to more countries and simplifying the visa issuance process will likely attract a larger influx of international visitors. This can enhance India's competitiveness as a travel destination by offering greater convenience and accessibility. The resulting increase in tourism and business travel can drive growth in the hospitality, retail, and service sectors, creating jobs and boosting the economy. As other countries witness India's advancements in immigration procedures, they may be incentivised to improve their own systems, further promoting global competition in the travel and tourism industry.

Thus, these initiatives reflect India's strategic effort to modernise its immigration policies and infrastructure, ensuring that the country remains competitive globally. By fostering a more user-friendly travel environment, India can enhance its appeal as a destination, attract more international visitors, and stimulate economic growth, all while setting a benchmark for other nations to follow in the realm of travel and immigration management.

2.5 A Roadmap for Financial Sector Reforms

The Indian government plans to unveil a comprehensive roadmap for financial sector reforms following the state elections. This initiative aims to tackle existing challenges and bolster the resilience of India's financial ecosystem.

Key aspects include the timing of the reforms, scheduled to be announced post-elections, focusing on enhancing efficiency and stability across banking, insurance, and capital markets. The government intends to engage stakeholders extensively, including regulators, industry experts, and financial institutions, to gather inputs and formulate effective reform strategies.

¹² <https://blog.unimonitravel.com/india-plans-to-simplify-immigration-checks-for-international-trips/>

Objectives of the reforms encompass enhancing financial inclusion, expanding access to credit, strengthening regulatory frameworks to ensure robust oversight, and fostering innovation within the financial services sector. The overarching goal is to lay the groundwork for sustainable economic growth by addressing critical issues and promoting India's more competitive and responsive financial landscape.¹³

Food for Thought

The Indian government's plan to unveil a comprehensive roadmap for financial sector reforms post-election promises to significantly enhance the competitive landscape of India's financial ecosystem. By focusing on key areas such as banking, insurance, and capital markets, these reforms aim to tackle existing challenges and bolster the sector's resilience. The extensive engagement of stakeholders, including regulators, industry experts, and financial institutions, in formulating these reforms ensures a well-rounded and effective approach. Enhancing financial inclusion and expanding access to credit are critical objectives that can drive competition by bringing more participants into the financial system and fostering a more dynamic market environment.

Strengthening regulatory frameworks will ensure robust oversight, which is crucial for maintaining stability and investor confidence. A more stable financial environment can attract both domestic and international investments, further intensifying competition. Fostering innovation within the financial services sector can lead to the development of new products and services, improving consumer choice and driving efficiency. By addressing critical issues and promoting a more competitive and responsive financial landscape, these reforms can lay the groundwork for sustainable economic growth.

This initiative demonstrates a strategic effort to modernise India's financial sector, making it more inclusive, efficient, and resilient.¹⁴ The anticipated reforms can stimulate competition by lowering barriers to entry, encouraging innovation, and ensuring fair regulatory practices. As a result, India's financial sector could see increased dynamism, greater investment, and enhanced global competitiveness, contributing to broader economic development and prosperity.

¹³ <https://www.livemint.com/economy/roadmap-for-financial-sector-reforms-to-be-unveiled-post-polls-11712572561271.html>

¹⁴ https://www.linkedin.com/posts/sudharsanrangarajan_roadmap-for-financial-sector-reforms-to-be-activity-7183095549615636480-6mBI/

2.6 How Interoperability Oiled the Wheels of an M-Pay Revolution

The Reserve Bank of India's decision to make net banking interoperable has facilitated various payment systems, including cards, UPI, and digital wallets, to work seamlessly together. This has expanded merchant payments, reduced acquisition costs for consumers and merchants, and spurred innovation in payment products. Future plans include using Central Bank Digital Currencies (CBDCs) for large transactions and integrating smaller banks into the digital payment ecosystem.¹⁵

Food for Thought

The Reserve Bank of India's decision to ensure interoperability in net banking has been a pivotal driver of the mobile payment (M-pay) revolution, significantly enhancing the competitive landscape of India's financial sector.

This initiative has vastly expanded the convenience and scope of merchant payments by enabling various payment systems—such as cards, UPI, and digital wallets—to work seamlessly together. Interoperability lowers acquisition costs for consumers and merchants by providing them with multiple payment options, fostering a more competitive environment. This increased flexibility compels payment service providers to innovate and enhance their offerings to attract and retain customers.¹⁶

Moreover, the future integration of Central Bank Digital Currencies (CBDCs) for large transactions, alongside the inclusion of smaller banks into the digital payment ecosystem, is set to further elevate competition. The use of CBDCs will streamline large-scale transactions, reduce costs, and bolster security, thereby making the financial system more efficient and trustworthy. By bringing smaller banks into the digital payment landscape, the RBI is democratising access to advanced payment technologies, allowing these institutions to compete on an equal footing with larger banks. This integration promotes a diverse and resilient financial ecosystem, increasing financial inclusion and providing greater access to credit for underserved populations.

¹⁵ [interoperability: How interoperability oiled the wheels of mobile payments - The Economic Times \(indiatimes.com\)](https://www.indiatimes.com/india/interoperability-how-interoperability-oiled-the-wheels-of-mobile-payments-157107.html)

¹⁶ <https://www.brillio.com/insights/blog/central-bank-digital-currency-cbdc-the-future-of-transactions/>

To conclude, the interoperability of net banking systems has laid the foundation for a dynamic and competitive financial sector in India. It has spurred innovation, reduced costs, and expanded access, making the market more attractive for new entrants and encouraging continuous improvement among existing players. As the financial ecosystem evolves with the integration of CBDCs and smaller banks, India is poised to become a global leader in digital payments, setting a benchmark for other nations in fostering a competitive and inclusive financial landscape.

2.7 Tata Motors Allows all Businesses to Unlock Potential

Tata Motors announced the demerger of its commercial and passenger vehicle businesses to unlock potential and enhance focus. This strategic separation aims to create more agile and focused entities, enabling them to better capture market opportunities and improve operational efficiencies.

The company believes this move will enhance shareholder value, attract specialised investors, and drive growth in both segments. The demerger will allow each business to independently focus on its core operations and market demands, fostering innovation and competitiveness.¹⁷

Food for Thought

Tata Motors' decision to demerge its commercial and passenger vehicle businesses is a strategic move poised to significantly enhance the competitive landscape of India's automotive industry. By creating more agile and focused entities, this separation enables each business to independently hone in on its core operations and market demands. Such specialisation allows the companies to respond more swiftly and effectively to market opportunities, fostering a culture of innovation and operational efficiency. This increased focus can lead to developing new products and technologies, further driving competitiveness within the industry¹⁸.

¹⁷ [Tata Motors says demerger will allow all businesses to unlock potential | Company Business News \(livemint.com\)](https://www.livemint.com/industry/tata-motors-strategic-move-separating-commercial-and-passenger-vehicle-segments/110634982#:~:text=%22The%20proposed%20demerger%20will%20help,Annual%20Report%20for%202023-24.)

¹⁸ <https://auto.economictimes.indiatimes.com/news/industry/tata-motors-strategic-move-separating-commercial-and-passenger-vehicle-segments/110634982#:~:text=%22The%20proposed%20demerger%20will%20help,Annual%20Report%20for%202023-24.>

The demerger is also expected to enhance shareholder value and attract specialised investors who are interested in specific segments of Tata Motors' operations. This influx of targeted investment can provide the necessary capital to fuel growth and expansion, enabling each entity to pursue aggressive market strategies. For instance, the commercial vehicle division can concentrate on advancements in logistics and fleet management, while the passenger vehicle segment can innovate in areas like electric vehicles and smart mobility solutions. This tailored approach not only boosts the individual performance of each entity but also stimulates healthy competition in the broader market.¹⁹

Moreover, the strategic separation can improve operational efficiencies by streamlining processes and reducing complexities inherent in managing diverse business units under one umbrella. Each entity can implement best practices suited to its specific needs, enhancing productivity and cost-effectiveness. This operational agility is crucial in an industry characterised by rapid technological advancements and shifting consumer preferences. By being more responsive to these changes, Tata Motors' demerged entities can set new benchmarks for the industry, compelling competitors to elevate their game.

Tata Motors' demerger strategy is a forward-thinking approach that promises to reshape the competitive landscape of India's automotive sector. The move fosters innovation, enhances efficiency, and drives growth by allowing each business to unlock its full potential through focused operations and targeted investment. This development underscores the importance of strategic realignment in achieving long-term competitiveness and positions Tata Motors as a dynamic player in the evolving automotive market.

2.8 IBC: A Catalyst for Financial Recovery and Business Continuity in India

The Indian Finance Minister Nirmala Sitharaman recently highlighted the significant achievements of the Insolvency and Bankruptcy Code (IBC) in rescuing 3,171 distressed companies over the past eight years. The IBC has played a crucial role in providing a time-bound resolution mechanism that has markedly improved the recovery of non-performing assets (NPAs) and strengthened the financial health of banks. By facilitating

¹⁹ <https://www.linkedin.com/pulse/tata-motors-demergers-pioneering-strategic-evolution-automotive-forum-gn4xf/>

corporate insolvency resolution in a structured manner, the IBC ensures creditors receive a fair deal while maintaining business continuity.²⁰

Further emphasising its impact, timely interventions under the IBC have led to a 49 percent recovery rate for distressed firms. This structured approach has been essential in maximising asset value and enabling quicker recoveries, thereby benefiting creditors and contributing to the overall financial stability of the banking sector.

The efficient functioning of the IBC has not only improved recovery rates but also enhanced investor and stakeholder confidence in India's insolvency framework. Ongoing efforts to streamline the insolvency process aim to further improve the ease of doing business in India, underscoring the IBC's pivotal role in maintaining economic stability and fostering a healthier business environment.²¹

Food for Thought

The Insolvency and Bankruptcy Code (IBC) has emerged as a pivotal instrument in promoting a competitive landscape in India by ensuring financial recovery and business continuity. Highlighted by the Indian Finance Minister Nirmala Sitharaman, the IBC's success in rescuing 3,171 distressed companies over the past eight years underscores its effectiveness in providing a structured and time-bound resolution mechanism. This approach has significantly improved the recovery of non-performing assets (NPAs), thereby strengthening the financial health of banks. By facilitating corporate insolvency resolution in a structured manner, the IBC ensures that creditors receive fair treatment while maintaining business continuity, which is crucial for sustaining competitive markets.

The 49% recovery rate for distressed firms achieved through timely interventions under the IBC is a testament to its efficacy in maximising asset value and enabling quicker recoveries. This recovery rate benefits creditors and enhances the overall financial stability of the banking sector, creating a more predictable and secure environment for businesses to operate. As demonstrated by the IBC, a robust insolvency framework enhances investor and stakeholder confidence, attracting domestic and foreign

²⁰ [IBC rescued 3,171 distressed companies in eight years: Sitharaman - The Economic Times \(indiatimes.com\)](http://www.indiatimes.com)

²¹ [IBC Recovery: Timely rescue of firms pushes IBC recovery to 49% - The Economic Times \(indiatimes.com\)](http://www.indiatimes.com)

investments. This influx of capital can increase competition as new and existing businesses have better access to financial resources, fostering innovation and growth across various sectors.

Moreover, the IBC's role in maintaining economic stability and fostering a healthier business environment is critical for promoting competition. By providing a clear and efficient resolution process, the IBC reduces the uncertainties associated with financial distress, allowing companies to restructure and continue their operations or enabling the efficient reallocation of assets to more productive uses. This helps preserve jobs and economic value and encourages entrepreneurial ventures by reducing the risks associated with business failures²².

Ongoing efforts to streamline the insolvency process aim to improve the ease of business in India. Simplifying and expediting the resolution process can reduce the costs and time associated with insolvency proceedings, making the Indian market more attractive for businesses. This ease of doing business is essential for fostering a competitive market landscape where companies can thrive without the burden of prolonged financial uncertainties.

2.9 Challenges and Uncertainty Surround Go First's Financial Struggles

Lenders to Go First, an Indian airline, are contemplating liquidation following a Delhi High Court order that allows lessors to reclaim their planes. This decision is influenced by the airline's substantial financial burden, with debts amounting to approximately Rs 6,521 crore (\$780.88 million) owed to creditors such as the Central Bank of India, Bank of Baroda, IDBI Bank, and Deutsche Bank.

Amid the formal bankruptcy process, two bids were submitted: one from a consortium including SpiceJet's managing director Ajay Singh and Busy Bee Airways, and another from Sharjah-based Sky One. However, the lenders find these bids insufficiently low and are leaning towards liquidation as the most viable option, with a final decision pending at a Committee of Creditors meeting later this week.²³

²² <https://www.bis.org/review/r240117g.htm>

²³ [Lenders to Go First weigh liquidation after court order on planes, sources say - The Economic Times \(indiatimes.com\)](https://www.indiatimes.com)

In a related development, EaseMyTrip's co-founder Nishant Pitti and SpiceJet owner Ajay Singh have withdrawn from the bidding process to acquire Go First. Their exit leaves the bidding field open for other potential bidders. This move highlights ongoing challenges in the airline industry, such as financial instability and intense market competition, which may have influenced their decision to pull out. The withdrawal of these prominent industry figures underscores the complexities and risks associated with the aviation sector's restructuring efforts, raising concerns about Go First's future and the overall health of India's airline industry amid financial turmoil.²⁴

Food for Thought

The potential liquidation of Go First and the withdrawal of prominent bidders like EaseMyTrip's co-founder Nishant Pitti and SpiceJet's owner Ajay Singh spotlight significant challenges and opportunities within India's airline industry. From a competition perspective, these developments could lead to restructuring the market dynamics. The liquidation of Go First would result in a redistribution of its market share among remaining airlines, potentially strengthening the position of existing players or creating space for new entrants. This shift could foster a more competitive landscape, driving airlines to improve operational efficiency, customer service, and cost management to capture the newly available market segments.

The withdrawal of high-profile bidders underscores the financial instability and intense competition within the aviation sector. However, it also opens the door for other potential investors who might bring fresh capital and innovative business strategies to the table. These new players could leverage the latest technologies and operational practices to enhance their competitiveness, leading to a more dynamic and resilient industry. Furthermore, this situation highlights the need for robust financial management and strategic planning within the sector, encouraging airlines to adopt more sustainable business models to avoid similar financial distress in the future.

Policymakers and regulators can play a crucial role in shaping the competitive landscape by ensuring a transparent and fair process for redistributing Go First's assets. The

²⁴ [EaseMyTrip's Nishant Pitti, SpiceJet owner Ajay Singh pull out of Go First race - The Economic Times \(indiatimes.com\)](https://www.indiatimes.com/business/industry-news/aviation/easemytrips-nishant-pitti-spicejet-owner-ajay-singh-pull-out-of-go-first-race-753514.html)

government can stimulate healthy competition by fostering an environment that encourages investment and supports the entry of new players.

Moreover, the current turmoil within the airline industry can serve as a catalyst for broader discussions on infrastructure improvements and policy reforms. Enhancing airport facilities, streamlining regulatory processes, and providing fiscal incentives for innovation can collectively bolster the sector's competitiveness. Such measures can attract both domestic and international investors, leading to increased market competition and improved service quality for consumers.

Stakeholders can transform these challenges into a pathway for strengthening the industry's overall health and competitiveness by facilitating new entries, encouraging sustainable business practices, and implementing supportive policies. This comprehensive approach can ensure a resilient and dynamic airline sector that contributes significantly to India's economic growth and connectivity.

3. Inhibiting Competition

3.1 L&T May Exit Hyderabad Metro

Larsen & Toubro (L&T) is considering exiting the Hyderabad Metro project after 2026 due to a significant drop in ridership, which they attribute to the Telangana government's free bus ride scheme for women and transgenders. This scheme, known as the Mahalakshmi scheme, allows these groups to travel for free on government-run non-AC buses, resulting in a shift of many female commuters from the metro to buses. Consequently, the metro's daily ridership has fallen to around 480,000 passengers, down from previous higher figures.

L&T, which holds a 90 percent stake in the Hyderabad Metro project, views this shift as financially unsustainable and burdensome. The company has a 65-year concession to operate the metro, but it now sees the project as a non-core asset and plans to divest it. In addition, L&T has secured a Rs 3,000 crore soft loan from the Telangana government and is looking to monetise real estate associated with the metro system to mitigate financial losses.

Critics argue that L&T's problems stem from broader issues with the metro project, including poor planning and not extending metro lines to key areas like Gachibowli.

They also contend that L&T is using the free bus ride scheme as an excuse to cover up these broader issues.²⁵

Food for Thought

The potential exit of Larsen & Toubro (L&T) from the Hyderabad Metro project highlights significant challenges that could inhibit the competitive landscape in India's urban transportation sector. L&T's decision, driven by the financial strain caused by the Telangana government's Mahalakshmi scheme, which provides free bus rides for women and transgenders, underscores the delicate balance between public policy and private sector sustainability. While the scheme aims to promote inclusivity and mobility for underserved groups, it has inadvertently led to a substantial drop in metro ridership, rendering the project financially unsustainable for L&T²⁶. This situation raises concerns about the viability of private investments in large-scale public infrastructure projects, where policy shifts can significantly impact financial outcomes.

L&T's potential exit could deter other private entities from investing in similar projects, fearing unpredictable policy changes and insufficient returns on investment. Such apprehensions may lead to a reduced interest in public-private partnerships (PPPs), which are crucial for developing and maintaining modern urban infrastructure. The Hyderabad Metro project, initially seen as a landmark PPP, now serves as a cautionary tale that could dampen the enthusiasm of private investors and limit the scope for competitive bids in future transportation projects.

Critics argue that broader issues like poor planning and inadequate coverage of key areas like Gachibowli contribute to the metro's struggles. If these systemic issues are not addressed, they could perpetuate inefficiencies and hinder the development of a robust and competitive urban transport network. Effective competition relies on well-planned and strategically executed infrastructure projects that cater to the needs of the population. Without addressing these fundamental planning deficiencies, the competitive landscape for urban transportation in India could suffer, leading to suboptimal service quality and limited options for commuters.

²⁵ [L&T Might Exit Hyderabad Metro Due to Impact of Free Bus Rides on Business | India Business News - Times of India \(indiatimes.com\)](https://timesofindia.indiatimes.com/city/hyderabad/l-t-might-exit-hyderabad-metro-as-free-bus-rides-hurt-business/articleshow/110128699.cms)

²⁶ <https://timesofindia.indiatimes.com/city/hyderabad/l-t-might-exit-hyderabad-metro-as-free-bus-rides-hurt-business/articleshow/110128699.cms>

L&T's plan to divest the metro project and monetise associated real estate highlights a potential shift in focus from operational excellence to asset liquidation. This shift could signal to other private operators that the primary value in such projects lies in real estate rather than transportation services, which could skew investment priorities and further inhibit competition in the transportation sector. A healthy competitive environment requires operators prioritising service quality and innovation rather than merely seeking to recoup investments through ancillary assets.

3.2 Big 4's Dominance: Local Calls for Level Playing Field

Local auditing firms in India advocate for a more level playing field, citing the growing dominance of the Big Four multinational auditing firms — EY, Deloitte, PwC, and KPMG. These smaller firms argue that the Big Four exploit regulatory loopholes, allowing them to avoid disciplinary actions despite lengthy investigations by the Institute of Chartered Accountants of India (ICAI). The local firms are calling for regulatory reforms to address these issues and enable fair competition.

The ICAI has taken steps to address these concerns by forming a committee to support smaller firms in pooling resources to better compete with the Big Four. Additionally, the National Financial Reporting Authority (NFRA) is expressing concern over the market concentration and is considering easing regulations to help homegrown firms grow and create stronger brands. These efforts aim to diversify the auditing market and reduce the overwhelming influence of the Big Four on India's top companies.²⁷

Food for Thought

The dominance of the Big Four multinational auditing firms — EY, Deloitte, PwC, and KPMG — in India's auditing market raises significant concerns about the competitive landscape, particularly from the perspective of local auditing firms. Smaller, homegrown firms argue that the Big Four exploit regulatory loopholes to avoid disciplinary actions, allowing them to maintain and expand their market share despite lengthy investigations by the ICAI.²⁸ This perceived regulatory favouritism inhibits fair competition, making it difficult for local firms to compete on an equal footing.

²⁷ [Big 4's dominance: Local companies call for level playing field - The Economic Times \(indiatimes.com\)](https://www.indiatimes.com/business/industry-news/big-four-auditing-firms-dominate-indian-market-671111.html)

²⁸ <https://www.financialexpress.com/business/industry-big-four-dominance-has-regulator-worried-3416175/>

The concentration of market power in the hands of the Big Four creates several barriers for smaller firms. These multinational giants have substantial resources, global networks, and extensive client bases, enabling them to offer various services at competitive prices. Local firms, in contrast, often struggle with limited resources and reach, making it challenging to match the capabilities and pricing strategies of the Big Four. This disparity stifles the growth potential of smaller firms, limiting their ability to scale and compete effectively.

The ICAI's forming a committee to help smaller firms pool resources is a step in the right direction, as it aims to enhance their competitive capabilities. However, these efforts may not be sufficient to level the playing field without significant regulatory reforms. The NFRA's concerns about market concentration and its consideration of easing regulations for homegrown firms highlight the need for systemic changes. Regulatory reforms that address the exploitation of loopholes and ensure rigorous enforcement of disciplinary actions against all firms, regardless of size, are crucial for fostering a fair competitive environment.

The overwhelming influence of the Big Four also has broader implications for the diversity and resilience of the auditing market. Over-reliance on a few large firms can lead to systemic risks, as any major failure within these firms could have widespread repercussions. Diversifying the market by supporting the growth of local firms not only enhances competition but also contributes to the stability and robustness of the auditing ecosystem.

Hence, the dominance of the Big Four multinational auditing firms poses significant challenges to the competitive landscape in India's auditing sector. Addressing these challenges requires a multifaceted approach involving regulatory reforms, support for resource pooling among local firms, and measures to ease the growth of homegrown firms. By creating a more level playing field, policymakers can ensure a diverse, competitive, and resilient auditing market that benefits all stakeholders and contributes to the broader economic health of the country.

3.3 Tax Issues May Force Airlines to Exit India

The International Air Transport Association (IATA) is concerned regarding the high taxes and levies on aviation fuel and other charges in India, which are placing significant financial strain on airlines operating in the country. The Director-General of IATA has warned that these tax burdens could potentially force airlines to exit the Indian market, adversely affecting both domestic and international connectivity.

Amidst increases in global fuel prices, these taxes exacerbate operational costs, making it challenging for airlines to remain competitive. IATA has called upon Indian authorities to reconsider and reduce these taxes to support airlines' financial sustainability and ensure continued air connectivity within and beyond India.²⁹

Food for Thought

The high taxes and levies on aviation fuel and other charges in India, as highlighted by the IATA, pose a significant threat to the competitive landscape in the country's airline industry. These financial burdens exacerbate operational costs, particularly amidst rising global fuel prices, making it increasingly difficult for airlines to maintain profitability and competitive pricing.

As a result, airlines may be forced to exit the Indian market, reducing domestic and international connectivity. This potential exodus of airlines could lead to reduced service options for consumers, higher ticket prices, and less incentive for service quality improvements, thereby stifling competition.

Airlines' departure due to prohibitive tax burdens would have broader economic implications. Reduced competition in the airline sector can lead to monopolistic or oligopolistic market conditions, where a few dominant players control the market. Such market concentration often results in higher prices and reduced service quality, negatively impacting consumers and businesses reliant on air travel. Furthermore, diminished connectivity can hinder economic growth by limiting access to regional and international markets, reducing tourism, and slowing down the movement of goods and services.

²⁹ [Tax issues may force airlines to exit India: IATA DG | Mint \(livemint.com\)](https://www.livemint.com/industry/airlines/tax-issues-may-force-airlines-to-exit-india-iata-dg-11831000000000000.html)

IATA's call for Indian authorities to reconsider and reduce these taxes is crucial for airlines' financial sustainability. A more favourable tax regime could lower operational costs, enabling airlines to offer competitive fares and expand their services. This would benefit consumers through increased service options and better pricing and stimulate healthy competition within the industry. Enhanced competition can drive innovation, improve service quality, and ensure that the aviation sector contributes significantly to India's economic development.

Policymakers need to balance revenue generation from taxes with the broader economic benefits of a thriving airline industry. By reducing aviation fuel taxes and other levies, the government can create a more conducive environment for airlines to operate profitably and sustainably. This approach would support the entry and growth of new airlines, increase market competition, and ensure that India remains well-connected both domestically and internationally.

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