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IBTEX No. 164 of 2020 July 28, 2020

US 74.84| EUR 87.78| GBP 96.23| JPY 0.71

NEWS CLIPPINGS

INTERNATIONAL NEWS

Hit hardest by virus, Europe's economy on way to recovery; to outpace US

The euro area economy is for once set for a sprightlier recovery from crisis than the U.S., thanks to starkly different responses to the coronavirus.

America's failure to get a grip on the pandemic is putting the brakes on its rebound compared with Europe, where many former virus hot spots managed to resume economic activity without causing a similar surge in infections.

Crucial for a sustainable recovery is confidence that the virus is no longer out of control, and Europe's relative success may help encourage shoppers to spend and businesses to invest, further propelling demand and growth. The region has also done a better job of protecting jobs and incomes, at least for now, with furlough programs keeping millions of workers on payrolls.

According to JPMorgan Chase & Co., Europe will do better because it has "broken the chain" that links mobility and the virus. Goldman Sachs Group Inc. has cited effective virus control as one reason it expects a "steeper and smoother rebound in the euro area than elsewhere."

"It's very clear that the euro area turned down more sharply but we also expect it to bounce back more sharply," said Jari Stehn, chief European economist at Goldman Sachs. "It's pretty rare that the euro area would outgrow the U.S. over a horizon of one to two years."

Since 1992, the U.S. has outperformed the euro area in all but eight years, according to IMF data. Although the euro area managed to grow when the financial crisis hit in 2008 and the U.S. shrank, in 2009 the U.S. contraction of 2.5% was far shallower than the euro area's 4.5%.

Aggressive lockdowns mean the euro area is set for a sharper second-quarter contraction than the U.S., something that will be seen in GDP figures due this week.

The euro-area economy probably shrank 12% in the three months through June, according to a Bloomberg survey. The U.S. contraction, on an annualized basis, is forecast to be 35%, or a roughly 10% decline quarter-over-quarter.

But high-frequency data suggest Europe is on the mend faster, and Bloomberg Economics estimates that the lead has widened recently.

“Having been hit hardest it’s pretty impressive that we think that Europe will recover more fully,” said Bruce Kasman, chief economist at JPMorgan. “They’ve broken that link -- the mobility numbers are going up” without a resurgence of the virus, thanks to better contract tracing, mask-wearing and social distancing measures, he said.

JPMorgan expects the euro area’s economy to shrink 6.4% this year, slightly worse than the 5.1% contraction seen for the U.S. But for 2021, the bank forecasts a 6.2% rebound for the euro area, more than double America’s 2.8% growth.

In the U.S., a jump in cases across the South and West has led several states to halt or even reverse reopening plans. Measures of mobility and restaurant bookings have plateaued, and more than 1 million applications for unemployment benefits continue to be filed each week.

Meanwhile, euro-area purchasing managers indexes jumped more than forecast in July, while numbers for the U.S. came in lower than expected, especially for services, which make up a much larger part of the economy than manufacturing.

The U.S. economic situation could worsen if lawmakers don’t extend -- in some form -- the extra $600 per week in unemployment benefits that have supported incomes and spending in recent months.

Senate Republican leader Mitch McConnell is set to release the GOP’s proposal on Monday after the party and President Donald Trump squabbled last week over the details of the plan, giving Congress almost no time to avoid a lapse in the unemployment aid.

The divergence is reflected in markets. European stocks and bonds have benefited from renewed investor popularity, thanks to the bloc’s agreement on a historic 750 billion-euro ($860 billion) accord. The euro has risen more than 6% against the dollar in the past two months, and could have further to run.

In Europe, generous loan and furlough programs prevented an immediate surge in unemployment, which is also helping the near term. Many were modeled on Germany's renowned Kurzarbeit and largely proved efficient at getting aid to workers.

But it's early in the recovery phase, and countries can't keep funding support indefinitely. If demand doesn't come back strong enough, companies may eventually have to cut costs, meaning Europe may only have delayed a damaging increase in joblessness.

Just because Europe is in a relatively better position to come out of this in the second half of the year, "doesn't mean the U.S. can't catch up," said Michael Gapen, chief U.S. economist at Barclays Plc.

In the U.S., the $2 trillion rescue package that Congress passed in March ranks among the most aggressive in history, but the distribution has been patchy and uneven. Unemployment offices were overwhelmed with claims, and many jobless Americans have still yet to receive the unemployment benefits they're owed.

At the same time, the allocation of loans to small and medium-sized businesses had its own challenges, resulting in a chaotic scramble among business owners to get government assistance. Even so, the Paycheck Protection Program helped save as many as 3.2 million jobs, according to a study by Massachusetts Institute of Technology and Federal Reserve researchers.

High-frequency data suggests "things have stalled out, either because there's exhaustion of initial pent-up demand or because of the virus creating a change in consumer behavior," said Michelle Meyer, head of U.S. economics at Bank of America Corp. While the third quarter will get a boost from initial state reopenings, "now the question is, how sustainable is that bounce?"

Source: hindustantimes.com – Jul 26, 2020

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South Africa's DTIC to focus on clothing masterplan

The department of trade, industry and competition (DTIC) of the South African government will focus on implementation of four masterplans, including one for the clothing and textiles industry, minister Ebrahim Patel said in his address to the National Assembly during the recent Budget Vote Session. The masterplans aim at increasing production and jobs.

From July 2019, the South African Revenue Services (SARS) has seized 550 shipping containers of "illegally-imported and undervalued clothing and footwear, to protect local industries and entrepreneurs," Patel told Parliament.

"An agreement has been reached with the UK to maintain access for South African products in its market after Brexit and the country has also worked hard to build the African Continental Free Trade Area as the foundation for a long-term growth," the minister said.

He stated that South Africa is well-positioned to become a major supplier of industrial goods and value-added services to the continent.

Mentioning that COVID-19 has exposed the fragility in the global economy, he said: "To prepare for the post-COVID world, we will strengthen efforts around reconstruction and recovery, including broader pacts with workers and businesses, focused on saving as many firms and jobs; identifying new opportunities; embracing digital technologies to recover and change; addressing economic inclusion with greater urgency".

Source: fibre2fashion.com – Jul 27, 2020

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Covid-19 a catalyst for Vietnam manufacturing

With a 97-million-strong young and tech-savvy population, Vietnam, compared with its peers remains still one of the most competitive on labour cost and land lease, construction cost. In its annual ranking of the most suitable locations for global manufacturing among 48 countries in Europe, the Americas and Asia Pacific, Cushman & Wakefield has assessed that Vietnam is the second most cost-competitive manufacturing hub in the world.

China remains the most attractive manufacturing hub globally from an operating conditions and cost competitiveness perspective.

The annual Global Manufacturing Risk Index (MRI) scores each country against 20 variables that make up the three final weighted rankings which cover conditions, cost and risk. The data underpinning the MRI comes from a variety of reliable sources, including the World Bank, UNCTAD and Oxford Economics.

Vietnam's global ranking is "Phở-nomenal" news, borrowing a phrase from HSBC Bank. What gradually started snowballing in 2018, continued throughout 2019. The US-China trade war was an impetus for the shift in production from China to Vietnam. The shift in production to Vietnam benefited all sub markets across Vietnam.

In 2019, the North of Vietnam caught up with the south compared to the previous years in terms, accounting for half of the total new foreign direct investment projects. In addition, Tier 2 regions that are well linked by infrastructure planning started to show up as highly competitive and fast-growing regions with good opportunities to reduce growing cost of land and labour especially when enjoying tax incentives granted to the economic zones.

Cost aside, Vietnam's stable geopolitical situation and the wide-reaching market integration is another success factor. With 260 operational industrial parks, industrialists benefit from the ease of doing business, with a relatively swift and simple due diligence process. For the long-term sustainability of Vietnam's manufacturing sector, keeping costs low cannot be the only strategy.

Indeed, efforts are now being made to move the economy up the value chain to transition its manufacturing base towards Industry 4.0 through automation, robotics, 3D printing. Vietnam is also now experimenting more with contactless technology in the wake of Covid-19.

This will boost its potential as a Covid-19 vaccine production base and stimulate the relatively undeveloped pharmaceutical industry. Should Vietnam succeed in embracing Industry 4.0, Vietnam's overall position as a manufacturing hub will strengthen further, beyond its ability to keep land cost and wages low.

Tremendous potential for Vietnam's biomedical, food manufacturing sector

Vietnam stands to benefit even if China retains a clear infrastructure advantage to efficiently move goods via road, rail or sea transport. Vietnam businesses were already re-inventing, improving efficiency and diversifying supply chains. Industry & aLogistics 4.0, Covid-19 and the resulting disruption in global supply chains has just accelerated the pace of innovation.

For one, Vietnam took advantage of the global shortage of personal protective gear at the height of Covid-19 infections to fill the gap, cementing Vietnam's position as the PPE supplier to the West. There is potential for Vietnam to develop its status as a key supplier of PPE in the coming years. Similar growth potential is being observed in the garment, textile, shoes and non-woven plastic bags.

One thing the pandemic demonstrated was the under-supply and short term need for more cold storage facilities across Southeast Asia. Food manufacturers saw demand for frozen food supplies spike at the height of lockdowns across Southeast Asian countries. In this regard, Vietnam's tier 2 cities and remote regions possess tremendous potential to develop cold chain facilities to meet the increasing demand for frozen food. This will put Vietnam in a good position to lead the region as a food distribution hub.

Fast-track Recovery with more FDI in 2H 2020

Vietnam recorded strong momentum in industrial activity at the end of 2019 as manufacturers continued to shift production from China to mitigate risks. Covid-19 halted the momentum with the closing of Vietnam's borders to all countries. Still, the investment by foreigners in those few weeks before the lockdown made up a sizeable proportion of the US$6 billion in foreign direct investments in the first half of 2020.

On the eve of the 13th National Congress vote, the market expects the government to pivot to infrastructure development, land compensation, new legislation as well as decisions on when and how to open the borders of Vietnam around August /September 2020. This latter decision will set the stage for new potential foreign investors studying Vietnam's market, ready to decide on the next course of action.

Since Vietnam posted economic growth in manufacturing in June and with the GDP growth of 1.8 per cent for the first 1H 2020 still expected to be fastest growing market in SEA. In hindsight the outbreak was managed extremely well, thanks to intensive testing, effective tracing, strong campaigns with a world-famous soundtrack and just a very proactive acting government with swift decision making and deploying e-government tools to effectively communicate with the population.

The country is back to normal for at least two months and on the road to recovery looking at the PMI bouncing back to 51.1 in June, up from 42.7 in May and above the 50 no-change mark for the first time in five months ever since the PMI hit a record low of 32.7 in April. Overall new orders increased, yet export business declined as export markets as still closed. Another good sign for manufacturing is that staffing declined at the weakest pace since February.

2021 could be or should be the year Vietnam could advance its economy in an accelerated pace and gradually enter the league of some of the more advanced APAC economies. The central government's role is key to step up infrastructure development, and public investment and reform law reducing the hurdles for real estate development.

Segway to real estate development, this heralds a new generation of agile developers who need to provide value-added facilities manufacturers require. For one, in the wake of Covid-19, the demand for ready built factories and warehouses will grow as manufacturers look to enhance supply chain resilience and mitigate impacts of unexpected events with a preference for asset light solutions.

Manufacturers will also be looking to the government to ensure the development of a robust local supply chain and high level of corporate governance in Vietnam.

Although Vietnam government has limited capacity to deploy relief packages as seen in OECD countries, resolution 42 that targets six categories of individuals and businesses stimulus for SME and individuals contributing to the future bouncebackability as well. Besides curbing inflation government is aware that it is crucial to speed up the infrastructure development and remove as many hurdles from stimulating real estate development.

All eyes are on the Prime Minister's decision in August around Vietnam's 5,000 ha airport which is expected to be one of the largest airports in the world. ACV is scheduled to start working on phase 1 in May 2021 expected to open its gates by Q2 2026.

Source: businesstimes.com.sg – Jul 27, 2020

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Only 35 per cent Bangladesh apparel capacity booked for July-December 2020: BGMEA

A BGMEA survey revealed only 35 per cent of production capacity of Bangladeshi apparel manufacturers has been booked for the consolidated period of July-December this year.

Moreover, prices of apparel goods booked by global retailers over the same period have fallen on an average 14 per cent due to shortages of work orders. The survey examined responses of over 100 manufactures to determine the impact of the COVID-19 pandemic on work orders for the second half of 2020. Manufacturers confirmed work orders for 127.50 million pieces in the July-December period of 2020, while 365.78 million pieces can be produced at full capacity.

December is the worst month in the second half of the year, with only 17 per cent of total production capacity having been booked, while in July, 56 per cent of the total production capacity has been booked.

The biggest decline in prices has been for men's undergarments followed by babies' garments with a 35 per cent fall. Only the price of knit bottoms rose this year, by 6 per cent.

Source: fashionatingworld.com– Jul 27, 2020

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Pakistan: Withering economic growth?

The size of trade deficit and the resultant current account deficit has been a source of intensive debate in Pakistan.

According to the State Bank of Pakistan (SBP), the current account deficit had surged to $19.2 billion in FY18. It decreased to $13.4 billion in FY19 and to $3 billion in FY20. The current account deficit shrank from 4.8% of gross domestic product (GDP) in FY19 to 1.1% of GDP in FY20. This is one of the lowest levels in the past six years.

The current account turned into a surplus in May 2020 as decrease in import payments due to Covid-19 more than compensated for the fall in export receipts during the month. Interestingly, there was an increase of approximately 32% in month-on-month inflow of remittances into Pakistan in June 2020. It compensated for the subsequent rise in import payments as the easing of lockdown increased domestic demand.

The deficit in the balance of trade in goods, services and primary income decreased by $9.8 billion in FY20 over the figure reported in FY19. Remittances increased by $1.4 billion in comparison to the previous period. SBP's net foreign currency reserves increased by approximately $4 billion.

The reduction in the current account deficit and the increase in foreign currency reserves have eased the pressure on the external front.

Although the reduction in the current account deficit itself was necessary as Pakistan was facing severe challenges on the external front, resulting in a balance of payments crisis, the policies adopted to reduce the current account deficit stalled economic growth.

The GDP growth rate, reported by the SBP, for FY20 as a percentage change in the gross value added by three major economic sectors, namely agriculture, industry and services, is one of the lowest in its history. The Covid-19 pandemic is likely to further intensify the challenges in terms of lower economic growth as the global economy braces for one of the worst economic crises in the modern era.

The large-scale manufacturing (LSM) index decreased by 10.32% between July and May in FY20 while the business confidence index reported in the SBP-IBA Business Confidence Survey was at 38 in April 2020, down from a peak of 52 in December 2019. On the other hand, the growth in export receipts in FY20 reported for every month till March 2020 was positive. It was negative in April and May 2020.

Maritime traffic

Covid-19 not only had a wide-ranging impact across different sectors of the economy but it also deeply uprooted global trade. As the lockdown was relaxed across major markets, demand for goods and services, which was severely curtailed during the crisis, began to recover.

Although short-term analysis of maritime traffic does not look promising, suggesting that the contraction in global trade is likely to linger, a recently published blog by the World Bank recommending actions to speed up export recovery emphasises greater export participation by Pakistani firms to boost recovery efforts.

The blog recommended the steps necessary to increase exports. These steps include smart promotion of exports, improving compliance and regulatory environment and easing import restrictions to boost productive capabilities. However, it is important to mention that shift towards an export-oriented approach will be unlikely if inward-looking policies are a preferred choice for policymakers during the Covid-19 era.

The trade deficit of Pakistan was more than 150% of total exports from the country in 2018. Exports were valued at 40% of imports. In 2015, the trade deficit was less than the total amount of exports. It is particularly disconcerting that imports of productive investments such as machinery and equipment for export-oriented industries were neglected.

Capital goods

According to the ITC's Trademap.org, imports of textile machinery peaked in 2005 at $737 million and dropped to $155 million in 2009. They gradually recovered to $498 million in 2017.

In relative terms, imports of textile machinery accounted for 3% of total imports into Pakistan in 2005 but they comprised only 0.9% in 2017.

In comparison, Vietnam imported $280 million worth of textile machinery in 2005 but surpassed the $1-billion mark in 2018. Its textile exports increased from $5.3 billion to $36.7 billion during this period. Imports of textile machinery into Bangladesh also increased from $380 million in 2005 to $888 million in 2015. It too registered a significant growth in textile exports over the past 15 years.

On the other hand, Pakistan's textile exports have increased from $10.3 billion to $13.7 billion between 2005 and 2019. The slow pace of export growth in the most dominant industry in Pakistan, the textile industry, points to the anti-export bias that has severely discouraged exports from export-oriented sectors of the economy.

Value addition

The value added manufacturing per capita is a useful indicator to determine the level of industrial development across countries. Unido uses the value added manufacturing per capita as a main indicator to assess the level of industrialisation.

Borrowing data on the value added manufacturing and population from the World Bank's World Development Indicators shows Pakistan has had a rather flat trajectory for value added manufacturing per capita relative to Bangladesh, India and Vietnam in recent years.

Pakistan reported a maximum of $181 and a minimum of $161 per capita between 2011 and 2018. On the other hand, Bangladesh skyrocketed from $138 in 2011 to $361 in 2019. Vietnam too more than doubled its value from $204 in 2011 to $448 in 2019.

It is important to note that it is only until recently that India, Bangladesh and Vietnam have caught up with Pakistan in terms of urbanisation, that is, the percentage of population residing in urban areas. Labour-intensive manufacturing sectors are typically an important source of employment for migrants from rural to urban areas.

In essence, investments to improve productivity and industrialisation levels in Pakistan were limited relative to its counterparts at a time when the latter were investing to boost industrialisation.

Pakistan lags behind Bangladesh, India and Vietnam. Investments in textile machinery were negligible as well as the increase in manufacturing output per capita.

It is essential that policymakers focus on improving industry competitiveness in order to ensure sustainable economic growth and accumulation of much-needed foreign currency reserves.

Source: tribune.com.pk – Jul 28, 2020

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Pakistan: Exports declining as govt ignoring apparel sector

Lahore-Pakistan Hosiery Manufacturers and Exporters Association (PHMA) has expressed deep concern over declining trend in textile exports, which have dropped by 37 per cent to $751 million in May 2020 during a turbulent period of post-corona slowdown for textile manufacturers, who await the promised incentives by the government, including disbursement of sales tax refunds.

PHMA vice chairman Shafiq Butt pointed out that this is the second successive month of massive reduction in textile exports amid the global pandemic. In fact, all categories of textile exports witnessed double-digit declines. Exports of cotton yarn saw the steepest decline, from $107 million in May last year to $52 million in May this year, or a 51 per cent decline.

Highest value areas like garments (which stood at $252 million last May) and knitwear (which stood at $274 million last May), declined by 46 per cent to $136 million, and 34 per cent to $181 million this May respectively. The category of bed wear experienced the least amount of shock, but even that segment declined by 22 per cent year-on-year from $188 million to $146 million.

Shafiq Bttt said Pakistan's export has been declining massively due to the outbreak of coronavirus throughout the world. In view of declining exports, the government must have announced some relief to support the export sector, he said and added that PHMA had suggested the authorities to revive zero-rated status to the export-oriented industry to resolve the liquidity crunch due to stuck up refunds.

The textile industry was also demanding a reduction in the turnover tax, enabling the industry to compete with regional competitors. He said that PHMA had also demanded of the continuation of energy package for export industry to ensure the provision of electricity at 7.5 cents per kWh and gas at $6.5 per MMBTU in next budgetary year but no recommendation of exporting sector was entertained by the government. He said that the withdrawal of zero-rated facility dismayed the exporters, while the cost of production is continued to rise. Data on container traffic at Pakistan's two major ports shows that a sharp decline in export cargo handling since mid-March.

This is consistent with the cancellation of export orders or requests to delay the shipments when the lockdown started in Europe. In fact, the only silver lining the textile industry has is that at least the month of May was not as bad as April.

That particular month, which saw exports decline by 65 per cent year-on-year to $404 million, represented a historic, multi-decade low. Most of that was aggravated by an extremely strict lockdown in Pakistan, but also global lockdowns around the world, which had begun to kick in March and April. There was also a delay in shipments to major markets, such as the US and Europe, which were severely affected due to COVID-19.

It is important to note that the actual share of the composition of segments has remained unchanged. So in May, knitwear remained at 24 per cent, bed wear at 19 per cent, ready-made garments at 18 per cent, cotton cloth at 13 per cent and others at 25 per cent, respectively. On a monthly basis, the share of textiles in total exports in Pakistan declined to 42 per cent in April, and 53.8 per cent in May.

However, if one looks at the period of the first eleven months of the fiscal year 2020, the share of textiles in total exports of Pakistan remained unchanged at around 59.5 per cent, compared to 59 per cent for the same period last year.

However, during that same eleven month period, textile exports were down by 6 per cent year-on-year to $11.6 billion, with double digit declines in yarn and cotton cloth (13 per cent and 12 per cent respectively), while categories like knitwear and garments also stayed firmly negative. He appreciated the federal government to allow the export of textile masks, though it would not apply to surgical and N95 masks.

While the textile industry has somewhat reoriented itself towards exporting masks and creating PPEs, with varying levels of success, the orders are simply not enough to make up for the loss in other segments. The PHMA leader was of the view that fall in oil prices and weaker import demand provide some support to the current account but the COVID-19 shock will have a severe impact on the balance of payments.

It will result in new external financing needs of about $2 billion, which can only be met through a jump in exports. He said that the govt should take responsibility of the constant decline in textile exports because of its delay in refunds to exporters, demanding the government to immediately release all pending refunds to provide relief to the textile exporters so that they could focus on increasing their exports.

Source: nation.com.pk– Jul 27, 2020

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NATIONAL NEWS

Merchandise export scheme module blocked from accepting new applications

The Directorate General of Foreign Trade (DGFT), on July 23, blocked the MEIS module from accepting new applications for shipping bills with let export order (LEO) beginning April 1, 2020, to limit the issuance of any more scrips.

The Merchandise Exports from India Scheme (MEIS) seeks to make India's products more competitive in the global markets.

The scheme provides incentives in the form of duty credit scrip to the exporter to compensate for his loss on payment of duties. The incentive is paid as percentage of the realised Free on Board (FOB) value (in free foreign exchange) for notified goods going to notified markets.

The Department of Revenue had allocated Rs 9,000 crore for MEIS during FY21. It recently asked the Commerce and Industry Ministry to "review MEIS rates and coverage so that the benefit outgo remained within the allocation of Rs 9,000 crore in this period and sought allocation accordingly".

The Commerce and Industry Ministry had, in turn, urged the Finance Ministry to "re-consider" its decision to stick to the Rs 9,000-crore allocation. The database for MEIS scrip issuance was checked and it has been found that as on July 20, MEIS scrips of a value of Rs 422.4 crore had already been issued to exporters for shipping bills with let export order from April 1 onwards, Praveen Kumar, Deputy Director General of Foreign Trade, said.

"Since allocated funds at this stage for MEIS for FY 21 stands at Rs 9,000 crore and any additional allocation has not been conveyed by DoR, the online MEIS module was blocked on July 23 from accepting new applications for shipping bills with LEO date April 1 onwards to limit the issuance of any more scrips, he said.

Source: thehindubusinessline.com– Jul 28, 2020

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Cotton Corporation of India (CCI) looks to boost cotton exports to Bangladesh, Vietnam

The Cotton Corporation of India (CCI), which is holding surplus stocks of cotton just ahead of the next harvest season, is trying to boost exports of the fibre crop.

A memorandum of understanding is being worked out to export 1.5-2 million bales (of 170 kilograms each) of cotton to Bangladesh while the state-run CCI will also set up its own warehouse in Vietnam to boost cotton exports.

“We are in the process of signing a government-to-government memorandum of understanding with Bangladesh to export about 15-20 lakh bales of cotton to that country," said PK Agarwal, chairman, CCI.

The corporation had procured nearly a third of India’s 2019-20 cotton output. Of the 12.1 million bales it had procured, along with its agent Maharashtra State Cooperative Marketing Federation, it has been able to sell 900,000 bales in the present cotton season, which ends on September 30.

“To increase exports to Vietnam, we are looking for a warehouse to facilitate transport and easy availability of our cotton to buyers in Vietnam," said Agarwal.

Countries such as Bangladesh, Vietnam and Sri Lanka have duty-free access to the markets of Europe, US and China, which give them an edge over Indian yarn and garment exporters, who have to bear the burden of various duties.

The CCI has now started offering discounts on bulk purchases to domestic buyers, as the country is looking at yet another bumper production thanks to good progress of monsoon rainfall. It sold 700,000 bales of cotton last week.

However, the spinning industry is not in a hurry to buy cotton thanks to ample supplies coupled with subdued demand from the textile sector. “We have advised the industry to be watchful, but there is no need to worry till the CCI sells about 5 million bales,” said an executive of South Indian Mills Association, who did not wish to be identified.

Source: economictimes.com– Jul 27, 2020

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Japan to India: Don't increase tariff on Chinese inputs used by Japanese firms

List of 990 imported inputs submitted to DPIIT for waiver from possibe curbs

Japan has asked India not to raise import tariffs or impose restrictions on intermediate products sourced from China by Japanese companies based in the country, including those manufacturing automobiles and consumer durables.

In a representation given to the Department for Promotion of Industry and Internal Trade (DPIIT) recently, officials from the Japan's Ministry of Economy, Trade and Industry (METI) said that raising tariffs or restricting imports of crucial raw materials sourced mostly from China could hurt production activities in India and also hamper exports, a Japanese official told BusinessLine.

JETRO survey

"The list of about 990 items that Japan wants India to exempt from possible import restrictions has been prepared based on a survey by Japan's External Trade Organisation (JETRO), a body under METI. JETRO sent questionnaires to 1,023 Japanese manufactures in India and about 106 companies responded listing their important imports from China," the official said.

The 990 tariff lines in 8-digits (about 200 in 4-digits) identified in the survey include electronic items, bolts, nuts, air conditioner compressors, integrated circuits, condenser, batteries, LED, inductors etc.

The survey has been in response to an ongoing exercise reportedly being carried out by the Commerce & Industry Ministry to identify items that are mostly imported from China so that higher import tariffs and other restrictions could be imposed.

The idea behind the move is not only to reduce India's huge trade deficit with China, which declined a little last year to about $48 billion, but also to retaliate against the Chinese for engaging in violence at the Indo-China border in East Ladakh.

"Japan feels that import tariffs should not be increased on raw materials as it hurts domestic manufacturing industries that use the inputs.

"The imported raw materials are essential for 'Make in India' and exporting from India in a globally competitive manner," the official said.

Push for 'local'

As per the survey, almost all Japanese companies in India are trying to maximise local procurement.

However, most companies noted that there is a scarcity of local vendors who satisfy required quality, cost and delivery levels.

"Imports of materials and parts are source of competitiveness for exporting to Europe, US, and Africa. This means that these raw materials or intermediate goods have to be imported in the short run.

Companies cannot find alternative sources in a short period," the survey noted justifying imports from China. Top Japanese companies in India include Sony, Hitachi, Honda, Panasonic, Yamaha, Toyota, Canon, Suzuki and Mitsubishi.

The number of Japanese companies in the country increased to 1,441 as of October 2018, with manufacturing firms accounting for half the total, according to Japanese government figures.

These 1,441 companies have in all 5,120 business establishments in India.

Source: thehindubusinessline.com– Jul 27, 2020

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Realisation of export proceeds not mandatory for drawback on re-exports

We had purchased a duty credit scrip from the market and utilised it for paying duty on import of goods. Later, the authorities discovered that the duty credit scrip was obtained through misrepresentation. Can we be made liable for payment of duty or penalty? Can the goods we imported be confiscated?

No. A licence or duty credit scrip obtained through misrepresentation is voidable but not void till it is cancelled. So long as the transferee had purchased the duty credit scrip duly issued by the competent authority and it was valid on the date of payment of duty by the transferee, the duty demand from the transferee importer, or confiscation or levy of penalty on the transferee importer, cannot be sustained.

In this connection, please refer to the case of East India Commercial Co. Ltd. Calcutta vs Collector of Customs, Calcutta 1983 (13) ELT 1342 (SC). This Supreme Court judgment has been followed in many subsequent cases, such as Deep Exports [2016 (338) ELT 742 (Tri.Del.)], Indian Acrylics Ltd. [2015 (325) ELT 753 9Tri. Ahd)], and Patiala Castings Pvt. Ltd. [2012 (283) ELT 269 (Tri.Del.)].

Under the Served from India Scheme (SEIS), is the duty credit scrip issued on the basis of a Chartered Accountant certificate? Do the authorities put it through any other checks?

The authorities may check the application to examine whether prima facie, the services exported are eligible for the benefits, and for any other obvious errors in the application and the Chartered Accountant Certificate. Besides, as per Para 3.19 of the FTP and Para 3.17of the HBP, 10 per cent of the scrips issued every month will be selected for scrutiny.

The authorities can call for the original physical documents for examination in detail. If they find any discrepancies or deficiencies, the applicant will be asked to rectify them. In case of excess availment of rewards, the applicant will be asked to refund the excess claim with interest, in accordance with Para 3.19 of the FTP.

In order to incur a reduced export obligation under the EPCG scheme, we propose to pay IGST on imports of capital goods? Is it allowed?

Yes, provided you do not take input tax credit of the IGST paid. As per Para 5.01(d) of the FTP, “in case Integrated Tax and Compensation Cess are paid in cash on imports under EPCG, incidence of the said Integrated Tax and Compensation Cess would not be taken for computation of net duty saved provided Input Tax Credit is not availed”.

We want to re-export imported goods found defective. As we had not paid the foreign supplier, we had obtained GR waiver from the bank. Can we get drawback of 98 per cent of the duties paid?

Yes, provided you comply with the conditions specified under Section 74 of the Customs Act, 1962 read with Re-export of Imported Goods (Drawback of Customs Duties) Rules, 1995. Under the relevant provisions, there is no condition that you must realise the export proceeds.

Source: business-standard.com– Jul 27, 2020

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Cotton Corp procures 1.04 crore bales, a global record

The Cotton Corporation of India (CCI) has procured around 1.04 crore bales, top officials of the corporation said. PK Aggarwal, CMD of CCI, said this is a global record of procurement by any single entity till date. The total procurement by CCI is valued at Rs 28,000 crore, he said. The previous best performance by CCI was 90 lakh bales in 2008.

Of the total crop of 360 lakh bales estimated by the Cotton Advisory Board (CAB), around 336 lakh bales have already arrived in the market, Aggarwal said. Daily arrivals are to the tune of 30,000- 40,000 bales. This may reduce once the monsoon sets in as farmers may bring out the cotton only after the rains, he explained.

The cotton procured so far has been purchased from Gujarat, Maharashtra, Haryana, Telangana and Punjab. The season in Tamil Nadu has begun and will continue till September 30.

The support price of cotton (medium staple) has been increased by Rs 260 per quintal to Rs 5,515 for 2020-21. The support price of long staple has been increased to Rs 5,825 per quintal from Rs 5,550 per quintal last year.

The Cotton Association of India has pegged 2019-20 crop at 354.5 lakh bales, compared with 312 lakh bales last year. CCI has submitted a proposal to the Centre for signing a memorandum of understanding with the Bangladesh government for export of 15-20 lakh bales in the next harvest season. Some 3,000 bales have already been sent to Bangladesh, he said.

Source: financialexpress.com– Jul 28, 2020

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Cross-border partnership: India hands over 10 diesel locomotives to Bangladesh

India on Monday handed over ten Broad Gauge diesel-based locomotives to Bangladesh that have a residual life of at least 28 years. These are 3,300 Horse-Power locomotives that can run at a speed of 120 km/hr.

These ten locomotives are expected to increase the use of the rail sector. The ten locomotives, estimated to cost ₹60 crore, are funded by Ministry of External Affairs, India, and are a part of commitment made last year between India and Bangladesh.

The two countries introduced movement of container and parcel trains in July. Both sides saw the highest-ever exchange of freight trains in June, when 103 freight trains were used to carry essential commodities and raw materials. In Covid-19 times, railway is the best mode of transport, said Piyush Goyal, Railway Minister, while speaking at the handover ceremony. In July (so far), movement of goods in India through rail mode has touched over 90 per of the cargo moved in the same time last year.

In 1996, Indian Railways had exported ten metre gauge locomotives from its Varanasi-based production unit — Diesel Locomotive Works (DLW) — to Bangladesh. About 40 Broad Gauge locomotives were exported over the years from 2001 to 2014. In 2016-17, India also exported 120 passenger coaches.

Promoting trade, connectivity

The bilateral rail cooperation is important to promote trade and connectivity and in boosting the economic partnership, said officials. Currently, there are four operational rail links between India and

Bangladesh, which connect West Bengal (India's Eastern state) with Bangladesh. They include Petrapole-Benapole, Gede–Darshana, and Radhikapur–Birol.

Two passenger trains also operate between the two countries, whose movement has been temporarily suspended due to the pandemic. A total of 17 railway sector projects are part of letter of credit (LoC) assistance extended by India to Bangladesh, with a commitment of $2.44 billion. India has offered all LoCs to Bangladesh at a rate of interest of one per cent a year, which have to be repaid over 20 years with a moratorium for five years.

Of these 17 railway sector projects, nine have been successfully completed, including supply of broad and metre gauge locomotives, flat wagons, railway bridges and signaling equipment. Railway projects under implementation using lower cost funding (through letter of credit) include - Kulaura-Shahbazpur railway line costing $78 million is likely to be completed by end of this year; and Khulna-Mongla railway line project worth $389 million (along with the railway bridge) which is likely to be completed by June 2021.

Moreover, cross-border rail link of 12 km is being built under Grant-in-Aid between Agartala and Akhaura town on the Dhaka-Chittagong trunk line. This is expected to be completed by March 2021 and will further enhance freight and passenger connectivity between India and north eastern states.

Source: thehindubusinessline.com– Jul 27, 2020

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4 ways how current taxation system may ease compliance and boost ease of doing business for MSMEs

The finance ministry of India has been trying to take some good steps in taxation that can facilitate the growth of MSMEs in India. The impact of the taxation system on MSMEs is twin layered- through the corporate taxation system and the GST.

The budget 2020-21 announced on February 1, 2020, had a major focus on accelerating the growth of the MSMEs. The most significant change that impacted the whole idea of small and medium enterprises in recent times was the change in its definition.

Earlier, the entities with investment up to Rs 10 crore were medium enterprises, for services the limit was 5 crore. However, now MSMEs are enterprises with investment up to Rs 20 crore and turnover less than Rs 100 crore.

This has expanded the overall base, thereby, allowing a larger number of entities to have access to the taxation benefits available to the MSMEs. Some ways in which the current taxation system is expected to boost MSMEs are:

Reduction of corporate tax rate: To incentivize investment in small and medium industries, the corporate tax for new companies in the manufacturing sector has been reduced to 15 per cent. For existing companies, the tax was reduced to 22 per cent making them one of the most enticing investment options and widening the funding funnel for MSMEs.

Relief from tax audit: Earlier an enterprise was required to go through tax audit when the turnover crossed Rs 1 crore. This limit has now been pushed to Rs 5 Crore provided cash transactions do not exceed 5 per cent of total transactions. This has made tax compliance simpler for a wider number of MSMEs thereby allowing them to focus on growth.

Goods and Service Tax: Several changes have been made in the indirect tax system to improve compliance. Simplification of GST returns, Aadhaar-based verification of taxpayers, electronic invoicing to facilitate compliance, etc. have made GST compliance multifold easier for MSMEs.

Tax holiday expansion for start-ups: Startups having turnover up to Rs 25 crores had the tax benefit of getting 100 per cent of profits as a deduction for three consecutive years. This has gone through a major change. The limit of Rs 25 crore has been raised to Rs 100 crore making it available to some bigger startups too.

Moreover, the benefit has been extended to be allowed for three out of the first 10 years instead of the first seven years. This shreds off the tax burden for several new startups and pushing them to stay longer and run faster in the race.

Considering the fact that we majorly depend on MSMEs for employment, exports, and GDP contribution, the finance ministry is striving to facilitate their exponential growth and expansion.

However, there are could be some challenges being faced by MSMEs because of the Indian taxation system. Most of it is being carefully monitored by the ministry, evaluated, and being responded to, through the financial policies and legal amendments.

Source: financialexpress.com– Jul 27, 2020

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Centre pays ₹13,000 crore GST compensation to States, UTs

The Centre has released the last tranche of GST Compensation amounting over ₹13,000 crore to States and Union Territories. With this, the total pay-out for the year stood at more than ₹1.65 lakh crore which is almost 73 per cent more than cess collection of nearly ₹95,500 crore.

To release the compensation for 2019-20, balance of cess amount collected during 2017-18 and 2018-19 was also utilised. In addition, the Centre had transferred ₹33,412 crore from the Consolidated Fund of India to the Compensation Fund as a part of an exercise to apportion balance of IGST pertaining to 2017-18.

After the introduction of GST, the Centre had assured the States, through legislation, of full revenue compensation for the first five years. It is paid bi-monthly while last installment for any financial year is given in the next year. For the purpose of calculating the compensation amount, 2015-16 was assumed to be the base year. The growth rate of revenue for a State during the five-year period was assumed at 14 per cent a year.

Centre's stress

Since the end of August 2019, the Centre has been in a precarious position while paying GST compensation to the States and UTs with legislative assemblies.

On an average, the monthly GST compensation cess requirement was to the tune of ₹14,000 crore while the cess collection on an average was only ₹7,000-₹8,000 crore per month. Therefore, the only options left for the GST Council are to either bring more items under the cess base or to increase cess rate on the existing items. Another option is borrowing.

An increase in compensation cess on few items may yield only about ₹2,000-3,000 crore a year. Therefore, the other options are to either forego full cess compensation which is increasing at the rate of 14 per cent annually or to go ahead with whatever compensation is available.

The Centre could also consider raising the tax rate on items by shuffling slab rates or borrow money to pay compensation to States.

As of now, no decision has been taken on any of such measures. Considering the present situation, barring cigarettes and tobacco products, increasing the cess or expanding the base of GST cess items could be counter-productive. Now, a special meeting of GST Council can take place any time to discuss possibility of borrowing to pay compensation,

In FY18 a total GST compensation cess of ₹62,611 crore was collected, of which ₹41,146 crore was released to the States/UTs as compensation. In FY19, ₹95,081 crore was collected, of which ₹69,275 crore was released to the States and UTs.

As on March 31, 2019, ₹47,271-crore GST compensation cess collected had remained unutilised after the release of GST compensation to the States and UTs in 2017-18 and 2018-19, according to the Finance Ministry.

Source: thehindubusinessline.com– Jul 27, 2020

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Three years on, GST hasn't lived up to its billing

July 2020 marks the completion of three years since the launch of the good and services tax (GST) regime. That is long enough to allow us to take stock of how well the new tax regime is performing. If it is still beset with "teething troubles", then that must mean that there are structural flaws in its character and design, which make effective implementation near impossible. If such flaws are not undermining its effectiveness, the regime should show signs of delivering the results it was explicitly or implicitly expected to yield.

An annual statistical report recently released by the Goods and Services Tax Network (GSTN) provides a view of the performance of the regime since its inception in July 2017 till the end of financial year 2019-20. That more or less leaves out the period when the post-Covid lockdown affected revenues extremely adversely, so the numbers are not distorted by that noise. The evidence is disappointing, to say the least, though there are some positive trends.

One positive sign is that the number of taxpayers registered under GST stood at 1.08 crore as early as April 2018, and rose to 1.23 crore by June 2019, where it has more or less stayed since. The second is that there has been a consistent and steep rise in the cumulative number of returns filed, which stood at over 47 crore in June 2020.

Finally, in the period up to March 2020, while public and private limited companies and public sector undertakings accounted for 6.5 per cent of taxpayers and 72 per cent of total collections, proprietorships and partnerships accounted for 91 per cent of taxpayers and 21 per cent of collections. The presence of “informal” units among taxpayers is quite significant, suggesting that coverage is reasonably good.

GST collections

One big problem with the GST regime is the value of total collections. The total monthly collections from State (SGST), Central (CGST), and integrated (IGST) goods and services taxes and the compensation cess first crossed ₹1 lakh crore in April 2018. Yet there have been only nine months out of the 33 months till March 2020 in which that mark has been exceeded in nominal terms. Further, there have been only four months in which the figure has topped ₹1.05 lakh crore. In sum, the picture is one of stagnation in GST revenue growth.

In sum, even the pre-Covid deceleration of growth recorded in 2019-20 was enough to keep collections below the ₹1-lakh crore mark in subsequent months. The pro-cyclicality of GST collections, starting even from relatively disappointing levels, is marked. Needless to say, once the lockdown in response to the pandemic was announced, revenues collapsed.

The net result is that average monthly collections in each of the three financial years (Chart 3) when the GST regime has been operative, having risen sharply from ₹82,294 crore in the nine months of 2017-18 starting July to ₹98,114 crore in 2018-19, rose only marginally to ₹1,01,843 crore in 2019-20. So the average monthly collections, which were 19.2 per cent higher in

2018-19 relative to the previous year, grew in nominal value by just 3.8 per cent in 2019-20.

GST collections rose from 5.8 per cent of the GDP in July 2017-18 to 6.2 per cent in 2018-19 and then fell to 6 per cent in 2019-20, even though GDP growth slowed in the last of these years.

Teething troubles

If we can treat 2019-20 as a year when the "teething problems" associated with the new regime must have been largely overcome, there is no question that this performance is poor. And given the shift that has occurred over time to an extremely lenient direct tax regime (especially in the case of corporate taxes), this poor performance of the GST has pushed both the Central and the State governments into a fiscal crisis.

A remarkable feature of the transition to the GST regime was that, while the negotiations that preceded its launch were complex and protracted, the new regime was consistently presented as one that would only be growth and development positive — a "game-changer".

Nonetheless, there were immense difficulties in putting it in place; it was argued that this was only because of the messy nature of India's quasi-federal polity and the unwillingness of the States to cede taxation powers, even if that would ensure uniformity in taxes across the country and removal of cascading effects with taxes being levied even on prior taxes paid.

In addition, there were many problems to be resolved, such as the number of tax rates or slabs to institute (since not all commodities, varying from essential to sin goods in nature, could be taxed at the same rate), what these rates should be, what would be the weighted average rate classified as "revenue neutral" so as to ensure that the growth of national GST collections would at least correspond to expected revenue growth from taxes it substitutes, and so on.

Impact on States

It was clear even then, that there were many uncertainties. Moreover, it was accepted that initially, revenue growth of some (if not all) States would fall short of what they would get under the old regime. This necessitated a promise of compensation if revenue growth fell short of 14 per cent a year for five years, with a special cess provided to finance that compensation.

Clearly, the idea was that in those five years, the rates would be tweaked to ensure a minimum 14 per cent growth in GST collections for each State.

In hindsight, it is clear that the problems that a GST-type regime would encounter in the Indian context were underestimated. Even questions as to how many rates should be instituted and what they should be, and which commodities should be placed under each of those rates had to be repeatedly revisited. But despite such tweaking, revenue growth has been unacceptably sluggish.

And as the post-Covid experience has starkly brought out, States will possibly be hit hard after the period when they are to be compensated for revenue growth shortfall ends, two years from now.
One solution that would be discussed would be to raise tax rates in all slabs, although the impact on demand and revenue is unclear. There is also the question of whether the resulting tax structure would be socially acceptable.

Unable to resolve the problem together, States may well demand that they be allowed to return to a situation where the taxation powers they ceded to the GST Council and the Centre are restored to them. The GST could still turn out to be a failed experiment.

Source: thehindubusinessline.com– Jul 27, 2020

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Covid impact: MSME among most adversely affected sectors; recovery chances 'bleak' in 6 months

Ease of Doing Business for MSMEs: MSME segment struggling to survive and scale amid Covid has been among the five sectors adversely affected by the pandemic, RBI said in a survey.

Even as majority sectors have witnessed “sizeable and immediate revenue losses”, the adverse impact has been in sectors where “consumption spending is discretionary in nature,” said the systemic risk survey by the central bank published recently.

60 per cent respondents claimed recovery in the MSME sector, which suffered from massive labour migration, production halt, and cash flow

crunch during the lockdown, to be bleak in the next six months. However, the rest 40 per cent believed it to be moderate.

"The MSME sector is affected because of a lack of cash flows. Low demand, lack of manpower, stuck working capital, and lack of capital may lead to further stress on employment," the survey noted.

"The recovery will depend on segment-to-segment in the MSME sector. More than 99 per cent MSMEs are micro-units. In manufacturing, there are around 16 million units employing around 9-10 people and are ancillary to large companies. Their recovery depends on the recovery of large businesses and to whom they supply goods.

Capital goods recovery will take 1-1.5 years. However, even in manufacturing it depends on what type of manufacturing they are into. Services and IT-related MSMEs are not much affected," Nandakumar, Chairman, MSME Sub-committee, Western Region, CII told Financial Express Online.

The recovery, however, has already started ever since the government announced unlock 1.0. "There has been a recovery of 20-25 per cent," Chandrakant Salunkhe, President, SME Chamber of India had told Financial Express Online.

The challenge particularly concerning credit access has been seemingly addressed by the government to help MSMEs resume activity. Under the Emergency Credit Line Guarantee Scheme, as of July 23, 2020, the amount disbursed by public and private banks to Covid-hit MSMEs stood at over Rs 82k crore out of more than Rs 1.30k crore sanctioned. The number of MSME accounts disbursed was over 20.16 lakh.

Other sectors, according to the RBI survey, adversely affected were tourism and hospitality for which 90 per cent respondents believed the recovery in six months to be bleak. Others were construction and real estate, aviation and automobiles.

Source: financialexpress.com– Jul 27, 2020

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TN CM inaugurates 12 projects, lays foundation stone for eight more

Tamil Chief Minister Edappadi K Palaniswami on Monday laid the foundation stone for eight companies totalling investment of ₹2,367 crore, expected to generate over 24,870 jobs. He also inaugurated 12 completed projects with an investment of ₹3,185 crore with employment potential of 6,955 jobs.

The companies for which the foundation stones were laid were — Tata Chemicals; Radial IT Park; Nissei Electric, Usui Susira - Phase I; Steel Shoppe; Dinex; Sri Rajeswari Life Care and MIRC Mills.

The 12 completed projects inaugurated were TPI Composites; Hyundai Glovis; Sojitz Motherson; Rajapalayam Mills; Gulf Oil; JMatadee; Hibro Healthcare; Tata Consultancy Services; Mothi spinners; Lucky Yarn Tex; Mahindra Steel and Teemage Builders, said a tweet by Guidance Tamil Nadu, the investment promotion agency of Tamil Nadu.

Source: thehindubusinessline.com– Jul 27, 2020

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Carpet industry seeks export succour from textiles ministry amid COVID-19 pandemic

The handmade carpet industry has written to Textiles Minister Smriti Irani, seeking export assistance in the wake of the COVID-19 pandemic disrupting the supply chain.

The Carpet Export Promotion Council (CEPC), in a letter to Irani, said the industry is totally export-oriented and employs more than 20 lakh weavers who are mostly located in rural areas.

Chairman of CEPC Siddh Nath Singh said the industry earns more than Rs 12,000 crore of equivalent foreign exchange annually.

Singh urged the ministry to restore the Merchandise Exports from India Scheme (MEIS) to the earlier level of seven per cent from the existing five per cent.

He said this would help the industry become more competitive in the international market, where India is the leading player.

CEPC also called on the central government to provide five per cent interest subvention to MSME exporters on packing credit finance on additional loan limits.

The industry needs access to natural fibres like sisal, hemp and sea grass which are used for making carpets at competitive rates, Singh said.

Chairman of carpet manufacturer OBEETEE, Rudra Chatterjee, said India has replaced China as the largest exporter of handmade carpets.

He said it has trained more than 2,000 women weavers in this trade.

Source: outlookindia.com– Jul 27, 2020

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Ashok Leyland expands its Digital Marketplace for commercial vehicles; to help fleet management

Hinduja Group's flagship Ashok Leyland NSE -2.08 % on Monday expanded its digital solutions, Digital Marketplace for commercial vehicles and also showcased the next generation solutions DigitAL Nxt, a statement said. It would help customers in vehicle tracing and tracking, fuel management, service due reminders and quick reactive support, among others.

Launched in 2017 for CVs (commercial vehicles), Digital Marketplace consists of i-Alert, LeyKart, ServiceMandi and e-Diagnostics.

DigitAL Nxt comprises i-Alert 3.0, AL Cares and Uptime Solution Centre, the release said adding that it will empower customers to better manage their business and enhance profitability.

"This will ensure that the customer enjoys the highest uptime with our vehicles and these solutions are unparalleled in the industry," said Vipin Sondhi, managing director and CEO (chief executive officer) of Ashok Leyland.

i-Alert 3.0 is the industry-first cutting-edge enhanced telematics application addressing the technical complexities of BS-VI to monitor vital vehicle information and manage their fleet, the company said.

This solution offers diverse benefits including tracking and tracing of the vehicles, geo-fencing, trip management, route deviation tracking, fuel management, alerts, service reminders, driver monitoring and dealer locator, it added.

AL Cares features range from quick access to vehicle details, e-locker facility to store and access all vehicle-related documents, service due to reminders, convenient service booking, real-time alerts, dealer-service locator, the company said.

The Uptime Solution Centre is a platform that helps detect potential issues well in advance and also offers real-time analysis of vehicle parameters to enable quick reactive support to get the vehicle back on road swiftly.

Source: economictimes.com– Jul 27, 2020

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