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1. YES Bank AT1 bonds write-down exposes gaps in our ratings systems, yet again

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The regulator will have to take rating agencies to task and impose strict penal action for their murky role in recent episodes

Even as depositors of YES Bank heaved a sigh of relief after the RBI lifted the restrictions on withdrawals last week, investors in the bank's additional Tier I bonds (AT1 bonds) have been left high and dry. As it stands, ₹8,415 crore of YES Bank's AT1 bonds have been written down in full, implying that investors in these bonds are not getting their money back. While it is unfortunate that many retail investors have fallen prey to the gross mis-selling by bank officials and financial advisors and invested in these bonds, the savvier institutional investors can hardly plead ignorance. Basel III-compliant AT1 bonds have always been inherently risky because they come with a built-in 'loss absorbency' clause which means that in case of stress, banks can write off such instruments or convert them into equity. These conditions are clearly laid down by the RBI in its circular on 'Implementation of Basel III Capital Regulations'.

Yet mutual funds and other institutional investors with exposure to YES Bank's AT1 bonds have been up in arms. Did these investors draw relief from the fact that such loss-absorbency clause had never been triggered in India? Or that the RBI's regulatory checks and timely intervention would avoid a situation wherein a bank becomes non-viable? Maybe. But importantly, the ratings assigned to these bonds, also appear to have given a false sense of comfort to investors. According to a recent *BusinessLine* analysis, of the 73 active Indian AT1 bonds issued by various banks, most are rated as AA+ or AA-, indicating high degree of safety regarding timely servicing of financial obligations. How do such rosy ratings reflect the underlying risk associated with such bonds? While Indian rating agencies mostly notch down the rating of these bonds by one or two levels from the bank's overall corporate credit rating, global rating agencies notch down ratings on such bonds by at least four levels from a bank's viability ratings. Most of the AT1 bonds issued by global banks are rated BBB(+/-) or BB(+/-).

This brings us to the festering issue of faulty credit assessments by rating agencies. The grave lapse in diligence in the IL&FS episode by rating agencies has cost the financial system dearly. The revelation by Grant Thornton of nexus between key employees of IL&FS group and rating agencies, only goes to show that there are deep-rooted issues in the functioning of rating agencies. There has been enough said on the conflicting business model of rating agencies, where the 'issuer pays' model often influences the assessment of the issuers' credit rating. Alternate models where rating fees could be funded out of money raised from issue of bonds, should be explored by the regulator. But above all, the regulator will have to take rating agencies to task and impose strict penal action for their murky role in recent episodes. After all, repeated failure to fulfil their fiduciary obligations cannot be dismissed as a 'one-off instance' of error in judgment.

2. The reign of Shivraj: On Chouhan's fourth term as CM

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The BJP government will have to manage the changed political dynamics in M.P.

The Bharatiya Janata Party (BJP) leader, **Shivraj Singh Chouhan, who was sworn in as the Chief Minister of Madhya Pradesh** on Monday night, **proved his majority in the Assembly on Tuesday**. This is his fourth term as Chief Minister. After three consecutive terms, he had lost the election in 2018. He mustered the support of 112 MLAs for the trust vote which was hurriedly organised overnight and was missed by 92 Congress MLAs and two independents. Two BSP MLAs, one of the SP, and two independents who were earlier supporting the Congress government that collapsed last week, voted in favour of the trust vote. Mr. Chouhan has said his government's immediate focus would be in tackling the coronavirus crisis that is testing the capacity and will of the State. He has also asked all MLAs to leave for their constituencies and take the lead in managing the crisis. The downfall of the Congress government was engineered by the resignation of 22 of its MLAs. These and two more seats in the 230-strong State Assembly remain vacant. The actual strength of the government will be tested in and after the by-elections to these seats. It is a different question whether the Congress can regroup itself and challenge the government.

With the return of the BJP government in M.P., the political turn in the State in 2018 has been proven short-lived. The party had faced a setback in M.P., Rajasthan and Chhattisgarh where it lost power to the Congress before bouncing back in the 2019 Lok Sabha election. The Congress could not sustain its gains, and has now ended up losing a government. But it goes beyond that and shows the party as a weak challenger to the BJP. To begin with, the Congress victory was nebulous and narrow in M.P., and its fortunes were compromised by debilitating factionalism within. It cannot be a viable political alternative to the BJP unless it gets imaginative in building sustainable and strong social and class coalitions. In places where it has done so, the party has been effective in elections and governance, including in neighbouring Chhattisgarh. The exit of Jyotiraditya Scindia, who has since joined the BJP, could actually be used as an opportunity by the Congress to promote better rooted leaders from diverse social backgrounds, stepping beyond dilapidating feudal fortresses. The BJP in the State will also need to achieve a new equilibrium, now disrupted with the entry of Mr. Scindia. Mr. Chouhan has emerged as a strong leader, but there are others waiting in the wings too. The change of guard in M.P. will unsettle existing equations in both the parties, beyond State boundaries.

3. Death by fireworks: on violation of rules in hazardous industries

MARCH 25, 2020 00:02 IST

Violations of rules in hazardous industries can be tolerated only at the cost of human lives

Unsafe working conditions and improper handling of inflammable raw materials continue to endanger lives in the fireworks industry. Last week, 11 workers were charred at a fireworks unit in Tamil Nadu's Virudhunagar district. Police data show that in the past decade, at least 239 people have perished and over 265 injured in 142 accidents in fireworks units. Such tragedies have not been confined to Sivakasi, deemed the fireworks capital of the world, where most such units are concentrated. Illegal cracker units functioning in a few other parts of the State have also led to loss of a significant number of lives. In and around Sivakasi, the manufacturing of firecrackers in makeshift unlicensed units, rough handling of chemicals by untrained and unskilled workers, spillage or overloading of chemicals during the filling process, and working outside permitted areas have been identified as major causes for past accidents. In the recent tragedy too, the workers were engaged in manufacturing 'fancy aerial crackers' for which the unit did not have a licence. Preliminary investigations suggest that mishandling of chemicals could have triggered an explosion.

Occasional accidents in an industry dealing in explosive materials may seem inevitable. But the probability of such mishaps can certainly be reduced by adopting safe work practices, complying with rules and through cohesive monitoring by Central and State licensing and enforcement authorities. Crackdowns against violators have been few and far between despite illegal sub-leasing of works to unlicensed cottage units becoming a widely acknowledged practice in the industry. The Tamilnadu Fireworks and Amorces Manufacturers Association has also complained about the unlicensed units, a parallel industry in itself spread across a dozen villages. The Chaitanya Prasad Committee, which examined, among other things, statutory and administrative shortcomings that led to the death of 40 workers at Om Shakti Fireworks Industries in 2012, noted the "conspicuous absence" of proper inspection mechanisms at various government departments. It also found a lack of coordination between Central and State authorities dealing with the regulation of fireworks industries. The committee recommended making sub-leasing of works by licensed units a cognisable penal offence; mandated inter-safety distances between sheds covered with earthen mounds; and provision of a smoothened pathway with a width of 1.5 metres, as part of industrial safety measures. Ground reports suggest these recommendations continue to be ignored, with sub-leasing of works still rampant. Regulators understandably complain of a lack of manpower in checking violations. The number of players has exponentially grown since the 1980s with 1,070 licensed units employing an estimated 10 lakh workers now. But safety is non-negotiable. The governments must walk the extra mile to enforce rules in a hazardous industry and prosecute violators. The industry too must self-regulate in its own interest.