Sebi moots stiff norms for share buybacks

Sebi has proposed significant changes to existing framework for buyback of shares by companies from open market, that requires the process to be completed in three months and minimum repurchase at 50 per cent of the target. The proposals are primarily aimed at ensuring that only serious companies launch a share buyback programme, which in turn would help in protecting the interest of investors. The market regulator has proposed to make it mandatory for companies to buy back a minimum of 50 per cent shares of the total targeted amount while the repurchase programme should be completed in three months from the launch date.

Apart from completing the repurchase programme in three months, regulator wants firms to buyback minimum 50% shares of the total targeted amount by companies from open market regulator has proposed to make it mandatory for companies to buyback minimum 50 per cent shares of the total targeted amount while the repurchase programme should be completed in three months from the launch date.

At present, the period of share buyback is 12 months. "... it is proposed that companies complete the buy back in three months. To ensure that only serious companies launch the buyback programme, it is further proposed that these companies be mandated to put 25 per cent of the maximum amount proposed for buyback in an escrow account," Sebi said in a discussion paper.

Sebi has sought comments on the paper titled 'Proposed modifications to the existing framework for buy back through open market purchase' till January 31. Making the norms stringent, the regulator has suggested that companies, which are unable to buyback all the targeted shares (or proposed amount), should be barred from coming up with another repurchase offer for one year. "... listed companies coming out with buyback programs may not be allowed to raise further capital for a period of two years," Sebi said.

Another suggestion is that companies should disclose the number of shares purchased and the amount utilised to the exchanges on a daily basis.

Govt introduces norms for ind-directors on PSU boards

The government has come out with a set of guidelines for independent directors on boards of PSUs, defining their roles and responsibilities aimed at improving corporate governance in state-owned companies. Earlier, the Department of Public Enterprises (DPE) had not defined these norms for non-official directors who are being appointed on boards of Central Public Sector Enterprises.

"This is the first time that role and responsibilities of independent directors for CPSEs have been defined. This is an improvement in respect to corporate governance and to advise independent directors to play their role more effectively," DPE Secretary O P Rawat said. Under the norms, non-official directors (NoDs) should have a candid view of the faults or shortcomings of company’s plans and accordingly suggest measures for improvement, he added.

However, these guidelines would be reviewed in light of experiences gained and brought in line with the relevant provisions once the companies law comes into effect. The norms mention that independent directors should satisfy themselves on the integrity of financial information and financial controls, besides ensuring that the risk management systems of the company are robust and defensible.

M S Sahoo appointed as ICSI Secretary

C S M S Sahoo, a Fellow Member of the Institute of Company Secretaries of India (ICSI) has been appointed as Secretary, ICSI w.e.f. January 1, 2013. Sahoo has over three decades of rich work experience in self-employment, private sector, public sector, regulator and government in varied functional areas such as reforms, policy, regulations, research and analysis. Before joining the ICSI, he was an eminent legal practitioner in the field of securities laws. He was a Whole Time Member of the Securities and Exchange Board of India (SEBI) during 2008-11. His academic qualifications include M. Phil, M.A. (Economics), LL.B., FCS, and PGDM.
Govt warns of action against excise, service tax evaders

I

n a stern warning to evaders of excise, cus-
toms and service tax, the government to-
day asked them to either pay the dues or face
penal action which could include arrest,
prosecution and property attachment.

“We are keeping a very close watch on such
elements. They are advised to come forward
and pay all taxes and avail of the benefit of re-
duced penalty,” Revenue Secretary Sumit
Bose told reporters.

Those who fail to pay excise duty, he
warned, should be prepared to face conse-
quences which would include “provisional at-
tachment of property, arrest and prosecution,
suspension of Cenvat credit and 100% penalty
and interest”.

The move comes in the backdrop of moder-
ate growth in the indirect tax collection and
the urgency to contain the fiscal deficit to the
targeted 5.3% of the GDP. The Revenue Secre-
try said government would urge all assess-
es to ensure they make timely and correct
payments of customs duties, excise and service
tax for continued trade facilitation.

“It has been observed that a number of cen-
tral excise assess estabishes continue removing goods
clandestinely, sometime even without registra-
tion, misusing Cenvat credit or simply not pay-
ing central excise duties which are due to the
government in disregard of the law,” he
said. With regard to Service tax, Bose said, it is also noticed that more than half of the serv-
cice providers who are registered are not filing
returns while a number of service providers
who should be paying service tax now have
not yet registered themselves.

The Prime Minister-appointed
Rangarajan Committee, which
went into oil and gas contracts,
today said CAG’s authority to audit
expenses was unquestionable.

“Audit is prerogative of CAG and so
the power of audit remains with CAG,” C Rangarajan said after the re-
port of the panel, headed by him, was
made public.

The comments come in the back-
drop of intense bickering over the
scope of CAG audit of Reliance Indus-
tries’ spending on the flagging easter
offshore KG-D6 gas fields.

RIL has argued that while it is open
to CAG doing a financial scrutiny as
provided, the Production Sharing
Contract does not provide a perform-
ance audit by the official auditor.

Rangarajan said blocks with low val-
ue can be audited by panel of auditors
formed by CAG and for high value
blocks, the official auditor should au-
dit directly. The CAG have the power
to decide the value of the block that
will be audited by it directly, he said.

In its report, the Rangarajan Com-
mittee has suggested shunning the
present cost recovery model that al-
lows operators like RIL to first recover
all their investment before sharing

profits with the government.

“We want to move from the present
format of contracts,” he said adding the
present system has run into lot of dis-
pute. These disputes has led to de-
lay of implementation of contract, he
said adding under the new system
both govt and contractor will have
revenue share from day one of pro-
duction.

The panel has also called for shunning the present cost
recovery model. On gas pricing, it said domestic prices
should be fixed based on average global prices instead of
present mechanism of market discovery.

The real attraction for
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Concerned over gold’s
impact on current account
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system to take advantage
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The Reserve Bank’s sug-
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when Finance Minister P
Chidambaram said the gov-
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steps to make gold imports
more expensive.

“Growing demand for
gold in the country espe-
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with high levels of savings
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public comments until Jan-
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The draft report said if
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The Working Group is of
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Design innovative financial instruments
to curb appetite for gold; RBI tells banks

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Current account gap widens to record high of 5.4% in Q2

A mid moderating pace of exports, the country’s current account deficit (CAD) rose to a record high of 5.4 per cent of GDP or $22.3 billion in the July-September quarter. CAD, which represents the difference between exports and imports after considering cash remittances and payment, stood at $18.9 billion in the same period of a year ago and $16.4 billion in the first quarter (April-June).

A higher CAD has an adverse impact on rupee value and impacts foreign exchange reserves as well. The higher-than-expected deficit adds more pressure on the cash-starved government to push through more reforms to push through the current account deficit "to narrow the overall deficit," said Finance Secretary D. Subbarao.

Apart from slowing exports, rising gold and oil imports have led to a higher CAD. The trade deficit for the second quarter of 2012-13 worked out to 5.4 per cent as compared with 4.2 per cent in Q2 of the previous year, the RBI said.

The trade deficit swells to $48bn

Experts said in a slowing economy, the sustainable level of CAD is 2.5 per cent of GDP. Merchandise exports recorded a decline of 12.2 per cent during Q2 of 2012-13 as against an increase of 45.3 per cent during corresponding quarter of 2011-12. Imports also registered a decline during the quarter, though at a slower pace of 4.8 per cent. RBI said steeper decline in imports than that in imports led to the widening of trade deficit to $48.3 billion during second quarter, from $44.5 billion a year ago.

Urjit Patel to be RBI’s deputy guv

Economist and public finance expert Urjit R Patel is set to be named as the Reserve Bank of India’s deputy governor in charge of monetary policy, replacing Subir Gokarn who left office on December 31 after a three-year term and a month’s extension.

Sources said finance minister P Chidambaram has approved Patel’s name for the crucial post as recommended by a panel comprising governor D Subbarao and department of financial services secretary DK Mittal.

A formal announcement is expected shortly. Patel, now a consultant with Boston Consulting Group, is credited with over a decade’s experience in the Indian financial sector with a focus on funding private infrastructure projects. For Patel, a PhD in economics from Yale University and an MPhil in economics from Oxford University, the assignment is a homecoming of sorts, as he had an earlier stint with the RBI as advisor. He also worked with the finance ministry for a while, making him the ideal choice for deputy governor who has to do a fine balancing act in monetary policy formulation.

Patel’s task in assisting the governor in monetary policy-making is, however, not going to be easy, with the government and the RBI not exactly on the same page on interest rate cut. The RBI held on to the repo rate (8 per cent) last revised in April, at its October and December policy reviews, although a day before the October review, Chidambaram had announced a new fiscal consolidation road map in an apparent bid to convince the RBI of the government’s seriousness on the fiscal front. Of course, Subbarao has indicated an easing of policy in January-March quarter.

Morgan Stanley raises stake in Jindal Saw to over 5%

Pipe maker Jindal Saw today said foreign fund house Morgan Stanley has raised its stake in the company to over five per cent following additional 2.44 per cent stake buying through open market.

Morgan Stanley had 81.67 lakh shares, or 2.95 per cent, stake in Jindal Saw before the transaction held in BSE and NSE on December 31, it said in a regulatory filing. The fund house bought additional 67.42 lakh shares, amounting to 2.44 per cent stake in the firm through “market purchase” taking its total shareholding to 5.39 per cent on the last day of the calendar year 2012.

According to bulk deal data available with the stock exchanges, Morgan Stanley purchased the shares at an average price of Rs 125.65 aggregating to Rs 84.72 crore. Shares were bought by Morgan Stanley Asia (Singapore) Pte, Morgan Stanley Mauritius Company and Morgan Stanley India Capital, it added.

Temasek exited with 3X (three times returns) - it had invested around Rs 16.32 crore in 2005 and sold its stake for Rs 51 crore after seven years. The acquirer, Sutherland Global Services, bought the entire stake of AHS for an enterprise valuation of around Rs 1,000 crore.

JP Morgan and Symphony Capital Partners have also exited with 1.16X and 1X, respectively.

Experts say that there are dozens of funds waiting in the wings to exit since the valuations were down due to economic slowdown in 2008. These funds will now start exiting, they add, since the valuations are favourable now.

According to Venture Intelligence, the BPO sector attracted around $2,919.29 million from 2008, across 41 deals. The major chunk, in terms of value, was reported in 2012 including GIC and Bain Capital investment of $1,000 million in Genpact and JP Morgan’s investment of $1,100 million in M’Modal. During the current year, a total investment flow into the sector was $2,214 mn. Among the factors making the BPO sector attractive is the bleak economic situation in the US and Europe. Companies there are forced to cut costs by outsourcing their projects to BPOs. Institutional funds are also looking at the sector since the benefits of outsourcing and cost cutting measures would reflect on their portfolio, says a senior official from a PE fund.
Private sector lender IndusInd Bank has missed the December 31 deadline to cut promoter holding in the bank to 10%, as agreed by the lender in 2009. As of December-end, the bank had cut promoter stake to 15%.

"The fact remains we have not been able to achieve that (promoter shareholding levels)," said a senior bank official. He, however, added efforts were underway to reduce the stake. The bank hasn’t approached the central bank with a fresh road map to cut promoter shareholding to 10%.

In December, the bank had raised funds through a qualified institutional placement; promoter stake fell to 17.44 per cent. According to the BSE website, as of September-end, promoters’ stake in the bank stood at 19.38 per cent. Subsequently, the bank also carried out two bulk share sales, with promoters selling shares in open market transactions.

In the draft guidelines on new bank licences, the Reserve Bank of India (RBI) had indicated it would allow promoter stake of up to 15 per cent. It had said banks’ non-operating holding companies would continue to hold 40 per cent of the paid-up capital for the first five years, before reducing the stake by 20 per cent in 10 years and another five per cent in the next two years. This led to existing banks hoping they would also be allowed to retain promoter shareholding at 15 per cent.