SBI to RBI: Don’t choke liquidity

State Bank of India Chairman Pratip Chaudhuri asked RBI not to become a liquidity regulator instead raise interest rate, if needed, and called for transparency in managing rupee.

“Whenever the central bank needs to defend the currency or prevent the inflation from going out of hand, please increase the interest rate, don’t choke liquidity,” SBI Chairman Pratip Chaudhuri said during the inauguration of FICCI-organised Banking Conclave.

To curb liquidity and contain exchange rate volatility and rupee slide, the central bank reduced the liquidity adjustment facility (LAF) for each bank from 1% of the total deposits to 0.5%. In another measure to suck out liquidity from the system, RBI also asked banks to maintain higher average CRR (cash reserve ratio) of 99% of the requirement on a daily basis as against earlier 70 per cent. CRR is portion of deposits that banks are required to keep with RBI. According to bankers, the measures could suck out Rs 4,000-Rs 5,000 crore from the system.

During last year’s banking conclave, Chaudhuri started a debate by seeking to abolish CRR.

Chaudhuri said his suggestion would be that if you face this (rupee volatility) situation, do it in a frank, fair and transparent manner without any cover.” Today the repo rate is 7.25, but funds are not available and from a window money is available at 10.25%. It doesn’t help anybody in covering or camouflaging the repo rate. If the repo rate has to be taken to 10.25, so be it but do it in a transparent manner”, he said.

SOURCE: Free Press Journal

Birla resigns from RBI Board

Weeks after his group firm applied for a bank licence from RBI, Kumar Mangalam Birla said he has resigned from the Board of the central bank to avoid any conflict of interest.

“I have resigned from RBI Board 4-5 days ago. So, there is no conflict of interest now,” Birla said.

Birla was a nominated as a member of the Directors of the Central Board of the RBI in 2006.

His group firm Aditya Birla Nuvo is among 26 entities that have applied for a bank licence. The last date for applying for a bank licence expired on July 1.

With Birla continued to be on the Board of RBI even after his group firm applied for a licence.

The prominent private sector representatives on the board include Azim Premji, C Deveshwar and G M. Rao.

The Reserve Bank is expected to grant new licences by March next year. Twenty-six companies are in the fray for new banking licences in the private sector, including some top corporate houses like Tata Sons, L&T, Reliance Group, Bajaj, Shriram and Religare, besides Birla.

SOURCE: Free Press Journal

RBI rescues Re but rattles banking, financial stocks

A panic unwinding in banking and financial stocks following RBI’s renewed effort to curb rupee volatility took its toll on the bourses as the benchmark Sensex plunged by 211 points or 1.04% to close at 20,090.68.

In a fresh move to drain funds to further rein in volatility in forex market, the apex bank announced a slew of steps, including lowering overall limit for borrowing under the daily liquidity adjustment facility.

Investors dumped financial stocks on fears that RBI’s recent moves would raise the cost of funds for banks, hurt their margins and profitability apart from squeezing liquidity.

Concerned that the latest steps to stabilise the rupee could lead the RBI to come out with more such measures and also hike key policy rates triggered a panic sell-off. Banking stocks witnessed a carnage with the sectoral Bank Nifty crashing by a massive 5.195 points.

FMCG, auto, energy, capital goods and metal stocks, too, saw heavy selling. HDFC Bank, ICICI Bank, HDFC and SBI contributed a combined 164 points to the 30-share index’s decline.

The grant of greater powers, as per the Ordinance, Sebi has clamped down a number of illegal collective investment schemes in the recent months, including on entities from Saradha, MIPs, Sumangal, Sai Prasad, HBN, Alchemist Infra, Maitreyi and Rose Valley groups.

SOURCE: Free Press Journal

Sebi launches 550 prosecution cases against ponzi schemes

showing a strong will to take on the perpetrators of illegal money collection schemes, Sebi said it has launched as many as 550 prosecution cases against those collecting public money in such fraudulent manner, reports PTI. Out of these, Sebi has already banned 15 companies and 130 persons have been booked, the Securities and Exchange Board of India (Sebi) Chairman U K Sinha said. The issue of garnering funds through fraudulent investment schemes with the promise of huge returns have been hitting headlines quite frequently in recent months.

The government last week armed Sebi with greater powers to take on fraudulent schemes and mandated the capital markets watchdog to regulate all kinds of investment schemes involving a corpus of Rs 100 and more.

The grant of greater powers, through an Ordinance, is expected to remove the ambiguity of regulatory jurisdiction for such schemes, as their operators often used to claim that they do not fall under Sebi’s purview.

Even before the promulgation of the Ordinance, Sebi has clamped down a number of illegal collective investment schemes in the recent months, including on entities from Saradha, MIPs, Sumangal, Sai Prasad, HBN, Alchemist Infra, Maitreyi and Rose Valley groups.
A parliamentary standing committee has raised the red herrings of indigenous retailers and farmers ruined by 51% FDI (foreign direct investment) in multi-brand retail allowed since last year.

It has, therefore, recommended an institutional monitoring mechanism in the form of a retail regulatory authority to act as “whistle blower” to check the foreign stores’ anti-competitive behaviour and abuse of dominance.

The committee on industry has also faulted the sourcing norms for buying 30 per cent of products from small suppliers to further dilute these norms, Chairman Tiruchi Siva said after submitting its seven reports on FDI and other matters to Rajya Sabha chairman Hamid Ansari on Tuesday.

It warned the government about the “game plan” of foreign big retail giants by offering low prices to customers to monopolise over retail trade and then sell the same goods “at an unreasonably higher price which consumers would be forced to buy in the absence of any other option available to them.”

In the same manner, their continuing dominance and their direct dealing with farmers will cripple the ‘Mandis’ and markets which form part of the rural economy and once Mandis are eliminated, big foreign retail giants will manipulate prices and dictate farmers to sell their produces at a low price, the committee said.

The committee scrutinised the policy to express shock that 30 per cent sourcing from Indian enterprises may not create much employment as maximum scope of job creation is only in front-end operations.

Sate Bank of India Chairman Pratip Chaudhuri might be confident that lending rates would not increase despite the central bank’s liquidity-tightening measures, but corporate India is hardly convinced.

India Inc says Wednesday’s measures, which came barely a week after similar tightening steps on July 15, have sent a clear signal that RBI is willing to live with higher rates, as it sees the rupee’s stability as priority. As a result, the last hope of an early turnaround in the capex cycle and economic growth rate has been dashed.

“The latest move is contrary to the industry expectations and will adversely affect capacity creation and hurt economic growth. It seems growth can wait as far as the central bank is concerned,” says Thermo India MD M S Unnikrishnan.

The move, he says, will add further pressure on his customers and worsen the outlook for capital goods companies, which will now be forced to either cancel or delay growth plans in response to rising and increasingly scarce credit.

The view is similar at Essar Group, which has interest in steel, oil & gas, ports, shipping, power and BOPs. “Borrowing in rupee will become prohibitively expensive and unviable for firms. More companies will opt for dollar borrowing but that might also become difficult due to the country risk India is carrying today,” says Prabal Banerjee, president (international finance) Essar Services India.

“RBI has reasons to do so but since this has been done with the aim to suck up liquidity from the system, it will have a cascading effect on interest rates. That’s a negative for industry,” says Issac George, chief financial officer at infram firm GVK Power & Infrastructure.

Others argue for a distinction between large companies and small and medium firms while analysing the impact of monetary tightening by the central bank. “RBI’s latest move will only have a small direct impact on large companies and those belonging to large reputed groups. But their downstream customers or vendors may now find it tough to borrow at competitive rates due to depressing demand,” says K K Maheshwari, managing director of Grasim Industries, the flagship company of Aditya Birla Group.

As liquidity dries up, CEOs expect banks to discriminate in favour of productive sectors like manufacturing to minimise the side effect of a tight monetary policy. “When credit was cheap and plentiful, a lot of capital went to speculative and non-productive assets like real estate. Now that banks have less capital to lend, they are likely to discriminate between good and bad borrowers and set the stage for the next round of economic recovery,” says Maheshwari.

Experts agree. “Monetary tightening and hike in interest rates are integral part of India’s macro-economic adjustment process. Interest rates had turned negative-adjusted for inflation, making India an unattractive investment destination. RBI is now trying to reverse the situation so that India once again becomes attractive for foreign investors,” says Deep Narayan Mukherjee, director (ratings), India Ratings & Research.

Sahara hits back at Sebi

Lashing out at Securities and Exchange Board of India (Sebi) and its Chairman UK Sinha, the Sahara group in a public notice said the statements made by Sinha is irresponsible and incorrect.

Countering the allegations made by Sebi Chairman on optionally fully convertible debentures (OFCDs) raised by it, the Sahara Group said that, “since beginning SEBIs actions have been taken with the agenda to cause harm to Sahara through media trial.” Sahara directed readers to a URL for further information.

SAT upholds Sebi rulings against 3 entities on CIS

As Sebi continues its crackdown on fraudulent Collective Investment Scheme (CIS), the Securities and Exchange Board of India (Sebi) Friday asked the Supreme Court to set aside the National Company Law Tribunal (NCLT) order which directed three entities — Alchemist Infra Realty Ltd, Maitreya Services Pvt Ltd and Nghi Developers — to refund huge amounts of money that were collected from thousands of investors through unauthorised schemes.

Alchemist Infra has been asked to give back funds worth Rs 1,000 crore to the investors within 18 months while Maitreya Services has to refund Rs 700 crore in six months. Nghi Developers too has to return money collected from the public in the previous six months.

Besides these three companies, Sebi has clamped down on a number of other unauthorised CIS operations in recent months including those by Saradha, MPS, Rosevalley, Sumangal and Sai Prasad groups. Alchemist Infra, which collected about Rs 1,000 crore from about 1.5 million investors, was asked by Sebi to refund money collected through unauthorised CIS businesses.

After hearing its appeals against Sebi order, SAT upheld the regulatory directions against the realty firm but gave the company 18 months time to refund money in view of the “long and tedious process of implementing the scheme of repayment” to such large number of investors. Separately, the tribunal directed Maitreyas Services and Nghi Developers to refund money collected from the public in the case of Maitreyas Services, Sebi in March had barred the company and its directors from the securities market till the time all its CIS were wound up.

Source: Free Press Journal

RBm makes India Inc see red

Tight liquidity will hit over-leveraged and cash-hungry companies, spare conservative ones

 RBI makes India Inc see red

Source: Business Standard

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L&T misses estimates, Q1 net falls 12% to Rs 756 cr

Engineering major Larsen and Toubro (L&T) reported a 12.5% decline in standalone net profit for the June quarter at Rs 756.03 crore due to subdued revenue growth coupled with Rs 200 crore forex loss. The company, which had reported a net profit of Rs 863.65 crore in the year-ago period, said its net sales saw a marginal 5% growth to Rs 12,555.06 crore from Rs 11,956.35 crore in first quarter of last fiscal.

"Profit for the quarter has been impacted largely by decline in Ebitda (Earnings Before Interest, Taxes, Depreciation, and Amortisation) as well as decline in other income. Net sales have seen a marginal 5% improvement, of which nearly 27% was contributed by sales from international business," L&T Chief Financial Officer R Shankar Ramam said.

"Ebitda margins for the quarter fell to 8.5% from 9.1%. Other income dipped 22.8% from Rs 608.12 crore to Rs 472.60 crore, mainly due to a dip in dividends from its associates and lower interest earnings, he said. Shares of L&T's 136,374,000 ordinary shares showed an increase of 5% for the day, or Rs 200 crore.

"There have been under recoveries, which is a fallout of under utilisation of our capacities. If the economy had sustained 8% growth then the amount of work that would have to be done would have been a higher magnitude. "Capacity has been built with such growth assumption. Had higher growth sustained, our order book would have been over Rs 2 lakh crore," Ramam said. He said the under-utilisation of capacities was mainly in power, mining, hydrocarbons and metallurgical and material handling businesses.

International order inflow grew 2.28 times to Rs 3,617 crore and constituted 14% of the total order inflow. Major orders during the year came from buildings and factories, transportation, infrastructure, hydrocarbon and heavy civil infrastructure businesses.

Managing Director and Chief Executive K Venkataramanan said the recent government measures on FDI, reduction in oil and power subsidy and facilitation of investments are expected to bear fruit in the medium term.

Salary earners up to Rs 5 lakh need to file I-T return: CBDT

Unlike the past two years, salaried persons earning up to Rs 5 lakh annually will have to file income tax returns, says CBDT.

Earlier in May, the CBDT had made E-filing of income tax return compulsory for assessment year 2013-14 for persons having total assessable income exceeding Rs 5 lakh.

The CBDT said the waiver was given considering paper filing of returns and their processing through manual entry on system. It said the exemption has not been extended as the facility for online filing of returns has been made "user-friendly with the advantage of pre-filled return forms". These e-filed forms also get electronically processed at the central processing centre in a speedy manner, it said.

For filing returns, an assessee can transmit the data in the return electronically by downloading ITRs, or by online filing.

Jet- Etihad deal: Agencies in a huddle on ‘control’ issue

Jet- Etihad deal continues to face regulatory hurdles, the government and market regulator Sebi today said consultations are underway between various agencies on whether the deal amounts to transfer of "control" in the Indian carrier to foreign hands.

"Jet- Etihad deal will continue to face regulatory hurdles, the government and market regulator Sebi today said consultations are underway between various agencies on whether the deal amounts to transfer of ‘control’ in the Indian carrier to foreign hands," the minister said.

"The definition of control is there. In our point of view, it is (about) whether it will trigger an open offer or not...Various agencies are on board and are in engaged in consultations regarding this," Sebi Chairman U K Sinha said at an investor awareness programme.

He was replying to queries on whether there was a difference of opinion among various government departments and regulatory agencies on definition of ‘control’ in the context of Jet- Etihad deal.

Speaking at the same function, Associate Affairs Minister Sachin Pilot said that consultations were underway on what ‘control’ would mean in the present case. The Minister said that Sebi has a definition of ‘control’ in the context of takeover regulations, while new Companies Bill also provides a definition.

"There are no differences (between agencies) but we want a definite meaning of what control means and whether it is about the number of shares held by promoters to something else," the minister said.

Among others, the deal needs to be cleared by Sebi for takeover regulations, by Competition Commission of India (CCI) for fair trade norms and by FIPB (Foreign Investment Promotion Board) for FDI-related rules. The FIPB is expected to take up the matter on July 29 for further consideration. As per Sebi, an acquirer can get control of a target firm even with the purchase of a minority stake in absolute terms provided it gets powers like greater voting rights and a larger say on appointment of directors etc.

Sebi rules require an acquirer, buying 25% or more stake in a listed firm, to make a mandatory open offer for purchase of further 26% stake from public investors. However, takeover regulations for making a mandatory open offer would also apply to any entity buying stake of less than 25% if it is getting ‘control’ of the target entity.

The M inister said that Sebi has a definition of ‘con - trol’ in the context of takeover regulations, w hile new

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T-Bill auction: RBI prefers short-term rates to stay high

The Reserve Bank of India (RBI) on Wednesday accepted majority bids for the treasury bills (T-Bills) auction at exorbitant rates. The auction was worth Rs 12,000 crore, which included 91-day T-bills worth Rs 7,000 crore and 364-day T-bills worth Rs 5,000 crore. The cut-off yields were 11.0031 per cent for 91-day T-bills and 10.4649 per cent for 363-day T-bills.

Bloomberg data shows the cut-off yield for Wednesday’s 91-day T-bills were at a high and the cut-off rates for 364-day T-bills were at an almost-13-year high. The last time the 364-day T-bills had a cut-off was at 10.52 per cent in the auction held on October 4, 2000.

RBI had cancelled the T-bills auction last week for Rs 12,000 crore in which they were auctioning 182-day T-bills worth Rs 5,000 crore and 91-day T-bills worth Rs 7,000 crore. The cancelling was interpreted as the central bank not wanting interest rates to go up sharply. Wednesday’s auction, however, indicates RBI wants short-term rates to stay high.

“The cut-offs for T-bills coming at such high rates indicate the government’s cost of borrowing is going up and it would ultimately hit the revenue deficit,” said S Srinivasaraghavan, head of fixed income, Sundaram Asset Management, the auction of cash management bills was announced because if T-bills auction had not been fully subscribed, at least the borrowing could be done through these cash management bills. Since a majority portion of the T-bills auction got subscribed, auction of cash management bills would result in further liquidity squeeze,” said a treasury official of a public sector bank.

Due to liquidity tightening in the inter-bank money market, the weighted average one-day call rates stood at 9.14 per cent on Wednesday, compared with 7.17 per cent on Tuesday. In the secondary market, three-month Commercial Paper rates ended at 10.91 per cent, compared with the previous close of 9.71 per cent. While three-month Certificate of Deposits rate ended at 10.13 per cent, compared with the previous close of 9.39 per cent. According to issuing arrangers in the primary market, there were no issuances due to high rates and liquidity squeeze.

SOURCE: Business Standard

Dreamliners, according to airline sources

We have got financing for all the five Dreamliners and have mandated Deutsche Bank and Investec Bank for arranging the bridge loan for this,” a senior Air India official said.

The flag carrier had on June 26 invited bids from banks and financial institutions to arrange bridge finance of up to USD 500 million to pay for five Boeing 787’s. A bridge-loan is typically used to meet payment commitments until a long-term financing is arranged. Air India is raising this fund for six-12 month period and plans repay the same after a sale and lease back of these planes. The airline has already received the delivery of seven Dreamliners between last September and June this year. The delivery of these five aircraft will be taken between July and October, the official added. The deal is part of the 68 aircraft that the carrier had ordered from Boeing in January 2006, which includes 27 Dreamliners, 41 B-777s and B-737-800s. Apart from this, the national carrier had also booked 43 planes from Airbus, which have already been inducted in its fleet.

SOURCE: PTI

Al secures $500 mn from Deutsche, Investec Bk for 5 Dreamliners

National carrier Air India has tied up with Deutsche Bank and the British lender Investec Bank to raise up to USD 500 million to take the delivery of five Boeing. Sebi slaps Rs 4 lakh fine on entities in the probe in share price manipulation by Sanjay Dangi and associates.

In two separate orders issued yesterday, Securities and Exchange Board of India (Sebi) has imposed a penalty of Rs 2 lakh each on Shentracon Trexim and Sidhant Financial Services. For conducting a thorough probe in determining the exact role played by the Dangi and associated entities details were sought from Shentracon and Sidhant by the Sebi’s Investigating Authority (IA), it said. However, Shentracon and Sidhant did not furnish complete details regarding their business/financial dealings with certain entities involved in the probe, among others, as sought by the regulator, it added.

“...not submitting complete details/information to the summonses appears to be a deliberate action on the part of the noticee to not cooperate with the regulatory mechanism, especially when sufficient opportunity was provided,” Sebi said in two similarly worded orders. The regulator also noted that “such non cooperation and default” is an impediment to the investigation process and is detrimental to the interest of investors in securities market. Sebi had passed an interim order in December 2010 banning Dangi, his associates and promoters of four companies Murli Industries, Hubtown Ltd, Welspun – Gujarat Stahl Rohren and Brushman.

The order was based on a preliminary probe which had found a well-planned strategy to manipulate the share price of the company before the issuance of the Foreign Currency Convertible Bond (FCCBs).

It was prima facie observed in the interim order that the Dangi group along with the promoters of various companies had indulged in fraudulent and unfair trade practices relating to securities market, among others, Sebi said.

SOURCE: PTI