Regulator could consider additional avenues for promoter stake dilution

Fourth of the country’s listed companies have not disclosed their shareholding details to the exchanges, breaching a key disclosure norm set by the regulator.

The Securities and Exchange Board of India (Sebi) says as many as 1,259 companies (25.3 per cent) of the 4,977 listed on the bourses had not disclosed their shareholding pattern as of March. It is possible that a significant number of these are not compliant with the minimum public shareholding norms, say analysts. Of the remaining ones, as many as 193 also aren’t compliant with these norms, the data showed.

According to Sebi rules, at least 25 per cent of private sector companies and 10 per cent of public sector one should be held by public shareholders. In 2010, the government had given three years for companies to comply with these rules. The total amount to be raised by companies to meet the requirement is estimated at Rs 32,000 crore - about Rs 11,000 crore by public sector companies and rest by private ones. While the latter have to meet the norms by June 2013, the deadline for public sector units is August 2013.

While companies are keen on getting the deadline extended, citing unfavourable market conditions, Sebi is not keen. “Is it our case that between 2001 when the rule was introduced till now, in these 11 years, there was never a good period?” asked Sebi Chairman U K Sinha in a recent seminar.

He said about 30 companies had public shareholding of less than 10 per cent. In another 95, public shareholders own between 10 and 20 per cent. “We have a big problem here,” Sinha added. He was, however, open to increasing the avenues available for such divestment.

In a recent report, investment bank Morgan Stanley has outlined block trades, Employee Stock Option Plan conversion, American Depository Receipts and Global Depository Receipts, rights issues without promoter participation, preferential allotment and convertible securities as routes which could be considered for this purpose.

Meanwhile, the Sebi board is scheduled to meet tomorrow and consider changes in mutual fund and IPO norms.

Sebi allows e-IPOs, new routes for stake divestment

In wide-ranging changes to various regulations, the capital market regulator, Sebi, on Thursday made it easier and more cost-effective to invest and raise funds through IPOs but investments in mutual funds could become more expensive.

The market regulator also made it mandatory for all the investment advisers providing their services for a fee to get themselves registered, while putting checks and balances against possible misuse of funds garnered from investors through initial public offers and mutual funds.

Announcing its decisions, Sebi Chairman U K Sinha said the retail investors in IPOs would also be assured of a minimum number of shares and the companies would be required to announce their price band at least five days in advance. In a decision that could make it expensive for investors to put money in mutual funds, the Sebi decided that any service taxes would be charged to ultimate investor, and not to the fund house as is the current practice.

Besides, the asset management companies would be allowed to charge additional expense ratio (the charge levied by fund houses towards fund management fees and other expenses) for catering beyond a threshold limit in the smaller cities. The sweeping changes are expected to revive the mutual fund industry and enhance retail participation in primary markets to deepen their penetration.

The mutual fund industry has been hit hard by sluggish markets while removal of entry loads had forced distributors to shun the product. Other decisions include allowing mutual funds flexibility in using fund expense charges and a committee is being set up to frame a national mutual fund policy.

Chairman Sinha said that various steps taken for revival of mutual fund industry would ‘impel and motivate AMCs to go beyond the 15 cities’. To revive primary market, Sebi decided that a minimum lot of shares would be assured to retail investors in IPOs. It also approved e-IPO procedure for electronic bidding in public offers to help investors across the country bid for shares in a cost-effective manner.

The regulator would also frame new rules for investment advisers. Sinha said. It has also recommended to the government tax benefits to equity MF investors under the proposed Rajiv Gandhi Equity Savings Scheme (RGESS). Sinha said.

To help controlling shareholders pare down their stake, Sebi also decided to make available new avenues like bonus and rights issues for promoters to attain a minimum public float of 25 per cent. But this cannot be issued to promoters’ group.

(Seb Chairman U K Sinha)

Keep a/c holder names discreet: Berne

The Indian government would be in serious breach of its international obligations if it discloses names of Indians having Swiss bank accounts, other than being compelled to do so by the judiciary.

Speaking against the backdrop of the recent agitations by Anna Hazare and yoga guru Baba Ramdev for recovery of black money, a spokesman for the federal finance ministry in Switzerland said India “cannot make public” information supplied to it by Berne.

In the double taxation and avoidance agreement (DTAA) - which was amended earlier this year to make it slightly more lenient - Article 26 stipulates that “any information received shall be subject to a secrecy clause, whereby the information contained shall be treated as secret”, other than being disclosed in judicial proceedings or verdicts.

The bilateral understanding on “liberal interpretation” of the DTAA since, provides for a less stringent furnishing of an individual’s data. At the same time, either the name of the person or an account number has to be provided by Indian authorities for their Swiss counterparts to respond with information of deposits in banks, financial institutions or funds.

Article 26 in the revised DTAA states “the two countries (namely, India and Switzerland) shall exchange information as is foreseeably relevant.” But specific data, such as a name of the person being investigated coupled with address, date of birth or tax identification number is still needed. The Swiss finance ministry spokesman added that even an account number would suffice.

But he emphasised that Indian authorities must be armed with “concrete suspicions” of tax evasion or fraud by its nationals for the Swiss government to release information pertaining to any alleged black money being held in Switzerland.

The spokesman underlined India cannot embark on “a fishing expedition” on the matter.

(Source: The Economic Times)
I-T TO PRESS LAUNDERING CHARGES AGAINST HSBC

The Income Tax department has decided to include the offence of money laundering in its soon to be filed charge sheet against persons named in the classified HSBC list for stashing illegal funds.

The department, in its probe till now, has found that the illegal funds were laundered in many cases which can be categorised as "criminal proceeds of crime". The I-T, according to sources, may have to coordinate its prosecution action in this case with the Enforcement Directorate which is the designated enforcement agency for the Prevention of Money Laundering Act (PMLA) in the country. The stringent and criminal provisions of the PMLA can ensure strict penalties of the accused and handing down of strict punishment by courts.

The tax department is also particularly wary about the recent disclosure made by a US Senate panel that had accused HSBC of exposing the American and Indian financial systems to various terror financing, money laundering and drug trafficking activities due to its poor risk control systems.

"The disclosures that have come recently in the US corroborate what tax department investigations in this case indicate. Money laundering charges would be pressed against individuals," the top sources in the Finance Ministry said.

HSBC

Now, no cover for audit comments

Tightening noose around companies trying to hide issues raised by auditors in their voluminous annual reports, market watchdog Sebi asked all listed firms to submit separate documents for adverse observations made against them.

The regulator has also asked the stock exchanges to conduct immediate scrutiny of the issues highlighted in these documents and seek necessary clarifications from the concerned companies about the observations made by auditors.

If the auditors' observations are found to be serious, the Sebi can also ask the companies to restate financial accounts and to inform shareholders about it, the regulator said in a circular.

As per current regulations, all listed companies are required to submit the copies of annual reports containing audited financial statements to the stock exchanges.

However, many serious issues about the companies' accounts, including possible cases of fraud, can go unnoticed even if they have been flagged off by auditors, as such observations are generally buried deep inside the bulky documents like annual reports.

To enhance the quality of financial reporting by listed companies, listed companies will now be required to submit two separate forms along with copies of annual reports submitted to stock exchanges.

Form A will detail the 'Unqualified/Matter of Emphasis Report', and the Form B will comprise of 'Qualified/Subject To/Except For Audit Report', 'Qualifications' made by auditors are the issues or observations flagged off by them about various aspects of the company's financials.

In its latest circular, Sebi has also fixed deadlines for compliance at the level of the companies and stock exchanges for further action on issues raised in these new forms.

According to the market regulator, stock exchanges should carry out preliminary scrutiny of reports that would also include the bourses seeking necessary explanation from the listed company. If necessary, the bourses can refer the cases to Sebi for further examination.

(Source: FPJ)

RBI SAYS INTEREST RATE DECISION WILL DEPEND ON INFLATION

The Reserve Bank has said it will assess if the declining trend in inflation is sustainable and accordingly take a decision on reducing the interest rate.

Inflation based on Wholesale Price Index (WPI) declined to 6.87% in July, from 7.25% in June. Still, it is much above the RBI's 5-6% comfort level.

However, with the easing of inflation and contracting industrial output, the industry is clamouring for reduction in the interest rate to spur growth.

"Interest rates to fall when inflation drops. RBI will assess if the inflation fall is sustainable," RBI Deputy Governor K C Chakrabarty said after meeting Economic Affairs Secretary Arvind Subramaniam.

He said 5% inflation is India's comfort zone. The Reserve Bank is scheduled to review its monetary policy on September 17.

In its monetary policy review last month, RBI had kept key interest rate (repo rate) unchanged at 8% in view of high inflation.

After taking charge of the Finance Ministry this month, P Chidambaram had said that high interest rates "inhibit the investor and are a burden on every class of borrowers".

He had said steps would be taken to bring down interest rates.

(Source: Business Standard)

PM forecasts more than 6.5% growth this fiscal

Even as several global agencies have forecasted a sub-6% GDP growth for India, Prime Minister Manmohan Singh projected a 7% economic growth in the current fiscal to be slightly higher than the 6.5% per cent achieved a year ago. The government's GDP projection for 2012-13 is 7.6 per cent.

"Last year our GDP grew by 6.5 per cent. This year we hope to do a little better," Singh said in his Independence Day speech.

The country is facing drought like situation at a "difficult" time with inflation running high, growth sluggish, and the fiscal space limited. Recent factory data showed that India continued to face the problem of high inflationary pressure and a slow rate of growth.

The 6.5 per cent GDP growth in 2011-12 was the lowest in nine years. Singh's optimism on growth front comes at a time when a host of major private forecasters including Citi, CLSA, Crisil, and Moody's trimmed their forecasts to as low as 5.5 per cent citing deficient monsoon achieved a year ago.

The government is taking steps to accelerate infrastructure development and infuse confidence in foreign investors.

(Source: FPJ)

ON INFLATION

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(Source: Business Standard)
Maruti sacks 500, to re-open Manesar plant on August 21

Maruti Suzuki India has announced the re-opening of its Manesar plant on August 21. Stating that it has taken one month to restart work, Maruti Chairman RC Bhargava said that all repair work has been completed.

Addressing the media, Bhargava said that all the 96 people who had been injured in the violence that took place, have now been discharged from the hospital and some of them have joined work. Asked about the progress of investigation into the incident of violence, Bhargava said that it will continue and more arrests may be made soon. Five hundred permanent workers were fired based on initial investigations, he added.

The Manesar unit is at present guarded by the Haryana Police. The Police had last week said it would continue to provide security and station a full battalion, comprising 500-600 policemen, inside the facility where some of the popular car models were made. The plant, while on full operations before the violence, employed around 3,000 workers, of which around 1,600 were permanent employees. Besides, about 700 managerial people were also working at the plant.

The Manesar plant, which has an annual capacity of 5.5 lakh units, rolls out the company's popular models Swift, entry level sedan DZire and SX4 along with compact car A-Star. The shutdown of the factory, which made about 1,700 cars a day before the unrest, is costing the company tens of millions of dollars. The company had declared a lockout at the Manesar plant on July 21 following violence and arson in which one senior executive was killed and 100 others were injured.

MSI had said the safety and well-being of its employees were paramount.

The Haryana government had announced formation of a special investigation team (SIT) headed by Assistant Commissioner of Police Ravinder Tomar with six inspectors to probe the incident. On August 1, the police had arrested 10 office bearers of the Maruti Suzuki Workers' Union, including its President Ram Mehrotra and General Secretary Sarabjit Singh, taking the total number of workers arrested to 114 in relation to the incident.

(Source: The Economic Times)

Tata Consultancy Services has entered into a definitive agreement to acquire 100 per cent equity of Computational Research Laboratories (CRL), a wholly owned subsidiary of Tata Sons, for a cash consideration of Rs.188 crore ($34 million).

The acquisition of CRL, a pioneering start-up firm in the arena of high performance computing solutions in India, will enable TCS to extend its suite of solutions and offer integrated HPC application and Cloud services to its large base of customers.

HPC applications are finding increasing relevance and use among large enterprises, as they look to solve complex business problems like reducing their time-to-market. This is driving an increase in adoption of HPC based applications for modelling, simulation, virtualisation and big data analytics across the business.

TCS' global base of customers across multiple industries including automotive, aerospace, and energy are investing in the use of HPC applications and services.

"CRL’s core capabilities in designing and building high performance environments coupled with our strong focus on cloud based, data-rich industry platforms makes TCS very relevant to address the customers’ growing requirement of HPC applications," said N. Chandrasekaran, CEO of TCS.

(Source: The Hindu Business Line)
The Reserve Bank has said the possibility of India’s sovereign rating downgrade by global agencies like Moody’s and Fitch can be averted by improvement in government finances. Fiscal consolidation, said RBI Deputy Governor Subir Gokarn, will also help in moderating inflation and lowering interest rates.

“The best way to prevent it (ratings downgrade) would be to put in place a sustainable process of fiscal consolidation because that is the most important parameter, indicator on which that risk or threat has manifested. If we can do that reduction...That risk is averted”, he told reporters here.

Global agencies including Moody’s and Fitch have warned of a sovereign rating downgrade. They have earlier lowered the outlook, giving indications of a possible rating downgrade.

The downgrading threat comes in the backdrop of growth slowing to a nine-year low of 5.3 per cent in the fourth quarter of 2011-12 and persisting high inflation. Finance Minister P Chidambaram has sought assistance from experts—Vijay Kelkar, Indira Rajaraman and Sanjiv Misra—to prepare a road for fiscal consolidation. The Centre’s fiscal deficit has risen to 5.76 per cent of GDP in 2011-12.

Gokarn said steps like removing supply side constraints to bring down food inflation, FDI policy initiatives and encouraging foreign fund inflow would help in boosting growth.

“...So these are the things which will help stimulate growth without putting pressure on inflation,” he added.

The statement comes a day after Prime Minister Manmohan Singh has expressed optimism that India’s GDP growth this fiscal would be over 6.5 per cent achievable.

RBI Deputy Governor Subir Gokarn (PMEAC) will come out with mid-year economic outlook tomorrow.

The RBI had lowered its GDP growth forecast to 6.5 per cent for 2012-13 from its earlier estimate of 7.3 per cent.

On decline in WPI-inflation to 6.87 per cent in July, he said it is a “welcome reduction”, but the increase in the core (manufactured) inflation continues to be a matter of concern.

“...Internal dynamics are moving in opposite directions. Fuel inflation was relatively low for July... Food inflation is still high. Now we have the (deficient) monsoon that might have an impact,” the top RBI official said.

(Source: Business Standard)

Slowing IIP growth to weigh on banks' asset quality

Slowing industrial growth, which has weakened debt servicing capabilities of borrowers, has led to worsening asset quality for banks that have seen their gross NPAs (non-performing assets) rise sharply in the first quarter of the current financial year.

The gross NPA for leading banks increased 14.6% quarter-on-quarter to around Rs.79200 crore in April-June. The index for industrial production (IIP) has been quite weak, dropping 0.1% year-on-year during the period.

“There appears to be a strong correlation between NPA accretion and IIP growth,” market observers said.

“On most occasions in the past, sliding IIP growth led to an increase in NPA levels, and vice-versa,” analysts at Anand Rathi Financial Services said. “If the subdued economic activity persists, incremental industrial production is likely to be weak, leading to an increase in NPA.”

Modest industrial-production growth would lead to high NPA levels in the current financial year due to the lag effect of NPA formation, analysts said.

Perceptions of default risk would be high till macro-economic conditions improve, observers said. Since falling industrial production and weakening corporate credit profiles are likely to heighten asset-quality concerns for banks, the rate-fall-driven stock out-performance from January have left banking stocks exposed to risks arising out of deterioration in asset quality, analysts said.

While the valuation of public sector bank stocks appear cheap, a sharp near-term re-rating is unlikely given their low capital adequacy and high share of restructured assets and NPAs, market observers said. Banks with higher tier-1 capital and high NPA coverage would however be able to manage the tough macro-economic conditions well, analysts said.

(Source: The Times of India)