Sebi extends a helping hand for PE-backed IPOs

Move to allow shares held by funds as lock-in to help start-ups with low promoter holdings

It’s one hurdle less for private equity (PE) players looking for exits from companies where the promoter holding is very less or there is no identifiable promoter. The Securities and Exchange Board of India (Sebi) has decided to allow registered PE and venture funds to contribute up to 10 per cent to this lock-in.

"To encourage professionals and technically qualified entrepreneurs who are unable to meet the requisite 20 per cent contribution by themselves, promoters will be allowed to meet the same with the contribution of Sebi registered alternative investment funds such as SME funds, infrastructure funds, PE funds, VCFs (venture capital funds), etc, subject to a cap of 10 per cent," Sebi said in its press release.

Prithvi Haldea, chairman and managing director, Prime Database, said: "There was an increasing realisation that a number of technology companies are started with external capital funds), etc, subject to a cap of 10 per cent,“ Sebi said in its press release.

Promoters to lock in minimum 20 per cent of post-issue capital

Shares cannot be sold for three years from IPO

Sebi-registered funds allowed to share this burden

Funds can lock-in up to 10 per cent

Move to facilitate companies with low promoter holding

KEY TO IPO LOCKS

Over 1.4 lakh cos dormant in India

More than 1.4 lakh companies in India are lying dormant, with Maharashtra accounting for the largest number of such entities, followed by Delhi and Andhra Pradesh, the government today said. Maharashtra, whose capital Mumbai is known as the country’s biggest financial and corporate hub, had a total of 35,664 dormant companies as on August 20, 2012, while the national capital had 28,905 such companies on this date.

Replying to a question in Lok Sabha, Minister of State for Corporate Affairs RPN Singh said that the ministry has launched a ‘fast track exit mode’ for getting these defunct companies de-registered. Asked about details of the registered companies that have been inactive and dormant for at least ten years, the minister provided a state and union territory-wise list of such firms.

Maharashtra and Delhi are followed by Andhra Pradesh (23,284), Tamil Nadu (16,373) and Gujarat (11,269) among others, Karnataka has 8,221 dormant companies, Uttar Pradesh (5,316), Kerala (2,422), Punjab (2,413), Haryana (2,206), Rajasthan (1,467), Madhya Pradesh (1,403), Chandigarh (1,233), Bihar (1,019) and West Bengal (967). Lakadweep accounted for lowest number of such companies (2), while others with small numbers included Mizoram (6), Tripura (7), Arunachal Pradesh (11), Meghalaya (15), Manipur (18), Damna and Diu (25) and Nagaland (26).

(Source: The Economic Times)
The Reserve Bank of India (RBI) said on Thursday that fighting inflation remained the cornerstone of its monetary policy, and urged the government to cut expenditure, indicating it was unlikely to act soon to ease rates despite slowing growth. The RBI said poor summer rains had further clouded growth prospects for Asia’s third largest economy, but the key was to cut government subsidies and revive capital spending. “Such an action would also provide some space for monetary policy, but, importantly, lower interest rates alone are unlikely to jumpstart the investment cycle,” the RBI said in its annual report. The report, which is released at the end of the central bank’s accounting year, is a review of the previous fiscal year’s macroeconomic conditions and outlook for the current year. India’s growth skidded to a nine-year low of 5.3 percent in the March quarter, and many economists have slashed their 2012-13 forecast to around 5.5 percent, lower than the RBI’s downgraded projection of 6.5 percent.

Inflation, which had stayed well above 7 percent for two and half years, has eased, with both the wholesale price index and the consumer price index slowing, although food prices rose. But the RBI, which left its key repo rate steady at 8 percent last month, said a close vigil on prices would be necessary for the rest of the year to prevent re-emergence of inflationary pressures. “Persistence of inflation, even as growth is slowing, has emerged as a major policy challenge,” the RBI said. Complicating the picture further, the central bank said, the government’s market borrowing could rise during the fiscal year if revenue receipts fall short of target, which would limit room for monetary policy action to support growth. The government aims to narrow its fiscal gap to 5.1 percent of GDP in the current fiscal year from 5.76 percent last year, a target seen by many analysts as optimistic.

(Source: Reuters)

The Securities Appellate Tribunal (SAT) has asked capital market regulator Sebi to complete its probes within a “reasonable” timeframe, more so when entities can suffer losses due to interim orders passed against them. Hearing an appeal against an interim Sebi order barring certain entities alleged to be involved in manipulation of an IPO, SAT said the tribunal is “conscious of the fact that in an investigation involving a large number of parties, we cannot bind the Board by a timeframe within which investigation can be completed.” However, “it goes without saying that this time has to be a reasonable one, more so when the entities are debarred from dealing in the market which adversely affects their business,” SAT said in an order dated August 14, 2012.

The Tribunal observed that the investigations in this particular case are going on since May 2011 and Sebi “needs to act as expeditiously as possible”. In a separate order as well, passed on the same day, SAT said it sees “no reason why the Board (Sebi) cannot pass an order expeditiously”, while hearing an appeal against an interim order of December 2011.

Both the investigations are related to irregularities in separate IPOs and SAT has dismissed both the appeals, while asking Sebi to expedite its probe in both the cases. One of the two cases relates to Sebi’s investigation in the alleged manipulation of IPO issue of PG Electro Plast Ltd.

Hearing another appeal by Rikhav Securities Ltd against Sebi’s interim order dated January 11, 2012 in a case involving irregularities in Vaswani Industries IPO, the Tribunal said that the interim order would be vacated if Sebi does not complete its investigations within three months and issues a showcase notice within one month thereafter.

(Source: FPJ)
Vedanta may offer 25% more for govt’s stake in Hind Zinc, Balco

Vedanta Group may shell out Rs.21,635 crore, up to 25 per cent more than previously offered, for buying the government’s remaining stakes in Hindustan Zinc and Balco as its earlier offers have not been accepted so far.

Anil Agarwal, Chairman, Vedanta Group

If the deal goes through, this deal alone could meet over 72 per cent of the government’s disinvestment target of Rs.30,000 crore for this year. “We have not made any fresh proposal to the government. Whatever proposal we gave in January, that is the only proposal pending. Price will depend on what methodology government selects for valuation,” the company spokesperson said. He added that, “this is just an enabling resolution to comply with the UK-listing requirements.” Vedanta has called shareholders meeting on August 28 in London, alongside its annual general meeting, to seek nod for the sweetening its offers in the two firms, but a company spokesperson said that it is just an “enabling provision” and no new offer has been made yet to the government.

“As GoI has not, to date, accepted the company’s offers, approval from shareholders is being sought on the basis that the company is authorised to negotiate the acquisition of the entirety of the GoI’s interest in HZL for an aggregate consideration not more than 15 per cent higher than the price offered and in Balco for an aggregate consideration not exceeding USD550 million,” it said in a notice to company shareholders.

To a bank of critical size as distribution partner, “We are looking for a bank partner that is part of Anil Ambani-led Reliance Group’s financial services arm Reliance Capital. “We are looking for a bank partner of significant size and in touch with a couple of banks for alliance. The bank would serve as a bancassurance partner and help expand the product distribution network of Reliance Life Insurance, which is part of Anil Ambani-led Reliance Group’s financial services arm Reliance Capital.

Reliance Life President and Executive Director Malay Ghosh said. He, however, did not identify the banks with which Reliance Life is in discussions for a potential deal. The equity stake offered to such a partner would be capped at 5 per cent. Ghosh said that Reliance Life would not offer any upfront payment for the bancassurance alliance.

“If a firm in five years can create value for us, we are open to give small equity, say up to 5 per cent, to it at today’s valuation with guarantee to buy them back at future valuation. This is what we are pursuing while talking to banks for a bancassurance tie-up,” he said. In insurance parlance, the term ‘bancassurance’ is used for distribution of insurance products through the bank branches and currently this model of insurance distribution accounts for 25-30 per cent of premium income for the private insurers in the country. “No doubt, we have a distribution gap and it can be served by one bank of a significant size and reach. If we do not get the bank of that critical size, we can go for more than one bank,” Ghosh said. Last year, Reliance Life Insurance sold 26 per cent stake to Japan-based Nippon Life Insurance Co for around Rs.3,062 crore. Earlier this month, Reliance Life reported a whopping 140 per cent jump in its first quarter net profit to Rs.19 crore in the current financial year.

(Source: The Financial Express)

Just Dial revives public offer plan

Just Dial Ltd, the Mumbai-based directory service provider promoted by V S S Mani, has revived its initial public offering (IPO) plan, a move that will help private equity (PE) investors partly monetise their holdings. The company that received capital markets regulator Securities and Exchange Board of India’s approval for the IPO in April this year had postponed the issue as a depreciating rupee deterred foreign investors from Indian markets. The company, however, raised Rs.327 crore from existing PE investors, Sequoia Capital India and SAP Ventures, in June. This took Just Dial’s total fund raising from PE funds to Rs.580 crore.

“The company does not need fresh fund as it has already raised that, but it needs to bring the IPO to provide investors an opportunity to monetise their investments,” said a person familiar with the development, requesting anonymity. Since the IPO is now intended for the secondary sale of shares of PE investors’ stake and not for the issue of fresh shares by the promoters as approved by Sebi in April, the company has once again filed for regulatory approvals by revising the proposed capital structure.

Sequoia Capital, SAP Partners and Tiger Global Holdings owns 18.5, 19.84 and 20.22 per cent holdings, respectively, in the company. Besides, EGCS Investments has 0.93 per cent stake in Just Dial, while SAP Ventures owns 1.59 per cent stake.

(Source: Business Standard)

Reliance Life eyes banks for stake sale

Leading private insurer Reliance Life has begun talks with a few banks for sale of minority stake of up to 5 per cent and to enter into product distribution alliance. The bank would serve as a bancassurance partner and help expand the product distribution network of Reliance Life Insurance, which is part of Anil Ambani-led Reliance Group’s financial services arm Reliance Capital.

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(Source: The Financial Express)

Infosys Whistleblower loses case

S. court dismisses harassment charges filed by Jack Palmer against the IT firm accusing it of misusing B1 visas. Infosys Ltd’s American employee Jay (Jack) Palmer, whose lawsuit against the IT bellwether was dismissed by a US court on Monday, would continue in the company but would be benched, a top official said.

“Palmer, who is a principal consultant by designation in the US, will continue to be an employee of our American subsidiary but will be on the bench, as our utilisation rate is currently less.” S. D. Shibulal, Infosys chief executive, put an end to the case and reaffirmed the company’s policy of not retaliating against Palmer or any of its people. We have a well-defined whistleblowers policy. Whenever charges are made, we investigate to verify them but will not retaliate,” Shibulal asserted.

Palmer had alleged that he was harassed at work, sidelined and even received death threats for refusing to participate in an alleged Infosys’ scheme to use workers on business visitor, or B-1 visas, for tasks that required an H-1B work visa. Thompson ruled that some of claims brought by Palmer against Infosys were not covered by the state law.

“As evident from the ruling, Palmer did not have a case against us, much less documents to prove that we retaliated against him. The fact that the case was dismissed even before considering for trial proved that Palmer’s attempt to accuse us of wrong-doing or violating state laws by falsifying documents failed,” he noted.

(Source: FPJ)

Just Dial Ltd, the Mumbai-based directory service provider promoted by V S S Mani, has revived its initial public offering (IPO) plan, a move that will help private equity (PE) investors partly monetise their holdings. The company that received capital markets regulator Securities and Exchange Board of India’s approval for the IPO in April this year had postponed the issue as a depreciating rupee deterred foreign investors from Indian markets. The company, however, raised Rs.327 crore from existing PE investors, Sequoia Capital India and SAP Ventures, in June. This took Just Dial’s total fund raising from PE funds to Rs.580 crore.

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(Source: Business Standard)
Transfer pricing norms out, to ease tax woes

Tolerance of 5 per cent variation in actual and arm’s length price maintained, advance pricing agreement norms soon, caution on safe harbour rules

The finance ministry has decided to bring in greater clarity in transfer pricing norms. A senior finance ministry official said as the first step, the government issued a notification on Friday to clear doubts over the possibility of changes in the permissible variations from the market price to the arm’s length price for assessment year 2012-13.

The notification said where the variation between the arm’s length price determined under Income Tax Act provisions and the price at which an international transaction had been undertaken did not exceed five per cent of the latter, the price at which the transaction took place would be taken as the arm’s length price.

The arm’s length price is critical for companies with international operations and subsidiaries trading with each other. There is often an incentive to reduce the overall tax burden by manipulation of inter-company prices.

Five per cent tolerance in arm’s length pricing continued for the current assessment year.

Finance Act 2012 has fixed a 3 per cent upper limit from the next assessment year onwards.

APA norms expected to be notified by the month-end

Govt to tread cautiously on safe harbour rules as very few countries have implemented these norms. The finance ministry’s decision to allow a five per cent variation this year is significant, as the Finance Act 2012 has fixed an upper ceiling of three per cent as the tolerance range for determining the arm’s length price from assessment year 2013-14 onwards.

The official said the continuation of the five per cent tolerance range for 2012-13 would be a big relief for industry. The announcement of advance pricing agreement (APA) norms, introduced in the Budget, was next in line, said another official.

The APA norms were expected to come by the end of the month, which was set to signal the government’s intention to bring in transparent processes, he said. The APA regime had to begin from July 1. But, owing to a delay in the notification of norms, it is yet to start.

Currently, global taxation experts consider India as one of the most difficult transfer pricing destinations, with more than half the transfer-pricing audits facing adjustments resulting in an additional tax demand and litigation.

Income tax officials had gone on an overdrive in the last two financial years to collect as much additional revenue from transfer pricing adjustments as possible and the estimates even touched Rs 80,000 crore in 2011-12 alone, impacting multinational companies doing business in India and Indian companies with a big presence abroad.

(Source: Business Standard)

Export, import cos face black money probe

Trade transactions by a host of export and import firms have come under the scanner of central economic intelligence agencies for alleged money laundering and tax evasion.

Sources said Central Economic Intelligence Bureau and Directorate of Revenue Intelligence officials have found details of suspicious trade transactions by some of the firms, based in major industrial hubs of the country including Mumbai, Delhi, Surat and Ludhiana, which were manipulating imports and export invoices thereby generating black money.

According to preliminary probe based on assessment of past two year trade transactions, a number of ‘fly by night’ exporters and importers (who only export or import goods once and then vanish) have been found in routing of black money and the officials are trying to ascertain their whereabouts, they said.

“We have come to know over 100 such suspected trade dealings in Middle East, the US and the UK among others. Most of these transactions seem to be dubious and the address of the recipients and booking agents here have been found to be incorrect,” a source said.

He said the details of these exports will also be shared with the concerned authorities in those countries.

In addition, economic intelligence agency officials have found certain dubious consignments sent to India, most of which are lying unattended at various air and sea cargo stations, and examining them to know their background.

Last month, the DRI had claimed to have busted over Rs 1,000 crore hawala racket in Punjab involving certain international syndicates and Delhi-based businessmen.

The officials claimed they have exposed the racket while probing a scam by an exporter who fraudulently used inflated bills to misuse a duty drawback scheme run by the Finance Ministry and gained incentives worth Rs 60 cr.

“There has been spurt in activity related to Trade Based Money Laundering (TBML). All field officials have been told to cross check export and import consignments in case of any suspicion,” the official said. TBML is the process of transferring or moving money through trade transactions.

In practice, this can be achieved through misrepresentation of price, quantity or quality of imports or exports.

(Source: FPJ)