Economic growth seen at three-year low

GDG growth is likely to languish around its lowest in three years in the quarter ended June 30, offering no respite for Prime Minister Manmohan Singh as he struggles to escape from a series of political scandals that have paralysed his economic agenda.

Weak demand in the West has hit exports, but the heaviest toll on the economy is from overspending and a lack of reforms at home - a point made by both the Reserve Bank of India and ratings agencies Fitch and Standard & Poor's, who threaten to downsize India's sovereign ratings to junk.

A poll of 38 economists produced a median forecast of 5.3 per cent year-on-year GDP growth for the April-June quarter, unchanged from January-March, which was the slowest growth rate since the same quarter of 2009.

If the forecast is correct it will mean more bad news for the government, which is embroiled in a row with the main opposition Bharatiya Janata Party (BJP) over sweetheart coal deals. The state auditor has questioned the deals, and the BJP has refused to allow the parliament to function until Singh quits.

A raft of bills, including a number of important economic reforms, is now bogged down in the legislature. The furore has deepened the sense of dysfunction in Indian politics that has already stalled bold measures to cut government spending on costly fuel subsidies and help bring down high inflation.

Poor monsoon rains have added to the economic gloom.

"Below 5 per cent growth will be a game changer," said Manish Wadhawan, managing director and head of rates at HSBC in Mumbai.

"For a print below 5 per cent you would need to see a deceleration in manufacturing, agriculture and also services, which would be really massive as that will mean the last bastion of growth has also stalled," he added.

With gridlock in both parliament and the government putting big reforms out of reach for now, finance ministry officials are focused on smaller measures, such as speeding up delayed infrastructure projects, to help boost the economy in the second half of the fiscal year, which began in April.

They still foresee annual economic growth of around 6.5 per cent for 2012/2013. However, for the quarter ending in June, the ministry expects Friday's data to show the economy grew between 5 per cent and 5.5 per cent, two ministry officials told Reuters.

(Source: Reuters)

BT sells 14% in Tech Mahindra

AAR says Indian company violated regulatory norms in IPO

Illionaire Sunil Bharti Mittal-led Bharti Group is in advanced discussions to sell Comviva Technologies, a mobile financial and value-added services (VAS) solution provider, to Tech Mahindra, the Mahindra Group’s IT arm, for around Rs.750 crore.

This will be the second sale of a privately-held company by the group in a short span.

Last week, the group announced the divestment of a training solution firm Centum Learning to Everonn in a cash and share transaction.

"Tech Mahindra has signed the non-disclosure agreement and has already completed the due diligence of Comviva. They have signed an MoU and have also agreed on the valuation," said a person familiar with the matter.

The proposed transaction is in line with the Bharti Group’s objective of focusing on core businesses that can make a deeper impact in India and abroad, said the person quoted earlier. Comviva posted an operating profit of about Rs.550 crore and revenues of Rs.380 crore for the year ended March 2012.

(Source: The Economic Times)

TECH MAHINDRA IN TALKS TO BUY BHARTI ARM

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(Source: The Economic Times)
Concerned over lack of sync between fiscal and monetary policies, a Parliamentary panel on Thursday asked the government to take urgent steps to supplement RBI’s initiatives to contain inflation and trigger sustainable growth.

“There is a visible lack of sync between the fiscal and monetary policy being followed by the government and the RBI... the Committee strongly feel that monetary policy alone cannot bring down inflation or spur growth in the absence of commensurate fiscal measures,” said a Parliamentary panel report on ‘Current Economic Situation And Policy Options’. The report of the Standing Committee on Finance was tabled in the Lok Sabha by its Chairman Yashwant Sinha.

The Committee urged the government to take urgent steps to supplement and compliment initiatives of RBI with fiscal measures to rein in inflation and trigger sustainable growth.

In order to contain inflation, RBI had hiked the repo rate (lending rate) 13 times between March 2010 and October 2011. RBI, the Committee noted, had told its members that fiscal part of the obligation was not being fulfilled by the government. In order to deal with the current gloom and doom scenario”, the committee suggested that government should come out with a “well thought-out revival policy” to ensure effective decision making, time bound clearance of projects, more transparent tax regime and enhanced domestic investment.

“The Committee... urge upon the government to take clear cut measures in this direction and implement them speedily and without fail,” the report said. Noting that investor confidence has been hit by retrospective amendment to tax laws and the new General Anti-Avoidance Rules (GAAR), the Committee said that the government needs to create conducive climate to promote investments.

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To shorten the entire IPO process, Sebi is of the view that a faster allotment of shares to investors and reduce the time - gap between closure of issue and final listing from 12 days to five days, a senior official said. Currently, Sebi regulations require the bidding period to be completed in a minimum of three working days and a maximum of 10, including the extension given pursuant to a revision in price band by the issuer.

However, IPOs are not allowed to extend the bidding period in case there is no revision of a price band. Sebi is of the view that a faster and shorter IPO period would “incite submission of bid applications through e-IPO process.” Sebi amended its rules to allow promoters to use rights and bonus issue of shares for dilution of stake to meet minimum public holding norms, and said it would consider any further relaxation in this matter on case by case basis. Promoters will have to forego their entitlement to shares being issued in such rights and bonus issues, Sebi said in a circular. Apart from the newly introduced methods like IPP (Institutional Placement Programme) and Offer for Sale (OFS), as also traditional routes like Follow-on Public Offer (FPO), these avenues would allow companies to meet the minimum public holding (25% per cent for private sector companies and 10% per cent for PSU entities) norms.

(Source: FPJ)

SHORTEST BIDDING PERIOD, FASTER LISTING ON THE ANVIL

The Securities and Exchange Board of India (Sebi) will soon ask companies seeking to raise funds through Initial Public Offers (IPOs) to complete the bidding process within a maximum five days and get listed in another five days.

To shorten the entire IPO process, Sebi is also working at faster allotment of shares to investors and reduce the time - gap between closure of issue and final listing from 12 days to five days, a senior official said. Currently, Sebi regulations require the bidding period to be completed in a minimum of three working days and a maximum of 10, including the extension given pursuant to a revision in price band by the issuer.

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(Source: FPJ)

Yashwant Sinha, Chairman of the Standing Committee on Finance

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Reserve Bank India Governor D Subbarao has appeared to have joined the debate on the controversial retrospective taxation provisions saying there is need to have a stable policy, taxation and investment regime to attract foreign capital.

“India has to run a stable policy regime and have a stable taxation and investment regime,” he said during his lecture at the Asia Society here. He was responding to a question on what India should be doing to inspire trust and confidence of investors.

“We need to streamline our foreign investment policy and procedures, improve infrastructure, improve our governance,” to make the system friendlier for investors, the Governor said. “Potential foreign investors have to have confidence that India has a stable, predictable, transparent capital sector regime,” he said.

The 2012-13 Budget introduced a controversial retrospective tax provision in the wake of Supreme Court judgement quashing the tax demand on Essar-Vodafone deal. The Finance Bill also had provisions for introduction of General Anti-Avoidance Rules (GAAR) under which investors rather than tax department have to prove that they do not attract tax provisions.

Amid uncertainty over global economy, Foreign Direct Investment (FDI) in India registered a growth of 34 per cent to USD 46.8 billion in 2011-12 against USD 34.8 billion in the previous fiscal. However, portfolio investment or foreign institutional investment (FII) in the country witnessed a decline. During the Current Account Deficit (CAD) stood at 4.2 per cent of GDP last year, which was a quite high. “One of the dilemmas in managing capital account is that we have to run a fairly stable regime. We cannot be fickle-minded in terms of policy. It cannot be that we allow capital today and disallow it tomorrow,” Subbarao said.

Ahead of its monetary policy review on September 17, Subbarao hit back at critics of his hawkish stance. Criticism, he said, is often directed towards the central bank that even though it has raised interest rates and runs a tight monetary policy, inflation is still “high and persistent” and growth has been hurt.

“The RBI’s response to the criticism is that some sacrifice of growth in inevitable, a necessary price we have to pay to bring down inflation.

But that sacrifice of growth is only in the short term,” he said during a lecture on ‘India in a Globalizing World - Some Policy Dilemmas’ last night.

(Source: FPJ)
Top job under fire at Nalco
In latest move, ministry of mines removes B L Bagra

The Union ministry of mines has removed B L Bagra as the acting chairman and managing director (CMD) of public sector National Aluminium Co Ltd (Nalco) and appointed Anshuman Das, director (commercial) in his place.

Bagra, who joined Nalco as director (finance) in 2007, was given additional charge as CMD in February 2011 following the unceremonious exit of A K Srivastava, who was suspended after being detained over allegations of accepting bribe. Since then, Bagra was being given temporary extensions as CMD of this Navratna company. His last three-month extension, which expired on August 27, has not been renewed.

Allegations of impropriety against Bagra relating to lime slurry procurement and a disposal contract are being investigated by the Central Vigilance Commission (CVC) currently. He had also fallen from grace following shelving of a $18,000-crore Indonesian project, one of his pet projects during his tenure as CMD. Except for a couple of brief stints between 2001 and 2012, Nalco has been deprived of a full-time CMD. Besides, no permanent CMD of the company has occupied the post for more than two years since 1991.

"It was unfortunate that CMDs of Nalco were not allowed to complete their tenure between 1995 and 2001, because of a corrupted ministry. In the decade that starts from 2001, the CMDs could not complete their five-year tenure because of bad lucks," said C R Pradhan, a former CMD of Asia’s largest integrated aluminium producer.

Though Bagra’s five-year term as director had ended in February, he had two more years to go for attaining the superannuation age of 60. Sources said the mines ministry did not extend the term as CVC did not clear his name of the alleged irregularities.

Earlier, Nalco’s internal vigilance department had found the tender invited to buy limestone had certain manipulated conditions to favour a particular supplier. The chief vigilance officer (CVO), after his investigations, had discovered that the standards issued by the Bureau of Indian Standards for lime were relaxed in the conditions set for the procurement tender. As a result, the CVO found the lime supplier charged 40 per cent more for lime supplied to Nalco, thereby causing Rs.15 crore loss for the company.

A strong team of senior officials, who was the last full-time CMD of Nalco between October 2002 and February 2011, was detained by Central Bureau of Investigation officials in New Delhi on bribery charges along with his wife and a middle-man.

(Source: Business Standard)

Oil & gas producer ONGC, mining major Coal India, power generator NTPC and power equipment maker BHEL could be among the state-run companies that are expected to constitute the much-awaited ‘disinvestment ETF’.

The Department of Disinvestment (DoD), which has received several suggestions on the concept, is in the initial stages of considering a disinvestment through an ETF. Unlike disinvestment in the PSU sector, which is done on the private exchanges, an ETF is a publicly listed entity that can be bought and sold on the exchange.

ONGC, NTPC to kick-start 'divestment ETF'

Move to help government raise Rs.4,000 crore

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Crisil has revised its Corporate Debt Restructuring (CDR) estimates for the current fiscal year to Rs.2.5 lakh crores, down from Rs.3.25 lakh crores in the earlier estimate.

Crisil ups corporate debt restructuring estimates by 63%

Corporate debt restructuring will soar to Rs.3.25 lakh crore this fiscal, about 13 times the annual budget for building roads, as companies come under stress due to the worsening economic slowdown, threatening to weaken the banking system, rating company Crisil has said. Crisil has raised the CDR estimate for this fiscal by 63 per cent in just about five months from its previous estimate of Rs.2 lakh crore, reflecting the fast deterioration in the financial health of companies.

The biggest drag on lenders will be the state utilities, construction and infrastructure builders as they find it difficult to access unsecured loans since banks have turned wary of lending to them due to policy, said Pawan Agrawal, senior director, Crisil. "This is exacerbating refinancing and liquidity pressure. Inability to raise adequate equity is straining the balance sheets and financial flexibility of developers in infrastructure and construction sectors, resulting in an increased likelihood of restructuring," Agrawal said. Distressed loans is the hottest topic being discussed at the banking circles as there's mounting pressure from more companies seeking lower interest rates and longer repayment tenure. Restructuring of loans that was forecast to be Rs.2 lakh crores by end March is being revised since the overall growth rate is collapsing to just about 5 per cent from more than 9 per cent a few years ago. High interest rate policy to tame inflation is also playing its part in corporate distress.

Loans of Rs.1.6 lakh crores have already been restructured in 2011-12. During the year so far the so called Corporate Debt Restructuring cell has restructured debt of large companies like construction player HCC and Hotel LeelaVentures. There are a host of middle level companies such as tiles maker Nitco Ltd, Kamath Hotels, Sev- en Hills Hospitals, Ind-Swift Laboratories, C&C Constructions Limited, and Totem In- frastructure Ltd. whose debts have been restructured. Restructuring of state govern- ments run businesses such as electric- ity distribution alone could reach Rs.1.5 lakh crores since most of these are selling power at throwaway prices due to popular tendencies of government. While some of the states have raised power tariff, many are yet unwilling that may lead to a collapse in some states.

(Source: Economic Times)
Cos may have to elaborate on goodwill impairment

The government is considering a proposal that will mean companies having to elaborate on any impairment of “goodwill” in the books of subsidiaries, according to two government officials with knowledge of the matter.

The corporate affairs ministry decided to refer the issue to the Institute of Chartered Accountants of India (ICAI) at a 23 July meeting, said one of the officials on condition of anonymity. Simply put, if a company’s global consolidated balance sheet shows a loss due to goodwill impairment in a subsidiary, the reasons will have to be included in the latter’s accounts. This will relate to both foreign companies operating in India as well as Indian ones that have subsidiaries abroad.

“The government wants companies to disclose any change in the cash flows, on account of which they are claiming goodwill impairment, to be reflected on the books of the local subsidiary,” said one of the officials.

Goodwill is an accounting concept that measures the premium that an entity enjoys over and above the value of its assets. The concept is often used when a company acquires another and needs to value the latter. Such goodwill is said to have been “impaired” if, over time, it has become or is considered to be of a lower value than at the time of acquisition. In accounting terms, when the “carrying value” of such goodwill becomes more than its “fair value”, it is said to have been impaired.

Typically, factors ranging from negative publicity to branding issues, which can have a bearing on the future expected cash flows of a firm or any of its subsidiaries, can impair its goodwill. Issues related to goodwill impairment are governed by Accounting Standard 28, which is a part of the Indian Accounting Standards that have been notified by the corporate affairs ministry.

Both officials cited above said that the government’s move would require making changes to the accounting standards. They said the move was prompted by the recent case involving Reebok India, a subsidiary of global sports wear maker Adidas AG. Adidas accused two former Reebok India executives of a Rs.870 crore fraud.

Following this, the government asked the Serious Fraud Investigation Office (SFIO) to investigate the matter and issue a report in four months.

Adidas bought Reebok International Ltd in August 2005 for $3.8 billion, but the merger of their Indian operations was completed only in 2011. On 3 July, Business Standard, citing an unnamed government official, reported that Adidas had disclosed to SFIO that it had lost Rs.170 crore on account of goodwill impairment after it bought Reebok.

“When we asked the local arm of the company (Reebok India) about the loss due to goodwill impairment, they said they had no idea about it. We then went back to the parent company Adidas, who said they could not share any more details with us,” said one of the officials cited above. “Reebok India is extending full cooperation to the authorities in their investigation. Please understand that we cannot share any further details,” a company spokesperson said in an emailed response to Mint’s query on 17 August.

Accounting experts are divided over the move. Amarjit Chopra, former ICAI president, said that while he agreed with desirability of the government’s move, he was not in agreement with the procedure that was being followed. “I am all for bringing about a change where companies and bankers should show a change in cash flows, even if it is not in conformity with IFRS (International Financial Reporting Standards). Such a change is required,” he said. “But I have a problem with the fact that a technical committee of the government, rather than NACAS (National Advisory Committee on Accounting Standards) or the ASB (Accounting Standards Board) is doing it,” he added.

(Source: Livemint)

CBDT panel to screen tricky tax cases

In view of “contentious and controversial” legal cases like that of Vodafone faced by Income Tax department, the Central Board of Direct Taxes (CBDT) has created a committee of top Finance Ministry and I-T officials to understand the intricacies involved and present a sound case in court.

The move is aimed at addressing the contentious legal issues and reducing litigation by adopting a consistent approach on such cases.

The CBDT has decided to create a Central Technical Committee (CTC) headed by a Joint Secretary level official, who will be assisted by other senior I-T officials in the Finance Ministry. A Regional Technical Committee (RTC), comprising the local tax officials, will act as the sub-office of the CTC.

Sources in the Finance Ministry said the CTC will take up cases which have a large revenue implication or have strategic legal ramifications, and it will collect and analyse divergent views from all the units of the department like investigation, assessment and pricing before a legal reply is filed in the High Courts or the Supreme Court. “Cases like Vodafone are surely one of the many reasons that such a committee has been formed. However, that is not the only case.”

The I-T department has a lot of cases which have complicated and multi-layered legal interpretations,” a senior official said. “It has been observed that a large part of litigation in the direct taxes matters involves interpretation of legal provisions. Lack of desired clarity on contentious legal issues amongst the officers of the department sometimes leads to inconsistent approach on the same issue giving rise to further litigation.

“With a view to provide clarity on contentious legal issues, promote consistency of approach on a given issue and reduce litigation, it has been decided to set up an institutional mechanism to formulate departmental view,” a note for the creation of the committee said.

Following an amendment to the Income-Tax Act with retrospective effect in the last Budget, Vodafone may be asked to pay Rs.20,000 crore tax, interest and penalty for its 2007 acquisition despite winning the tax case in the Supreme Court.

The CBDT note said that the regional units will prepare a note before referring any “controversial” case to the CTC.

(Source: FPJ)