India Inc's wage costs fall to 5-year low

Indian companies that are battling slowing demand and an erosion in profitability, with faltering economic growth, have managed to contain wage costs in the year to March 2012 to a five-year low, as they recruited fewer staff and cut jobs.

An analysis by ETIG of about 380 listed companies, across various sectors, shows that employee cost relative to sales dropped to 8 per cent in 2011-12 from 8.9 per cent a year ago. The figure is the lowest since 2007-08's 8.3 per cent when India's GDP grew at well over 8 per cent. The study shows that the annual growth in employee costs in 2011-12 was about 13 per cent compared with 22 per cent for 2010-11 as wage hikes remained muted due to the hostile economic environment.

Employee costs as a percentage to sales for auto ancillary companies, for instance, declined to 6.6 per cent in 2011-12 from 6.9 per cent in 2010-11. The figure for car and commercial vehicle manufacturers is 5.1 per cent in 2011-12 compared with 5.3 per cent a year ago. The fact that the automobile companies have been increasing the level of automation has also helped. Other industries such as cement, chemicals, cigarettes, construction, telecom, sugar, fertilisers, shipping, electric equipment and engineering also recorded a decline in their wage cost for 2011-12 compared with a year ago.

For many sectors such as automobiles and the related ancillary industry, telecom, engineering and capital goods, a slower growth in revenues led to a decline in employee cost relative to sales. The other reason being muted growth in hiring. The analysis across various sectors shows that the head count for the auto ancillary industry, for instance, grew by just 6.2 per cent in 2011-12 against the growth of over 15 per cent in 2010-11. Similarly, for telecom, the growth in the number of employees for 2011-12 was only 4 per cent against a growth of over 10 per cent in 2010-11. This is in fact the lowest growth in the number of employees registered by telecom companies covered in this study since 2008-09.

For the engineering and capital goods sectors, the hiring trend, so far, does not reflect a decline considering that many companies in these sectors have long gestation projects on hand, which need to be executed on time. Larsen and Toubro, for instance, registered a healthy growth of over 16 per cent in its employee count in 2011-12. “We have been adding some people as our order book is growing,” said R Shankar Raman, CFO, L&T. However, said that this trend may not hold good for other companies in the industry.

(Source: The Economic Times)
SEBI RELAXES KC NORMS FOR FIIs

The Securities and Exchange Board of India (Sebi) may soon ask companies and merchant bankers to limit any business transactions amongst themselves to a bare minimum and to provide investors with a detailed analysis of how they displace the IPO price range. The proposed steps are aimed at safeguarding investors' interest and ring-fencing the Initial Public Offer (IPO) market from possible over-pricing of public offers through a nexus between the company promoters and merchant bankers, a senior official said.

The regulator has already made it mandatory for merchant bankers to provide a track-record of the offers managed by them, while it has also announced steps like stricter eligibility criteria for tapping the capital markets through IPOs. Sebi is considering further IPO reforms as part of its efforts to revive this segment as a preferred investment route for the retail investors, which used to be the case till a few years ago, but the situation has changed after a dismal post-IPO performance of many companies in recent years, the regulatory official said.

While investigating certain cases of IPO-related irregularities, Sebi came across instances of some promoters and merchant bankers together manipulating the public offers, as well as the post-listing share trades.

The companies aspiring to come out with IPOs would also need to make a full disclosure of all their related party transactions. This follows instances of related party transactions’ helping boost the profits of the companies, as profitability is one of the key criteria for the entities to be eligible for IPOs.

SEBI MAY ASK FIRMS TO EXPLAIN IPO PRICE BAND

NSE ISSUES SME PLATFORM GUIDELINES

The National Stock Exchange issued detailed guidelines for its new trading platform for shares of small and medium enterprises (SMEs), where the first Initial Public Offer by a company would begin on September 4. As per a circular issued by NSE, all members eligible for its main capital market segment would be eligible to trade on SME platform, named ‘Emerge’, and no separate membership would be required for trading on the new platform.

The market timings for its SME platform would be from 9:15 AM to 3.30 PM in line with the normal market hours. The platform would also halt as applicable to the normal market segment.

The proposed steps are as per its earlier guidelines, primary dealers were advised to adhere to a credit exposure limit of 25% of their net owned funds to a single borrower and 40% of their net owned funds to group borrowers. It said primary dealers should adhere to the prescribed credit risk exposures limit in case of non-government securities investment including investments in mutual funds, commercial papers, certificate of deposits.

RBI REMOVES CREDIT EXPOSURE LIMIT IN G-SEC

As per its earlier guidelines, primary dealers were advised to adhere to a credit exposure limit of 25% of their net owned funds to a single borrower and 40% of their net owned funds to group borrowers. It said primary dealers should adhere to the prescribed credit risk exposures limit in case of non-government securities investment including investments in mutual funds, commercial papers, certificate of deposits.

FinMin to pitch rating cos on economy

To showcase strength as domestic economy, commitment to fiscal rectitude in a bid to deter sovereign downgrade
ICICI to repatriate part of capital from its UK arm

Bank of the view that UK arm would have more than adequate capital post move

ICICI Bank, the largest private sector lender in the country, plans to repatriate a large part of its capital from its UK arm as its business growth there has slowed significantly due to the economic turmoil in the euro zone and a stringent regulatory environment. The bank has already initiated a similar move in Canada.

The bank has shed its investment portfolio in the UK and feels that despite repatriation, the subsidiary will have more than adequate capital to meet its business needs as the capital adequacy ratio is at 33.1 per cent. The UK subsidiary saw a further decline in its balance sheet in the first three months of this financial year. Its total assets were $3.86 billion at the end of June 2012 compared to $4.08 billion a quarter ago.

"In the past, the bank was growing its UK business at 70 per cent per annum. The capital was allocated based on this growth rate. Given the regulatory environment, ICICI Bank does not see too much growth possible there. Even if there is a nominal growth, it doesn’t need that much of capital," said a senior banking industry executive.

The private lender had earlier started discussions with the Canadian regulator for permission to send home a part of the capital of ICICI Bank Canada for a similar reason.

"We have started a broad dialogue with both the regulators (in the UK and Canada) to say we would like some of our capital to come back," an ICICI Bank executive said.

The bank’s Canadian subsidiary closed the April-June quarter with a capital adequacy ratio of 31.8 per cent.

Source: Business Standard

NO GAIN, MORE PAIN

Stocks suffer after a Fitch report on Indian banks’ asset quality concerns

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<th>Bank</th>
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*Change over previous close  Data compiled by BS Research Bureau

Tech M buys Hutch's BPO arm for $87.1 mn

Hutch commits to procure services worth $845 million in five years

Vineet Nayar-led IT services provider Tech Mahindra Ltd has acquired 100 per cent stake in Hutchison Global Services Pvt Ltd (HGS) for $87.1 million, in an all-cash transaction, the company informed the stock exchanges.

"The acquisition will provide significant enhancement of Tech Mahindra’s expertise in the customer management space and will thus be a key component of its strategic plans going forward. In addition, the acquisition will enable Tech Mahindra to leverage the acquired capabilities and scale for expanding the scope of its existing services to other parts of the Hutchison group, and also to other customers and verticals," the company release said. Hutchison Global Services, with an associate base of over 11,500 employees, provides customer lifecycle operations to clients in the UK. It operates out of Mumbai and Pune, and is among the largest captives in the telecom domain.

As part of the deal, clients of HGS have committed to procure services worth $ 845 million from the firm over a five-year period as it will be their exclusive provider of certain agreed services in India.

"This acquisition is in line with our growth plans and is a logical next step in extending our our relationship with Hutchison," said Vineet Nayar, executive vice-chairman of Tech Mahindra. "Hutchison’s focused service portfolio, combined with our domain knowledge, geographic spread and execution excellence will help us become the undisputed leaders in this space and extend these services to other verticals and markets," Tech Mahindra MD CP Gurnani stated in the release.

Kotak Investment Banking acted as the financial advisor for Tech Mahindra while Hutchison was advised by Goldman Sachs. Ernst & Young and A2B Partners acted as tax and legal advisors, respectively, for Tech Mahindra while Khaitan & Co. acted as the legal advisor for Hutchison.

(Source: FPJ)

ANIL AMBANI GROUP RALLIES ON STAKE SALE TALKS

Share price of companies in the Anil Ambani-led Reliance Group saw a significant upswing on the back of a slew of announcements at their back-to-back shareholders’ meetings that ranged from a special dividend to strategic sale.

At its AGM, Ambani said Reliance Communications will consider selling a stake in its telecom towers arm as part of a definite medium-term plan to reduce debt that has topped nearly $ 6.5 billion and unlock value for shareholders.

In this case, the chairman had said the board will consider a special dividend in September 10 to mark 25 years in the business.

He also said the group will consider an initial public offering for its life insurance arm at an appropriate time.

Nippon Life has also bought 26 per cent stake in Reliance Capital Asset Management for Rs 1,450 crore in the largest investment in the Indian AMC sector till date.

The company will also look at a listing in Singapore sometime next year its undersea cables arm hoping to use the money raised to bring down the debt levels significantly, Ambani told a shareholders’ meeting.

Power tariffs in India will have to go up to reflect the cost it takes to produce electricity and the health of producing companies, Reliance Power chairman Ambani said.

He further announced Reliance Power’s strategic partnerships this year with global leaders like Germany’s RWE and China Datang for developing coal mines and power, and with Shell for a floating LNG terminal at Kakinada in Andhra Pradesh.

“Our coal mines at Sasan, the largest coal mines in India, have started production in a record time. This has been the fastest allocation to production for any greenfield coal mine in India,” he said.

However, Ambani ruled out any listing plan for another subsidiary Reliance Infra.
Kaushik Basu expects 9% growth over near term

Kaushik Basu, who was till recently, the Chief Economic Advisor (CEA) in the Finance Ministry, has expressed the hope that India would achieve 9 per cent growth rate. Basu, in an interview to The Wall Street Journal, ranked India's economic performance in the past three years as 'B-plus' on a scale of A to Z.

Former Cornell University professor, Basu had left the government after completing his term as Chief Economic Advisor (CEA) in the Finance Ministry in August 2012. He was yesterday appointed as Chief Economic Adviser last month.

"I never sought an advisory job (a Chief Economic Advisor) and even hesitated when I was first asked", he said. However, he added, "but it is a kind of experience which no amount of reading can even remotely provide. That inside view is very exciting. And, as for doing it again, I suppose the answer is yes".

Basu was replaced by Raghuram G. Rajan, former chief economist of the International Monetary Fund (IMF), who took over as CEA last month. On his advice to Rajan, Basu said, "don't waste your energy on the small issues and matters; in fact, be prepared to lose. But dig in your heels quietly but firmly on a few matters which are important".

(Source: The Economic Times)

Plan in place for struggling Infosys

Infosys Ltd, the company that symbolised India's rise as an outsourcing powerhouse but has struggled this year, will have to wait longer than expected for returns from a remodelled strategy.

The $7 billion company based in Bangalore, India's Silicon Valley, has missed sales targets, lost market share, put off an annual pay raise and seen its stock battered this year.

"The realisation of the benefits will be delayed short-term," said S.D. Shibulal, the company's chief executive officer, referring to the "Infosys 3.0" strategy that the company says will better position it for the future.

"It was a rare acknowledgement for a company famous for hitting or beating its targets.

Under the strategy, Infosys will focus more on higher-value software and consulting that can be applied across clients and less on labour-intensive plain vanilla outsourcing services.

The problem is Infosys is shifting gears at a time when its corporate clients in the United States and Europe, including its core financial services base, are tightening their belts, dealing with fewer vendors, and taking longer to make decisions.

Industry-watchers say Infosys' position as a premium player, which allowed it to charge more and earn fatter margins, is a liability in this market, to the benefit of rivals like Tata Consultancy Services and HCL Technologies.

"It is a challenging environment," Shibulal said in an interview in the tree-lined 80-acre campus on the outskirts of Bangalore that serves as Infosys headquarters.

Shibulal is one of the seven engineers who launched the company in 1981 by pooling together $250. He is the fourth person from the group to become CEO, but will be the last -- the other three have quit.

The company's troubles have spurred criticism of everything from its method of choosing CEOs to its pricing strategy to what is seen as an insular and risk-averse culture.

It has also prompted worry that the recent troubles may affect the company's ability to attract and retain talent.

Investors have reacted harshly, pushing Infosys stock down more than 12 percent this year, making it the fourth-worst performer among 71 stocks around the world in the large and mid-cap IT services sector.

"It should be the right plan, but the issue is implementation and results," said Walter Rossini, a Milan-based fund manager with Gestielle India, who owns Infosys in his $300 million fund alongside TCS and Tech Mahindra.

(Source: Reuters)