EMPOWER

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ITC makes a healthy choice

Ventures into dairy products as anti-smoking regulations squeeze margins

India's biggest cigarette maker is going on a health kick. ITC Ltd sells 80 per cent of the cigarettes in India, where 275 million people use tobacco products.

But as India follows the rest of the world in adopting anti-smoking regulations, the company's core tobacco business is getting squeezed and it is venturing into dairy products, drinks and perhaps even healthy breakfast foods to try to expand its money-losing consumer products business.

"Indians are turning health-conscious in their food choices, so health and nutrition will be a very strong focus area for us in the coming years," Chitranjan Dar, chief executive of ITC Foods, told Reuters in a phone interview.

ITC, India's fifth most valuable company with a market capitalisation of $38 billion, already makes cookies, crackers and potato chips, so expanding into dairy and breakfast foods is not that big of a stretch.

But healthy food marks a sharp turn for a company best known for cigarettes. Although ITC got into the food business a decade ago, cigarettes account for half the company's revenue and even its initials are a throwback to its century-old roots when it was known as Imperial Tobacco. The company is 30.8 per cent owned by British American Tobacco.

Building market share in food and consumer products may be difficult. With the exception of packaged flour, where ITC holds a leading position, the company has not won more than 15 per cent of the market for any product category in which it competes.

It has spent 45 billion rupees building up its food and consumer product segments over the past 10 years, according to analysts.

"No other consumer company has invested such sums of money without creating a relevant share in any category," said Nikhil Vora, managing director at Mumbai-based IDFC Securities.

Vora's firm downgraded the stock to underperform from outperform after Australia barred the use of logos on cigarette packs on August 15, sparking speculation that India's regulators would follow.

Investors initially knocked $1.3 billion from ITC's market value after Australia's move, although the stock has since recovered, in part because most smokers in India buy cigarettes in single sticks, not packs.

An investor favourite for its defensive characteristics, ITC shares have risen 32 per cent this year, outpacing the 13 per cent rise in the index .BSESN.

ITC makes Sunfeast biscuits, Bingo snacks and the Fiama Di Wills range of soaps and shampoos, competing with the likes of Hindustan Unilever Ltd, Procter & Gamble Co, Godrej Consumer Products Ltd, and Dabur India Ltd in a price-sensitive market worth $13 billion and growing at 15 to 20 per cent a year.

Its consumer goods sales rose 24 per cent to 55.3 billion rupees in the year to March, accounting for 22 per cent of total ITC revenue, although the business was a drag on overall profit, losing 1.96 billion rupees before interest and tax.

It aims to triple revenue from consumer goods over the next 5 to 7 years.

"What we have achieved is not bad for a business that is a decade old in this space," ITC's Dar said, adding that parts of its consumer goods business were "profit positive."

(Source: Reuters)

THINK-TANKS TO SUBMIT BLACK MONEY REPORT BY DEC

The three leading think-tanks-NCAER, NIFM and NIPFP-conducting a joint study on the quantum of black money, are likely to submit the report to government by December 2012, Parliament was informed.

"The study is likely to be completed by December 2012," Minister of State for Finance S S Palanimanickam said in a written reply to the Rajya Sabha.

In March last year, the income tax department had entered into MoU with National Council for Applied Economic Research (NCEAR), National Institute of Public Finance and Policy (NIPFP) and National Institute of Financial Management (NIFM) for estimating quantum of unaccounted income generated inside and outside the country.

The three institutes were originally scheduled to complete their study within 18 months and submit report by September 2012, suggesting administrative and legal measures to prevent generation of black money.

The think-tanks would also identify important sectors of the economy in which unaccounted money is generated and examine its causes.

The first study on unaccounted money was conducted by NIPFP way back in 1985.

(Source: The Economic Times)

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.

"I've got more money this week. They've given me my deductions and kept my wages."

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. Raman, however, said that this trend may not hold good for other companies in the industry.

(Source: The Economic Times)

FinMin to pitch rating cos on economy

To showcase strength as domestic economy, commitment to fiscal rectitude in a bid to deter sovereign downgrade

The finance ministry will pitch India's strength as a largely domestic economy, renew its commitment to fiscal rectitude and showcase recent measures to lift sentiment to try and convince global rating firms not to downgrade the country's sovereign rating.

Finance ministry officials, who expect rating agencies to come calling soon as part of their customary review of the economy, are readying a detailed fact-file of achievements to present to these firms, one of which - Standard & Poor's - has already threatened a downgrade.

"Rating agencies usually sound us out at this point in the year," a ministry official said, adding that a plan to engage with them was taking shape under Finance Minister P Chidambaram.

The plan will include a list of India's inherent economic strengths, measures being taken to revive the economy and those in the pipeline, said the official who did not wish to be named.

A rating cut, besides hitting sentiment vis-à-vis India, could affect investment flows into the country and push up the borrowing costs for Indian companies raising debt overseas.

Chidambaram, who has the onerous task of putting the economy back on rails after a steep fall in growth rates, has already listed improving the investment climate, containing inflation and getting back to fiscal consolidation with urgency as his priority areas since taking charge as finance minister last month.

The latest encounter with the rating firms, if it happens now, will take place against a backdrop of large-scale cuts in India's growth estimates by independent analysts, some of them to around 5 per cent, a level not seen in nearly a decade.

The political scene is in turmoil, key economic indicators are depressed, the mood in the markets cautious, and commentary about the economy largely despondent.

Some analysts have already warned that a credit rating cut

Finance Minister
P Chidambaram

is imminent, unless the government takes drastic remedial steps.

S&P had in April cut its outlook on India's sovereign rating to negative, citing poor fundamentals, and held out a threat of downgrading the country to junk status from investment grade rating of BBB- in its next review. Its peer Fitch Ratings had followed up with a similar cut in June.

Asked whether a downgrade was imminent, an S&P spokesman said: "We published our views on India's sovereign rating in late April 2012 followed by additional reports in June. As with all of Standard & Poor's ratings, we will update our views when we see the need for it."

Besides showcasing the economy's inherent strengths and explaining the present problems as a blip, the ministry will point out the steps being taken to stimulate investments and improve sentiment, another government official said.

The official said the government would also highlight its willingness to listen to suggestions by experts - the Parthasarathi Shome panel and Kelkar committee - on vital course corrections in policies as proof of its commitment to reform and attract investments.

(Source: The Times of India)

SEBI MAY ASK FIRMS TO EXPLAIN IPO PRICE BAND

The Securities and Exchange Board of India (Sebi) may soon ask companies and merchant bankers to limit any business transactions amongst them to bare minimum and to provide investors with a detailed analysis of how they discover 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.

(Source: FPJ)

SEBI RELAXES KC NORMS FOR FIIS

The Securities and Exchange Board of India (Sebi) relaxed the Know our Clients (KC) norms for various overseas entities including foreign institutional investors, and has done away with in-person verification requirements for non-individual clients.

The market regulator has given the clarifications on KC norms for FIIs, sub-accounts and Qualified Foreign Investors (QFIs).

In a circular, Sebi said that foreign entities such as Sovereign Wealth Fund and overseas government agencies would not be required to provide residential and photograph, among others, to meet KC norms. Instead, global or local custodians of such entities can furnish a resolution from the concerned party's board of directors and power attorney to carry out transaction.

This would be applicable for Sovereign Wealth Fund, foreign governmental agency, international or multilateral organisation and central or state government pension fund, among others. They would be part of KC Registration Agency.

(Source: FPJ)

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. Thejo Engineering will be the first company to tap NSE's SME platform.

The NSE said its SME platform would have a hybrid trading system, which comprises of continuous order mechanism (Normal Market) as well as a Call Auction mechanism. The call auction session would comprise of two phases -- Order Collection period and Order matching period.

The shares of SME companies listed on it would be available either in call auction or continuous session at any point of time, NSE said. In the event of an index-based market-wide circuit break, trading in SME platform will also halt as applicable to the normal market in conformity with the Sebi regulations.

As per the market rules, trading gets halted for certain specific periods of time or for the entire day in the wake of a rise or fall of 10 per cent, 15 per cent or 20 per cent in the key benchmark indices Sensex or Nifty.

(Source: FPJ)

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.

(Source: FPJ)

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 34.1 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.

NO GAIN, MORE PAIN

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

Bank	BSE price in Rs	Sep 5,'12% chg*
Axis Bank	930.35	-4.90
ICICI Bank	879.55	-3.56
Oriental Bank of Comm.	218.35	-3.08
Indian Bank	155.85	-2.68
Bank of Baroda	612.65	-2.68
SBI	1,831.70	-2.17

*Change over previous close   Data compiled by BS Research Bureau

(Source: Business Standard)

Lenders seek 'inside' details of KF Air

Banks on Wednesday sought " inside" details of debt- ridden Kingfisher and asked its Chairman Vijay Mallya to make a presentation of the revival plan at the next meeting of SBI-led lenders' consortium " We have requested a more detailed presentation for us to figure out how their business is moving forward, what is their securities structure and what are the kind of things happening inside the system," a banker told reporters after the meeting of lenders to Kingfisher Airlines.

"Once we understand clearly, which we couldn't today, we could probably take a call," he said, adding, "We have also requested Chairman Vijay Mallya himself to come and make a presentation at the next meeting likely this month itself". The financially crippled airline has 17 lenders, led by the State Bank, which has an exposure of Rs.1,500 crore to the airline. Kingfisher has not been servicing its nearly Rs.7,000 crore long-term bank loans since January. It has also not been paying salaries to its employees regularly, or statutory taxes. The banker further said," We want to know what are the things they want to do to repay our loans, in the short, medium and long term. There should be clarity." Apart from this huge debt, the airline also has an accumulated loss of over Rs.8,000 crore. Since its launch in May 2005, the airline has not made profit.

(Source: FPJ)

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

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

Vineet Nayyar-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 relationship with Hutchison," said Vineet Nayyar, 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 AZB 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.

ADAG Chairman Anil Ambani

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 an 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 Infratel.

(Source: FPJ)

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

Kaushik Basu

would achieve 9 per cent growth rate in "not too distant future".

"I do believe such a time will come in the not too distant future. The Eurozone economies will face huge turbulence certainly up to 2014. So the real big growth cannot come till then. But hopefully soon after that," he said, when asked how soon India would return to 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 the Chief Economist of the World Bank and is schedule to take over from October 1.

India has been growing nine per cent plus before the global financial meltdown of 2008. The growth rate in 2011-12 slipped to nine-year low of 6.5 per cent.

Recalling his appointment as CEA, Basu said he was hesitant to take over the job of an advisor, but would not mind taking up similar assignments again.

"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 rise 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)

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