From The Chairman

Dear Readers,

Knowledge aids Wisdom

We are pleased to present the 17th issue of Empower.

The last two months have witnessed the completion of various projects, including renovation of the WIRC office on the first floor of Jolly Maker Chambers, Mumbai. We had also successfully organised an annual regional students’ conference at Nagpur and by the time you would receive this issue, we would have organised the first State Conference of MP at Bhopal.

We have been receiving positive feedback regarding Empower for which I would like to thank all the members who encouraged us by writing to us. Trust you find this issue a useful read. Please share your feedback at cschairman.wirc@gmail.com or chairman.wirc@icsi.edu

Regards,
Mahavir Lunawat
14th September, 2012

Flat IIP growth, downgrade fears beckon policy action

Markets barely react to data, underscoring low hopes that the Reserve Bank of India will act when it reviews policy

Industrial production barely grew in July, hurt by weak investment that has become the beleaguered government’s primary concern as it scrambles to revive a flagging economy with little help likely from the RBI in the short term.

The data, released by the Central Statistics Office, showed output at factories, mines, and utilities grew an annual 0.1 per cent. Capital goods output, seen as a key indicator of future investment, slumped by 5 per cent. The pace of industrial expansion was slower than a forecast of 0.3 per cent growth in a Reuters poll. In June, output contracted 1.8 per cent.

The data was more evidence that the problems afflicting Asia’s third-largest economy are far from over. GDP has grown 5.5 per cent or less in the last two quarters, a far cry from the 7 to 8 per cent growth seen in the preceding period. With growth faltering, Indian firms are pleading with the central bank to lower lending rates, which are among the highest in major economies.

But the central bank is loath to cut rates unless inflation comes down and the fiscal deficit is tackled.

"The data highlights structural weaknesses of the economy, with poor domestic demand amid political gridlock and contracting exports," said Dariusz Kowalczyk, senior strategist at Credit Agricole CIB in Hong Kong. "It may lead to renewed expectations of a rate cut this month, although we believe that the odds still favour the RBI to stay put."

Financial markets barely reacted to the data, underscoring low hopes that the RBI will act when it reviews policy. The bank’s hawkish stance contrasts with many other G20 central banks that are easing monetary conditions to support growth. With no help from the central bank in sight, the government is asking cash-rich state-run firms to invest in the economy. Finance Minister P Chidambaram held a meeting with heads of those firms to identify measures that will help boost their capital spending. Capital goods output has grown only once in the past 11 months. "New projects are not getting finalised very quickly. Last year as well as this year, there are no new projects. The quantity of projects is coming down," Bharat Heavy Electricals Ltd Chairman BP Rao said after meeting the finance minister.

(Source: Reuters)

Indian IT cos among 10 worst paymasters globally

Although pay in Asia and Eastern Europe tends to be much lower, it would be difficult for firms to outsource the IT manager role to these regions. Instead, we may see a migration of IT skills from lower paying nations to places in Western Europe and North America, MyHiringClub.com CEO Rajesh Kumar said. IT managers in India, however, fare better than their counterparts in China, where the average annual compensation package is lower at USD 38,624.

(Source: FPJ)

Workers assemble Royal Enfield motorcycles inside its factory in Chennai

On the other hand, Switzerland stands at the top spot among the top-paying nations in the IT sector. The study took into account the average salaries for people with four and more years of experience for the Indian and other companies. The report compared the total annual cash compensation and total remuneration for IT staff in more than 6,000 companies across 40 different countries and found that employers in western Europe are the best paymasters.

"Experienced IT managers are highly sought after in India and there is strong competition to attract and retain skilled employees. MNCs rely heavily on Indian IT managers so they need to ensure their pay is competitive.

Indian companies are among the world’s 10-lowest paying employers in the IT space, with their mid-to-senior level staff getting an average salary of USD 38,767 (about Rs.21.5 lakh) per annum-less than one-fourth of the IT pay package at globally top paying Swiss companies. Salaries in the IT sector of Switzerland are the highest in the world at an average of USD 168,211 (about Rs.93 lakh) per annum, according to a study titled Worldwide IT Salary 2012. The study, conducted by global recruitment service provider MyHiringClub.com, has ranked India at the eighth spot among the 10 worst IT paymasters globally.

(Source: Reuters)
The Securities Appellate Tribunal, or SAT, has upheld an order by market regulator Sebi that directed US-based International Paper to pay non-compete fees to all minority shareholders of Andhra Parchment Paper (AP Paper), which it acquired last year. NYSE-listed International Paper and Singapore-based IP Holdings had made an open offer to shareholders of AP Paper after buying the promoter’s stake of 53.5 percent, but had paid non-compete fees selectively to the founders—the Bangur family.

Sebi’s order contended that some promoter entities were not eligible for the non-compete fee as they lacked expertise in the area of operations of AP Paper and were thus not capable of offering any competition to it. Challenging this directive, International Paper filed an appeal last year. The judgment, which was pronounced on Wednesday, will benefit a large number of retail investors who tendered their shares in the open offer as they will get around Rs.131 per share.

However, shareholders who purchased the shares post the open offer closure will not be eligible to get the non-compete fees. For instance, if a shareholder offered 100 shares during the open offer and 50 were accepted, non-compete fees would apply only to the shares that were accepted.

In 2011, the US-based company bought the LN Bangur Group’s 53.5 percent stake in AP Paper and came out with an open offer. The deal, one of the largest in the paper industry, is worth around Rs.2,000 crore, including the open offer price. The acquirer also agreed to pay 25 percent, or around $62 million ($Rs.280 crore) as non-compete fee to the promoters of the company. Sebi objected to this on the ground that certain categories of promoters were ineligible to receive the non-compete fee for want of expertise. Some investors had also filed complaints with Sebi as many as four minority shareholders even filed applications with SAT to intervene in the matter.

(Source: The Economic Times)

RBI EXPECTS INVESTMENTS TO SLOW DOWN FURTHER

Investments in projects will slowdown further in 2012-13, a study by the Reserve Bank of India noted. Demand conditions continue to be a major factor driving investment intentions and the central banks has projected the economy to grow by 6.3 percent. A high inflation which is expected to be around 9 per cent for the sector may inhibit significant reduction in interest costs faced by the companies. “Thus, the investment outlook for 2012-13 remains subdued,” said the study.

Expected capital expenditure in 2012-13 is estimated at Rs.2.07 lakh crore. Of this, minimum capital expenditure of Rs.1.4 lakh crore should be from new investment intentions in 2012-13.

Going by the assessment on date, capital expenditure of the above order does not look to be feasible. “Thus, the envisaged investment by the private corporate sector in 2012-13 is expected to be significantly lower than that in the previous year,” RBI said.

A state-wise analysis of investments indicates that Maharashtra, Karnataka, Uttar Pradesh, Rajasthan and Bihar were preferred destinations for investments in 2011-12, according to the study.

On the other hand, Andhra Pradesh, Chhattisgarh (which attracted the highest investment last year), and Odisha witnessed reduction in their share in the total project cost in 2011-12.

Maharashtra attracted Rs.39,000 crore worth investments from 91 projects followed by Karnataka which attracted investments worth Rs.24,000 crore from 43 projects. Though Gujarat was the third largest to attract investments during the year, it lost a significant share in total investments attracted.

(Source: The Economic Times)

SAT upholds Sebi order on International Paper

Directs US-based company to pay non-compete fees to AP Paper’s minority shareholders

The Securities and Exchange Board of India (Sebi) has said that it plans to regulate executive compensation in listed firms. However, industry players said that this move is uncalled for at a time when industry is grappling with several issues.

Sebi Chairman UK Sinha has said that the regulator may ask the firms to form a remuneration committee headed by an independent director. Furthermore, he has indicated that a case was being made for disallowing employee stock option plans (ESOPs) in the financial sector. He has also said that variable pay should be phased out if profits decline. Variable pay for executives is usually linked to company’s profits. But, during tough market conditions, instead of doing away with variable pay, companies decide to postpone it by two to three years. This variable pay is given after the stipulated time period to the executives, hence not compromising with the cash component of the executive.

Companies, however, are of the view that it would be difficult to implement such regulations across companies. “Issues like variable pay and independent directors have already been addressed by the proposed Companies Bill, which is on the anvil. Though there is nothing wrong with what Sebi has said, this move is unwarranted now because companies would anyway be following the rules when the bill gets passed,” said the human resource director of a Mumbai-based conglomerate.

CBI LIKELY TO CHARGESHEET BHARTI, VODAFONE

The Central Bureau of Investigation (CBI) is likely to chargesheet telecom operators Bharti Airtel (earlier known as Bharati Cellular) and Vodafone India (earlier known as Hutchison Max & Sterling Cellular) in the first week of October in a case related to additional spectrum allocation in January 2002, according to senior officials of the investigatory agency.

This would be the first time in the 2G spectrum allocation case that the role of the Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA) government will come under scrutiny. The telecom minister in 2002 was Pramod Mahajan, who was killed in 2006. In the course of the investigations, CBI has found irregular allocation of additional spectrum beyond 6.2 MHz to 10 MHz to GSM operators, including Bharti and Vodafone during Mahajan’s rule. The agency has alleged favouritism and arbitrariness by some officers in the Department of Telecom (DoT), bypassing the opinions of the member (finance), the wireless adviser and even the highest decision-making body in the DoT, the Telecom Commission.

Apart from the telecom companies, CBI is also building a case against senior government officials who were involved in the decision-making process at the time. The agency is expected to charge the accused telecom companies under Section 120-B and 420 of the penal code and the government officials are likely to be charged under section 13 (2) and section 13(1) (d) of the Prevention of Corruption Act.

The investigating agency had registered a case against Shyamal Ghosh, the then telecom secretary, and has found that the senior officer, along with other DoT officials, had bypassed the wireless advisor and a technical committee at DoT on the issue of pricing and allocation of additional spectrum to telecom companies.

CBI, in its FIR of November 2011, alleged that Ghosh and other DoT officials caused loss to the exchequer and a corresponding gain to Bharti Airtel and Vodafone.

(Source: Business Standard)

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'SEBI'S PROPOSED MOVE ON EXEC PAY UNWARRANTED'

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Sistema set to buy Aircel for $3 bn

Russia’s Sistema JSFC is close to acquiring a controlling stake in Aircel Communications for around $3 billion (Rs.16,000 crore to Rs.17,000 crore), making this one of the largest transactions in the telecom sector since Vodafone bought Hutchison Essar for $11.7 billion in 2007.

Two persons familiar with the development said Sistema would buy into Aircel’s parent company based overseas with rights to have the Indian arm transferred to it after an ongoing restructuring process is completed. Malaysia’s Maxis Communications owns 74 per cent stake in Aircel through multiple entities, which are being consolidated into a single company.

Aircel’s spokesman said the company was not aware of such a development. The Russian company’s Indian arm, Sistema Shyam Teleservices, said it believed the talk of engaging with other telecom service providers for a possible deal was motivated. “The immediate priority is to seek clarity on spectrum-related regulations from the government and also look at the outcome of the curative petition filed in the Supreme Court,” said a company spokesman.

An email sent to Sistema’s global headquarters in Moscow went unanswered. But both the persons familiar with the discussions said the transaction could be announced shortly. If the deal happens, it will end the uncertainty about Sistema’s future in India and give it the ownership of a national operator with close to 65 million subscribers. The Russian company, which operates mobile services on CDMA technology in India, lost its licence after the Supreme Court revoked all permits granted by former telecom minister A Raja in 2008.

Sistema has the option of participating in the upcoming airwaves auctions, but a telecom analyst said it made more sense to buy a functioning company with an existing user base. However, as Aircel operates on the GSM platform, it won’t be possible for the Russian company to switch its existing 16.3 million customers since CDMA handsets don’t work on GSM networks. It will have to bag fresh CDMA airwaves if it wishes to continue with its existing subscribers.

One of the persons familiar with the discussions said the transaction was being structured in such a manner that it would enable Sistema’s Indian arm to bid for CDMA airwaves. While the M&A guidelines in the telecom sector prevent a company from owning more than 10 per cent stake in another operator, this norm will not be applicable in this case as the Russian company will buy the shares of the overseas holding company of Aircel.

(Source: The Economic Times)

Deccan Chronicle loan recast decision deferred

Lenders with exposure to Deccan Chronicle Holdings, the parent company of the Deccan Chronicle newspaper and Indian Premier League team Deccan Chargers, on Wednesday held a meeting to consider the proposal of corporate debt restructuring (CDR) for loans to the troubled company. However, a decision on the matter was put on hold till the next meeting scheduled for September 26.

According to the terms and conditions of the CDR process, for a debt restructuring programme to be planned, at least three-fourths of the company’s lenders have to agree on restructuring the company’s loans. In the case of Deccan Chronicle Holdings, a few lenders are expected to decide on the matter in the next few days.

Deccan Chronicle Holdings’ total debt to be restructured is about Rs.2,300 crore, while total exposure to the company is about Rs.5,000 crore.

The top lenders whose exposure to the company would be considered by the CDR cell are ICICI Bank, Axis Bank, Canara Bank, IDBI Bank, and Andhra Bank. The collective exposure of these lenders is Rs.2,700 crore.

Yesterday, Financial Services Secretary D K Mittal had said Canara Bank was carrying out a forensic audit of the company. “If the audit establishes a fraud in the company, it won’t be considered for CDR,” said a public sector bank executive privy to the development.

(Source: Business Standard)

INFY BUYS SWISS FIRM FOR RS.1932 CR

Infosys CEO and Managing Director S D Shibulal said Monday’s announcement was suited to Infosys’ future growth strategy.

“The acquisition is a positive step and fits with Infosys’ strategy to increase its presence in consulting. We believe that it would be difficult to build a consulting vertical purely organically and acquisitions would be necessary to enhance reach and domain skills. The deal offers limited client overlap, while bringing in domain expertise and exposure to Continental Europe and the Life Sciences vertical,” he said.

Rumit Dugar from Religare Securities said.

(Source: FJP)
Plan panel for fund of Rs.5k cr for VCs

The Planning Commission has proposed that the government establish a ‘fund of funds’ with a corpus of Rs.5,000 crore ($1 billion) for anchor investors in venture capital (VC) funds in India. Such investments in single funds could be capped at Rs.50 crore, or 50 per cent of the total corpus of the VC fund, it added. These venture funds would, in turn, raise funds from domestic and foreign sources, and this is estimated to lead to capital flows of up to Rs.25,000 crore in 10 years. The commission has also recommended the India Opportunities Venture Fund, set up under the Small Industries Development bank of India, play a similar role.

In its report ‘Creating a Vibrant Entrepreneurial Ecosystem in India’, the commission also suggested other steps to encourage entrepreneurship in the country. It also proposed several steps to boost funding to new businesses by emphasising on VC, angel investment and government-sponsored incubators. Among the measures to facilitate exit options for investors, it suggested that the finance ministry treat capital gains on investments by angel investors and VC funds on a par with capital gains on investments in listed companies. The report added the Securities and Exchange Board of India could allow companies registered in India to launch initial public offerings on exchanges outside India without, or before, being listed in India. Upon dissolution of a firm, regulations should provide preference to angel or early VC investor shares. VC industry sources said that though such a provision existed, it was not strictly adhered to.

The report stated that the finance ministry should consider tax benefits to angel investors if they invested in privately-held entrepreneurial ventures, as long as their individual holding in the venture was less than 20 per cent. However, this provision could carry a sun-set clause of five or ten years.

(Source: Business Standard)

Kini to be Coca-Cola India's senior ops VP

Venkatesh Kini

Venkatesh Kini, a former marketing head of Coca-Cola India, is returning to the country to accelerate the beverages giant’s growth and help India become one of its top five markets, two company officials said.

He will join as senior vice-president, operations, India-a newly created No. 2 position below Coca-Cola India Chairman Atul Singh. All Coca-Cola verticals will report to Kini who will move in from Coca-Cola’s headquarters in Atlanta where he was the global VP for juices. “This move is a strategic re-organisation of India operations and indicates the company is keen to rapidly scale up its business here,” one of the officials said, adding that Kini has been hand-picked for the role.

A Coca-Cola India spokesman declined to comment.

Before he relocated to Atlanta in early 2009, Kini headed Coca-Cola India’s marketing operations for three years. He joined the company in 1998 and was promoted to marketing head at a time when the pesticide-in-cola controversy that impacted soft drink sales was still alive. He was among the top officials instrumental in turning around the company.

In June this year, Coca-Cola global chairman and CEO Muhtar Kent had announced fresh investments of $3 billion (about 16,500 crore) over eight years for expanding its bottling, cooling, and distribution operations. This was over and above the $2 billion (about Rs.11,000 crore) investment the maker of Thums Up cola and Minute Maid juices had announced last year.

(Source: The Economic Times)