Sebi opposes government's plan to bring back entry load

Reintroduction of the charge will not benefit investors, says regulator

The Securities and Exchange Board of India (Sebi) has told the government that it is opposed to the reintroduction of commissions paid by asset management companies (AMCs) to distributors on the grounds that investors will not benefit. The commissions, known as entry loads, used to be deducted from payments by investors to purchase units of mutual funds before the practice was banned in 2009 by Sebi, which was then headed by CB Bhave.

The finance ministry had asked Sebi to consider bringing back entry loads in order to revive the fortunes of the asset management industry. The market regulator, however, has reiterated its opposition to such a move. After taking charge of the finance ministry last Wednesday, the prime minister referred to the need to revive the mutual fund (MF) industry, which has seen assets under management (AUM) remaining stagnant for two years. The PM did not refer to any specific pol- icy initiative. In November 2009, the MF industry had AUM of Rs.8.21 lakh crore. At the end June 2012, the figure was Rs.6.92 lakh crore.

"There’s no question of reintroducing the entry load. It’s an investor-unfriendly move," a person familiar with the developments said. Industry officials now say that bringing back the entry load in its original form would be regressive and would not be a solution to current challenges. “Entry load was banned three years ago and there is no point in reviving this issue,” said HN Sinor, CEO, Association of Mutual Funds in India.

“There have been sugges- tions of reintroduction of en- try load or variable entry-load. But let me clarify that reintroduc- tion of entry load is not being recommended by a ma- jority of players," Sinha, had said at a recent industry event. However, Sebi is considering allowing asset managers to provide incentives to distribu- tors to attract first-time investors and to help them reach smaller towns. This is based on Sebi’s current thinking on the problems af- fecting the asset management industry.

According to Sebi, the basic problem is that inflows are not coming from smaller towns and distributors are losing out, with the big gainers being a clutch of large banks who distribute financial products, according to people familiar with Sebi’s thinking. Sebi is expected to announce steps to re- solve these problems in one or two months, a person with knowledge of the matter said.

(Source: The Economic Times)

MFs find favour in pension space

A senior official said Sebi is in favour of allowing MFs to launch long-term pension plans backed by fiscal in- centives to encourage long-term invest- ment in equity. At a recent industry meet, UK Sinha, the Sebi chairman, had said his understanding was that nothing prevents an asset manager from coming to Sebi and seeking approval for a scheme, which offers a product akin to a pension plan.

“What perhaps will come in the way of the particular scheme is whether the scheme will qualify for tax-exemption or not, that will be an issue. But that is not an issue that Sebi can tackle. That will have to get clarified with the tax author- ities of the country. If our recommenda- tion is required, Sebi is willing to recom- mend to the government that if it is a pension scheme it should get similar treatment,” he had said.

Sebi has also asked the government to modify a scheme introduced in the 2012 budget - which offers tax breaks to in- vestors buying stocks for the first time - so the investments could be routed through equity mutual funds.

For the super-rich, spending on charity takes a backseat

Charity donations have suffered as the super-rich pre- fer to maintain their opulent lifestyles over philanthropy in the gloomy economic environment, a report by rating agency Crisil said on Tuesday.

"High net worth families give priority to maintain their lifestyles, which gives them the societal status, due to which we have found some shifts in behaviours, with contribu- tions to charity," Crisil President (Re- search) Mukesh Agarwal said after releasing the report. He said the phenomenon of lifestyle maintenance is a universal factor across high net worth households (HNHs) with all the segments showing a propensity to re- allocate resources towards the purpose. En- trepreneurs and wealth inheritors are found to have chosen to cut down on charity, while the professionals dig into their savings for the purpose, Agarwal said, citing the report that has surveyed 150 HNHs and relied on official data from a host of agencies. Any family having a net worth of over Rs.25 crores qualifies to be an HNH. As a percentage of in- come allocation, contribution to charity and other philanthropic activities slipped to 4.4 per cent in 2011 from 2010, the report titled ‘Top of the Pyramid’ said.

There was a 50 per cent increase in spend- ing on apparel and accessories by HNHs in 2011 over 2010, followed by a 23 per cent hike in vintage spirits and liquor. It said allocation towards meeting expenses rose to 28.2 per cent from 22.4 per cent, while also finding that individuals in such HNHs are allocating more income towards enlarging personal wealth rather than into their respective business as a result of economic slowdown.

(Source: FPJ)
Government chalks out plan to contain widening fiscal deficit

With the Centre’s fiscal deficit exceeding a quarter of the budget estimates for the full financial year 2012-13 in the first two months itself, the finance ministry is readying a fiscal deficit reduction plan to avoid a repeat of the fiscal mess that affected the economy last year. As part of the plan, government departments may have to surrender the unspent project-linked component of the Rs.70,000 crore additional gross budgetary support at the end of the financial year. The ministry is also expecting a reduction of about Rs.9,500 crore in its scheduled market borrowings of Rs.3.7 lakh crore during April-September 2012 on the assumption that the Centre’s fiscal deficit would be lower than Budget estimates of 5.1 per cent of GDP in 2012-13. The government borrows from the market to meet the gap between its expenditure and revenue. A cut in market borrowings suggests curtailment of expenditure or higher-than-projected revenues.

Total Budget support for the Central Plan is pegged at Rs.3.9 lakh crore in 2012-13 compared with Rs.3.2 lakh crore allocated in 2011-12, as per Revised Estimates—a rise of about 22 per cent. Of the total increase of about Rs.70,000 crore in the Central Plan in 2012-13, about Rs.50,000 crore is linked to various government schemes and projects. Though the allocation was made ministry-wise and not project-wise, an understanding had been reached between the Planning Commission and the finance ministry that the government departments should be asked to return the money, they were not able to spend on the projects, said an official. This would provide a leeway to the government to bring down its market borrowings, “possibly by about Rs.20,000 crore” by the end of the financial year, and make more space for private-sector investment. The government has estimated its gross market borrowings in 2012-13 to reach Rs.5.69 lakh crore. For 2011-12, it had projected its gross borrowings at Rs.4.17 lakh crore. However, the huge subsidy burden widened the fiscal deficit to 5.9 per cent. Officials are hopeful that with these expenditure control measures, besides a possible partial decontrol of diesel prices and lower crude oil prices, the fiscal deficit would be lower than the Budget estimate of 5.1 per cent of GDP in 2012-13.

(Source: Business Standard)

SC restrains RBI on nod to foreign law firms

The Supreme Court on Wednesday restrained the Reserve Bank of India (RBI) from granting permission to foreign law firms to set up offices in India. An apex court bench of Justice R M Lodha and Justice Anil R Dave said that the foreign law firms could not practise in Indian courts. It is clarified that the RBI shall not grant any permission to the foreign law firms to open liaison offices in India under Section 29 of the Foreign Exchange Regulation Act, 1973,” the court said. The expression “to practice the profession of law” under Section 29 of the Advocates Act, 1961 covered the profession of law” under Section 29 of the Advocates Act, 1961, the court said.

(Source: FPJ)

Vague ‘substance’ in GAAR draft worries PE funds

Industry players to meet finance ministry officials next week

The draft guidelines of the Income Tax Department on the General Anti-Avoidance Rules (GAAR) have stumped private equity (PE) funds that have routed their investments in India through tax havens.

The majority of PE investments are routed through Mauritius to avail of the benefits of the double-taxation avoidance treaty. But, according to GAAR, while interpreting tax legislation, “substance” needs to be preferred over legal form.

In case the only purpose of routing these is to avail of tax benefits, GAAR provisions would not allow it. Mauritius-based structures are often established by foreign investors for routing investments. In the absence of a clear definition, it would not be too difficult for tax authorities to establish lack of the so-called commercial substance.

Indian Private Equity and Venture Capital Association (IVCA) would raise the issue of the “unlimited powers of tax authorities’ with the finance ministry next week. It would seek a clear definition of substance for Mauritius-based structures.

“Almost 90 per cent of private equity investments come through the Mauritius route,” says Mahendra Swarup, president, Indian Private Equity and Venture Capital Association. “The absence of any clear definition of what amounts to ‘commercial substance’ has created a lot of uncertainty.” Funds say due to this, wide discretion rests with tax authorities.

Mauritius-based entities incur capital gains tax of 15 per cent, against 30 per cent payable in India, says Singh. If PE funds are asked to pay the higher rate once GAAR is implemented, the funds would have to account for this before taking investment calls. Earlier, the industry had sought exemption from GAAR for sums already invested. But, the government said this would not be permitted.

(Source: Business Standard)

RBI may relax norms for NBFC-MFIs

The Reserve Bank of India (RBI) is likely to relax some of the norms pertaining to microfinance institutions (MFIs) and thereby, banks are reluctant to make fresh loans to them, as such loans do not qualify as priority sector lending,” RBI governor Dr Subbarao said at an event organised by Indian Overseas Bank.

“Small MFIs are also not able to meet the Rs.5 crore entry point capital to be eligible to register as the NBFC-MFI. In particular, Andhra Pradesh-based MFIs, saddled with huge losses, large NPAs (non-performing assets) and eroded capital, are facing an especially acute problem in complying with the capital and provisioning norms. RBI is working on resolving these issues, so that MFI operations can get back on track,” he added.

On December 2, 2011, the NBFC-MFI was created as a new category of finance company, and told to ensure 100 per cent provisioning on aggregate loan instalments overdue for 180 days or more. MFIs were so far maintaining 10 per cent provisioning on the loan amount where repayment was due to this extent. These norms were supposed to be effective from April 1. In March, the banking regulator had extended the deadline for new provisioning and asset classification norms by a year, to allow the troubled sector more time to get their house in order. In these rules, RBI said, would be effective from April 1, 2013.

Subbarao, however, noted that investors’ sentiment towards the sector had improved in recent months, with some MFIs able to raise money from venture capital funds. Banks have been found to discriminate between their customers while pricing loans, as the process lacked transparency, Subbarao said. In particular, the spread levied on customers differed widely, even if the risk profile was the same. Typically, banks’ spread depends on the nature of loans, over the benchmark lending rate or the base rate. RBI may also relax some of the norms pertaining to microfinance institutions (MFIs) and, therefore, banks are reluctant to make fresh loans to them, as such loans do not qualify as priority sector lending.”

(Source: Business Standard)
ONGC becomes most valued co in India, tops TCS

State-owned ONGC Ltd on Tuesday became India's most valued company with market capitalisation of Rs.2.48 lakh crore, displacing Tata Group software firm TCS from the numero uno slot. Its private sector peers, Reliance Industries Ltd, which has market capitalisation of Rs.2.41 lakh crore, is ranked third in terms of most valued firms.

ONGC's scrip surged on opening on the bourses on Tuesday. With a total equity float of 855.55 crore, the market capitalisation of the oil major peaked to Rs.247,938 crore, thereby overtaking TCS market cap of Rs.2.43 lakh crore.

"ONGC is now a clear 2 per cent ahead of its nearest rival in market capitalisation, and around 2.6 per cent higher than the 3rd. ONGC ruled as the top market company earlier during a major part of last decade, before losing the spot to the largest private sector group, which is currently at the 3rd position," said a ONGC statement on Tuesday.

In August last year, ONGC had replaced RIL as the country's most valued company. RIL had first toppled ONGC to become the country's most-valued firm way back in late 2006, but the state-run energy giant later regained the top position, albeit only for a few brief period. RIL has managed to stay on the top since February 2007, except for past few months.

(Source: The Times of India)

State Street eyes stake in ICICI Bank custody arm

The Boston-based State Street Corporation is in talks with India's largest private lender, ICICI Bank, for a partnership in the securities custody business. The US custodian is likely to pick an equity stake in a proposed joint venture, according to officials close to the development.

"While State Street is keen on picking a majority stake in the venture, it may settle for a significant minority stake," said one of the officials.

State Street, one of the largest in the business globally, with a $21.8 trillion in assets under custody and administration, has been looking for a foothold in the Indian market for nearly a year. Though State Street already has a global custody agreement with a foreign bank's Indian arm, it is said to be keen to have its own presence in India. "They had earlier held discussions with a couple of players like Quant and HDFC Bank, but these talks fell through because of differences, including those on valuation," added the official.

State Street's asset management arm was also reportedly in the race for the acquisition of Fidelity Mutual Fund, when it came up for sale earlier this year.

ICICI Bank has a share in the domestic institutional business. However, without a partnership with a global player it is difficult to make inroads into the high-stakes international custody business that involves multi-instrument and multi-currency operations, say analysts. An ICICI Bank spokesperson said, "We do not comment on market speculation."

In an emailed response, Kyle Macintosh, head of global marketing-Asia Pacific, State Street, said, "State Street does not comment on market rumours or speculation."

Custodial services include settlements, clearing, depository participant services, cash management and forex services, fund accounting services, performance measurement, registrar and transfer agency services, amongst others. They hold securities and settle trades on behalf of their clients, executed through brokers. Custodians earn a few basis points of the assets under their custody as fees.

(Source: Business Standard)

Wipro's Premji takes a pay cut; CEO gets 5-fold hike

IT giant Wipro's Chairman and Managing Director Azim Premji saw his remuneration falling by nearly one-third to Rs.1.9 crore last fiscal, but the group's IT business CEO T K Kurien's pay package grew over five times to Rs.4.5 crore.

As CMD of Wipro Ltd, whose main area of business is information technology but is also present in consumer goods businesses, Premji's annual salary fell from Rs.2.82 crore in the fiscal 2010-11 to Rs.1.9 crore in the latest fiscal ended March 31, 2012.

During the same period, the total remuneration rose from Rs.80 lakh to Rs.4.5 crore for Kurien, who assumed the role of Wipro's IT business CEO in February 2011. However, the remuneration paid to Kurien's predecessors -- Suresh Vasiwani and Girish S Paranjape, who were joint CEOs of Wipro's IT business till January 2011 -- was much higher.

(Source: FPJ)

M&M may bid for Hawker Beechcraft

Mahindra & Mahindra Ltd (MM), India's biggest maker of utility vehicles, is considering bidding for Hawker Beechcraft Inc, the bankrupt aircraft maker part owned by Goldman Sachs Group Inc (GS), a person with knowledge of the matter said.

Hawker would fit well with Mahindra because both produce turboprop aircraft, said the person, who asked not to be identified because the deliberations are private. The Mumbai-based company has not decided whether to make an offer, the person said. Roma Balwani, a spokeswoman for Mahindra, said the company does not comment on speculation.

Hawker, which makes the Beechcraft King Air turboprop and the Hawker 4000 business jet, filed for bankruptcy under U.S. Bankruptcy Court on June 30 that would give control of the company to secured creditors who hold debt valued at almost $922 million.

Mahindra, which purchased majority stakes in component maker Aerostar Australia and turboprop aircraft manufacturer Gippsland Aeronautics in 2009, has been in talks with India's National Aerospace Laboratories on possibly partnering for a regional jet. A successful bid for the business jet-maker will catapult Mahindra into the aerospace market as a manufacturer, according to Dhiraj Mathur, a Gurgaon, India-based executive director at PwC's unit. "Mahindra will jump up the value chain. It'll give them aerospace capabilities. They will be able to make a genuine OEM and not a partner of an OEM."

(Source: Bloomberg)

Godrej Ind to sell 4.1 per cent stake through IPP route

A di Godrej-controlled Godrej Industries Ltd (GIL) is planning to raise money from institutional investors and increase its public shareholding to 25 per cent. The company will seek shareholder approval for the same on July 7, according to a recent stock exchange disclosure. Sebi has given companies till June 2013 to cap their holding at 75 per cent.

The conglomerate, which has diversified businesses across consumer goods, real estate and agricultural products, will hold an extraordinary general meeting (EGM) on Saturday to seek shareholder approval for offloading as much as 4.1 per cent equity through an institutional placement programme or IPP, one of the two new share-sale mechanisms introduced by Sebi. IPP can be used by promoters of listed companies to divest up to 10 per cent of their holding to comply with the minimum public shareholding norms of 25 per cent for private listed firms by June next year and 10 per cent for state-owned firms by August 2013. Only qualified institutional buyers can subscribe to this kind of offering.

A Godrej spokesman declined to offer comments on emailed queries seeking details on the sum the company intends to raise through the equity issue.

(Source: Livemint)

Poonawalla Group acquires Dutch co for Rs.550 crore

Leading vaccine firm Serum Institute of India, the flagship company of the USD 1 billion Poonawalla Group, has said that it has acquired the Netherlands-based Bilthoven Biologicals for Rs.550 crore. This is the company's first overseas acquisition and involves buying 100 per cent stake. Group chairman Cyrus Poonawalla said that "the total deal size is 80 million euros. We have already paid 32 million euros. The remaining amount will have to be paid over a period of two to three years."

(Source: Financial Express)
India's manufacturing sector expanded at the fastest pace in four months in June as the country saw improvement in business conditions as well as hiring, an HSBC survey said.

The HSBC India Manufacturing Purchasing Managers' Index (PMI) - a measure of factory production-improved slightly to 55 in June from 54.8 in May. A reading above 50 shows that the sector is growing. Below 50, it indicates that the segment is contracting. India's manufacturing PMI has been above the 50 mark for more than three years.

"Activity in the manufacturing sector kept up the pace in June with output, and employment expanding at a faster pace," HSBC Chief Economist for India and ASEAN Leif Eskesen said.

However, there are several worrying points. Both new export orders (54.3 in June versus 56.2 in May) and domestic new orders (58.5 vs. 59.6) indices fell, suggesting that domestic and external demand remains subdued. Inventory of both raw material and finished goods rose in June, as firms' anticipate higher demand. As a result, the new orders to inventory ratio fell to 1.11 in June from 1.16 in May. HSBC cautioned that going ahead a slight moderation in output was likely as new order growth decelerated slightly led by export orders.

(Source: FPJ)

Manchester United picks NYSE for IPO

Manchester United Ltd picked the New York Stock Exchange to make its market debut, ending months of speculation over where the world's best-supported soccer club would list. The former English champions pulled out a planned $1 billion listing in Singapore because of market turmoil. It had earlier eyed a Hong Kong IPO. It was reported last month that the club had dropped its plans for an Asian listing in favour of a US listing. Man-U has a global fan base of 659 million, according to a survey conducted by a market research company. The World Cup will bring fans to cities in the US and Japan where the club will play.

(Source: Reuters)

Govt may limit depository receipt swap at $5 billion

The government, which is framing rules to allow conversion between local depository receipts and foreign stock, might set a total limit of $5 billion on such two-way swaps, two officials with direct knowledge of the matter said.

A limit would curb price swings in shares, said the officials, who asked not to be identified, citing policy. The persons said the government will issue a notification this month listing the rules for such transactions in Indian depository receipts (IDRs). The security surged in Mumbai, bound for its highest level in three months.

Standard Chartered Plc is the only company with IDRs, with 10 of its receipts equalling one share traded in London. Vodafone Group Plc, HSBC Holdings Plc, and Citigroup Inc are among companies that may tap the Indian markets through IDR issuances, according to a research note dated June 25 by Edelweiss Securities Ltd.

"Allowing 100 per cent fungibility will narrow the spread and may result in no need for conversion by holders," the Mumbai-based brokerage said. "This will aid retention of equity, and cut dilution at the time of conversion."

(Source: Business Standard)