RIL posts 3rd quarterly profit drop, tops estimate

Net profit declines by 21 per cent to Rs.4,473 crore as margins in its refining and petrochemicals business slip

Reliance Industries Ltd (RIL), India's third-most valuable listed company, posted a consecutive drop in quarterly profit but beat street expectations as refining margins fell less than expected and treasury gains from its huge cash pile bolstered profits.

RIL said its quarterly profit fell to Rs.4,473 crore, down 21 per cent from a year earlier, as margins in its refining and petrochemicals business slipped. RIL has seen a slump in investor interest as profits shrink amid a slowdown in its core energy business and recent forays into consumer-focused segments such as telecom and retail have yet to garner profits. Its shares have sharply underperformed the main stock index over the past 18 months despite a $2.1 billion share buyback announced in January. Net sales for the April-June quarter rose 13.4 per cent to Rs.94,926 crore.

"The numbers are an improvement and investors may start looking at the company again, but it's too early to change the outlook for the stock," said K K Mital, head of portfolio management services at Globe Capital Market.

Output at RIL’s flagship D6 block is projected to fall to 20 million standard cubic metres a day (mscmd) in 2014/15 from 28 mscmd in the current fiscal year. Controlled by Mukesh Ambani, RIL aims to double its operating profit in the next four to five years as it boosts spending and capacity in its core energy business and builds up its newer retail and telecoms operations.

RIL reported gross refining margins of $7.6 a barrel for the June quarter, compared with $10.3 a barrel a year earlier. The margins were squeezed by high crude prices and a narrowing spread between light and heavy crude prices, but were still higher than analysts' estimate of $7/barrel.

"RIL has improved its earnings profile as profits from operations were higher on a sequential basis, on the back of volume growth in the refining business," Ambani said in a statement.

Refining accounts for nearly 80 per cent of the company's revenue. RIL's petrochemicals business posted a 19 per cent rise in revenue on higher demand and prices, but margins declined on narrower spreads. Its oil and gas exploration business posted a 36 per cent fall in revenue. RIL said it held Rs.70,732 crore in cash reserves at the end of June, up from the previous quarter. Other income of Rs.1,904 crore, most of it through treasury gains, accounted for almost 35 per cent of the company's pre-tax profit for the quarter.

(Source: Reuters)

PEs seek pass-through, capital gains tax parity

The private equity (PE) industry is planning to approach the market regulator and the government to address anomalies in the new taxation regime. According to the industry, the recent changes in the rules have put domestic PE funds at a disadvantage.

The new regime that came into effect on the passing of the Finance Act, 2012, restricts the “pass-through” benefit to income of venture capital (VC) funds, whereas PE funds and leveraged funds are left in the lurch. A pass-through status allows the intermediary body, like a fund, to pass on the tax liability to the end-investor. Entities not allowed this benefit will be taxed at the fund level. Second, non-resident investors, including foreign PE/VC funds, enjoy a reduced capital gains tax of 10 per cent, against 20 per cent payable by resident investors. The domestic fund industry is keen on getting a level-playing field here, too.

"Under the current rules, the tax pass-through is available only for category-I. We want the pass-through status to be extended to the other categories as well. We are planning to approach Sebi soon," said Mahendra Swarup, president, Indian Venture Capital and Private Equity Association.

(Source: Business Standard)

Growth onus on India Inc, says Crisil

The sagging economic growth can be given a boost if the private sector increases its investment as the government is not in a position to increase public spending, given its constraints, says rating agency Crisil.

The private sector, accounting for three-fourths of GDP, will have to script the economic turnaround by reviving investments and raising its contribution to overall growth, Crisil said in its report "Why is it critical to revive the private sector?"

The agency notes that in the two decades since 1990, the share of the public sector in GDP growth remained stagnant at 6 per cent, whereas private sector GDP growth went up to 7.7 per cent in the 2000s from 5.7 per cent in the previous decade.

Crisil MD and Chief Executive Roopa Kudva said sustainable upside to growth will be largely shaped by the revival of private sector investment and confidence.

(Source: Financial Express)
The Securities and Exchange Board of India plans to introduce restrictions on the extent of investments a mutual fund debt scheme can make in a sector. The proposal comes in the wake of the regulator’s observation that several debt funds, especially fixed maturity plans, were taking huge exposure to specific sectors, raising worries about systemic risk, said a person familiar with the matter.

Sebi has observed that a significant number of fixed maturity (FMP) schemes, which are close-ended products with investments in debt and money market instruments, have sizeable exposure of over 80 per cent investments in a particular sector and a single issuer, sources said. Industry officials said most fund houses have a high exposure to non-banking finance companies. Currently, there are no sector restrictions on debt schemes though funds claim they have their own limits. The regulator may impose a 30 per cent ceiling for every debt scheme in a sector, the person quoted above said. However, the sector cap will not be applicable on government securities, certificate of deposits and CBLO (collateralised borrowing and lending obligation) as they are comparatively risk-free instruments.

“It was also brought to the regulator’s notice that some issuers had failed to meet their obligations to repay the maturity proceeds of their securities despite these debt papers failing to meet their obligations to repay the maturity proceeds of their securities,” the person quoted above said.

Sebi did a study on the investments of over 200 FMP schemes that showed that 80 per cent of the schemes were having huge exposure in a particular sector, said sources in the know.

According to Value Research data, over 90 per cent of FMP investments, as on May 31, were made in debt papers issued by banks, hire purchase companies, financial services firms, equipment-leasing firms and housing finance companies.

“Sectoral limits should have been in place long back. A check on sectoral allocations will go a long way to prevent repayment defaults. Sectoral limits may bring down FMP yields but it will protect funds from deep losses,” Sunil Jhaveri, chairman of MSJ Capital.

QFIs allowed to invest $1 bn in MF debt, corporate bond

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o increase fund flow in the bond market, market regulator Sebi on Wednesday issued guidelines allowing overseas individual investors to invest up to $1 bn in corporate bonds and debt schemes of mutual funds without any lock-in period.

“In consultation with the Government of India (GoI) and RBI, it has now been decided to allow Qualified Foreign Investors (QFIs) to invest in Indian corporate debt securities and debt schemes of Indian mutual funds,” Sebi said in a circular. QFIs or overseas individual investors are permitted to invest in corporate debt securities without any lock-in period or residual maturity clause and mutual fund debt schemes subject to a total overall ceiling of $1 bn, it said. This limit shall be over and above the ceiling of $20 bn for FIIs investment in corporate debt, it added.

INFLATION DOWN TO 7.25%, BUT FOOD PRICES STAY HIGH

Inflation slowed to its lowest levels in past five months in June to 7.25 per cent, although vegetables, wheat and pulses became costlier.

Inflation, as measured by the Wholesale Price Index (WPI), stood 7.55 per cent in May. Overall food inflation rose to 10.81 per cent in June, from 10.74 per cent in May. In June last year, inflation rate in this category was 7.6 per cent. Food articles have a 14.3 per cent share in the WPI basket.

“We are hopeful that this declining trend will continue,” Minister of State for Finance Namo Narain Meena said. He added that the South-west monsoon forecast by India Meteorological Department (IMD) is still positive as deficiency in rain fall has come down in the last two weeks. “Availability of food articles is expected to increase and this will address supply constraints,” Meena said. He said the decline in June inflation is due to decrease in prices of some non-food articles and fuel items year-on-year basis. C Rangarajan, Chairman of the Prime Minister’s economic advisory council, said food prices in the coming month would depend on the progress of monsoon rains, which would impact the overall inflation scenario.

In the food articles category, rice turned expensive by 6.70 per cent in June, wheat 7.46 per cent, pulses 6.82 per cent and vegetables by 20.48 per annum basis. In the manufactured items category, prices of cotton textile, rubber and plastic products, iron and machinery eased a little year-on-year basis. The rate of price rise in the manufactured products was 5 per cent in June, as against 7.9 per cent in the same month in May last year. In May this year, it was 5.02 per cent.

MF DISTRIBUTORS EYE Rs.400 CR BONANZA

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y before Sebi announces steps to provide a fillip to the ailing mutual fund industry, the Advisory Committee on Mutual Fund (ACMF) on Tuesday proposed raising the expense ratio fund houses charge by 25 basis points. This increase in the expense ratio can then be passed on to distributors as incentive. Given the size of the equity corpus of mutual funds ($1.56 lakh crore), this could mean a Rs.390-crore bonanza for distributors. Expense ratio is the percentage of total assets that are spent to operate a mutual fund.

As of now, the expense ratio stands at 2.5 per cent for the first Rs.100 crore of the equity scheme’s net assets. For the next Rs.300 crore it is 2.25 per cent, for the following Rs.300 crore it is 2 per cent. For the remaining, it is charged at 1.75 per cent. Not just that, the ACMF has also recommended fungibility of the corpus raised through the expense ratio. At present, fund houses have to compartmentalise the expense ratio into various charges such as those for fund management, custodians and distributors.

Fungibility will allow them greater flexibility in structuring these charges.

SEBI WANTS TO COMPARTMENTALISE THE EXPENSE RATIO INTO VARIOUS CHARGES

RBI GOVERNOR D SUBBARAO

India’s long-term growth potential has lost a bit of its sheen, Reserve Bank of India governor Duvvuri Subbarao said on Tuesday. The country’s “non-inflationary growth rate” – the capacity to expand the economy without causing adverse side effects in high levels of price rise – has fallen to 7.5 per cent, whereas it was 8 per cent just after the Wall Street crisis in 2008 and 8.5 per cent earlier, he said, citing mathematical techniques used to arrive at rationally expected growth.

“Assessing India’s potential growth rate, consistent with our objective of low and stable inflation, remains a challenge. In its annual report for 2009-10, the Reserve Bank had reported that the potential output of the Indian economy may have dropped from 8.5 per cent pre-crisis to 8 per cent post-crisis,” said Subbarao at the sixth annual statistics day conference. “The latest assessment following the standard filtering technique suggests that potential output growth may have further fallen to around 7.5 per cent,” he said. The Reserve Bank, which is sticking to a tight monetary policy to rein in inflation, has projected a 7.3 per cent growth for Indian economy for 2012-13. Subbarao also proposed a producers’ price index saying that the current structure of measuring inflation does not capture the price movement of services.

“In its present structure, the Wholesale Price Index (WPI) does not capture the price movement of services,” he said.

“Also, it is a hybrid of consumer and producer prices,” Subbarao said. “For these reasons, it is, therefore, desirable that we move towards developing a PPI that measures the average change over time in the sale prices of domestic goods and services.”

He said sellers’ and purchasers’ prices differ due to government subsidies, sales and excise taxes, and distribution costs. The governor said core inflation (which excludes food and fuel items) gives a better picture of price trends as it is less volatile WPI-based inflation.

(source:The Financial Express)

(source:The Economic Times)
GoAir eyes Rs.1.1k cr to pare debt

Wadia Group-promoted budget airline GoAir is in the market to raise $200 million (Rs.1,100 crore) in equity to pare debt, a source close to the development said.

The airline, which was eyeing to rope in a strategic investor to offload stake, is now willing to cut a structured equity deal with private equity players with fixed return on investments, the same source added.

"GoAir wants to retire a portion of its debt and is willing to offer some of the group’s real estate assets as collateral to raise $200 million," the person said. GoAir, according to information filed with the registrar of companies for 2010-11, had debt of over Rs.600 crore.

The airline has inched up its market share as Vijay Mallya-promoted Kingfisher Airlines slumped to the sixth slot in terms of market share due to its financial troubles. Its ambition can be gauged from the fact that it has sought waiver to a government rule that allows domestic carriers to fly international only if it has an 11 per cent fall in the benchmark index.

GoAir MD Jeh Wadia
20 aircraft in its fleet.
GoAir currently has about 12 aircraft in its fleet and has said that it wants to start operations to destinations between three to four hours of flying soon as these operations will allow optimum utilisation of its aircraft.

The airline clarified that it's not in the market for an equity infusion. GoAir Managing Director Jeh Wadia, however, said that the airline is well capitalised and is not actively looking for funds. He also said that GoAir has met initial payment commitment for 72 Airbus aircraft it ordered in June 2011.

(Source: The Economic Times)

Reliance MediaWorks to raise Rs.600 cr

Money will help kick start its plan to separate the exhibition and film and media services businesses Reliance MediaWorks, controlled by Anil Ambani, has agreed to raise $110 million (approximately Rs.605 crore) from a foreign private equity fund, a source with direct knowledge of the development said.

"We have signed a term-sheet agreement...to sell a substantial minority stake in the company’s film and media services division," said the source, without giving further details about the foreign investor. The company, with a market capitalisation of about $50.8 million, plans to use the funds to primarily cut debt and for expansion.

Reliance MediaWorks has three main businesses - a theatre distribution operation under Big Cinemas, a TV production unit under Big Synergy, and a film and media services segment. The film and media services business includes motion picture processing, image enhancement and restoration, animation and visual effects, and is attracting business from overseas.

Reliance MediaWorks had said in December that this division will contribute 60 per cent to overall revenue in 2012-13 from about 40 per cent then.

The company also expected its overall order book for this division to more than double to Rs.200 crore in the current fiscal year ending March 31, 2013. Reliance MediaWorks had said in January that its board approved separating its exhibition and film and media services businesses into subsidiaries.

Shares of the company, which ended 3.2 per cent lower on Tuesday, have plunged more than 14 per cent since the start of this year compared with an 11 per cent fall in the benchmark index.

(Source: Reuters)

Jindal to invest $6.3 billion

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(Source: Reuters)

Jindal to invest $6.3 billion

Jindal Steel & Power Ltd (JSP), India’s second-biggest steelmaker by value, will spend 350 billion rupees ($6.3 billion) to expand production at home and in Oman after scrapping a deal to develop a Bolivian iron ore mine. Factory capacity will quadruple to 13 million metric tons by 2015, V.R. Sharma, chief executive officer of the steel business, said yesterday in a phone interview. The company, which runs a 3 million ton-a-year mill in India’s central state of Chhattisgarh, is building a 5 million ton plant in the eastern state of Orissa, a 3 million ton mill in Jharkhand and a 2 million ton facility in Oman, he said.

Jindal, run by billionaire lawmaker Naveen Jindal, said June 17 it terminated a contract to build the $2.1 billion El Mutun iron ore mine in Oman and SAIL in failing to develop projects overseas.

Infosys calls off Europe acquisition

Infosys came tantalisingly close to a European acquisition last month but developed cold feet at the last minute, much like in 2008 when it walked away from Axon, a company that was eventually bought by rival HCL Technologies. In June, after several rounds of negotiations and due diligence, Infosys was just days away from announcing the acquisition of Belgian payment solutions firm Clear2Pay for around half-a-billion dollars ($2.764 crore), but a week after it made its intent public, HCL made a counter-bid at £441 million to win Axon over Infosys’s board.

Infosys refused to get into a bidding war and was criticised by many for its unwillingness to risk a contest with HCL despite being in a vastly superior financial position. Infosys is said to be evaluating several acquisition targets in the US and Europe as part of a broader transformation strategy in a fast-changing IT services sector.

(Source: The Economic Times)

Grasim to pump in $500 mn in Turkey

Aditya Birla Group company Grasim Industries is working on setting up a USD 500 million (Rs.2,764 crore) plant in Turkey for producing VSF, a raw material used for making apparel and home textiles. "An 180,000 tonnes per annum greenfield plant in Turkey is in planning stage," Grasim Chairman Kumar Mangalam Birla said in the company’s annual report for 2011-12.

"A detailed study and obtaining the requisite approvals to get this project underway. As a country, Turkey offers enormous growth potential when its pre-eminence as a major textile hub," he said.

(Source: The Economic Times)
HSBC’s staff in India has come under the scanner for deficiencies in their role as ‘offshore reviewers’ of the global banking giant’s compliance to safety mechanism against money laundering and terrorist financing. A probe by the US Senate’s Permanent Subcommittee on Investigations found that HSBC’s Anti-Money Laundering (AML) Compliance Department, which included employees in India, was highly inadequately staffed.

Besides, deficiencies were found in the quality of the work done by HSBC’s ‘offshore reviewers in India’, who were used for clearing a major backlog of suspected transaction alerts at the bank. More than one-third of the alerts already resolved by the Indian reviewers and others ‘had to be redone’ after an independent assessment by the OCC (the US Office of the Comptroller of the Currency, which is the bank’s primary federal regulator in the country).

The probe further found that an OCC visit to India in 2007 had revealed ‘Weak Monitoring Procedures’ in the bank’s internal control systems. At a hearing before the Senate Subcommittee on the matter on Wednesday, HSBC apologised for its mistakes and gave its ‘absolute commitment’ to fix the problems.

(Source: Reuters)

IMF cuts India growth forecast to 6.1 per cent

The International Monetary Fund on Monday cut its forecast for global economic growth and warned that the outlook could dim further if policymakers in Europe do not act with enough force and speed to quell their region’s debt crisis. In a mid-year health check of the world economy, the IMF said emerging countries would combine with earlier bright spots, were now being dragged down by Europe.

It is not just a matter of heavy pay packets anymore as majority of Indian employees are willing to compromise on salary provided they have job security and pleasant colleagues at workplace, says a survey. “Eighty-two per cent of the employees surveyed in India attach a premium to pleasant colleagues and job security, the survey said. Meanwhile, 70 per cent of those surveyed said romantic relationships occur between colleagues from time to time in their organisation. Noting that Indian employees are willing to compromise on salary for pleasant colleagues and job security, the survey said that people here work to live rather than live to work. The findings are based on at least 400 online interviews in each of the more than 32 countries covered including India.

Still, about 68 per cent of those surveyed opined that a better salary was more important factor than enjoying the work they did. “Considering employees spend most of their hours at work, salary is often not enough to keep them happy at work. It is imperative for HR managers to create a work environment with a sense of community,” Randstad India MD & CEO E Balaji said. A probe by the US Senate’s Permanent Subcommittee on Investigations after the panel released a 335-page report describing a decade of compliance. The bank is being probed by the US Justice Department and Internal Revenue Service to find out whether it helped Americans evade taxes through HSBC India.

(Source: The Economic Times)

For Indians, job security comes first

RBI to probe HSBC

The Reserve Bank of India will probe whether HSBC Holdings’ India unit was involved in the misdeeds — including helping American citizens escape taxes and terror funding — the US regulators say it has committed, said a person familiar with the matter.

“We will certainly look into it,” said an RBI official who did not want to be identified. HSBC’s head of group compliance, David Bagley, told the US Senate that he will quit his job amid charges that Europe’s biggest bank gave terrorists, drug cartels and criminals access to the US financial system, leading to money laundering. Bagley was among at least six HSBC executives who testified before the Senate’s permanent subcommittee on investigations after the panel released a 335-page report describing a decade of compliance. The bank is being probed by the US Justice Department and Internal Revenue Service to find out whether it helped Americans evade taxes through HSBC India.

(Source: The Times of India)