Re-CAP

A weekly mailer encapsulating capital market news

March 16 to 20 , 2015

FROM THE MANAGING DIRECTOR'S DESK

We received overwhelming response on Re-Cap. We thank Readers and well-wishers to make use of this unique initiative and also share their feedback with us.

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Our heartiest compliments to the Pantomath Research Team for making this project a reality.

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ADLABS' IPO SUBSCRIBED 1.1 TIMES

The lukewarm response was despite the Manmohan Shetty-promoted company cutting the IPO price by as much as 20%

The Rs 435-crore initial public offering (IPO) of amusement park operator Adlabs Entertainment managed to scrape through on the final day, helped by last-minute bids from institutional investors. The IPO was subscribed 1.1 times according to provisional data provided by the stock exchanges. The qualified institutional buyer (QIB) segment was subscribed 1.2 times and the retail segment was subscribed 1.4 times, while the wealthy investor category got only 70 per cent subscription.

The lukewarm response was despite the Manmohan Shetty-promoted company cutting the IPO price by as much as 20 per cent. Adlabs has revised downward the price band at Rs 180 -215 a share versus earlier band of Rs 221-230 a share. The IPO was extended by three trading days as it was subscribed less than half on March 12, its earlier scheduled close

According to market players, investors were wary of the Adlabs offerings due to a lack of profitability track record, high debt and expensive valuations compared to its peers including the recently-listed Kochi-based Wonderla Holidays.

Adlabs was this year's second IPO after Ortel Communications, which, too, had seen poor response to its Rs 250-crore offering.Wind power solution company Inox Wind's Rs 1,000-crore IPO will open for subscription on Wednesday. IPO market expert's good response for Inox's offering from investors; its shares are changing hands at attractive valuations in the grey market. The company has priced its offering between Rs 315 and Rs 325 a share and is providing an additional discount of Rs 15 a share to retail investors. Inox is raising Rs 700 crore by issuing fresh shares to fund its working capital requirement among other things, while the rest is secondary sale by promoter Gujarat Fluorochemicals.

The response to the Inox issue could set the tone for future IPOs, say experts .Meanwhile, Supreme (India) Impex, biggest SME Company in terms of turnover, successfully managed to raise nearly Rs 8 crore through an IPO on NSE's Emerge exchange on Tuesday.

(Source: Business Standard March 17, 2015)

SUPREME IMPEX TO LIST ON NSE EMERGE

The initial public offering of Supreme (India) Implex for listing on the NSE Emerge, an SME trading platform, was subscribed 1.5 times, even as the Rs 435-crore issue of Adlabs Imagica got a cold shoulder from investors.

Recently, theme park operator Adlabs Imagica had extended the IPO closing date and cut the price band as the share sale failed to garner enough bids. The company slashed the price band of its Rs 2.03-crore share offering to Rs 180-215 a share from Rs 221-230. The IPO was subscribed 1.1 times on March 17, the closing day of the issue.

Supreme Impex had made an offer to sell 13.12 lakh equity shares at a fixed price of Rs 60 a share to raise Rs 7.87 crore. The company will be the largest entity on the SME platform with a turnover of over Rs 300 crore . Mahavir Lunawat, MD, Pantomath Capital Advisors said the issue was very attractive as it was priced at half of the company's book value.

The Surat-based textile company targets only the export market with women's clothing and has established presence in various geographies, such as UAE, Saudi Arabia, Nigeria and other West Asian countries. Pantomath Capital is the sole lead manager to the issue.

(Source: The Hindu Business Line, March 19, 2015)

NSEL BROKERS, INVESTORS REJECT FTIL SETTLEMENT OFFER

The NSEL Investors' Forum and brokers have come down heavily on the so-called settlement offer of Rs 1,000 crore made by embattled Financial Technologies India (FTIL) to investors who have lost Rs 5,600 crore in the exchange. According to media reports Cyril Shroff, a lawyer acting on behalf of FTIL promoter

Jignesh Shah, met Jayant Sinha, Minister of State for Finance with a settlement package.

Under the deal, FTIL and brokers would contribute Rs 500 crore each to fully pay off investors who lost Rs 2 lakh- Rs 10 lakh on the bourse and return half the amount to those who invested between Rs 10 lakh and Rs 1 crore. Ruling out the possibility of brokers chipping in, Alok Churiwala, Vice Chairman and spokesperson, BSE Brokers Forum, said it was a unilateral decision taken by the company and brokers were neither consulted nor informed of the package. Brokers' stand

"Where is the question of brokers chipping in for the settlement? The whole scam broke out because the commodities which were sold on the exchange went missing from the warehouse. It is the responsibility of the exchange to ensure the goods are intact," he said. Terming the offer as absurd, Sharad Kumar Saraf, Chairman, NSEL Investor Forum said the deal is an attempt to misguide investors and divide them so that their case is weakened."The unilateral settlement offer is coming when the Government is tightening the screws on the company by planning to replace the entire board," he added.
'Hurrying deal Interestingly, he said, Shah tried to make Rs 1,100-crore offer in 2014 after consulting the NSEL Investor Forum and brokers, but questioned why the company is now in a hurry to make this deal. FTIL is trying to deflect the attention of the Ministry of Corporate Affairs which has proposed to supersede the company's board, said Saraf.

He termed the demand of FTIL to withdraw criminal and civil proceedings against it, NSEL and directors of the two companies, among others in the Mumbai Sessions Court and Bombay High Court as laughable.
(Source: The Hindu Business Line, March 19, 2015

CSR MONITORING PANEL TO MEET SECOND TIME NEXT WEEK

A six-member panel, looking into ways to strengthen monitoring of CSR activities under the companies law, will hold its second meeting next week.

"The first meeting of Baijal committee has already taken place and the second meeting is slated for March 23," Indian Institute of Corporate Affairs (IICA) D G Bhaskar Chatterjee said during an interactive session organised by The Bengal Chamber.

IICA had been entrusted to provide secretarial and technical support to the committee headed by former union home secretary Anil Baijal. The committee is supposed to recommend suitable methodologies for monitoring compliance of the provisions of section 135 (CSR) of Companies Act 2013. It will also suggest measures to the government for adoption by the companies for systematic monitoring and evaluation of their own CSR activities, Chatterjee said.

The committee's terms of reference also include identifying strategies for evaluation of CSR activities through expert agencies and quality of compliance. Former Nasscom president Kiran Karnik and Apollo's chairman and managing director Onkar S Kanwar are also part of the committee. Chatterjee said the government might take a view on the polices on implementation of CSR spend by the corporates after 2-3 years when it will have data to evaluate the impact.
Meanwhile, IICA is carrying out various courses on CSR to create trained manpower in this regard.

(Source: Financial Chronicle, March 19 2015)

SEBI NO TO GOVT PLEA ON OFS RULE CHANGE REDUCING NOTICE PERIOD WILL BE A HANDICAP

The Securities and Exchange Board of India has turned down the government's demand for a separate set of rules for the sale of shares in state-owned companies through auction on stock exchanges as it prepares for meeting the stiff disinvestment target for the next financial year. The stock market regulator told the government that the reasons cited for the demand do not merit an overhaul of the existing system.

To reduce the time for speculators to beat down the government stocks ahead of the offer for sale (OFS), the finance ministry had requested Sebi to reduce the time taken for the sale, from the announcement to actual auction, by a day.

According to Sebi guidelines for OFS, the seller of shares through the process must inform about the intention to do so two days before the actual sale is scheduled to take place. The seller also has to announce the floor price for the sale a day before.

The government had also sought suspension of trading in shares of companies where the government is selling its stake on the day of the auction and in narrower circuit filters. Sebi, in its reply, said that maximum movement that has been witnessed in the share prices of government companies that have been disinvested through OFS between the day of announcement and actual auction is just 5 per cent. This movement is not big enough to change the rules only for government-owned companies.

It has said that the reduction of the notice period would be a handicap for the investors, especially retail players, who will not have enough time to prepare for the sale. The regulator has also said that the suspension of trading in a stock that is going for OFS would go against the existing investors of the companies who might want to sell their shares when the auction is in progress. It will also impact investors in the futures and options (F&O) segment. Narrowing circuit filters of these stocks just for a day might also hurt existing investors and send a wrong signal. It is a pragmatic decision by Sebi, Arun Kejriwal founder KRIS, a Mumbai based equity advisory firm said. "Suspension of trading is not the right way to go, it will be unfair to investors who have position in the script especially those in F&O," he said, adding that it is better to keep OFS on T-2 basis otherwise investors will find it difficult to arrange funds to participate in the issue Retail investors are required to bring upfront money to participate in OFS they may not be able to arrange funds in such short notice, Kejriwal said. Sudip Bandyopadhyay, chief executive officer and managing director of Destimoney Securities, however, said the current system of OFS is tilted against the issuer where players can hammer the stock before the issue opens, so there is a need to streamline the system. "Sebi should have seriously looked at the proposals made by the government", he said.

The government has been gradually reducing the scope for speculation in the disinvestment programme. Instead of announcing a disinvestment candidate and then proceeding with the process that gave enough time to speculators to play with the stock of the company, it now has injected an element of surprise into the programme. Instead of just one or two companies at a time, it has now started preparing more companies for stake sale.

The current list of disinvestment candidates has now swelled to around 10, and depending on market conditions, any of the issues can hit the market.

The 10 companies in which the disinvestment process is on are NTPC, ONGC, IOC, Nalco, Rural Electrification Corporation, MOIL, Dredging Corporation and BHEL. The government has set a target of Rs 41,000 crore from selling shares in companies it owns, much higher than Rs 24,276 crore it has raised in this financial year.
(Source: Financial Chronicle, March 19, 2015)

PAN MANDATORY FOR SERVICE TAX REGISTRATION: FINMIN

Permanent Account Number (PAN) is now mandatory for private firms for getting service tax registration besides email and mobile number "Applicants, who are not government departments shall not be granted registration in the absence of PAN," according to an order issued by the Finance Ministry. The registration shall mandatorily require that the PAN number of the proprietor or the legal entity being registered should be quoted in the application except for government departments, it said.

"Existing registrants, except government departments not having PAN shall obtain PAN and apply online for conversion of temporary registration to PAN-based registration within three months of this order," said the order for service tax registration which came into force from this month. The failure to comply with the order will lead to cancellation of temporary registration "after giving the assessee an opportunity to represent against the proposed cancellation and taking into consideration the reply received, if any", it said. The applicant shall quote the email address and mobile number in the requisite column of the application form for communication with the department. "Existing registrants who have not submitted this information are required to file an amendment application by March 30, 2015," the order said.
(Source: Financial Chronicle, March 18, 2015)

MAHARASHTRA SCRAPS LOCAL BODY TAX, IMPOSES VAT SURCHARGE

Presenting the maiden Budget of the BJP-led government in Maharashtra, finance minister Sudhir Mungantiwar on Wednesday announced the scrapping of local body tax (LBT). The Budget provides for a revenue deficit of R13, 883 crore against R4, 103 crore in the last fiscal.

The government announced that the LBT will be abolished from August 1, instead of the initial proposal of April 1. To compensate for the losses, the government will impose surcharge on value added tax (VAT) across the state. "A revenue neutral rate has been recommended considering the share of increased tax collection will be given to the areas where LBT is not levied. A decision in this regard will be taken after due consultation and, thereafter, LBT will be abolished from August 1, he said. The government admitted there were limited options to increase tax, considering the present state of the economy. The state bears a debt burden of R3 lakh crore and interest burden of R24, 000 crore annually.

The minister said he will tap some unconventional revenue sources, such as charging premium fee linked to the market value of land for change in purpose of the land, additional FSI, and mobilise R643 crore through various tax proposals, including entry tax on import of long steel in state, increase in tax rate to 12.5% from 5% on plain and pre-laminated particle boards, among others.

The finance minister also announced allocation to handle the agrarian crisis, adding that 2.23 lakh farmers would be freed from loan taken from moneylenders. The government has decided to repay farmer loans amounting RRs 156-crore principal amount and its interest of R15 crore, which will make around 2, 23,000 farmers free from the debt burden. Around 16 lakh hectare of land has been brought under micro-irrigation in 2013-14, he said. An outlay of R330 crore is proposed in 2015-16, which is significantly higher than last year's R12.50 crore. The finance minister announced the formation of a special purpose vehicle to give impetus to the Mumbai Metro Line 3 Project. An outlay of R109.60 crore has been proposed for this project. To fast-track Nagpur and Pune Metro project, an outlay of R197.69 crore and R174.99 crore, respectively, has been proposed.

Mungantiwar also said smart cities development concept will be implemented. To take up more cities in the state under the scheme of the Centre, an outlay of R268 crore is proposed. The finance minister said that an allocation of R7, 272 crore has been made to complete 38 irrigation projects on a priority basis.
(Source: The Financial Express March 19, 2015)

GOVT DEPARTMENTS ASKED TO ABIDE BY NORMS ON SOURCING FROM MSMEs

Government departments and PSUs here have been caught on the wrong foot for not conforming to the guidelines on procurement of goods from local micro and small enterprises(MSEs). Despite the guidelines spelt out clearly in the MSME Development Policy, 2009, their non-compliance by the concerned departments has irked the chief secretary.

"It has come to my notice that some of the departments and PSUs are not following the instructions (on procurement from MSEs) strictly. You are requested to reiterate these instructions to all concerned for necessary action in accordance with the government's MSME Development Policy and also to facilitate inspection of tenders and related papers relating to major purchases during last 1-2 years by director, export promotion & marketing", state chief secretary G C Pati said in a letter to secretaries of all departments.

The onus is on the MSME (micro, small & medium enterprises) department and director, export promotion & marketing, to report specific instances of non-compliance for taking appropriate and necessary action for violation of instructions. The chief secretary has called for initiating disciplinary proceedings against officers responsible for such violations.

Vishal Dev, chairman and managing director, Odisha Industrial infrastructure Development Corporation (Idco) said, "Procurement from local MSEs is not happening to the desired level because of quality issues. The local units need to scale up on quality of goods to fit the requirement of the large sector industries."

According to the original MSME Development Policy, the state government will ensure that requirement of goods and services by government departments and agencies under its control are procured from the MSME units located within the state.

The list of goods and services reserved for exclusive purchase from the MSME units located within the state will be prepared from time to time keeping in view the production capacity of the local units and requirement of state government departments and agencies under its control. This list would consist of items for which sufficient production capacity exists within the state to meet the entire demand of the government sector. The policy states that local MSEs registered with the directorate of industries, Odisha Small Industries Corporation (OSIC) and National Small Industries Corporation (NSIC) would be exempted from payment of earnest money and would pay 25 per cent of the prescribed security deposit while participating in tenders of government departments and agencies under its control.
(Source: Business Standard, March 15, 2015)

BEGIN CSR BEFORE COMMENING PROJECT, FOR STRIFE-FREE LAND ACQUISITION

The fallout of the strife between locals occupying tiny parcels of land in sparsely populated hamlets and investors is project delays and cost escalation

Many Indian and foreign groups with plans to build large steel mills, aluminium smelters and open-pit mines have a frustrating experience in land acquisition. In many cases, the local people, mostly tribals, who would have to make room for multi-billion dollar projects have turned hostile. This is because the promoters have not proved they mean well for the community. Kalinganagar in Odisha has witnessed many violent protests - including the killing of a dozen tribals in police firing on January 2, 2006 - over acquisition for a large steel and coal-fired power capacity coming up there. The fallout of the strife between locals occupying tiny parcels of land in sparsely populated hamlets and investors is project delays and cost escalation. Take Tata Steel, almost ready with the first phase of the six-million tonne (mt) project at Kalinganagar. Its officials will have no compunction in admitting the group's attempt at acquiring 3,000 acres for an integrated steel mill - ahead of building sustainable communication with the local people and earning their trust - was responsible for many stand-offs, setting the project back by five years.

The company has enormous goodwill at Jamshedpur, built over a century, where its 10-mt mill stands as testimony to Jamsetji Tata's belief that the "community is not just another stakeholder in business but is in fact the very purpose of its existence". However, at Kalinganagar, the steelmaker has realised that goodwill will have to be built all over again when it goes to a new centre. Acquiring a few thousand acres to host a large steel mill or an aluminium smelter by convincing the locals that such projects will be beneficial for them through friendly dialogue is a better option than a confrontational approach. Jamsetji Tata did not live to see Tata Steel making steel.

However, he had the vision to tell his son Dorabji Tata, that in building the Jamshedpur Township, he must make sure "to lay wide streets planted with shady trees... Earmark areas for Hindu temples, Mohammedan mosques and Christian churches." Remember, the advice came well over a century ago, when, without government-ordained allocation of a small portion of profit to discharge corporate social responsibility (CSR), some industrialists would generously spend money for community welfare.

The important thing is whether industrial groups will be ready for course correction after making costly mistakes. Fortunately, Tata Steel has decided to shun the Kalinganagar model as it explores growth opportunities elsewhere in the country. Its managing director, T V Narendran, says Kalinganagar gives the message that well ahead of venturing into a new site with a big project; the investor should start building trust with the local community. Therefore, Tata Steel is engaged in doing "some work" for local confidence building to get a smooth passage at potential sites in Chhattisgarh and Karnataka. When the time comes for land acquisition and thereafter building the plant, the community in surrounding areas is more likely to be supportive, instead of being suspicious as was the case with Kalinganagar. State-owned National Aluminium Company (Nalco) has no Kalinganagar-like experience. However, as chairman Ansuman Das says, "I'm clear in my mind that whenever we plan a major investment beyond where we already are, we must enlist the support of local people by investing in their welfare. How good a corporate citizen we are is known in Odisha because of the extensive community welfare work we are doing at Angul, where we have our smelter, Damanjodi, the site of our alumina refinery, and at Panchpatmali hills where we mine bauxite. We will be fooling ourselves if we think the goodwill earned in Odisha will make us automatically acceptable in other states."

A few years ago, Nalco was allotted bauxite deposits of around 90 mt at Gudem and Katamraju Konda in Andhra Pradesh to build a 1.4 mt refinery. Being disturbed areas where extremists have a free run, no one knows when Nalco will be in a position to open bauxite mines there. However, this has not stopped Nalco from doing 'soft' CSR work at Gudem and Katamraju Konda, such as bringing water to village hamlets from nearby streams. Seeing Nalco's well-meaning efforts to help the local people, even the extremists have stopped demurring.

(Source: Business Standard, March 16, 2015)

BENCHMARK INDICES LIKELY TO DROP 5-10% IN SHORT-TERM-D-STREET RIDE MAY BE BUMPY FOR 3 MONTHS

Market players expect a correction on poor results, rich valuations, Fed fears

Investors in India's stock mar kets will need to hold their nerve as they're liable to get hit by turbulence soon but those who can hang on for a little over three years could see their holdings soar skyward. The Sensex may surge to 54,000 by December 2018 - that's the Bank of America Merrill Lynch prediction, up about 88% from Tuesday's close. Not surprisingly, the investment bank describes itself as a "structural bull"on India.

But in the short-term, with valuations at rich levels, trouble looms in the shape of possible interest rate increases by the US Federal Reserve that could soak up global liquidity and earnings show no sign of revival. The stock market is, therefore, expected to drift lower over the next few months after running up at a scorching pace in the last one year.

Benchmark indices are likely to drop 510% over the next three months, said leading market participants. "There might be some correction or consolidation in near-term as March quarter results are not going to excite the market, "said Motilal Oswal, chairman and managing director of financial services firm named after him. The market has already started showing signs of fatigue, with the Sensex dropping 2.5% in the last two weeks. Savvy investors are cutting bets on midand small-cap stocks that have run up the most in the last six months and are avoiding fresh purchases, said brokers. "It is likely that the market will be range bound with a negative bias, "said Nilesh Shah, managing director, Kotak Asset Management.

"There is very little money to be made on PE (price to earnings) rerating. " Edelweiss Financial Services chairman Rashesh Shah said the start of earnings revival at companies is two to three quarters away. "Till then, the market may consolidate, "he said. Bank of America Merrill Lynch, in its latest note to clients, said the pace of economic recovery as well as earnings revival will disappoint investors in the near-term. "Investors seem to agree with our view that valuations were probably pricing in too much of good news. While we think the market will remain expensive through the year, we think it consolidates for the next three-six months, "said Bank of America Merrill Lynch analysts led by Jyotivardhan Jaipuria. So far in 2015, the Sensex has gained 4.5% after rising almost 30% last year. Midand small-cap stocks have more than doubled since early 2014, outperforming large caps. On Tuesday, the Sensex gained 1.05% to close at 28,736.38 points.

"The earnings picture in the near-term looks abysmal with rural demand falling through the floor. This aspect will cap the short-term upside for the market, "said Shankar Sharma, who is the vice-chairman and joint managing director, First Global Group.

The most immediate concern for inves tors, however, is the Fed's guidance on interest rates. On Wednesday night, the US central bank is likely to comment on how soon it plans to raise rates as the economy shows signs of strengthening. If the Fed hints at a rate hike as early as June, analysts expect a sell-off immediately. A reversal of the loose monetary policy in the US would strengthen the dollar against the rupee, which may deter foreign institutions from making fresh purchases of Indian stocks and could even prompt some immediate outflows.

But if the Fed indicates that it is not in a hurry to increase rates, markets would resume their upward march for the moment. Still, India is the most favoured equity market for investors in 2015 followed by China, according to a BoA-ML survey. Investors expect falling interest rates coupled with higher government spending, especially in roads, railways and defence to revive the economy.

“India's long-term outlook remains very bullish on simply one single reason: A sharply lower coat of capital over the next couple of years, “said First Global's Sharma. “I see 10-year yields falling to 4 or 5%, which will drive up valuations across the board. “

(Source: The Economic Times, March 18, 2015)