FROM THE MANAGING DIRECTOR'S DESK

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IFC'S SUCCESS TO HINGE ON TAX BREAKS

Market players eye taxation as Sebi lays rules

India's dream of becoming an international finance centre (IFC), on the lines of Singapore and Dubai, hinges on tax exemptions it can give to the participants. The tax treatment of the entities doing business in the will determine the success of the IFC in the special economic zone (SEZ) of Gujarat International Finance Tec-city (GIFT), say experts.

Capital market regulator Securities Exchange Board of India (Sebi) has laid down the rules for market players to set shop in the IFC. But the participants are awaiting clarity from the government on tax treatment before they firm up their plans. An adverse tax regime and inefficient legal system could deter players.

EYE ON THE TAX-MAN

Tax burden could decide GIFT success

Competing jurisdictions have a tax rate of 10%

Taxes higher than this could deter foreign players

However, lower taxes could hurt government finances

The govt to issue tax clarifications for IFCs in 3-4 months

"All taxes put together cannot be more than what is levied in financial centres such as Singapore, Malaysia and Dubai because we are in direct competition with them. The government is working on it and we are hoping that there will be some concessions," said Ramakant Jha, MD & CEO, GIFT.

Currently, there are no taxes to be paid in the Dubai Financial Centre. Malaysian IFC charges a tax of three per cent, while Singapore enjoys tax rate of 10 per cent. Sources said GIFT regulations might exempt players from the dividend distribution and the securities transaction tax (STT).

"All our taxes, be it withholding tax, dividend distribution tax or minimum alternate tax and the rest put together should not be more than 10 per cent," said Jha. The government is likely to issue guidelines in the next three-four months, officials said

Also, experts said the government's dilemma lay in trying to lure in foreign investors through tax sops but without any revenue losses to the exchequer.

"The whole concept is to encourage people to set up operations in the country and provide them with a tax environment, which they are not subject to anywhere else. There have been several attempts in the past to do that," said Siddharth Shah, partner — corporate and funds, Khaitan & Co.

"So, if you are serious about setting up an offshore financial centre, it is imperative to have a comparatively conducive tax regime," he said.

Further, officials said the Reserve Bank of India, which is expected to announce guidelines related to IFC next week, could exempt these entities from coming under the aegis of the Foreign Exchange Management Act. Besides, capital account convertability norms might also not apply to these entities, officials said.

Apart from the tax-treatment, GIFT officials have also asked for a faster and more efficient alternate disputes resolution mechanism, which would redress legal matters within a span of six months. The first level would consist of a set of accredited arbitrators who would settle the matter within three months. Those dissatisfied with this can approach the appellate body, which would take three months to resolve the dispute.

(Source: Business Standard, March 23, 2015)

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LISTING IN INDIA: VALUATIONS MIGHT BLUNT SEBI PUSH

Some markets abroad, as in the US, are considered far more accepting of a start-up's prospects before it turns profitable; tax treatment is another issue

Earlier this month, shares of direct-to-home service provider Videocon d2h got listed on the Nasdaq stock exchange in the US, albeit through a Silver Eagle Acquisitions, which took 33 per cent stake.

Videocon d2h had plans to list domestically and even filed its offer document twice with the Securities and Exchange Board of India (Sebi). However, the deal with Silver Eagle, sources said, fetched at least 50 per cent more in valuation than what it would have got by listing in the home market.

Experts believe availability of attractive valuations in foreign markets could blunt the initiatives by Sebi and the government for a more relaxed regulatory framework, to encourage start-ups and other companies to list domestically.

The advantages available in developed markets like the US could mean domestic start-up superstars like Flipkart or Snapdeal ditch listing in the home market, they add.Legal firm Khaitan & Co's executive director, Sudhir Bassi, says apart from the regulatory framework, there are various other considerations for choosing a market to list. "Beside ease of listing, availability of a set of target investors and valuations could be important considerations," he said.

Last week, U K Sinha, chairman of Sebi, said a new policy for Initial Public Offers by start-up companies would be ready in three months.

RECENT IPOs BY INTERNET FIRMS

Company	Year	Amount raised*
Facebook	2012	16
Twitter	2013	1.8
Google	2004	1.7
Yandex	2011	1.3
Infonet Services	1999	1.1
Shanda Games	2009	1.0
Zynga	2011	1.0
Giant Interactive	2007	0.9
Renren	2011	0.7
Groupon	2011	0.7

*Amounts in $ billion
Source: Bloomberg, Macquarie Research

"We want our companies to list in India rather than being forced to list abroa a certain set of rules will have to be carved out for them (start-ups and commerce companies) because they have a very specific business model," he had said.

As most domestic start-ups are not yet profitable, doubts remain whether domestic institutions would embrace these if they decided to list here. S Naren, chief of investment at ICICI Prudential AMC, termed companies in the e-commerce space as "concept stocks".

"These are unique companies, burning a lot of cash and are growing rapidly. I am not sure if a mutual fund manager, managing public money, would be comfortable investing in these companies," he said.

Experts say investors in markets like the US are more matured in looking at companies with innovative business models, though these are far from turning profitable. The ability of such investors might lure Indian companies to look at US listings.

"We would like to see the actual regulations (on start-up listings) come through. It is not so much about regulatory evolution as about market evolution. Some markets have a great understanding of certain businesses. To create that kind of a system requires time," said S Subramanian, managing director-investment banking at Axis Capital.

Although, Indian rules didn't permit direct foreign listings till recently, some Indian companies have opted to list in the US markets through the overseas holding subsidiary route, due to the availability of attractive valuations. Makemytrip.com is an example.

With easing of norms to allow direct foreign listings, companies in especially the technology and e-commerce space will be more inclined to list abroad, believe market players.

As most Indian start-ups have private equity investments, the tax treatment in each jurisdiction is also an important factor. "The Indian capital market is competing with other markets to attract quality issuers to list. The regulatory arbitrage is something that companies might want to explore," said Bassi.

He added a crucial factor, however, which might see some companies list domestically, was "visibility". "Listing in the home market will help create brand building and awareness. It will also send out a signal that you are committed to that geography."

So far, only two internet-based companies have listed in India. These are Infoedge, which operates job site naukri.com and JustDial, a local search engine.

(Source: Business Standard, March 26, 2015)

CBDT CLARIFIES FPIs WILL HAVE TO PAY MAT EXEMPTION APPLICABLE FROM NEXT FINANCIAL YEAR

As protests by foreign portfolio investors (FPIs) against the government's demand of minimum alternate tax (MAT) grows louder, the Central Board of Direct Taxes on Thursday clarified that the exemption given to them from the tax in the budget will be applicable from the next financial year and they will have to pay up for the previous years.

"There should be no confusion about the issue (MAT). The provisions of this year's finance bill are prospective," a top CBDT official said.

The tax department has so far issued notices to 90 foreign funds and several foreign private equity firms to pay up MAT on book profits for the year 2011-12. Tax rules bar the officials from raising tax demand on an income after a gap of three years. Many fear that the list of 90 may be expanded to include more FPIs whose number is in thousands.

At present, short-term capital gains tax on equity investment is 15 per cent and FPIs are not taxed on their long-term capital gains. The tax department wants to levy 20 per cent MAT on book profit of FPIs.

The notices came after the Authority on Advance Rulings (AAR) had ruled in a case that MAT is applicable to both Indian and foreign companies notwithstanding whether a company has a permanent presence in India or not. The AAR had also said in another case that all companies would be required to prepare profit and loss account for the purpose of MAT even if they do not have to do so under the Companies Act.

Under the Companies Act, only companies that have a permanent place of business in India are required to prepare a profit and loss account. FPIs operate in India from offshore locations.

While the notices were being issued, to clear the confusion finance minister Arun Jaitley announced in the budget for the next financial year that FPIs will not be charged MAT on income from securities transaction that are not subject to capital gains tax. This exemption is applicable on income arising from the transactions in the next financial year.

Meanwhile, the tax officials continue to press with their demand of MAT from FPIs. The FPIs, who were served notices by the tax department, are considering making representation to the finance ministry seeking clarification in the light of the announcement made in the budget.

"FPIs are awaiting assessment orders to come in and based on that they will decide next course of action including appeal to commissioner of appeal or dispute resolution panel (DRP)," says partner Rajesh Gandhi Deloitte & Haskin & Sells LLP. Foreign funds feel that this is retrograde step as they are not liable to pay tax in the country where they don't have to draw up accounts. These funds don't maintain accounts specific to India as they only draw up the global profit and loss account.

They are also looking at mounting a legal challenge to the tax department's move. Foreign funds could either go for appeal to commissioner of appeal or to the dispute resolution panel.

According to legal experts, FPIs are likely to first appeal to the DRP after getting a draft order from the assessment officers.

(Source: Financial Chronicle, March 27, 2015)

NBFCs WITH SMALLER GOLD LOAN BOOKS EXIT BUSINESS

Move spurred by stringent regulations and adverse scenarios

The last two years has been tough for the gold loan industry with stringent regulations and high levels of price volatility. Despite the rules having been relaxed, only a few NBFCs with smaller gold loan books, including Cholamandalam Investment and Finance Company, Magma Fincorp and Capital First, are exiting the business. "Stringent regulations and adverse scenarios lead to consolidation in the industry and works in favour of large specialised companies. Operational expenses are high in the gold loan business and companies which have small gold loan books will find it difficult to sustain the business during tough times," said an industry insider, who did not want to be named.

Cholamandalam Investment and Finance Company decided to wrap up its gold loan business a few months back and had stopped accepting fresh gold. The company disbursed over Rs 60 crore from its loan book. As a few more lakhs worth of gold get disbursed, its business will be wind up. The company has also closed down 45 gold loan branches in Tamil Nadu, Karnataka and Andhra Pradesh.

"We started the gold loan business three years back to test the market. We also had a tie-up with Ratnakar Bank for this. There were several unethical practices going on in the industry when the LTV cap was imposed. As a policy of the Murugappa Group, we did not want to get into that," said D Arulselvan, CFO and senior vice-president, Cholamandalam Investment and Finance.

According to Arulselvan, most of the transactions in the industry were in cash and there was money getting circulated. Some players also have been circumventing LTV cap norms by valuing stones and charging them differently. "Our focus has been on multiple products and adopting a differentiated process for the business was not justified due to inadequate volumes," he added. With a total asset size of Rs 25,000 crore, Chola's gold loan size had remained less than Rs 100 crore.

Similarly, against a total AUM of Rs 19,503 crore at the end of last fiscal, gold loan was just Rs 98 crore for Magma Fincorp. It had further come down to Rs 26 crore by second quarter of this fiscal. Magma Fincorp too has decided to wind up its gold loan business. "The board has decided to exit the line of business comprising of the gold loans originated by the company which line of business involves the grant of terms loans to individuals and/or small businesses against the security of gold," it told stock markets recently. Capital First is another company which has chosen to exit. Talking to Financial Chronicle, V Vaidyanathan, chairman, Capital First confirmed the development, but did not elaborate on the company's decision. Lending to micro, small and medium enterprises is the focus area for the company.

Though the regulatory scenario has changed and the LTV cap has been raised to 75 per cent, smaller players are not confident enough about pursuing the gold loan business. Mahindra Finance, which has five gold loan branches in Kerala, does not want to scale up the business in the changed scenario. Against a total book size of Rs 40,000 crore, gold loan has not been more than Rs

10 crore for the company. However, the company wants to maintain status quo on the business.

(Source: Financial Chronicle, March 26, 2015)

BSE SENSEX BREAKS 7-DAY LOSING TREND, BUT VOLATILITY CONTINUES

The benchmark BSE Sensex today ended at 27,458.64, up by a marginal 1.06 points to technically snap the seven-session losing streak in a highly volatile trade amid continuing geo-political tensions.

The NSE Nifty, however, settled the day in the red at 8,341.40, ending the week on a negative note.

This is the third consecutive weekly loss for both the indices.

The 30-stock index opened on a positive note on the back of a new series for April beginning in the derivatives segment. However, it gradually slipped due to foreign capital outflows on concerns about rising tension in the Middle-East and profit-booking at every rise.

Later, it wiped off losses completely and settled the day at 27,458.64, higher by 1.06 points, or 0.10 per cent at 27,458.64.

Intra-day, it touched a high of 27,694.41 and low of 27,248.45.

In the previous seven sessions, the Sensex had lost 1,278.80 points, including 654.65 in yesterday's session.

After moving in an erratic fashion, the 50-share NSE Nifty ended the day at 8,341.40, 0.75 point lower than its previous close.

Brokers said the first day of new monthly derivatives contract attracted buying in IT, metal, banking, auto and capital goods shares, helping the Sensex to close in the positive terrain.

Profit-taking emerged at every high level, brokers said, adding that escalating crisis in Yemen has rattled investors.

Recent outperformers led the decliners. Sun Pharmaceutical Industries which gained 16.9 percent this month till Thursday, fell 1.2 percent, while Dr Reddy's Laboratories fell 2.1 percent after gaining 5.1 percent so far this month till Thursday.

Hindalco at 2.97 per cent was the best Sensex gainer, followed by Infosys 2.68 per cent, SBI 2.59 per cent, L&T 2.50 per cent, ICICI Bank 2.23 per cent, Tata Motors 1.82 per cent, NTPC 1.29 per cent, Tata Consultancy Services added 1.4 percent and Maruti Suzuki 1.29 per cent.

Bharti Airtel was the biggest loser of the day at a huge 5.64 per cent.

Among BSE sectoral indices, Capital Goods index rose by 1.32 per cent, followed by Banking index (1.07 per cent), IT index (0.52 per cent), Auto index (0.43 per cent) and metal index (0.11 per cent).

Foreign portfolio investors sold shares worth Rs 521.23 crores yesterday, according to provisional data.

(Source: The Financial Express March 27, 2015)

SH KELKAR FILES PROSPECTUS FOR IPO, SEEN AT AROUND $100 MILLION

Although according to the prospectus, company plans to raise 2 billion rupees

Fragrance maker S.H. Kelkar and Company, partly owned by Blackstone Group, has filed a draft prospectus with the regulator for an initial public offering that a banker directly involved in the process said would fetch around $100 million.

S.H. Kelkar did not provide the full IPO amount in the prospectus, according to the draft prospectus filed with the Securities and Exchange Board of India (SEBI).

But the prospectus said the company plans to raise 2 billion rupees ($31.9 million) via the sale of new shares, as well as an undisclosed amount via the sale of existing shares from stakeholders, including Blackstone-owned entities and a S.H. Kelkar promoter, Prabha Ramesh.

S.H. Kelkar officials were not immediately available for comment.

The money from the fresh issue would be used for repayment of loans and general corporate purposes.

Reuters had reported in February S.H. Kelkar was planning to raise between $100 million and $125 million through an IPO, citing three sources with direct knowledge of the matter.

(Source: Business Standard, March 26, 2015)

E- VOTING NORMS FOR COMPANIES REVISED

The Corporate Affairs Ministry has overhauled the "e-voting" norms, giving further boost to shareholder democracy in the country.

Besides introducing the concept of cut-off date, the revised norms now stipulate that the facility of e-voting has to remain open for three days and close at 5 p.m. preceding the date of the general meeting.

Closure date issue

Prior to this change, the e-voting facility had to be closed three days prior to the day of the general meeting. The latest overhaul in e-voting norms notwithstanding, there is no clarity as to whether revised norms would be mandatory on listed companies or not, say experts.

"The quest for clarity in this regard seems to be near permanent. Any amendment to the Companies Act/Rules impacting listed companies' governance is fraught with the vexed question of its applicability to listed companies," SN Ananthasubramanian, practising company secretary and former President of the Company Secretaries' Institute said.

Latest changes

Sai Venkateshwaran, Head of Accounting Advisory Services, KPMG in India, said the revised norms stipulate that results of the e-voting should not be revealed till the entire voting process, including physical voting at the general meeting, is completed. "This brings sanctity and meaning to discussions and debates on resolutions in general meetings," he said.

Lalit Kumar, Partner, J Sagar Associates, a law firm, said the concept of cut-off date has been introduced, which cannot be earlier than seven days from the date of the meeting to determine the list of shareholders eligible for e-voting. Earlier, there was no such concept, he said.

The new company law, enacted in 2013 had ushered in the concept of e-voting to ensure wider shareholder participation in the corporate decision-making process.

Optional till Dec

To enable companies to comprehend the new procedural requirements and to ensure better compliance, the Ministry had said that e-voting will be optional till December.

The Ministry had in September last year formed a working group to examine and review the e-voting norms introduced under the new company law.

(Source: The Business Line, March 24, 2015)

BOURSES CALLING NEW RULES ON CARD FOR STARTUP LISTING

A new definition, separate trading platform and higher entry barrier to discourage risk averse small investors will form the contours of a new set of rules to enable startups to list on stock exchanges. Capital market regulator Sebi, which is preparing a discussion paper on the subject, will also relax disclosure norms relating to use of funds raised in maiden public stock offering by such companies. Even though most startups backed by venture capitalists and angel investors are loss making and may not attract too many retail investors, the Securities and Exchange Board of India (Sebi) fears that an absence of listing opportunity in India could drive these firms to tap overseas bourses that offer softer regulations and easier listing facilities. The regulator plans to define 'startups' where no single stakeholder or interest group holds 25% or more equity stake as "professionally managed companies", said a person familiar with the discussions.