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A weekly mailer encapsulating capital market news

April 6th - April 11th, 2015

BSE
Amongst BSE's Top Five Performers in Merchant Bankers 2013-14

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25 Most Promising FINANCIAL CONSULTANTS

SEBI REVAMPS SECURITISATION TRUSTEE NORMS

Regulator makes it easier for banks and financial institutions to act as trustees, establishes new code of conduct to safeguard investors' interest

To deepen the securitisation market, the Securities and Exchange Board of India (Sebi) has made it easier for banks and public financial institutions to act as trustees, while a new code of conduct has been put in place to safeguard investors' interest.

Amending its Securitised Debt Instruments Regulations, Sebi said the move would further develop the market and "rationalise and clarify the role and responsibilities of trustee".

The amendments have been made to allow banks and public financial institutions to act as trustees, without obtaining registration. These also provide for terms of appointment and capital requirement for trustees and make it mandatory for the trustees to provide a summary term sheet

The term sheet would include disclosures on originators, issuer, trustee, transaction structure, key pool features and credit enhancement and would help enhance the confidence of investors in securitisation transactions.

Securitisation involves creating a financial instrument by pooling together illiquid assets and then selling them to investors as securities.

Under the new norms, a trustee would need to have a net worth of at least ₹ 2 crore, at least two employees with minimum five years of experience in securitisation and with required professional qualification, among other conditions.

A trustee will have to supervise the implementation of the covenants regarding creation of security for the securitised debt instruments, resolve the grievances of investors and protect their interest, ensure sufficient funds for payout to investors and conduct regular due diligence on assets, etc.

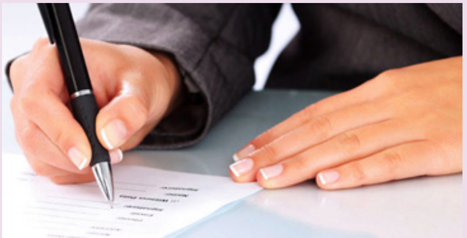
Under the new norms, the trustee would call for periodic reports, supervise the implementation of conditions regarding creation of security for securitised debt instruments and take steps to ensure protection of investors as well as resolve their grievances.

Besides, they would have to appoint a compliance officer for performing duties, including monitoring compliance of the various rules and redress of investor grievances.

The trustees need to ensure on a continuous basis that the trust property is adequately available at all times to pay the securitised debt instrument holders.

As per a code of conduct for the trustees, they are required to avoid possible conflict of interest.

(Source: Business Standard, April 11, 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.

Your continuing feedback will help us improve Re-Cap even better.

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

Trust you find this a useful read. Please do share your feedback at mahavir.lunawat@pantomathgroup.com

FRESH IVY POST-GRADUATES CAN'T BE ANALYSTS IN INDIA

Regulations ensure only postgraduates from Indian universities qualify for the job the day they clear their exams

Recently, the chief executive of a financial services firm came across an unexpected restriction on his freedom to hire the best professionals he could find. "The recent regulations covering research analysts only recognise Indian universities. This means a person fresh out of Harvard can't be a research analyst here," he said.

Other financial services firms and legal sources Business Standard spoke to interpreted the new regulations similarly. They excluded not only Harvard but all the eight Ivy League institutions in the US, considered among the top universities globally. As such, Yale, Columbia, Cornell, Princeton, Brown, Dartmouth and Pennsylvania universities are all excluded.

FOREIGN VARSITIES LUCRATIVE NO MORE?

Research analyst regulations mention minimum criteria. It requires postgraduate education, professional qualification or minimum experience.

Qualifications must be India-recognised, excludes those who have been educated abroad Essentially, a fresh Indian postgraduate can start as an analyst on day one. But those educated abroad must have five years of experience. Draft regulations had allowed foreign-educated analysts

Fresh postgraduates from other top educational institutions, including the London School of Economics and the Oxford and Cambridge universities, would also fail to meet the criterion for research analysts in India. Essentially, no foreign university-educated analyst is qualified to practice in India until she/he has at least five years of experience. However, a fresher from any Indian university who meets the criteria can start on day one.

The Securities and Exchange Board of India (Sebi) research analyst regulations say an analyst must have "a professional qualification or postgraduate degree or postgraduate diploma in finance, accountancy, business management, commerce, economics, capital market, financial services or markets".

Such degrees or diplomas must be from a university recognised by the University Grants Commission or other similar bodies, including institutes associated with such a university, one which the central or state government has set up, or an autonomous institute under the Centre's administrative control. If the institute is accredited by the All India Council for Technical Education, the National Assessment and Accreditation Council or the National Board of Accreditation, it will meet the norms.

An analyst who doesn't have a postgraduate degree or professional qualification must have five years of experience in financial markets.

"Foreign universities often provide better education than Indian ones. If such a case arose, one would have to write to Sebi because a plain reading of the regulations only allows for India-educated analysts," said a senior official at a domestic brokerage firm.

Yogesh Chande, associate partner, Economic Laws Practice, said the draft regulations did allow for foreign qualifications.

"The consultation paper issued by Sebi for public comments on November 29, 2013, contained in the proposed draft regulations a provision that permitted individuals with professional qualification/ postgraduate degree / postgraduate diploma provided by a university/institution/association recognised or accredited by a foreign government or recognised/accredited by any corporate/ institute that has been created/recognised by such a foreign government for the purpose —qualification to act as a research analyst. However, it does not find a place in the notified regulations," said Chande.

"If a change is to be brought about in the current research analyst regulations, the Sebi board will have to notify an amendment," said Sandeep Parekh, founder of Finsec Law Advisors and former executive director, Sebi.

There might, however, be a way around it. "If a global university or an institution is affiliated with an Indian university that is recognised by, say, the University Grants Commission or another Indian authorised body, a degree/ diploma from such foreign university could be seen as meeting the qualification criteria. This would help applicants with foreign degrees, as most of large foreign universities have affiliations or tie-ups in some form or the other with Indian universities," said Tejesh Chitlangi, partner, IC Legal.

An email sent to the regulator did not receive a reply.

(Source: Business Standard, April 10, 2015)

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MID-CAP, SMALL CAP INDICES THE NEW DARLINGS OF D-STREET

Mid-cap indices have been hitting all-time highs for the past three days while the Nifty small-cap index is at a seven-year high

Small is big. Investors and market experts worried over the tepid performance of the Nifty and the Sensex need only to look at the broader market where the picture appears to be considerably brighter. The mid-cap indices on both the BSE and the NSE have been hitting new all-time highs for the past three days while the Nifty small cap index is at a seven-year high. The BSE small-cap index is still off its all-time high but all the four indices have been rising continuously for the past eight days, gaining 7-13.5%. The gloom surrounding large-cap stocks does not seem to be getting reflected in the broader market and there could be a number of reasons for this.

The Nifty and the Sensex have been dragged down by the performance of public sector banks, capital goods and metal and mining firms. Financial sector stocks have a weightage of 28% in both the Nifty and the Sensex. The weightage of capital goods is over 7%. These sectors have performed poorly in the past one year and concerns over non-performing loans and investment revival are weighing on investors' minds. It is no surprise therefore that the Nifty and the Sensex have gained only 5.2%.

In comparison, the mid-cap indices comprise of companies from diverse industries. The BSE mid-cap index has 247 companies and the small-cap index has 477 companies. The NSE small and midcap indices have 100 companies in each. As a result, weightage of banks and finance industry is less than 8% in these indices. Stocks such as Bharat Electronics, United Breweries, Century Textiles, Reliance Communications have led the gains for the mid-cap indices. The other top mid-cap performers in the last eight days are Vakrangee, Advanta, HDIL, Network 18 and JK Tyre, each gaining 32%-40%. Ess Dee Aluminium, Panacea Biotec, Zen Technologies, Visagar Polytex and Kitex Garments are among the top small-cap performers.

Historical data suggests that the midcap and the small-cap indices underperformed the benchmark indices in bearish times and outperform in the bull runs. Since the lows of August 2013, the BSE mid-cap index has gained 109% and the small-cap index has gained 128%. The Sensex has gained only 56% in this period.

(Source: The Economic Times, April 11, 2015)

LESSONS FROM INOX WIND LISTING-IT PAYS TO SPIN OFF LESS PROFITABLE BUSINESS.

ETIG lists some companies that may see a potential separate listing of smaller or less profitable arms

The strong listing gain of Inox Wind on Thursday shows that companies that have smaller and less profitable businesses-to which Street may not be giving higher valuation-can unlock value by listing them separately. Inox Wind's IPO was oversubscribed 35 times. It closed at 438 -35% higher than its offer price on Thursday.

Another example is of Marico Kaya, a subsidiary of Marico which was listed in July 2014. The stock has so far gained 750%. Intellect Design, a subsidiary of Polaris Consulting Services, has gained 70% since its listing in December 2014.

Spinning off the less profitable business once it turns around and becomes self-sustainable not only creates value for the shareholders of the new listed entity but also for the shareholders of the parent company. ETIG has identified some of the companies that may see a potential separate listing of the smaller or less profitable businesses.

For Eicher Motors, separate listing of its commercial vehicle business could be a game changer. The bike business may be around one-third of the top-line, but contributed 90% to the entire profit in CY14. According to analysts, the bike business will grow at least 60% for the next two years (it grew by 100% in CY14) and should get a PE multiple of 25 on FY17 earnings. This means, the bike business on a standalone basis is valued at ₹36,000 crore. Considering this, the commercial vehicle business is valued at only 6,500 crore (the current market capitalisation of 42,500 crore less 36,000 crore of bike business valuation). The commercial vehicle business, which is a joint venture with Swedish auto giant Volvo, gives two-thirds of Eicher's total sales and has already started to show a turnaround.

HSIL is the biggest player in the sanitary ware business with close to 60% market share and the highest margin in the industry. But, it has a market capitalisation less than its peer Cera Sanitary ware. This is because

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Profit March

Eicher Motors	
Businesses	
2 wheeler	CV
₹36,000 Cr	₹6,500 Cr
Total	₹42,500 Cr

HSIL	
Sanitary ware	Glass packaging
₹4,650 Cr	Negative
Total	₹3,130 Cr

Tata Global Beverages	
Tea/Coffee	Starbucks JV
₹8,500 Cr	₹800 Cr
Total	₹9,300 Cr

Source : ETIG Research

HSIL also has a glass business which was loss-making till a few quarters ago with a debt of close 800 crore.to In the glass packaging business it is one of the top two players in the country. It became loss-making two years ago after the industry capacity increased amid the demand slowdown.

Howeve, now the glass industry has consolidated with only few players and the demand is improving. HSIL's glass business has shown a strong turnaround. The recent institutional placement will bring down the debt significantly. In the past, the management has mentioned about demerging the two businesses.

Since the time Tata Global Beverages and Starbucks signed the joint venture in India, Tata Global Beverages' market capitalisation has remained almost stagnant. Analysts are not giving the full valuation to the Starbucks business, which has already opened close to 70 stores and 70% of that in the last one year.

The company is expected to have 400 Starbucks outlets by FY18 and achieve breakeven. Once that happens, there could be a separate listing of Starbucks Jubilant Food Works with close to 800 stores is valued at over 10,000 crore and Tata Global Beverages together with its tea, coffee and Starbucks businesses is valued at 9,300 crore.

(Source: The Economic Times, April 10, 2015)

INDIA INC'S REVENUE GROWTH MAY SLIP TO 2.5% IN Q4: CRISIL

Revenue growth of Indian companies will slip to a seven-quarter low of 2.5 per cent in the three months ended March, Crisil Research projected on Thursday. Weak performance of investment-linked sectors and low global commodity prices will more than offset the moderate growth anticipated in the export-oriented sectors and consumer-driven sectors.

In the preceding quarter, revenue growth was a tepid 5.4 per cent. On the profitability front, though, there could be a marginal uptick in earnings before interest taxes depreciation and amortisation (Ebitda) margins due to lower input costs, the report said.

Prasad Koparkar, senior director of Crisil Research, said, "The year started on a promising note, with revenue growing 12.8 per cent in Q1. However, growth has decelerated in subsequent quarters with January-March likely to show the lowest growth. Steel, petrochemicals and manmade fibres manufacturers will be impacted by the rapid slide in global commodity prices."

Sluggish growth in volumes (2 per cent year-on-year) will constrain revenue growth of cement companies, while capital goods manufacturers are likely to see a further 13 per cent year-on-year fall in revenues. In aggregate, revenue growth for corporate India is likely to end up at seven per cent in FY15, Koparkar said.

Domestic consumption and export-oriented businesses are likely to outperform, but here too sectors heavily dependent on rural consumption such as motorcycles, tractors and FMCG have been facing severe pressure on volumes as un-seasonal rains and slow growth in crop prices have dented farm income. This will impact topline growth for companies across sectors.

Seshagiri Rao, joint MD of JSW Steel, said, "Both revenue and margins are expected to be under pressure in March quarter, as many sectors are yet to witness revival." According to Edelweiss Research, January-March period is expected to be another sluggish quarter with profit after tax expected to contract by 5 per cent from the year-ago period and revenues expected to contract four per cent from a year ago.

The last quarter of 2015 has seen a perfect storm resulting in a broad based slowdown. The second consecutive quarter of rupee appreciation relative to the euro and other emerging markets is expected to dent earnings of export-oriented sectors like IT and pharma.

(Source: Financial Chronicle, April 09, 2015)

COMING OF AGE: INSTITUTIONAL INVESTORS SEE INVESTMENT MERIT IN NBFCS, MFIS

Institutional investors in the debt market are gradually gaining confidence about looking beyond traditional government and highly-rated corporate debt to bonds and other debt instruments issued by non-banking finance companies (NBFCs) and microfinance institutions (MFIs). NBFCs and MFIs are also helping create this new market, either by issuing debentures or pooling their debt assets.

Microfin sector's growth

Amit Tripathi, Head of Fixed Income at Reliance MF, believes that the microfinance sector has come a long way since its implosion in 2010. After its regulatory overhaul (the sector is now overseen by the central bank), "in terms of capitalisation," Tripathi said, "large MFIs are today at par with mid-sized NBFCs."

Reliance MF had invested in microfinance firm Equitas and NBFC Ujjivan Financial Services earlier this year. UTI AMC has bought bonds in Ujjivan, while Franklin Templeton AMC has subscribed to non-convertible debentures aggregating to about 100 crore in Equitas Finance Pvt Ltd.

Grabs big investors' interest

IFMR Capital, promoted by IFMR Trust, is an NBFC that is helping other NBFCs and MFIs raise funds through capital market players by way of NCDs, external commercial borrowings or collateralised debt obligations.

Kshama Fernandes, founder of IFMR Capital, says that while the microfinance sector has traditionally been funded by grants and social service foundations, it has now become robust enough for large mainstream investors to invest in it.

"Large capital market investors like banks, mutual funds, insurance and pension funds or corporates, have two requirements when investing in debt that it receive a top credit rating and a critical mass in size enabling large investments," Fernandes said. "NBFCs and MFIs can now offer both."

A new model that IFMR is trying to push is the Mosec multi-originator securitisation of microfinance loans. With this instrument, IFMR Capital pools together loans from different NBFCs and MFIs of similar tenure but diversified over geographies and asset classes. These are then used to create a single debt instrument, along with cash collateral by participating NBFCs / MFIs and IFMR itself. This is rated and sold to large investors.

Checks mass failure

"The cash collateral," Fernandes said, "it's to ensure that all participants who have created the instrument have skin in the game. This avoids a situation like mass failure of mortgage-backed securities in the US in 2008."

It would, however, be a while before this takes off. Amandeep Chopra, Group President and Head — Fixed Income, UTI AMC, said they are still not interested "in pooled debt instruments issued by NBFC/MFI, i.e., in asset-backed pass-through certificates. Due to lack of clarity over tax issues, the interest of MFs towards these papers stays muted."

However, for organised and large players, UTI AMC says the regulations are clear. "Strong capital inflows from private equity and supra national bodies have improved the corporate governance, capitalisation and funding profile of these NBFC-MFIs, leading to credit upgrades in these MFIs and their pools."

(Source: The Hindu Business Line, April 10, 2015)

REMOVE LIMITS ON COMPANIES' OVERSEAS BORROWINGS : SAHOO PANEL

FinMin invites comments on report

The Finance Ministry has invited views/ comments on the Sahoo Committee report on foreign currency borrowings.

The views/comments may be submitted to the Finance Ministry by May 10, said a communique issued by the Department of Economic Affairs in the Finance Ministry.

The Finance Ministry has also today made public this report, which is the third in the series submitted by the Sahoo Panel.

Reuters reports: India should remove the limits on corporates' external commercial borrowings, according to recommendations of a committee which submitted its report to the government on Friday, television channels reported.

The committee headed by MS Sahoo, a former member of the Indian

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market regulator, was given the task to review the rules on external commercial borrowings.

The panel was also in favour of removing end-use restrictions, and recommended that every borrower should hedge a part of their borrowing, according to the television channels.

Currently, the limit for each Indian company to raise funds through ECB is $750 million in a financial year barring in segments such as hotel, hospital and software sectors.

Companies also have to limit their borrowing cost at 350 basis points over six-month LIBOR for three to five year maturity and at 500 bps over LIBOR for more than five years, according to the Reserve Bank of India.

(Source: The Hindu Business Line, April 10, 2015)

ECONOMIC CRIMES ON THE RISE SINCE SATYAM SCAM

White-collar crimes have risen since the Satyam fraud, despite claims to the contrary by auditors and corporate governance gurus. At least, that's what official data show.

Between 2008 and 2013, when GDP grew at 6.8%, the economic crime chart shows a compounded annual growth rate of 8.48%, according to the latest data complied from the National Crime Record Bureau (NCRB) numbers.

Indeed, incidences of economic crimes have risen at a rate which is double the rate of growth in total crimes registered under the Indian Penal Code (IPC) sections. Cases of economic crimes -under broad heads like cheating, counterfeiting and criminal breach of trust -registered per one lakh population is up to 11 from approximately 8. Total economic crime cases registered in 2013 were 129,306. Of these, 83% were related to cheating, 15% were criminal breach of trust and the remaining cases were linked to counterfeiting, according to NCRB data.

The rise in cases registered under `cheating' has been the highest. "More and more individuals and corporates either file or threaten file cases under Section 420 to recover their funds. It's used as pressure tactics. The number of cases registered have gone up sharply though in many cases there are out-of-court settlements", said Zulfiqur Memon, managing partner at MZM Legal.

While cases registered under cheating charges have been growing at 10% CAGR in the last five years, the percentage of cases where chargesheets have been filed has fallen. A large number of these cases are related to cheque bouncing, credit card frauds, bank frauds and invocation of corporate guarantee.

Close to 50% of the cases registered on account of loss of property under cheating charges were from Delhi and Maharashtra. "The rise in economic crime is a reflection of increasing consumerism in our society. A person desires to earn money irrespective of the means. This is leading to a general de cline in our value system", says Arun Kumar, professor at JNU.

Surprisingly, cases registered under counterfeiting have been on a decline. Also, cumbersome procedures involved in conducting raids by various enforcement agencies to seize counterfeit products also pose a hurdle, although there is enough anecdotal evidence of spurious goods being sold.

A low conviction rate in economic crimes and the scope of an out-of-court settlement have pushed up the number of registered cases. The conviction rate in economic crimes has dropped to 24.4% in 2013 from 27% in 2006.

"Given the lesser domain knowledge of complex financial operations, the chargesheet filed by investigators has been very weak. I've heard several times where courts have rapped the investigators for not having taken up the case properly. Thus, many culprits escape scot-free", "says Arun Kumar. According to Reshmi Khurana, MD at Kroll India, a legal consultant, "A lower conviction rate owes to ill-equipped judicial structure and the burden of several frivolous cases".

(Source: The Economic Times, Apr 10 2015)