An Initiative by

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Advisory Services Group

Re-CAP

A weekly mailer encapsulating capital market news

June 8th - June 13th, 2015

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

PANTOMATH SMEX-30

25 Most Promising FINANCIAL CONSULTANTS

SMOOTH RIDE - STARTUPS MAY GET SEBI FUND BOOST

Market regulator SEBI intends to do away with the concept of promoters for companies that will be allowed to list on a new platform it is planning for startups. The waiving of promoter tag will help startups save on costs related to regulatory compliance and also some of the obligations on the part of such shareholders, including adherence to Takeover Code, Issue of Capital and Disclosure Requirements (ICDR), etc.

One of the important requirements under ICDR rules is the promoter contribution. Under this rule, promoters are required to hold at least 20% in the company that is going for listing. If the `promoter' tag is waived off, even if the founders of startups hold stakes in their companies in single digits, the startups will be able to list, provided the founders adhere to other rules. SEBI is also set to allow listing by startups from the e-commerce, biotechnology and nanotechnology sectors on this special platform, provided at least 25% of their pre-IPO shareholding is with private equities and ventures funds, a SEBI source told TOI. “Startups from all other sectors should have at least 50% of their shares held by PEs and VCs at the time of listing on this platform,” the source said.

The SEBI board is meeting on June 23 to deliberate on these rules and is also expected to finalize them. The new rules will also require that the companies listing on the new startup platform should have at least 200 investors. And to insulate small retail investors from the associated risks, SEBI is also setting minimum size of investment through this platform at ₹ 10 lakh, the source said.

Source: The Times of India
June 12, 2015

BRIGHT SPOT - A FIRST: INDIA TOPS WB GROWTH LIST

India is leading the World Bank's growth chart for the first time and is poised to overtake China in 2015, a report by the multilateral agency has said.

Growth in South Asia is expected to continue firming to 7.1% this year, led by a recovery in India and supported by a gradual strengthening of demand in high income countries. The decline in global oil prices has been a major benefit for the region, leading to improvements in fiscal and current accounts, enabling subsidy reforms in some countries, and the easing of monetary policy, “the report said.

In India, reforms are improving business and investor confidence and attracting capital inflows, and should help raise growth to 7.5% this year. Growth in China is on course to ease to 7.1%.

“With an expected growth of 7.5% this year, India is, for the first time, leading the World Bank's growth chart of major economies,“ said Kaushik Basu, World Bank chief economist and senior vice president after the release of the latest Global Economic Prospects (GEP) report.

Basu said slowly but surely the ground beneath the global economy is shifting.”China has avoided the potholes skillfully for now and is easing to a growth rate of 7.1%. Brazil, with its corruption scandal making news, has been less lucky, dipping into negative growth.”

Developing countries face a series of tough challenges in 2015, including the looming prospect of higher borrowing costs as they adapt to a new era of low prices for oil and other key commodities, resulting in fourth consecutive year of disappointing economic growth this year, the report said.

Source: The Times of India
June 12, 2015

RBI, SEBI BETTER THAN US, CHINA PEERS: STUDY

India's financial market regulatory framework on Thursday got the top-most ratings from the global bodies of banking and capital market regulators, with RBI and SEBI being rated better than their peers in China and the US.

In the latest global `assessment study' of the regulatory framework for financial market infrastructures across the world, only six countries, including India, have got the highest score of `4' for all eight parameters on a scale of one to four.

The other five countries are Australia, Brazil, Hong Kong, Japan and Singapore.

The `Rating Level 4' means that the financial market regulators -Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) -have all regulatory measures “fully in force”.

The annual assessment studies the implementation status of the international Principles for Financial Market Infrastructure (PFMIs) in various countries.

Source: The Times of India
June 12, 2015

SENSEX TANKS 470 PTS TO 8-MTH LOW

GLOBAL BOND SELLOFF, BELOW-NORMAL MONSOON FORECAST HURT SENTIMENT

The rub-off effect of the ongoing global bond selloff, combined with fears of a below-normal monsoon and its impact on the economy, and a probable pause by the RBI in lowering rates weighed on Dalal Street investors, who pulled the sensex down by 470 points to 26,371, an eight-month closing low. Investors' disappointment with corporate earnings for the January-March quarter and a cautious stance ahead of next week's meeting of the US Federal Reserve also added to downbeat investor sentiment, market players said. Following a strong rally on Wednesday, the sensex opened higher but soon dipped into the negative territory and slid through Thursday's session, and finally settled with a 1.8% loss. The day's slide left investors poorer by ₹ 1.6 lakh crore with BSE's market Capitalization now at ₹ 98.2 lakh crore. Of the 30 sensex stocks, all but one ended in the red., According to Hitesh Agrawal, Head of research, Ree liance Securities, disappointing Q4 earnings season, coupled with sombre

MARKET WATCH

INDICES				BULLION	
SENSEX:	26,371	▼	470	GOLD/10 GM:	27,000
NIFTY:	7,965	▼	159	SILVER/1 KG:	37,250
TOP GAINERS				**EXCHANGE**	
ESSAR OIL:	118	▲	13	$: 63.98	€: 72.01
NALCO:	42	▲	1	£: 98.94	SG$: 47.50

management commentaries, has cast a shadow over the extent of re covery possible in the current fiscal. “In addition, the weak monsoon forecast released by the IMD can make India's economic recovery challenging if the predictions were to hold true. RBI's latest monetary policy also indicated that further interest rate cuts are difficult to come by in the near future and are dependent on how monsoon fares and consequently how inflation behaves, “Agarwal said. “Low visibility of capex recovery and slow credit growth are other reasons for investors lightening their overweight stance on Indian equities, "he said. The day's session also saw strong FII selling with a net outflow figure of ₹ 623 crore. Market players said for several months foreign funds were overweight on India and that position is now being questioned given weak economic fundamentals.

G-sec yield rises to 8-month peak

Mumbai: The global bond market sell-off also impacted the government securities market in India, with the new 10-year benchmark yield rising to a high of 7.88% while the old 10-year yield was at 8.09%. This is the highest level that the benchmark yield has risen to in the last eight months. Since most banks and other lenders benchmark their lending rates to the 10-year gilt yield, this current rise has nearly nullified RBI's last week's decision to cut rates to spur growth in the economy. The rising G-sec yield will also make it Challenging for the government to sell gilts worth ₹ 16,000 crore in Friday's auction.

Source: The Times of India
June 12, 2015

STILL BULLISH, OVER 200 FOREIGN FUNDS HEAD FOR INDIA MEET

Long-term investors are still buying into India while it's the momentum investors who look for 15-20% and sold in the Indian market in the last three months

The recent spate of selling in the Indian equity market by foreign funds notwithstanding, more than 200 foreign funds are coming to India for a three-day conference to meet Union and state ministers, top executives of leading Indian companies as well as analysts. The conference, being arranged by global financial major Morgan Stanley, will have more than 400 participants, the largest since the 2008 global financial crisis began, said Ridham Desai, strategist & head, India equity research, Morgan Stanley.

According to Desai, long term investors are still buying into India while it's the momentum investors who look for 15-20%- irrespective of market, asset classes or the duration of investment-who sold in the Indian market in the last three months.

"There are FIIs who believe in the long-term India story who have been structurally investing in India and have been holding a very constructive view about India. These investors invested here even when the macroeconomic fundamentals were quite bad or even worsened as the months passed by. But that did not shake their confidence in Indian equities,"Desai said.

"This is partly because India offers a very good selection of bottom-up stories, and partly because the long-term story was always intact although we went through a cyclical downturn. Even during the recent volatility, since March, these investors are still buying. The absorption of Sun Pharma block worth $3.5 billion in what was a very bad market is an example of FII confidence in India," he added.

On the other hand, momentum investors, who were buying Indian stocks last year when markets were going up and everyone liked to ride the momentum, backed off recently as the momentum had shifted to Shanghai. "So now China is attracting momentum investors and India has lost a bit of it," Desai explained.

Currently, momentum investors are not keen to invest in India because of several reasons like rise in oil prices, some legislations not being passed, the bad earnings season, etc.

However, the Indian markets look attractive to investors with a two-three years' view, Desai said. "The growth cycle is turning, lead indicators are inflecting and the capex cycle is turning. The government has done a fair bit of work on the infrastructure side and also on rectifying stalled projects. Government expenditure, which crashed in the last four-five months of the last fiscal, is now turning, the fiscal headwinds are going away," he said.

So transactions in the economy are increasing. Also, the government has done a fair bit of shifting in fiscal spending, so inflation may not come back in a hurry, which should aid investments by foreign funds.

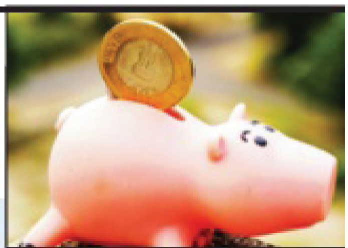
Backed by these positive factors, Morgan Stanley is maintaining its year-end sensex target of 32, 500, that is an upside of over 22% from current levels. "Reason is we see a steady improvement in earnings in the second half of 2015, plus at least one more rate cut from the RBI," Desai said.

Source: The Times of India
June 9, 2015

BANKS CAN BRING IN FOREIGN PROMOTERS AFTER TAKING OVER DEFAULTING COS: RBI

EASING NORMS

- Banks can convert shares at prices prevailing during time of restructuring, subject to floor of face value
- New Indian promoters should hold at least 51%, foreigners can acquire control with 26% as long as they are largest shareholders
- Banks need not mark to market converted shares, nor do they have to follow investor-associate norms
- Shares of major defaulters Bhushan Steel, Gitanjali rise following new norms



iStock/Getty Images

The RBI on Mon day unveiled the much-talked-about "strategic debt restructuring "scheme which paves the way for banks to trigger a change in management of chronically defaulting companies. New norms announced by the RBI allowing banks to convert debt o defaulting companies into equity also include provisions to bring in foreign promoters with stake as low as 26%.

The guidelines allow banks to use a formula for pricing under the RBI rule and effect the conversion at a price based on the reference date--the day at which lenders decide to originally restructure the loan. Recently market regulator Sebi had allowed such pricing of shares only if it was under the RBI rules. The latest directive from the RBI allows banks to bring in strategic international investors in a sector which has a cap on foreign direct investment. The new RBI guidelines will help banks avoid a "Kingfishertype situation"where banks were compelled by the old SEBI pricing formula to convert loans at a 60% premium to market value although the airline was on a crash course.

Shares of some defaulting companies such as Bhushan Steel and Gitanjali Gems closed higher on Monday following the norms. While Bhushan Steel was up 18%, Gitanjali rose by 7%.

Banks will also not have to worry about holding more than 20% stake as the norms exempt them from maintaining investor-associate relationship. Equity shares acquired under these norms are also exempt from mark-to-market rules for 18 months and banks need not make provisions if the market price falls.

"In many cases of restructuring of accounts, borrower companies are unable to come out of stress due to managerial inefficiencies despite substantial sacrifices by lending banks. In such cases, change of ownership will be a preferred option, "the central bank said.

To facilitate a change of ownership, the RBI has said that while restructuring loans, lenders should jointly incorporate in the restructuring agreement an option to convert the debt to equity if the borrower is not able to achieve the viability milestones or adhere to the critical conditions in the agreement. If such a clause has already been incorporated, banks can apply the provisions of the latest circular to earlier defaults as well.

Source: The Times of India
June 9, 2015

FROM LABELLING ISSUES TO PESTICIDE IN FOOD - 2,100 BATCHES OF INDIAN GOODS FAIL TO GAIN ENTRY IN US

PRODUCTS INCLUDE THOSE MADE BY HUL, BRITANNIA, NESTLE, HALDIRAM AND HEINZ

The US food and drug regulator has in the past one year rejected more than 2,100 import batches of `made in India' products across food, personal care and health supplement categories, including those made by leading companies such as Hindustan Unilever, Britannia, Nestle India, Haldiram, Heinz India and MTR Foods.

The reasons for rejection vary from minor labeling issues to products manufactured in unhygienic conditions to pesticides being above permissible limits, according to data put out by the US Food and Drug Administration (USFDA) on its website. Most Indian companies say the items that have been rejected were shipped by unauthorized third-party importers. The companies say the items were made in plants that are not supposed to manufacture for the US market, and that in some cases they were even unaware that these batches have been denied entry.

Food safety has become a hot button issue in India after the Indian authorities ordered recall of the popular Maggi noodles for containing lead above permissible limits. The Indian food regulator is inspecting all noodles and pasta brands in the country and the government has declared that it will accord the same priority to tackling food adulteration as it does to eliminating corruption.

The USFDA, too, has begun testing of samples of Maggi noodles manufactured in India and sourced by retailers in America from third-party importers following the huge controversy that erupted here. In January, it had rejected instant noodles manufactured in Nestle's Moga factory since the packaging label didn't outline all ingredients.

Just last month, the USFDA rejected 53 Haldiram-made consignments due to presence of pesticide in fried snacks, potato snacks and sweets, claiming they were either not adequately processed or manufactured, or packaged in insanitary conditions.

"Instances of product rejections could be either due to improper storage and distribution done by unauthorised exporters. In case our official export products are rejected, we always re-test them at FDA-approved labs, "said AK Tyagi, director at Haldiram Manufacturing Ltd. Tyagi added that the US FDA regularly inspected its facilities in India and its products conform to global safety norms.

RS Sodhi, managing director of Gujarat Co-operative Milk Marketing Federation, the maker of Amul dairy products, said while quality standards of Indian packaged food products were based on global norms, rejection of batches was an important issue which needed to be addressed.

Cos' Arguments Several companies argue that the bulk of products were shipped without their knowledge by third-party traders. Britannia, for instance, said it exports to the US only out of USFDA registered factories in India and meets all product and labeling standards. The products that were rejected by the USFDA were not shipped directly by the company.

Similarly, both Hindustan Unilever and Nestle India said the products that were banned were not exported by them. "We wish to clarify that in 2015, HUL has not received any refusal from USFDA for any of the products that it exports to the US market through its authorised distributor which is registered with the USFDA. We wish to further clarify that the stocks refused import into the US by USFDA in 2015 have not been exported by HUL, said a company spokesman.

A Nestle spokesman said the company had checked the FDA site and some of the batches are described as coming from factories that do not produce products for export to the US. "This means that the batches were so called `grey market' exports which were not organised or controlled by the company but by other individuals or entities. This explains why the batches were rejected," he said

Food for Thought

Products across food, personal care & health supplement categories barred in past one year by the FDA

Companies, Date, Rejection Reason

Haldiram Snacks May '15
Contains a pesticide chemical, prepared, packed, or held under insanitary conditions

Mondelez Foods Apr '15
Manufactured, processed under insanitary conditions

Bikaji Foods Mar '15
Consist in whole or in part of a filthy, putrid, or decomposed substance or be unfit for food

Nestle India Jan '15
Misbranded, fails to bear the required nutrition information

PepsiCo Nov '14
Labeling fails to bear the required nutrition information

Source: The Economic Times
June 13, 2015

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ET LAUNCHES - INDIA'S FIRST STARTUP AWARDS

HIGH-POWERED, EIGHT-MEMBER JURY TO PICK WINNERS ACROSS CATEGORIES

Beginning today, your paper kicks off The Economic Times Startup Awards 2015, the first and fines accolade recognising the best of Indian entrepreneurship. We at ET believe that starting up - or Doing Your Own Thing - is for many young entrepreneurs and professionals the highest form of self-actualisation.

Over the past few years, many young engineers from IITs have dropped out, MBAs from IIMs have chucked cozy, crore-plus MNC jobs and Indians have dared to dream big and raised millions to create billions. Many such hundred-bagger, rags-to-super-riches startup stories have edged out the old and traditional business news from the front pages of ET, signal ling an entrepreneurial revolution of sorts. We've been at the forefront chronicling the dream of two young men who gave up their jobs with Amazon to create India's biggest marketplace which rattled the most admired ecommerce company globally. We've cheered two young grads from IIT-Delhi and University of Pennsylvania as they laid the foundation of yet another big ecommerce company that impressed Ratan Tata so much he picked up a stake, while forcing the Ambanis, Birlas and Mistrys to invest in ecommerce.

Big ideas don't need wings to fly overseas; they travel at the speed of thought. A boy from Anna University , after a decade of work experience in the US, handed over his resignation to give shape to India's largest - and indeed one of the most admired - data analytics firm with an impressive roster of Fortune 500 clients. Yet another IIT-Delhi alumnus along with his batch mate decided to create a global food app out of India, giving the shivers to global brands such as Yelp and Zagat. The poster boys of Startup India -Flipkart's Sachin & Binny Bansal, Snapdeal's Kunal Bahl & Rohit Bansal, Mu Sigma's Dhiraj Rajaram and Zomato's Deepinder Goyal -are running companies valued at billions of dollars. Starting up is not so much about valuations as it's about chasing a dream, and ET recognises this almost spiritual quality of entrepreneurship. Which is why our coverage of startups is second to none in both the depth and breadth.

The ET Startup Awards are an affirmation of our continuing commitment to the Indian Dream. It's also an opportunity to spot the future Bansals, Bahls and Goyals. The finest examples of Indian entrepreneurship will be chosen by an eight-member jury living the dream. Partnering us as a sponsor is Jio, a brand that will see India's boldest broadband and 4G rollout later this year by the Mukesh Ambani-led Reliance Industries. The widely awaited Jio logo is being unveiled for the first time along with this announcement. ET's knowledge partners are Zinnov Consulting and iSPIRT, a team of passionate consultants, mentors and investors that will execute the first-level evaluation of entries.

In the run-up to the jury meeting, ET will run a series of articles on starting up, and organise panel discussions in Mumbai and Bengaluru. We urge you to join in the excitement by nominating yourself if you are a startup entrepreneur, or your friends, relatives or colleagues. The awards are in eight categories, including one for the Startup of the Year 2015.

The application forms can be filled online at http:www.etstartupawards.com. Email your queries to etsaqueries@timesgroup.com. The last date to submit entries is June 22, 2015.

Do You Have it in You to Start Up?

90% of startups wind up within months as entrepreneurs fail to cope with the exertions. Are you the sort to persevere?

Failure is Mukesh Bansal's Steadfast Teacher

The Myntra cofounder and CEO tried building startups thrice -all of them were part-time efforts, and all failed

Source: The Economic Times
June 12, 2015

MARKET FUNDAMENTALS REMAIN WEAK SENSEX REMAINS AHEAD OF THE UNDERLYING EARNINGS AND DIVIDENDS, GIVING UPPER HAND TO THE BEARS

KRISHNA KANT Mumbai, 11 June: The sharp fall in the market was in the making for some time. The gap between the Sensex and the underlying fundamentals widened further after the fourth quarter corporate earnings were announced, giving bears an upper hand.

The combined earnings (net profits) of the 30 Sensex companies are almost stagnant on a year-on-year basis and down from the level after the end of the third quarter earnings season.

The Sensex's underlying earnings per share (EPS) is now ₹ 1,385, from ₹ 1,425 in February after the third quarter results and ₹ 1,355 in June 2014. This has widened the gap between the long-term trend in the index companies' underlying earnings and their market valuations.

Bulls have also come under pressure from the cut in equity dividends by top companies after their lower than expected profits in the March quarter and poor earnings visibility for FY16. Combined equity dividend by the Sensex companies, excluding those in information technology (IT), declined by 10.1 per cent in FY15 over FY14. The analysis is based on the end-of-day valuation ratios of the Sensex, the price to earnings multiple and dividend yield, provided by the exchange. The ratios were inverted to get the index's underlying EPS and equity dividend. Historically, there is a close correlation between Sensex growth and that in underlying earnings and equity dividends. Whenever the Sensex trails or overshoots the underlying trends in corporate earnings or equity dividends, the market corrects subsequently, suggests data since 1991. This seems to be on (see chart).

Analysts agree. "Corporate earnings (excluding financials and oil & gas) was down 11 per cent in the March quarter, the worst in the last 15 years. However, this doesn't reflect in the broader market and the benchmark indices such as Sensex and Nifty continue to trade at valuations that assume high double-digit growth in corporate earnings," says Dhananjay Sinha, head of institutional equity at Emkay Global Financial Services.

The BSE Sensex is currently trading at 19 times the underlying EPS in the past 12 months. In the past, the Sensex valuation had fallen to as low as 11x in late 2008 and early 2009, and 17x during the market selloff in May-June 2013,following a sharp depreciation in the rupee.

The post September 2013 rally, dubbed a Modi rally, was supported by a strong uptick in the earnings, led by IT and pharmaceutical companies, which benefited from a sharp depreciation in rupee earlier that year. Bulls' hands were further strengthened by the gains from a fall in international prices of crude oil and commodities that accrued to manufacturing companies.

This trigger began to peter in September last year and corporate earnings are on a downward trajectory since then. The Sensex's underlying EPS peaked at ₹ 1,462 in September 2014. For a while, the market was supported by higher dividend payment by cash-richcompanies. Sensex companies' payout ratio (share of net profit distributed as dividend) had shot up to a decadal high of 34 per cent at the end of the third quarter earnings season, as many large companies such as Coal India, Oil and Natural Gas Commission and Tata Consultancy Services paid hefty interim dividends in FY15. This supported the valuation for a while, even as earnings growth was slowing.

The trigger is now missing, as many top companies either cut dividends in the fourth quarter or skipped it altogether. In all, nineSensex companies, including big market movers such as Tata Motors, Sun Pharma, Hero MotorCorp, Coal India, GAIL, Mahindra & Mahindra and NTPC have either cut their dividend for FY15 or decided to pay none at all, due to poor profitability. Another four companies kept their dividend payout unchanged, belying the hopes of the bulls. IT companies were outliers, stepping up their dividend payments in FY15 over the past year. The combined dividend outgo by the top three IT companies — TCS, Infosys and Wipro — more than doubled in FY15 over the previous financial year. Analysts, however, doubt the sustainability of this trend, given the poor show by IT majors in the March quarter.

This means there is a chance of a further slide in the market, unless corporate earnings and dividends rise in FY16, like the one seen in 2013 or post 2008 global financial crisis.

Other analysts point at the poor market sentiment, driven by a flood of bad news flow, rather than poor fundamentals. "Forget the fundamentals; there is a fear psychosis on the Street right now. Investors have a lot to fret about, be it the negative impact of bad monsoons or FIIs shifting their money to China or the solvency of highly leveraged companies and their impact on public sector banks and the banking sector as a whole," says G Chokkalingam, founder and chief executive, Equinomics Research & Advisory.

Source: Business Standard
June 12, 2015