An Initiative by
PANTOMATH Capital Advisors (P) Ltd

# Re-CAP

A weekly mailer encapsulating capital market news

June 6th - July 11th, 2015

SKOCH BSE AWARD FOR ASPIRING INDIA ORDER OF MERIT | BSE Amongst BSE's Top Five Performers in Merchant Bankers 2013-14 | PANTOMATH SMEX-30 | 25 Most Promising FINANCIAL CONSULTANTS

# LOWER FEES HELP EXCHANGE - TRADED FUNDS GAIN TRACTION

**WHY ETFs ARE ON THE RISE**

- Actively managed funds have beaten benchmarks
- But expense ratios are lower for ETFs
- Many institutions prefer taking equity exposure through passive funds
- They believe it reduces performance risk
- Assets have risen around 9 per cent in the first half of the year

The volume of exchange-traded funds (ETFs) has been steadily moving up since the beginning of the year, on higher participation from retail and high net worth investors (HNIs), though the rise has been less spectacular than for actively traded funds.

ETFs are passive funds which track the performance of an index on a real-time basis. These charge lower fund management fees than other actively managed equity products and enjoy higher liquidity. They can be bought and sold on a stock exchange, like shares.

While assets of actively managed funds are up 15 per cent in the past six months, ETFs have seen a nine per cent rise, both on the back of a rise in the markets and higher retail participation. The assets under management touched ₹ 7,322 crore in June, up from ₹ 6,702 crore in December 2014. While ETFs are less than five per cent of the product category, sector officials said there were indications of rising interest.

Other than retail and HNI participants, institutional investors have also been actively participating in these, due to their management fees. "A large portion of the money is also coming from insurance companies, investing mainly in banking ETFs," said Vikaas M Sachdeva, chief executive, Edelweiss Mutual Fund. By Insurance Regulation and Development Authority of India rules, no insurance company is allowed to invest in funds where the expense ratio is above 49 basis points (bps). That of most ETFs is capped at 49 bps, sector officials said. The average expense ratio of an ETF is 30-40 bps.

Fund houses have also increased their focus on this category of funds, as they believe it is under-serviced. Opening of the provident fund segment to MFs could bolster the growth of this category, experts said. The Employees Provident Fund Organisation plans to invest in mutual funds' ETFs.

**Source: Business Standard**
July 11, 2015

# RETAIL INVESTORS CAN TAKE MF ROUTE FOR START-UP IPOS

SEBI ALLOWS RETAIL INVESTORS TO INVEST THROUGH MUTUAL FUNDS
RETAIL INVESTORS CAN INVEST IN START-UPS THROUGH MFS ONLY, AS THEY FALL UNDER QIB

Retail investors intending to play the start-up theme will have to take the mutual fund (MF) route.

To keep retail investors away from the soon-to-be launched start-up trading platform, the Securities and Exchange Board of India (SEBI) has prescribed a high trading size of ₹10 lakh. However, it has included MFs in the definition of qualified institutional buyers, enabling indirect entry of non-wealthy individuals in the trading segment.

"Considering the risks involved in investing in companies proposing to access the said platform, it is proposed that retail investors may not be permitted to directly participate," said SEBI in a board note.

Equity MFs are predominately a retail investment product. So, if a fund chooses to invest in start-ups, retail investor would be automatically invested in these. It is believed that fund managers are better equipped than small investors to understand the risks. SEBI feels the average retail investor needs a lot of hand-holding and has to be shielded from an environment where the disclosure requirements are less stringent.

However, the other side to the story is that retail investors could be missing on possible future gains. In spite of several suggestions in this regard, such as reducing the size for investment and trading lots, the regulator did not accept these, to shield small investors from risk.

SEBI's Primary Market Advisory Committee had recommended a ticket size of ₹10 lakh and trading lot size of ₹ 5 lakh for investing in these companies. In the final guidelines, the regulator revised the trading lot size to ₹10 lakh. This makes it a platform exclusively for savvy investors such as private equity entities, high net worth clients and venture capitalists.

"The reason behind keeping the retail investors away from such IPOs (initial public offers) is that there is considerable risk involved in these new-age companies, with a very recent track record and disclosure standards considerably diluted. Investing through MFs would reduce the risk, as there would be other securities in the basket, too, mitigating the potential impact. However, it is another point that mutual funds would have to re-work their investment philosophy to make these new-age companies a part of their portfolio," said Harish H V, partner, Grant Thornton, Indian LLP.

MFs said they'd assess the pros and cons of the new trading platform before a plunge. "If I want to consider a start-up in my portfolio, I would need to have a choice of at least more than 10 such listed companies. There will be a lot of variables to be considered before making investment decisions," said a fund manager, requesting not to be named.

**Source: Business Standard**
July 10, 2015

# SEBI REGAINS POWER BUT MONITORING STILL A CONCERN

The Supreme Court ruling might have cleared the air over Securities and Exchange Board of India (SEBI)'s power to regulate global depository receipts (GDRs), but compliance as well as monitoring of funds raised through these instruments remains a bone of contention. Sources in the know say SEBI has on several occasions voiced its concern over monitoring of these instruments with the finance ministry.

"The monitoring, compliance of companies raising capital overseas with respect to the Prevention of Money Laundering Act (PMLA) should be left to agencies that have such regulatory powers namely the enforcement directorate and financial intelligence unit," said a source on condition of anonymity.

The regulator is also said to have brought to the notice of the ministry that the Securities Act doesn't have specific provisions to track flows raised overseas and to enforce the requirement of filing of returns. Experts opine that SEBI has limited powers compared to the Enforcement Directorate to monitor funds.

"If SEBI is to given the responsibility of monitoring funds raised overseas by unlisted entities, it would require some legislative changes," said a market and regulatory expert.

The Supreme Court in a ruling on Monday stated the regulator has the power to probe GDRs sold by Indian companies, backed by local shares, to foreign investors and listed on overseas exchanges.

SEBI had moved the apex court after the Securities and Appellate Tribunal (SAT) in a ruling in 2013 had held that the regulations of GDR was outside the purview of SEBI. SAT had set aside a SEBI order barring Pan Asia Advisors and its promoter Arun Panchariya from capital markets for 10 years for alleged manipulation in global securities by six Indian firms.

The tribunal had held that it is the Reserve Bank of India (RBI) and the Ministry of Finance that govern the issuance, trading and conversion of GDRs and cannot be under the purview of SEBI.

The ruling came as a major setback to SEBI and put a question mark on the various investigations that were pending with regulator relating to the GDR issuances. A stay order obtained by SEBI from the Supreme Court in the matter enabled it to continue the ongoing investigations.

The modus operandi in these cases, as observed by SEBI, involved the issuing companies having the same set of initial investors, with a major portion of the GDR issue brought by the same set of clients. The trading and offloading of the GDRs used to happen between the same set of clients.

## SAT OVERRULED SEBI

**March 2015:** SAT ruled in favour of DLF and quashed Sebi order that barred the company from raising funds of 3 years; Sebi later approached the SC

**March 2013:** SAT quashed Sebi order against Zenith infotech promoters in asset stripping case

**August 2013:** SAT had dismissed Sebi order against NSDL in the IPO scam

**September 2013:** SAT ruled that Sebi does not have jurisdiction over GDRs

Commenting on SC's ruling, Vaneesa Abhishek, a Bombay High Court lawyer, says it was natural for SEBI to get jurisdiction over the GDRs.

**Source: Business Standard**
July 8, 2015

# IS A BIG OFFERING AT TAIL OF IPO RUSH?

Many things have clouded the Street's outlook, including those elusive rain clouds. In a week that brought new clouds in the form of a price manipulation-cum-money laundering scam in the small and medium enterprises platform and uncertainty over Greece, the news of a flurry of Initial Public Offerings (IPOs) being lined up came as a silver lining.

Reports have put the IPO pipeline between 19 and 30 issues, of ₹10, 000-20,000 crore. Even if the lower end of that band becomes a reality, this would be the best IPO year in a long while. Earlier, IPOs raised more than ₹10,000 crore in a calendar year in 2010, when the bumper Coal India one lifted the market, raising over ₹15,000 crore.

The index has not gained significantly from the levels seen at the time of the coronation of the new government about 14 months before. The clouds we noted earlier are all there. Then, what has given the confidence for several promoters to take the plunge now?

The only major positive event that could have inspired this move is the resurgence of a giant that had gone into slumber. Between March 31 and now, the Sensex has gained a paltry 57 points or a fraction of a percentage point. In the same period, the Reliance Industries (RIL) stock has gained 22 per cent. This remarkable outperformance, much of which came in the week following the company's annual general meeting, on June 12, seems to have raised the hopes of wannabe many Reliances.

The Reliance stock has been steadily losing popularity among small shareholders over recent years. The number of those holding shares worth ₹1 lakh or less has been on a steady decline for RIL, from over 3.5 million at the end of March 2010 to 2.7 million in March 2015. Their combined holding fell to 9.65 per cent from 11.4 per cent five years earlier.

Much of this could be attributed to the vicious cycle triggered by the troubles the company has faced with its marquee KG-D6 (the latter block in the Krishna-Godavari gas basin) project. Billed as the country's answer to energy security, the scale and strengths of the project were among the key

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attractions that nearly helped Reliance double its shareholder base from around 1.9 million in June 2006, when the number was first declared in quarterly holdings.

A long-running probe by the Securities and Exchange Board of India was another cause of concern but seems to be drawing to a close as reported here: http://www.business-standard.com/article/companies/sebi-completes-probeinto-ril-unfair-trade-practices-case-115062100669_1.html.

Also, the company seems to be focusing on the next big story. RIL is gearing up for launch of fourth-generation (4G) services under the Jio brand name, billed as the country's road to a digital future. Mind-boggling numbers have been tossed around. Last week, RIL also announced ₹ 2.5 lakh crore investment as part of Prime Minister Narendra Modi's Digital India initiative.

Now, would the market savvy behemoth not look at the cheapest capital source of equities to fund a part of that investment? Would it not want to unlock the value? Would it be 10 per cent of the investment lined up or more? Would be it be an IPO or some other form?

Only Reliance can answer those questions. But, what we know is that in every Bull Run, we had a big IPO. And, two of the past three had an R-name written on them.

**Source: Business Standard**
July 7, 2015

# SHANGHAI COMPOSITE TANKS 6% AS GOVT STRUGGLES TO STEM ROUT THAT HAS WIPED OUT 32% OF MKT VALUE SINCE MID-JUNE

China's 100 million investors were caught without an escape route as stocks slumped once again despite emergency efforts to lock down nearly half of the market.

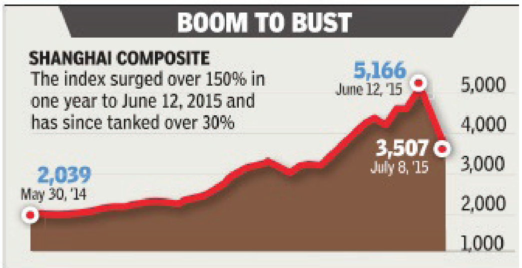
Regarded by some as the world's biggest casino, the Chinese market slipped 6% on Wednesday although 46% of the listed companies had halted trading to stem the rout and save the authorities from more injury and embarrassment.

This came after three weeks of almost-continuous slide, wiping out nearly 32% of value. The market had attracted hordes of small and less-educated investors, as it rose nearly 150% in the year to June 12, 2015.

On Wednesday, the Shanghai Composite fell 5.9% to 3,507. The index has lost 32% since its peak in mid-June. The Hong Kong market, which had remained unaffected, slipped 5.8%.

Analysts expressed concern that the crisis might affect the wider economy. It can also reduce China's capabilities to buy from the international market, resulting in a worldwide gloom.

Some economists believe the government had played a hand in pushing up the market, and is now not able to manage the situation as "greedy investors" are cashing in.




"This bull market was engineered by the government to reduce the cost of capital, incentivize innovation and to deepen the economic reform," Oliver Riu, professor of finance and accounting at the China Europe International Business School, told TOI.

"Unfortunately, its benevolent initiative has been hi jacked by a group of greedy individual investors using high leverage," he said.

Analysts said the wider economy would be affected if the stock crisis stays unresolved for a long time. But an immediate impact is unlikely because only a small part of the economy is exposed to the stock market. The 10-monthlong price rally that culminated on June 12 had not helped the overall economy. This is why a stock meltdown won't have an immediate impact, they said.

The State Council, which is China's cabinet, reviewed the situation in a meeting headed by premier Li Keqiang, and issued a statement expressing confidence in the economy. "Positive signs have been increasing in the last two months and structural readjustment has been accelerated," the council said.

A spokesman for the China Securities Regulatory Commission, DengGe, said that "irrational selloffs"had increased in the market. He described the situation as a product of "panic sentiment". These statements were seen by analysts as sign o nervousness in the government about the fallout of the crisis on the economy.

China's central bank promised more margin financing to brokerages, urging them to buy more and check falling prices. The government also said it will make it easier for insurers to invest in blue chip companies.

"China's fiscal and monetary policies have been taking effect, while both development momentum and risk prevention capabilities were strengthened," the council said.

**Source: The Times of India**
July 9, 2015

# INDIA BRIGHT SPOT FOR IMF GLOBALLY

## TO GROW FASTER THAN CHINA IN 2015 & 2016 AS AGENCY LOWERS GLOBAL FORECAST

The International Monetary Fund (IMF) cut its forecast for global growth this year but retained robust estimates for India, which is expected to overtake China's rate of expansion in 2015 and maintain its position as the fastest growing economy in 2016.

The world economy is expected to grow 3.3% in 2015, slightly lower than the earlier estimate of 3.5%, IMF said in its World Economic Outlook update. It retained the growth forecast of 3.8% for 2016."Moderate growth continues, with global growth forecast to be slightly down for 2015, reflecting an unexpected setback to economic activity in the first quarter of 2015, mostly in North America." It also cautioned that Greece and events in China remain as downside risks.

"Disruptive asset price shifts and a further increase in financial market volatility remain as an important downside risk. Developments in Greece have, so far, not resulted in any significant contagion. Timely policy action should help to manage such risks if they were to materialize," IMF said.

Among other risks, it cited low medium-term growth or a slow

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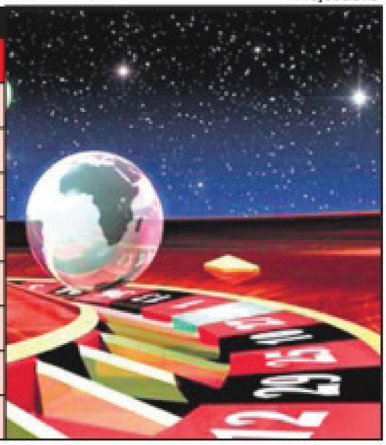
return to full employment, amid very low inflation and crisis legacies in advanced economies; greater difficulties in China's transition to a new growth model, as illustrated by the recent financial market turbulence; and spillovers to economic activity from increased geopolitical tensions in Ukraine, the Middle East, or parts of Africa.

IMF expects the Indian economy to grow by 7.5% in 2015 and 2016, faster than China's expansion of 6.8% in 2015 and 6.3% in 2016. China was the fastest growing economy in 2014 at 7.4% compared to India's 7.3% expansion, according to the IMF data. The government had estimated growth in the 8-8.5% range for 2015-16 and the Reserve Bank of India expects the economy to expand 7.6%.

The government has taken several measures to boost growth, which is widely expected to yield results in the months ahead. However, economists say the sharp slowdown in China and the financial market turbulence have the potential to hurt the global economy .IMF chief Christine Lagarde had said that India is a bright spot and economic developments in the country hold much promise.

IMF said rise in global growth in 2015 will be driven by stronger growth in advanced economies. Growth in these economies is forecast to increase from 1.8% in 2014 to 2.1% in 2015 (falling about 0.3 percentage points short of the forecast in April), and 2.4% in 2016.


LEADING THE PACK

*Projections

GDP GROWTH RATES (%)

| | '14 | '15* | '16* |
|---|---|---|---|
| India | 7.3 | 7.5 | 7.5 |
| China | 7.4 | 6.8 | 6.3 |
| US | 2.4 | 2.5 | 3 |
| UK | 2.9 | 2.4 | 2.2 |
| S Africa | 1.5 | 2.0 | 2.1 |
| Euro Area | 0.8 | 1.5 | 1.7 |
| Brazil | 0.1 | -1.5 | 0.7 |
| Russia | 0.6 | -3.4 | 0.2 |

**Source:** IMF's World Economic Outlook Update, July 2015

Eco sustainable at 8-10%: Panagariya

Singapore: The country's economic growth will be sustainable at 8-10% per annum over the next 15 years, a top Indian economist has said. "India has good prospects and support of the government's growth oriented policies," said Professor Arvind Panagariya, vice-chairman of the National Institution for Transforming India (NITI) Aayog.

**Source: The Times of India**
July 9, 2015