An Initiative by
PANTOMATH Capital Advisors (P) Ltd

Re-CAP

A weekly mailer encapsulating capital market news

October 5 - October 10, 2015

BOB INVESTIGATING ₹350-CR BILL DISCOUNTING FRAUD

INTERNAL PROBE SENIOR OFFICIAL SUSPENDED FOR IRREGULARITIES IN AHMEDABAD OPS; LENDER TO DECIDE IF IT HAS TO PROVIDE AMOUNT IN Q2 NO.S

India's second largest lender Bank of Baroda is investigating a bill discounting fraud running into ₹350 crore.

The listed bank, which has suspended a senior official after it stumbled upon the irregularities in its Ahmedabad operations, will soon have to decide whether to provide the amount in the September-end earnings number.

A senior official of the government-owned institution told ET that the matter has been reported to the Reserve Bank of India. "There is a suspected fraud. An internal probe is on. If the money cannot be recovered, the bank will have to take a hit. An established company is involved, but I'm not in a position to disclose the name. We sensed something was wrong when a few bills bounced," said the person who declined to share details as an investigation is underway .

It is understood that one of the bank's offices in Ahmedabad ended up discounting bills against which the underlying trade transactions were fake or non-existent. In typical bill discounting transactions, a bank buys the bill before it is due and credits the amount (after deducting certain discounting charge) to the customer's account. It's a facility that sellers and exporters avail of from banks to obtain finance.

A fraud is perpetrated when typically a buyer and seller, acting in connivance, win the bank's confidence by carrying out a string of regular transactions where the buyer (either local or overseas) agrees to honour the payment. As these come across as normal trade transactions, the bank agrees to raise the bill discounting limit. After a default when a buyer fails to pay up the seller comes up with explanations like product defect or cash crunch faced by the buyer for non-payment.

Once the bank is convinced, the seller makes a new shipment, discounts a new bill and uses the proceeds to repay the bank for the previous transaction. As this is repeated for a few more shipments, the amount increases due to the interest cost.

While the specific modus operandi in the Bank of Baroda fraud is still unclear, it is possible that the customer concerned which, according to a banker in Ahmedabad, is a textile company had used a similar ploy. Such frauds surface as increasingly larger amounts and frequent discounting evoke the bank's suspicion.

In recent times, the facilities offered by many banks for working capital have increasingly been misused by borrowers facing cash flow stress in particular, the trade bills discounting facilities offered by banks has been a source of frequent `kite flying' (without actual trade transactions) for funds generation by borrowers.

One of the bank's offices in Ahmedabad discounted bills against which the underlying trade transactions were fake or non-existent

"At some point when the amount becomes too large to handle, the parties abruptly discontinue. Since in several cases, these are in the nature of unsecured finance, a bank may be left with no choice but to absorb the losses", said another banker.

Source: The Economic Times
06 October, 2015

ANNUAL REPORTS WON'T BE JUST ABOUT NOS. NOW

COS TO DISCLOSE INFO ON REMUNERATION RATIO, CSR SPENDS, PRODUCT RECYCLING SYSTEM

Indian companies are including in their annual reports this year information they had not disclosed earlier, thanks to the new Companies Act and business responsibility reporting mandated by markets regulator Sebi.

Annual reports this year include the ratio of remuneration of each director to the median employee's remuneration; the amount spent on corporate social responsibility (CSR) and its breakup; number of sexual harassment cases, child labour and forced labour cases; number of employees with disabilities and those hired on contract; number of stakeholder complaints and employees to whom skill training was given.

Besides, there is info on companies' mechanisms to recycle products and waste, to support whistle-blowers, to prevent and report frauds, to protect human rights and to source sustainably.

"It is a good thing from a perspective of greater disclosure. In the US, there was resistance by companies to disclose CEOs' compensation as a proportion of the employees' remuneration. But in India there doesn't seem to be a pushback from the companies", said Shriram Subramanian, founder and managing director of InGovern Research Services.

Most of this information is part of the business responsibility reporting, which Sebi has mandated to be part of the annual report for the top 100 companies by market capitalisation with effect from financial year ended in or after December 2012.

"Corporate India has typically been very compliant and this new reporting is not an insurmountable challenge. It will take a little time as companies are getting used to it", said Shailesh Haribhakti, chartered accountant and director on the boards of companies including ACC, Blue Star, Ambuja Cements and Torrent Pharma. "While it increases the cost of compliance, companies will soon automate their processes," he said.

"The disclosures are clearly onerous for companies. But being large companies, they have the necessary resources to disclose", Said Subramanian. "Hopefully, Sebi will extend it to all the listed companies over the next few years".

As this kind of reporting becomes mandatory for all companies, it is likely to result in better governance as companies gradually move to fix their systems and processes to improve their ranking on these criteria.

It may seem to be a small step on the regulatory front in a bid to encourage more corporate disclosure, but it is likely to herald a new era for corporate India. This kind of socio-economic reporting will also bring in the much-needed transparency in the functioning of companies, facilitate policymaking in the government, help employees better evaluate their current and prospective employers and empower investors to better assess the companies in which they invest. Besides, over time, the criteria of reporting may gradually get refined and be more comprehensive.

Acknowledging and reporting is the first step towards change and 2014-15 may well go down as the year of the beginning of this change in Corporate India.

Source: The Economic Times
07 October, 2015

SINGLE WINDOW' REALTY CLEARANCE'S GOVT PRIORITY, SAYS MAHA FIN MINISTER

With an objective to fast-track delivery of homes at reduced costs, the Maharashtra government is working on ensuring faster approvals for real estate developers, said Sudhir Mungantiwar, minister of finance and planning, and forest departments.

The minister, who was the chief guest of the two-day summit organised by realtors' body NAREDCO, also mentioned that the `single window' clearance is the government's priority. People should invest in real estate and the developer community should execute projects with seriousness which is time-bound, the minister added.

Industry experts stressed on importance of affordable housing and its much-needed financing.

Keki Mistry, vice-chairman & CEO of HDFC said that opening of FDI should be concentrated on affordable housing, digital India, smart cities so that enough housing stock is created across India.

He also emphasised that REITS will play an important role for developers in the coming years. According to him, developers have now started negotiating with homebuyers and are offering discounts to push sales.

Sunil Mantri, chairman, NAREDCO, and chairman, Mantri Realty , observed that the foreign funding was the need of the hour to meet the long-term capital requirements and the real estate sector will have to source funding from both private equity players and non-banking finance companies (NBFCs).

Source: The Times of India
06 October, 2015

CSR PANEL FAVOURS MORE TIME FOR COMPLIANCE

A lenient view should be taken of companies not complying with corporate social responsibility (CSR) provisions underlined in Companies Act, a committee set up to suggest measures for monitoring CSR initiatives taken by India Inc has recommended.

The committee, headed by former secretary Anil Baijal, also recommended a review of the provisions after three years and asked for an increase in ceiling on administrative overheads from 5% at present to not more than 10% It further suggested a uniform tax treatment for all CSR activities under the new Companies Act. "The board's decision could be guided more by tax savings implications than compelling community social needs. The committee therefore feels that there should be uniformity in tax treatment for CSR expenditure across all eligible activities," the report said. of CSR expenditure of the company.

The panel has asked for further clarity on applicability of Section 135 to foreign cos

"Initial three years will be a period of learning. A lenient view should be taken for first two-three years", the committee said in a report.

The six-member committee was constituted in February to recommend suitable methodologies for monitoring compliance with CSR. The committee asked for further clarity on applicability of Section 135 to foreign companies. "Several foreign companies don't have their board of directors here in India or just have branch or project offices. Applicability to foreign firms should be clarified," the report said.

Source: The Economic Times
07 October, 2015

GOVT WORRIED ABOUT LOSING TRADE EDGE

Conclusion of the Trans-Pacific Partnership (TPP) may have brought common and higher standards for nearly 40% of the world economy, but it has made India cautious of its impact, both immediate and long term.

TPP is a 12-country trade bloc comprising Australia, Canada, Japan, Malaysia, Mexico, Peru, the US, Vietnam, Chile, Brunei, Singapore and New Zealand that sealed the agreement after more than five years of negotiations, which were mainly kept secret, and hence, worried other countries, including India.

Not only can India lose market share in the US to countries like Vietnam, there is also an impending fear that issues related to labour, environment and investment protection could gradually creep into the negotiations in the WTO.

In fact, commerce department officials say seven countries of the TPP, which are also a part of the Regional Comprehensive Economic Partnership (RCEP) of which India is also a member, may put pressure on others to have talks in the same manner as the TPP.

"We presume that the common members of the two trade agreements may put some pressure and ask for parallelism", a commerce department official said ahead of the next round of RCEP negotiations to be held in Busan, South Korea, next week.

Not only India but these concerns have been highlighted by International Centre for Trade and Development, which in a recent study said that countries outside the bloc could face difficulties if new trade norms and market access concessions affect their trade with TPP countries.

Since India has trade agreements with Singapore and Japan, and is negotiating the same with Australia and New Zealand, its trade is not likely to get hurt.

"We don't have a free trade agreement with the US and that's where we can take a hit. Vietnam competes with us in the US market and it will now have an edge over us. It will get duty-free access to the US when it comes to sectors like textiles, clothing and leather footwear", said Abhijit Das, head, Centre for WTO Studies.

Domestic textile firms will have to be cautious of the TPP's `yarn forward rule ` that mandates fabric produced from yarn made by a TPP country only to qualify for the trade agreement's duty-free status.

Source: The Economic Times
07 October, 2015

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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

MAHARASHTRA TOPS HOSPITALITY CHARTS

STRONG ECONOMY & GOOD INFRA HELP STATE, FINDS SURVEY

Maharashtra has topped a hospitality survey conducted by global hotel consultancy HVS, which ranked Delhi and Goa in the second and third places.

The India State Ranking Survey 2015 analysed the tourism potential of all the 30 Indian states, assessing their competitiveness on the basis of 12 key parameters, including luxury tax on hotels, state expenditure on tourism, tourist visits, presence of branded hotels, effective marketing and road and railway infrastructure. HVS conducted the survey for the World Travel & Tourism Council-India Initiative (WTTC-II).

"The state (Maharashtra) benefits from a strong economy, good infrastructure, presence of a sizeable quantum of branded hotel rooms and a variety of demand generators to occupy these rooms", said the report of the biennial survey released on Tuesday.

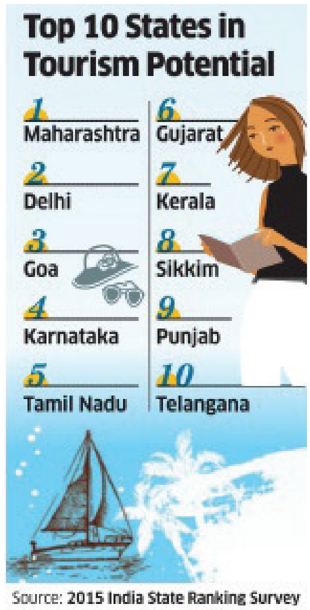
This year, HVS added `ease of doing business' as one of the parameters for the survey to reflect each state's suitability for attracting investment and propagating development.

"The new criteria of ease of doing business added a new dimension to the survey this year, which also resulted in some of the newer unknown states to spring ahead", said Manav Thadani, chairman of HVS-Asia Pacific, and chairman, WTTC-II.

While Delhi slipped to the second position this year, Goa maintained its third rank in the survey.

Higher luxury tax, lack of single-window portal for ease of doing business and security issues are some of the reasons why Delhi is losing tourism business to neighboring states, the report said. "Additionally, Delhi's state expenditure on tourism, when viewed in absolute amounts, despite an increase since 2013, still lags behind states such as Jammu & Kashmir, Goa and Gujarat, among others", it said.

Source: The Economic Times
07 October, 2015



RBI EASES HOME LOAN NORMS

The RBI has made it easier for banks to lend for homes where borrowers contribute a larger chunk. At the same time, it has allowed banks to fund a greater part of the purchase for loans below ₹30 lakh. The RBI has revised the amount of capital that banks needs to keep aside on home loans. Banks can now provide home loans up to 90% loan for properties that cost ₹30 lakh or below, the RBI said on Thursday. Earlier, the facility was available only in cases where the cost was up to ₹20 lakh. For loans above ₹30 lakh and up to ₹75 lakh, the RBI has said that only 35% risk weight would apply if the loan to value ratio is less than 75%.

Source: The Times of India
09 October, 2015

SEBI NOT IN FAVOUR OF FRESH PROBE INTO NSEL SCAM

Less than a week after the merger into itself of the Forward Markets Commission (FMC), the Securities and Exchange Board of India (Sebi) has told the Union finance ministry it will not do any new investigation into the National Spot Exchange (NSEL) scam, sources say.

At a recent meeting with the economic affairs secretary and senior ministry officials, Sebi gave details of the approach it is likely to adopt in the multiple investigations underway against the exchange. NSEL's brokers face allegations of mis-selling and client code modification.

Sebi's absorption of FMC was a fallout of the NSEL scam. Its stand could dash NSEL investors' hope that the merger would give a renewed push for a probe. FMC, due to lack of authority to inspect and investigate brokers, had sought reports from the Central Bureau of Investigation (CBI) and the Mumbai Police's economic offences wing (EOW). It had been unable to procure these reports. Sebi has decided on a similar approach, that instead of conducting its own probe, it would seek reports from •CBI and EOW.

The ₹ 5,600 crore settlement crisis that started in 2013 has resulted in 13,000 investors struggling to get their dues. The department of economic affairs had in a letter dated September 21 asked Sebi to address the investors' grievances.

Sebi has said it wishes to first examine the investors' profile.

"Small investors have already received their dues. Certain wealthy investors, however, are awaiting refund," said a source present in the meeting of its stand.

On the directions of the high court here to examine NSEL's promoter entity, Financial Technologies Ltd (FTIL), for alleged violation of insider trading rules, Sebi has informed the ministry that it is examining FTIL, not only for insider trading but also fraudulent trade practices.

Sebi's legal department would now deal with the scam cases at the HC. It would also coordinate with the ministry of corporate affairs on the latter's proposal for merging NSEL with FTIL.

Source: Business Standard
08 October, 2015

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MARKETS SNAP SIX-DAY RALLY ON GLOBAL CUES

Indian markets on Thursday fell on profit-taking and weak global cues following six days of gains, which saw the benchmark indices climb over five per cent to six-week highs. Investors turned cautious ahead of the start of the earnings season. Most global stocks, too, fell after unexpected weak trade data from Germany cast doubt over global growth. The benchmark Sensex fell 190 points, or 0.7 per cent, to 26,846. The Nifty fell 48 points, or 0.6 per cent, to close at 8,129.

(Profit-taking is selling a security to lock in gains after it has risen appreciably. If there is an unexpected decline in a stock or equity index that has been rising, and no reason for the drop can be identified, the decline is frequently attributed to profit-taking.)

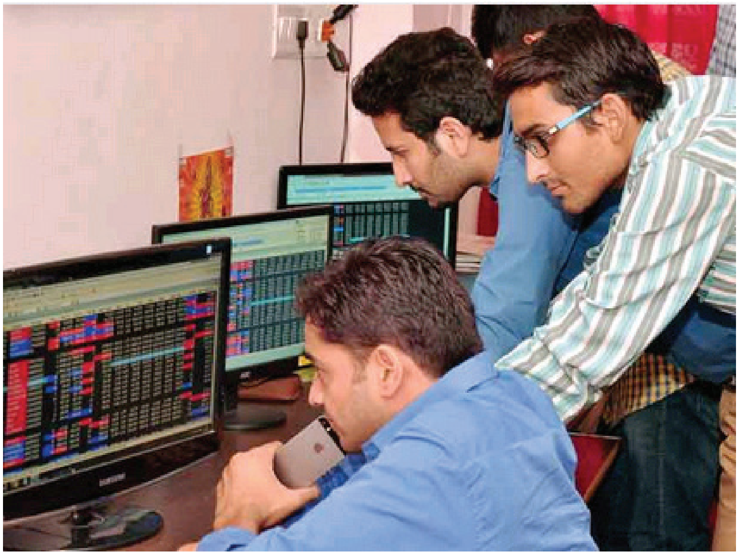
Reliance Industries Ltd (RIL) fell three per cent on reports it might have to pay a fine of ₹12,000 crore in an oil block-related dispute with state-owned Oil and Natural Gas Corporation (ONGC). RIL may have extracted 12 to 18 billion cubic metres of gas from the block belonging to ONGC in the Krishna Godavari basin, a television channel reported, citing petroleum ministry officials it didn't identify. ONGC shares ended 0.43 per cent lower.

Shares of ITC fell two per cent on reports that Uttar Pradesh, the country's most populous state, might impose a ban on cigarettes sold on a loose basis.

The market breadth on Thursday was mixed, with nearly one advancing stock for every declining one.

"The pause is just a technical halt. The market direction will depend on how the earnings' season plays out", R K Gupta, managing director, Taurus Asset Management Company.

The Sensex has rallied 5.5 per cent since September 29, when the Reserve Bank of India (RBI) cut its benchmark interest rate by more than what economists forecast. The seven-day relative strength index (RSI) climbed above 70 on Tuesday.



Some investors see a level above this reading as a signal to sell.

After two continuous months of outflows, the Indian market has seen some relief from foreign investor selling. So far in October, foreign institutional investors (FIIs) have invested ₹1,600 crore in Indian markets. FIIs have bought $3.8 billion of the nation's shares this year, the most among eight Asian markets tracked by Bloomberg.

Source: Business Standard
10 October, 2015

WOMEN DIRECTORS: BSE FINES 370 FIRMS FOR NON COMPLIANCE

BSE on Thursday said it had fined 370 companies for not complying with the Securities and Exchange Board of India's (Sebi) norm on the appointment of at least one woman director on their respective boards, within the prescribed timelines.

The exchange had earlier issued notices to 530 companies in July for not complying with the provision by June 30.

The capital markets regulator had issued guidelines in February last year, asking companies to appoint at least one woman director on their boards by October 1, 2014, which was later relaxed to April 1, 2015.

BSE said it had "issued fresh advisory letters regarding the levying of fines for non-compliance with said provision" within the prescribed timeline ending September 30.

Acting against listed firms without a woman director, in April, Sebi announced a four-stage penalty structure if companies remained non-compliant beyond six months, wherein fines would increase with the passage of time.

The listed companies complying between April 1 and June 30 will have to pay ₹50,000. Those complying between July 1 and September 30 would need to pay ₹50,000 and an additional ₹1,000 per day till compliance.

Those complying on or after October 1 will have to pay ₹1.42 lakh, plus ₹5,000 per day till the date of compliance. For non-compliance beyond September 30, Sebi might take further action against the non-compliant entities in accordance with the law.

Source: Business Standard
08 October, 2015