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Re-CAP

A weekly mailer encapsulating capital market news

October 19 - October 24, 2015

SKOCH BSE AWARD FOR ASPIRING INDIA ORDER OF MERIT

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

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25 Most Promising FINANCIAL CONSULTANTS

PE INFLOWS MAY HIT RECORD $20BN THIS YEAR

If the last nine months of private equity (PE) activity are any indication, PE investments are poised for a strong finish in 2015. Bain Consulting, the leader in consulting to PE firms in India and globally, predicts that PE transactions will touch a record $20 billion this year, higher than the previous record of $17.1 billion in 2007.Heightened financing in consumer technology space and big ticket investments in real estate and financial services will propel PE activity to hit a new high this calendar.

PE investments for the first nine months of this year have already hit $16.7 billion, outpacing 2014's total PE deal value of $15.2 billion. "The growth trend indicates that PE investment activity this year will surpass 2007, which was the best period so far," said Madhur Singhal, consulting principal, private equity practice, Bain Consulting.

The deal activity has been chiefly driven by the country's booming consumer technology sector, which attracted $5.4 billion of investments, followed by real estate and financial services with $3.6 billion and $2 billion, respectively, during the first nine months of this year.

Bain Consulting's PE deals database doesn't include transactions where deal value is not disclosed. The three sectors accounted for 65% of the total deal value in the January-September period of 2015 and are expected to keep up the momentum in the October to December period too. "The consumer tech space needs more capital to scale up and will continue to attract more private equity," Singhal said. Early-stage and growth investments dominated 85% of the deals in the first nine months of 2015.

PE funds such as Tiger Global, Blackstone, Temasek, Advent, SoftBank, Actis and GIC have invested about $125 billion in 5,400 deals between 2005 and September-end of 2015. However, exits from portfolio companies continue to remain challenging. Many funds have been forced to hold on to their investments for a longer number of years than originally envisaged.

Exits reached $4.5 billion in the first nine months of this year, driven by public market and secondary sales. Real estate, financial services and telecom witnessed the highest number of exits. The top 10 big-ticket exits, including TPG Capital selling its stake in Shriram City Union Finance for $386 million and New Silk Route offloading its interest in PNB Housing Finance for $257 million, constituted 40% of the total PE exit value in the first nine months of 2015.

HITTING NEW PEAK

Sector	Inflows ($bn)	No. of Deals
Consumer Tech	5.4	278
Realty	3.6	71
BFSI	2	45
Healthcare	1.3	41
Energy	1.1	26

BFSI: Banking, financial services & insurance | All figures for Jan-Sept 2015 | Source: Bain Consulting

Source: The Times of India
22 October, 2015

NO REVISED RETURNS PERMITTED UNDER GST

MONTHLY FORMS, MULTIPLE FORMATS INCREASE COMPLIANCE REQUIREMENTS FOR TAXPAYERS

The proposed Goods and Service Tax (GST) mechanism will not permit any revision of GST returns, which may create some challenges for taxpayers. Currently, both service tax and value added tax (VAT) laws permit revision of the tax returns that have been filed. In other words, taxpayers can file a fresh return to correct any mistakes that have been made in a previous return submitted by them.

The report covering the topic "GST returns", recently released by the joint committee on business processes for the proposed GST legislation, calls for filing of returns by all registered taxpayers even if there has been no business activity during the period covered by the return. Such taxpayers will have to file a `nil' return. GST returns will be allowed to be uploaded in the system, even in case of short payment of tax, for the limited purpose of having the information about self-assessed tax liability on record. However, from the taxpayer's perspective, such returns will be regarded as `invalid' returns.

Bipin Sapra, indirect tax partner at EY, says, "As a return cannot be revised, it means that the taxpayers would need to have an extremely robust mechanism to record correctly the details of invoices, revenue, input invoices and other data in the original return itself. Taxpayers will have to strengthen their compliance and reporting processes and controls."

While the report does away with revised returns, it proposes that all under-reported invoices (sales) and input tax credit revisions will have to be corrected using credit or debit adjustments in the GST return for the subsequent period. Interest, if any, which is payable by the taxpayer, will be auto-computed by the system.

FILING PROCEDURE

- Returns to be filed in GSTN portal, either by the taxpayer after registering himself or through a recognized tax return preparer (TRP)
- No revision of returns to be allowed. Adjustments to be made in the next period's return, interest for payment shortfall to be auto-computed
- No documents to be submitted with the returns. Documents to be shown only during GST audit
- Taxpayers' filing compliance increases in terms of periodicity, No. of different forms and level of details

Malini Mallikarjun, indirect tax partner at BMR Associates, adds, "The report mentions that adjustment of lower tax payments are to be corrected in the subsequent periods. Effectively, the need for return revision in this scenario is negated. Further, excess tax payment in a given period was said to be adjustable against taxes payable in a subsequent period, as per the earlier GST reports. So this provision on return revision may not be as impactful as it sounds. However, some of the details around how the adjustments get reflected in subsequent period and the efficacy of the technological platform for the same still needs to be ascertained."

The return filing formalities are proposed to be increased, both in terms of periodicity and number of forms. "For example, a service

taxpayer, covered by the Central service tax legisla- tion, is currently required to file only a half yearly return. For service taxpayers, the burden will increase manifold -in terms of periodicity of returns, number of return formats, multiplicity of compliances for separate registrations and levels of details that are required to be filled in," explains Sapra. "As per the proposal, different forms will have to be filed on a monthly basis -forms have to be filed for details of outward supplies, inward supplies and a monthly consolidated form. In addition, an annual return will also need to be filed," he adds.

Mallikarjun says, "While the current regime requires only bi-annual return for service tax, and mostly quarterly or yearly returns for VAT, the GST report seems to require companies to file three returns every month in every state that they operate in. Over and above this, there are returns for distributing credit across locations and also annual returns. Clearly, this is onerous and needs a rethink."

Source: The Times of India
22 October, 2015

GOVT NOTIFIES NEW TRANSFER PRICING RULES

The government on Tuesday notified rules for determining Arms Length Price (ALP) in transfer pricing cases in a move aimed at aligning the country's transfer pricing regime with global best practices and assure investors about the clarity in tax policy. The amended regime will be applicable for computation of ALP of international transactions and specified domestic transactions undertaken on or after April 1, 2014, according to a finance ministry statement.

"The amended rules would therefore provide clarity in determination of price in transfer pricing cases and reduce disputes on transfer pricing issues. It is a part of the government's continuing initiative of providing a stable and certain direct tax regime," the ministry said. Finance minister Arun Jaitley had unveiled plans to use the multiple year data and the range concept n his budget speech to put a lid on transfer pricing cases.

The Income-tax Act provides for determination of income with regard to ALP in case of international transactions and specified domestic transactions. The amended rules allow for introduction of a "range concept" for determination of ALP and "use of multiple year data" for undertaking comparability analysis in transfer pricing cases.

Source: The Times of India
21 October, 2015

FPIS SEEK EASIER RULES TO INVEST IN INDIAN MKT

RAISE CONCERNS OVER TAXATION, KYC NORMS

Foreign portfolio investors (FPIs) on Tuesday sought easier rules to invest in Indian markets, while raising concerns over tax-related issues. During a meeting with the finance ministry and regulatory brass, taxation was a major area of concern although the government has in recent weeks sought to address some of the worries, including promising amendments related to the levy of minimum alternate tax. Yet, overseas investors, which included marquee names such as Citibank, Deutsche Bank, Fidelity, Goldman Sachs and Blackrock, flagged tax certainty as an area of concern, said sources.

They pointed out that the safe harbour rules were one area, while also expressing concerns over section 9A of the Income Tax Act, which was inserted last year and stipulates that for an eligible investment fund, the fund management activity carried out through an eligible fund manager will not constitute business connection in India.

The other problem area flagged by FPIs is related to know-your customer (KYC) norms with too much documentation being a grudge. Similarly, some of the investors suggested that the government and the regulators needed to distinguish between funds that have operated in India for a long time and the new entrants.

Sources also said that some of the overseas investors suggested that the ban on investment in corporate bonds with less than three year tenure could be removed to attract higher inflows and also develop the market.

"A number of suggestions have come and they have to be looked into and it will be placed in front of the government and the government will take a decision. Tax issues were naturally raised ... We discussed fund management industry in India," economic affairs secretary Shaktikanta Das said.

Source: The Times of India
21 October, 2015

BIGGIES CONSOLIDATE OFFICE SPACE MARKET

BACKED BY GLOBAL INVESTORS, TOP 5 DEVELOPERS CONTROL 55-93% SHARE IN EACH OF 6 BIG CITIES

Darwinism is playing out in India's office space market. The demand for large offices is moving away from standalone buildings to integrated business parks, helping top developers consolidate the leasing activity across big cities.

The big four or five developers controlled 55% to 93% of the new leasing deals struck between July 2014 and September this year, according to data studied by TOI recently. Pune (93%) witnessed the highest concentration followed by Bangalore (75%), Mumbai and National Capital Region (68% each), Chennai (63%) and Hyderabad (55%).

The six big cities accounted for 28 million sqft office space absorption during the period, which is about 80% of the country's office leasing pegged at around 34 million sqft annually. "The data clearly shows that better known developers with quality buildings are preferred partners for large corporate ITITeS occupiers, enabling them to corner a lion's share of office leasing volumes," said Anuj Puri, chairman and country head of JLL India.

The number of one lakh and above sqft leasing deals (considered for this report) totaled 86 during FY15, soaring 87% from the previous fiscal. This accounted for three-fourths of the office area leased across the country. Mumbai, which has a history of smaller front-end offices, saw 14 leases of one lakh and above sqft last fiscal, jumping 133% from six such transactions in FY14.

This means fewer developers are carving out a bigger share of the office market in big cities, where 15 to 20 players slugged it out 10 years back. "Developers who are backed by global investors or with an institutional approach are better placed in the fast evolving office

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space market. These developments are capital intensive and build outs stretch over several years," said Mike Holland, CEO, Embassy Office Parks.

Not many developers have the capacity and experience to build big parks which would be holding thousands of employees, said Anshuman Magazine, CMD, CBRE South Asia. "Companies find it easier to attract talent to such parks," he said. Several small to mid-sized developers exited speculative office space developments after the 2008 meltdown, also triggered by the fact that corporates were unwilling to bet on them, said Anuj Nautiyal, MD, Redwoods Capital, a real estate investment advisory .

Private equity giant and the world's largest real estate investor Blackstone Group owns 50% of Embassy Office Parks in a joint venture with southern developer Embassy Group. In the past 12 months, the company leased over 4 million sqft, garnering 28% share in Bangalore and becoming the top supplier of office space in the country.

Marquee investors Qatar Investment Authority, GIC of Singapore, Canadian Pension Plan Investment Board, Brookfield Asset Management and Xander Group have invested heavily to snap up Indian office buildings with stabilized yields. Many top commercial developers in the six cities have had financial backing from one of the global investment groups.

"The emerging institutional landlords who are aggregating common infrastructure (like transportation, hospitality and healthcare) help companies to provide less and be more focused. Standalone buildings pile up indirect costs in an infra-deficit country". Holland of Embassy Office Parks explained. Technology capital Bangalore followed by Pune are among the top two cities for large office leasing volumes, signaling how the offshore services economy continues to drive the demand for grade-A office market.

THE BIG LEAGUE

City	Major players	% of office space leased out (1 lakh sqft & above)
PUNE	➤ Paranjape ➤ Shapoorji Pallonji ➤ Panchshil ➤ Raheja Group	93
BENGALURU	➤ Embassy Group ➤ Bagmane Developers ➤ RMZ ➤ Prestige ➤ Divyasree	75
DELHI-NCR	➤ ASF Infrastructure ➤ DLF ➤ Unitech Group ➤ Hines	68
MUMBAI	➤ Raheja Group ➤ Hiranandani ➤ Nirlon ➤ Radius ➤ Lodha	68
CHENNAI	➤ Tata Realty ➤ Divyasree ➤ Shapoorji ➤ Shriram	63
HYDERABAD	➤ Mantri ➤ Divyasree ➤ K Raheja Corp ➤ Ascendas	55

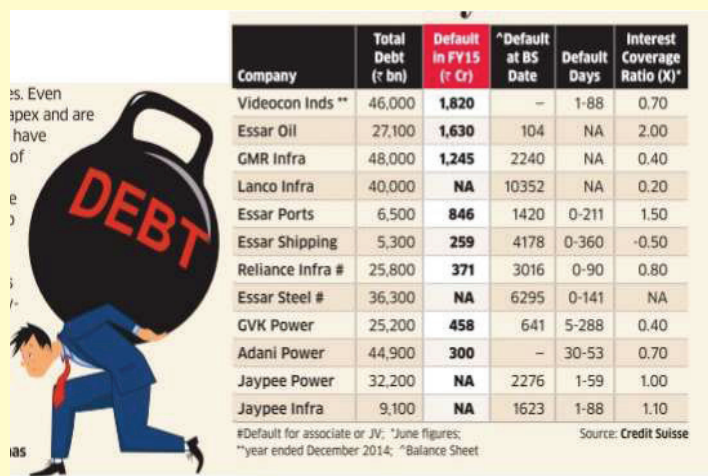
Time period: July 2014 to Sept 2015

Source: The Times of India
20 October, 2015

GOING GETS TOUGHER FOR DEBT-HEAVY COS

Debt servicing ratios of some of India's most indebted companies have deteriorated further & some of these groups are facing severe stress, finds a Credit Suisse report. Most of these groups have been already C downgraded to default by rating agencies. Even though some groups have cut back on capex and looking to sell assets, their debt EBITDA have worsened. Auditors, who belong to 12 of these groups, have highlighted that these companies have defaulted to the tune of ₹5,300 crore for a period of up to 360 days. According to the report, JP Group has had multiple instances of default in 2015, while JP Power has defaulted on $200 million in FCCB payments. Essar Steel, GVK and Lanco have been classified as NPAs by banks. "A large number of projects from power and road sectors have seen delays in completion which has led to cost overruns," said the report.

Source: The Economic Times
23 October, 2015



Company	Total Debt (₹ bn)	Default in FY15 (₹ Cr)	^Default at BS Date	Default Days	Interest Coverage Ratio (X)*
Videocon Inds **	46,000	1,820	–	1-88	0.70
Essar Oil	27,100	1,630	104	NA	2.00
GMR Infra	48,000	1,245	2240	NA	0.40
Lanco Infra	40,000	NA	10352	NA	0.20
Essar Ports	6,500	846	1420	0-211	1.50
Essar Shipping	5,300	259	4178	0-360	-0.50
Reliance Infra #	25,800	371	3016	0-90	0.80
Essar Steel #	36,300	NA	6295	0-141	NA
GVK Power	25,200	458	641	5-288	0.40
Adani Power	44,900	300	–	30-53	0.70
Jaypee Power	32,200	NA	2276	1-59	1.00
Jaypee Infra	9,100	NA	1623	1-88	1.10

#Default for associate or JV; *June figures; **year ended December 2014; ^Balance Sheet

Source: Credit Suisse

EPS MAY DECLINE BY 5-9% - OMC STOCKS WILT AS FEARS OF UNDER-RECOVERY MOUNT

ANALYSTS BELIEVE COS HAVE NOT BEEN ABLE TO INCREASE DIESEL PRICES DUE TO BIHAR POLLS

The spectre of under-recovery appears to be haunting state-run oil marketing companies again, with their stocks taking a hit after these firms refrained from increasing diesel prices for two consecutive fortnights. These firms had emerged as dark horses last year after a spate of reforms were initiated by the Narendra Modi government.

The stocks of Hindustan Petroleum Corporation, Indian Oil Corporation and Bharat Petroleum Corporation have slipped 8%, 9% and 5%, respectively in the past three months, compared to the 3% fall seen in the broader Nifty index.

According to analysts, the inability of these companies to pass on the higher crude oil prices will impact their marketing margins potentially leading to a 5-9% cut in their earnings per share (EPS) estimates in the current financial year.

Marketing margin is the revenue generated by these firms over and above the cost of refining products such as diesel and petrol. This income accounts for nearly half of their profits.

Given that the oil prices are now deregulated, any rise in crude oil prices, if not passed on to the customers, will have to be borne by the companies themselves. This will eventually hit their profit ability. Many analysts believe that these companies are not able to increase diesel prices due to the ongoing Bihar elections.

An oil marketing firm usually earns a margin of ₹1.5 per litre on `diesel, but since mid-September these firms have been incurring a per litre because loss of `. 1-2.4 per litre because prices have not been revised. Even after the recent diesel price hike of 95 paise per litre on October 15, oil marketing firms are earning significantly less than their fair margin of ₹ 1.5 per litre.

According to analysts' estimates, the loss on diesel sales since mid-September could be as much as ₹1,800 crore. CLSA in a note said

that the lower marketing margins should lead to an EPS hit of ₹4 for BPCL ₹3 for IOC, `and ₹ 8 for HPCL -implying 6%, 5%, and 9% cut, respectively in their EPS estimates for 2015-16.

Besides, there is also an increasing threat to the marketing margins as the political calendar for next year is filled with state elections, which will eventually leave a limited room for these firms to pass on any significant price hikes. This is because Tamil Nadu, Kerala, West Bengal and Assam are slated to go to the polls between April and May 2016.

The stocks of oil marketing firms got re-rated over the past 18 months because of their ability to fix the marketing margins, leading to multifold returns. With political manoeuvring once again hampering the earnings visibility of these companies and triggering concerns of narrowing marketing margins, the stocks are likely to remain under pressure.

Source: The Economic Times
23 October, 2015

NEW ACCOUNTING NORMS MAY HIT COS' PROFITABILITY

PHARMA & TECH SECTORS LIKELY TO BE IMPACTED THE MOST, FINDS A STUDY

Come April 2016, investors may find it less tedious to compare earnings of listed companies with the new Indian accounting standard -Ind-AS -set to be implemented. But, the transparency will come at a cost. Profitability of many companies could be impacted heavily because of the new rules.

A study by brokerage Ambit Capital of companies that are part of the Nifty shows that sectors such as pharma and technology along with conglomerates will be most impacted. Among companies, Tata Motors, Wipro and Dr Reddy's could see lower profits under the new accounting standards, said Ambit.

More than 500 listed Indian companies (comprising about 75% of the total market capitalisation) will adopt Ind-AS. Several consultants said investors and analysts may need to brace for sharp variations in earnings from what they had estimated.

"Next year many companies' results would look very different, as you would different, as you would have different PE (price-to-earning) ratio, different debt to equity ratio and so on," said Sandip Khetan, partner in a member firm of EY Global."

One major impact would be felt on the method companies use to account for goodwill. After the new standards set in, Indian companies would have to calculate their goodwill on a fair value basis.

"For many companies the return on investment (RoI) would fall significantly as their net worth would increase after their goodwill would be calculated on a fair value basis. So, while for some companies their goodwill would increase but return on investment would come down, now whether the company looks at this change as positive or negative is a matter of their perception," said Ashish Gupta, partner, Walker Chandiok & Co.

While all sectors would be hit by the Ind-AS, the implications could be more severe in some.

Companies with a lot of subsidiaries or even special purpose vehicles (SPVs) could see their net worth going down substantially.

"In a situation where the company has an SPV, where there is a private equity or strategic investor involved, who has a say in the operations of that SPV, it may be concluded that the control over that SPV is shared. And, therefore, the assets and liabilities of that SPV would not be consolidated in the company's balance sheet,"said Sai Venkateshwaran, partner and head of accounting advisory services at KPMG.

Source: The Economic Times
22 October, 2015

CORPORATES SHUN NCDS IN H1, PREFER PRIVATE PLACEMENTS TO RAISE FUNDS

In the first half of this fiscal, companies raising long-term debt capital have turned away from public issues in favour of private placements.

Companies raising debt capital through public issues of non-convertible debentures (NCDs) has fallen drastically — by 72 per cent — in the first six months of this fiscal, compared with the same period last year, according to data published by equities and commodities market regulator SEBI. NCD issues during April-September 2015 was just ₹1,249 crore, down from ₹4,418 crore in the first six months of 2014 and ₹5,763 crore in 2013.

Not just the quantum but the number of companies approaching the public for debt capital too has fallen to just four this year, from 12 and six in the two prior periods.

Contrast this with data on private placements of bond issuances. According to Mahavir Lunawat, Managing Director, Pantomath Capital Advisors, this figure stood at ₹2.42 lakh crore for the first six months of this year, compared to the year-ago figure of ₹1.45 lakh crore.

The number of issuances by private placement has also risen significantly, from 1,056 last year to 1,708 this year.

Weak show continues

In general, activity in the corporate bond market picks up only in the second half of the fiscal, mostly with government issues of tax-free bonds. But even with that rider, corporates have been lying low in the NCD market.

Lakshmi Iyer, Chief Investment Officer (Debt), Kotak Asset Management, believes this indicates a general slack in the debt market this year, Also, portfolio managers have directed the limited inflows in fixed income schemes to government securities and not corporate debt.

Instead of issuing long-tenor NCDs, Iyer said, companies have been turning to raising money through short-term commercial papers (CPs) to bridge capital requirements before banks began to lower lending rates. "There was the expectation of lower lending rates in the market before the RBI made the cuts. So until then, corporates were turning to short-term commercial papers; so CP issuances were on the rise this year."

On the other hand, private placements have always been more attractive because they are easier and cheaper than public issues. According to Lunawat, the trend now is for companies to meet their debt requirements by directly approaching investors through the private placement route.

Source: The Hindu Business Line
21 October, 2015

SAT TIMELINE ON FIRST FINANCIAL PROBE

The Securities and Exchange Board of India (Sebi) will need to hasten investigations in orders passed without hearing both sides, against entities that allegedly manipulated the markets and evaded taxes using the exchange platform.

This is because the Securities and Appellate Tribunal has passed an order in July, directing the markets regulator to conclude investigations by June 2016. The direction was given in the matter of First Financial Services.

Sebi had barred First Financial and 152 other entities in December 2014. It said the company had acted in concert with preferential allottees and misused the stock exchange system. The order was challenged by the company, stating the restraint had been in force for seven months without Sebi going into the merits of the case.

Sebi in the past year has passed orders against close to 1,000 entities and it is anticipated that ~8,000 crore of tax evasion happened through the stock exchange platform.

Recently, Sebi contended that tackling growth of undisclosed money or collecting tax revenue was not its primary task. The main job, contended U K Sinha, it head, was to protect the interest of investors and see that the market was not manipulated.

Source: Business Standard
24 October, 2015

FINMIN FLOATS CABINET NOTE ON MONETARY POLICY PANEL

The finance ministry on Friday said it has moved a Cabinet note on setting up the Monetary Policy Committee (MPC), which will retain dominant role of the Reserve Bank of India (RBI) in the proposed interest-rate setting panel.

"The government has prepared a Cabinet note on MPC. RBI is a very credible institution and nothing will be done in MPC composition that undermines the role of RBI," said a senior finance ministry official.

The official did not elaborate on composition or voting rights of the RBI governor in the MPC, which will replace the current practice of the governor deciding on interest rate on advice of the technical advisory committee.

The revised draft of the Indian Financial Code, released by the ministry in July, had suggested doing away with the RBI governor's veto power and proposed a 7-member MPC to take decisions by a majority vote. Of the seven members, four would be government nominees and the rest from RBI.

Under the current system, the RBI governor is appointed by the government, but controls monetary policy and has veto power over the existing advisory committee of RBI members and outside appointees that sets rates.

Source: Business Standard
24 October, 2015

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