An Initiatve by

PANTOMATH CAPITAL ADVISORS PVT. LTD.

Re-CAP

A weekly mailer encapsulating capital market news

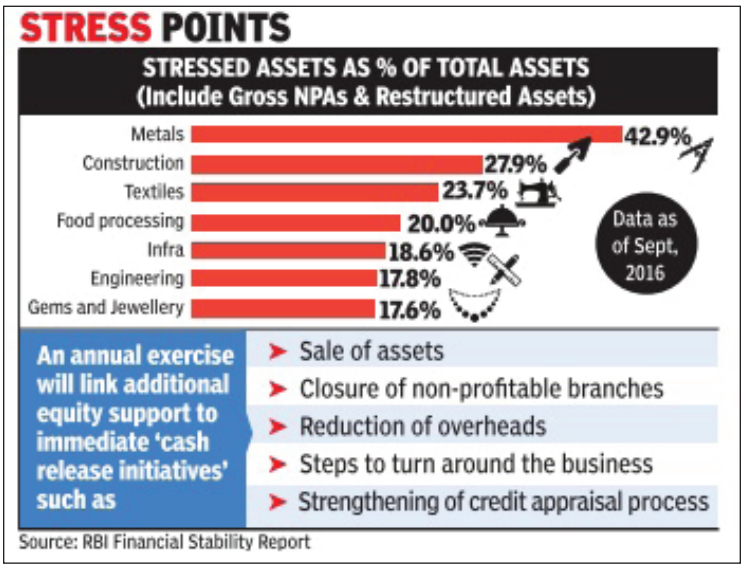
May 1, 2017 - May 6, 2017

CBDT MULLS FAIR MKT VALUE FOR UNQUOTED STOCK TAXATION

The revenue department on Friday proposed to levy capital gains tax on unquoted shares at `fair market value' in place of the current practice of charging it on the basis value entered in the books of a firm.

The Finance Act, 2017 passed by Parliament has inserted a new section, the Income Tax Act (effective from April next year), for valuation of unquoted shares on fair market value for computing capital gains tax. Unquoted shares are those which are not traded on recognised stock exchanges.

In pursuance of the amendment in the Finance Act, the Central Board of Direct Taxes (CBDT) on Friday released draft rules and invited comments from the stakeholders by May 19. "The valuation norms for unquoted shares is proposed to be changed radically, "said Abhishek Goenka, partner and leader at tax consultancy firm PwC. Accordingly, he said any transaction in unquoted shares will now have to be carried out at its fair value and if done at lower than this, both buyer and seller will be liable to additional tax based on fair value. He also opined that applying a fair value basis for unquoted shares will create subjectivity, particularly for businesses where business models are unique and untested.



The proposed capital gains tax system will be in place of the current practice of charging it on the basis value entered in the books of a co

The tax department applies the fair market value formula for levy capital gains tax on transfer of assets like jewellery and artistic works.

In case of immovable property, the stamp duty value is taken into consideration for determining taxability

Source: The Times of India
6 May, 2017

RBI GETS POWER TO ACT AGAINST DEFAULTERS

CAN GIVE SPECIFIC ORDERS TO BANKS TO START BANKRUPTCY AND INSOLVENCY PROCEEDINGS

The government on Friday promulgated an ordinance empowering the Reserve Bank of India (RBI) to issue specific instructions to banks to act against defaulters and also initiate bankruptcy and insolvency proceedings under the law, while promising more steps to ensure that banks get cracking on tackling bad debt amounting to over Rs 6 lakh crore.

While details of additional steps will be announced shortly, finance minister Arun Jaitley told reporters that new targets, being fixed for the state-run lenders as part of the annual exercise, will link additional equity support to immediate "cash Banks eye top 50% of Rs.10L-cr bad loans, P 20 release initiatives", such as sale of assets, closure of non-profitable branches, reduction of overheads, steps to turn around the business and strengthening of credit appraisal process.

While some of the steps such as sale of non-core assets have been discussed in the past too, banks failed to make much headway. For the moment, the government has focused on the legal provisions through the ordinance to let the RBI to issue "directions to any banking company or banking companies to initiate insolvency resolution process in respect of a default under the provisions of the Insolvency and Bankruptcy Code (IBC), 2016".

The ordinance also empowered the RBI to set up sector oversight panels that will help shield bankers from possible action by investigative agencies looking into loan restructuring proposals. The fear of agencies such as CBI, Comptroller & Auditor General and the Central Vigilance Commission have been cited by bankers to hold back decisions.

"A committee which oversees such JLF (joint lenders forum) arrangements is one step which will give them Source: RBI Financial Stability Report (bankers) this comfort level, "finance minister Arun Jaitley said at a press conference. An amendment is also proposed to the Prevention of Corruption Act, for which a Bill was introduced in Parliament. The standing committee has submitted its report on it and a revised Bill will be introduced in Parliament soon.

Jaitley -who made no bones about "unacceptably high level of non-performing assets (NPAs) " hindering the capacity of lenders to fund economic activities -said the government has also given a one-time general authorisation to the RBI. The ordinance, recommended by Parliament on Wednesday, was promulgated by President Pranab Mukherjee on Thursday evening. The ordinance, which inserts two new provisions into the Banking Regulation Act 1949, will have to be placed in Parliament for approval in the monsoon session.

"The object of this Act is that the present status quo cannot continue. And, the present status quo is that not much was moving and therefore a paralysis in the name of autonomy is detrimental to the economy itself and therefore really requires to be broken, "Jaitley said. He said the move will expedite commercial decision makings of banks. The minister said one of the objects is that "when bankers take commercial decisions on commercial and banking considerations, they must have adequate comfort level".

Source: The Times of India
6 May, 2017

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VIOLATION OF FOREIGN BORROWING RULES - ROUND-TRIPPING OF FUNDS? RBI SENDS NOTICES TO 8 COS

SEEKS CLARITY ON INVESTMENTS MADE BY THEIR FOREIGN JVS, SUBSIDIARIES INTO OTHER INDIAN ENTITIES

The Reserve Bank of India (RBI) has slapped notices on at least eight companies -including some software firms -amid concerns of round-tripping of fund and violation of rules on foreign borrowing.

The banking regulator has questioned the investments made by overseas joint-ventures and wholly-owned subsidiaries of these companies into other Indian entities.

The central bank suspects that some Indian groups and business families have misused overseas arms to raise cheap dollar loans and bring back the money as foreign direct investment (FDI) into local outfits owned by the same group.

RBI, in its letter sent over the last one month, has asked the companies whether specific approvals were taken for creating such structures, a senior banker told ET.

The regulator has in similar cases directed companies to unwind such investments, accept contravention committed under the Foreign Exchange Management Act (FEMA), and cough up a settlement fee for compounding the offence.

The nature of the fund-flow could typically be like this: company A floats a subsidiary or acquires an offshore company (say B, in the US), with B subsequently raising external commercial borrowing to buy equity of company C in India.

According to RBI's order, either B will have to sell off its stake in C or A will have to divest its holding in B.

But this would not be painless if a business group -particularly infotech firms which operate in multiple jurisdictions and post their engineers in various locations -have genuine business reasons and commercial considerations that justify such fund-flow.

According to sources in the financial markets, offshore structures such as these have indeed been used in the past by Indian manufacturing and a few real estate companies to sidestep stringent regulations on external commercial borro wings (ECBs) in accessing inexpensive loans overseas.

The regulator is taking a closer look to figure out whether a slice of the inflow masquerading as FDI is actually leveraged offshore money and round-tripping of undeclared fund that was earlier parked in bank account of foreign unlisted companies where the Indian group has a sizeable control.

"However, RBI is yet to question the inflow from old overseas JVs or subsidiaries which have been in existence since the days of FERA. While some firms do indulge in such sharp practices, it will be unfortunate if genuine operating companies with bona fide businesses are pulled up, "said another person familiar with the development.

Under the circumstances, RBI may have to come out with certain clarification to spell out the nature of overseas subsidiaries and investments that are permissible.

> **RBI may have to come out with some clarification to spell out the nature of overseas arms and investments that are permissible**

"One is not clear about the `specific approval' that RBI is taking about in its notices. An overseas company that is acquired may have pre-existing subsidiary or surplus cash, "said the person.

A company in India can invest up to four times its net worth either to buy a company abroad or set up a fully-owned subsidiary as long as the offshore company has real and legitimate business and follows the rules on reporting to Indian authorities.

However, there is no explicit ban on offshore subsidiaries investing in India. According to the regulation, if an Indian unlisted company holds even a few shares of an overseas company, the latter is described as a `joint venture' and could thus face hurdles while investing in India.

Source: The Economic Times
4 May, 2017

IRB INFRA RAISES RS 2,095 CRORE FROM ANCHOR INVESTORS BEFORE INVIT IPO

IRB Infrastructure has raised Rs.2,095 crore by allotting units to 28 anchor investors before the initial public offer (IPO) of its infrastructure investment trust.

The investors include Government of Singapore, Platinum International Fund, Birla Sun Life Mutual Fund, Schroder Asian Asset Income Fund and Deutsche Global Infrastructure Fund among others. IRB InvIT Fund has allotted 20.53 crore units at Rs.102 per unit to the investors. The company will raise Rs.5,033 crore from the IPO, which opens on Wednesday. The price band of the IPO is Rs.100-102 per unit. Investors need to bid for minimum 10,000 units and multiples of 5,000 units thereafter

Source: The Economic Times
3 May, 2017

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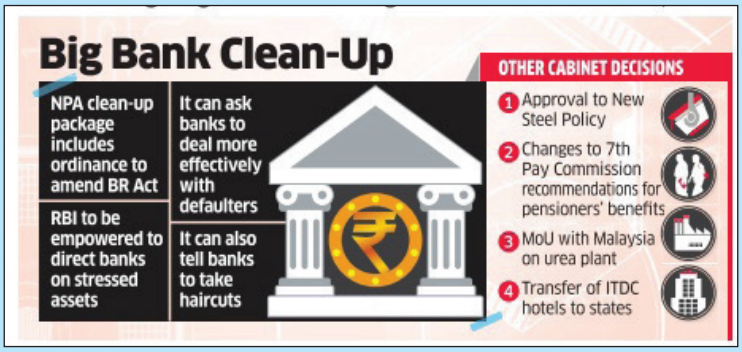
OVERSIGHT COMMITTEES TO SHIELD BANKERS

CABINET OKS ORDINANCE TO TWEAK BANKING REGULATION ACT TO GIVE MORE TEETH TO RBI, BANKS

The cabinet cleared the nonperforming asset (NPA) resolution package that includes an ordinance to empower the Reserve Bank of India to more effectively deal with bad assets, a move that will kick off a long-awaited initiative aimed at cleaning up the balance sheets of banks burdened with bad debt.

The cabinet also approved a new policy to boost consumption of locally produced steel and modifications to recommendations of the Seventh Central Pay Commission with respect to pensioners. "The cabinet has approved a major decision related to the banking sector, which has been sent to the President," finance minister Arun Jaitley told reporters after the meeting of the cabinet chaired by Prime Minister Narendra Modi on Wednesday evening. Jaitley declined to elaborate on the contents of the plan.

"There is a convention that when some proposal is referred to the President then details of it cannot be disclosed till it is approved. As soon as approval comes, details will be shared, "he said. A senior finance ministry official said the government proposes to issue an ordinance to amend the Banking Regulation Act, which will empower Reserve Bank to deal much more effectively with stressed assets. Changes are being made to Section 35A of the Banking Regulation Act as also certain provisions of the Bankruptcy Code.



These changes will empower RBI to give directions to banks to effectively resolve NPAs, another official said. ET had reported on April 4 that the government was looking to issue an ordinance to enable RBI to direct banks on stressed assets as moving amendments to the Banking Regulation Act through Parliament could take time. The reworked law will also empower RBI to set up oversight committees that will shield bankers from any subsequent action by investigative agencies looking into loan recasts.

As per the latest government data, public sector banks' gross bad loans rose by over Rs 1 lakh crore in the first nine months of the last fiscal year to Rs 6.07 lakh crore by December end from Rs 5.02 lakh crore at the end of March 2016. Efforts over the past few years to resolve the bad loans issue have met with limited success, prompting the government t to push for a more effective plan.

NEW STEEL POLICY

The cabinet cleared a policy for providing preference to domestically manufactured iron and steel products in government procurement, in line with the `Make in India' initiative.

MODIFICATIONS TO PAY COMMISSION

The cabinet approved modifications to the Seventh Central Pay Commission recommendations on pay and pensions based on suggestions made by a committee chaired by secretary, pensions. This will entail additional expenditure of about Rs 5,031 crore in FY17. It will benefit more than 55 lakh pre-2016 civil and defence pensioners and family pensioners.

MOU WITH MALAYSIA

The cabinet approved the memorandum of understanding with Malaysia for a $2.1-billion urea and ammonia

manufacturing plant in that country for dedicated supply to the Indian market.

CCEA DECISIONS

The Cabinet Committee on Economic Affairs approved the foreign investment proposal of Twin Star Technologies Ltd

for foreign investment up to Rs 9,000 crore from Twin Star Overseas Ltd, Mauritius. It also approved the disinvestment

plan for hotels of India Tourism Development Corp (ITDC), which are being given to state governments.

Source: The Economic Times
4 May, 2017

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PE INVESTORS HELP COS PROFESSIONALISE

MAJORITY OF PE-BACKED COS CLOCK IMPRESSIVE GAINS OVER LISTING PRICE

The recent stock market rally that helped the Sensex cross the 30,000 mark has buoyed many private equity investo 300% more than their listing price. Of the 67 IPOs in past five years, 42 -that is, 63% -have shown positive returns of between 25% and 300%, an ET analysis shows.

"IPO has been one of the most sought-after exit routes for PEs and with the markets going up, if the investee company is of size, IPO has been an option, "said Sanjeev Krishan, head of PE transactions advisory services at PwC India. "The return s too are a factor of the state of public markets, and since they have been doing well, exit pricing has looked up in recent times, though it continues to be company-specific, "he said. Sure enough, not all the newly listed firms could attract investors. Of all the firms listed on Indian bourses in the past five years, 42 were PE-backed companies that have raised $4.49 billion, or about Rs`. 28,900 crore, through initial share sales. As many as 30 of them have given positive returns while 12 are currently trading below offer price, ET analysis shows. There has been a spurt in the number of PE backed firms hitting capital market over the past couple of years.

Some experts attribute this to the influence of PE investors as they help startups professionalise fast and attract investors. "Sophisticated investors like private equity players put several filters like quality of the management, quality of the business and growth potential, among others, before investing in any company ," said Sandeep Nayak, CEO at Centrum Broking. "Hence, these companies tend to do well in the primary market as well as secondary market if priced reasonably as investors feel confident in putting their money in these companies, "he said. Ravi Sardana, EVP (investment banking) at ICICI Securities, said PE investors bring in a level of professional management and corporate governance in their investee companies. "They also focus on capital allocation and growth plans which are a good preparation for a public listing, "he said.

According to data from PE and M&A data provider Venture Intelligence, 30 PE-backed companies listed on the bourse s in the past two years -16 in 2016-17 and 14 in FY16. Before that, only five, one and seven PE-backed companies listed during FY13, FY14 and FY15. One of these firms, IMImobile was not listed in India but on Alternative Investment Market (AIM) in London, in 2014.

Some of the top PE-backed companies that hit Dalal Street and gave their investors an exit include Bharti Infratel, Equitas Holdings, Laurus Labs, Bombay Stock Exchange, RBL Bank, Endurance Technologies, Ujjivan Financial Services, Parag Milk, Care Rating and Healthcare Global. These ten firms together have given $927 million, or about Rs 5,963 crore, of returns to their investors so far.

Some investors continue to hold positions in a few of these companies while others have partially cashed out, Venture Intelligence data showed.

In the past five years, PE investors saw exits worth $37.6 billion, of which those through M&As amounted to $20 billion, it said. M&As include exits through secondary sales to other PE investors as well as strategic sale. A lot of PE exits also came through the public markets where through 622 deals, PE funds took home $17.6 billion. Most of these were block deals, and IPOs accounted for only one-tenth of PE exits through stock markets at $1.7 billion.

PE-backed firms struggling to impress the street so far include PNC Infratech, Adlabs Entertainment, Ortel Communications, Speciality Restaurants, Monte Carlo Fashions, UFO Movies, Quick Heal Technologies, Coffee Day Enterprise, Just Dial and CL Educare. These companies have given negative returns ranging between -2% to -58%, ET analysis shows.

Source: The Economic Times
6 May, 2017