An Initiatve by

PANTOMATH™
CAPITAL ADVISORS PVT. LTD.

Re-CAP

A weekly mailer encapsulating capital market news

May 29, 2017 - June 03, 2017

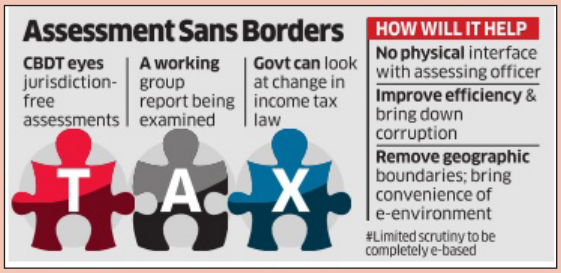
ONE NATION, ONE TAX DEPT: I-T TAKES CUE FROM GST

I-T DEPT MAY BRING IN JURISDICTION-FREE ASSESSMENT, WHERE A TAXPAYER IN ONE CIRCLE COULD BE ASSESSED BY AN OFFICER IN ANOTHER CIRCLE, CURBING CORRUPTION AND SPEEDING UP PROCESSING

The one-nation, one tax principle that underlines the goods and services tax (GST), set to be rolled out on July 1, could be adopted in a much more broader sense by the income tax department through a path-breaking initiative on jurisdiction-free assessment.

This would mean that a taxpayer in Mumbai could be assessed by an income tax officer located in Patna, a significant leap toward eradicating corruption by reducing the need for face-to-face contact between citizens and tax officials to the absolute minimum besides speeding up processing.

The move, which will require a change in the income tax law, would also end the relevance of various geographic divisions in the form of wards and circles with the whole country becoming one jurisdiction. This, it is hoped, will put an end to a system in which bribery is said to be used as a tool to ease processes through human intervention.



A high-level internal report of the Central Board of Direct Taxes (CBDT) recommended the move, which is under active consideration, a senior official told ET." We are looking at it," the CBDT official said.

The government may consider implementing the process in the next financial year.

THE CATALYST

The key catalyst for such a significant reform is the massive shift toward e-filing of returns, which is already jurisdiction-free with returns going to the Central Processing Centre in Bengaluru.

In the last financial year, over 42.1 million tax returns had been filed online by February. The number of e-returns processed by then was 43 million, which included some backlog from previous years. In line with this move towards e-processing, the income tax department may even opt for e-scrutiny for all limited scrutiny cases where assesses can explain the transactions in question over email, the official said.

A complete jurisdiction-free environment would make geography redundant and the income tax department completely faceless for taxpayers. Any review or scrutiny of return could happen anywhere in India through an electronic interface, ensuring that the payee is not forced to interact with officials. "A taxpayer would not need to have any physical interface with his assessing officer," said the official cited above.

CBDT had earlier constituted a seven-member committee to formulate a Standard Assessment Procedure for e-scrutiny to promote greater certainty, transparency and accountability. The board has in recent times taken a number of initiatives to reduce the face-to-face contact between tax officials and assessees and make the system non-adversarial. These include directing field offices to raise only specific queries in income tax assessment cases picked up for scrutiny. It also directed the expeditious completion of those scrutiny cases where income concealed is up to ₹ 5 lakh.

"Jurisdiction-free assessment will help the tax department plan and allocate assessment work across the country," said Jiger Saiya, partner, direct tax, BDO India. "This would help reduce the work load of the tax officers in major metros and thus reduce pendency of various tax proceedings."

Source: The Economic Times
June 07, 2017

ANTI-PROFITEERING TURNS TO BE WEIGHTY ISSUE FOR FMCG COS

FIRMS ADOPTING INNOVATIVE PRICE AND VALUE STRATEGIES TO AVOID PENALTIES POST GST

If you buy a soap or a bottle of shampoo this month, chances are it will weigh less than what it did about a month ago. The difference in weight could be there because fast-moving consumer goods (FMCG) companies, fearing penalties in case their profits go up after the goods and services tax (GST) comes into force, are adopting innovative price value strategies to insulate themselves.

Under anti-profiteering rules of GST, any company or vendor whose profits jump due to the new tax regime must pass on the benefits to consumers.

So, companies are adopting this temporary measure and would bring the prices back to where they were after GST.

Many FMCG companies, which think their profits might surge due to changes in taxation and new credit mechanisms under GST, are trying to prop up profits now so that after July 1 they can claim that the jump is not due to new taxation.

Contract manufacturers of FMCG companies, company insiders, tax experts and government officials say FMCG companies are adopting two-three strategies to protect themselves against antiprofiteering laws.

One is reducing weight of the products. In this case, a company might change the weight of a shampoo bottle from 180 gram to 175 gram, though its maximum retail price will remain unchanged. Companies are at liberty to launch new products and pass them as new pack sizes. But the idea is to show a higher profit in the month preceding the introduction of GST.

In the second method, some companies are asking their contract manufacturers to increase their price to company, citing jump in input costs. "Companies have been asking their vendors to increase the prices so that they can prices so that they can pass it on to customers," a person with direct knowledge of the matter said, adding," The companies would then, claim the price increase by their vendors is due to inflation or rise in material costs."

The third way the companies are going about this is by tweaking formulas of their products. "Vendors have been asked to dilute some of the products, such as shampoos and body wash," another person in the know said, adding that changing product composition is also aimed at reducing the cost.

Most of the companies, including HUL, P&G and Marico, have increased their prices across most categories in the past couple of months or are looking to do so this month. These companies, however, attribute the price rise to inflation and an increase in input costs.

A revenue official based in Mumbai said that changes in product sizes and the composition also pose a problem for the government. "If there is a jump in profits from a product (after GST), the company can say it's not an apple-to-apple comparison because the size and composition of the product is different," he said.

The key objective in all the strategies adopted by FMCG companies is to increase the profits in June. This is mainly because if the profits jump after July, it cannot be attributed to GST.

Industry trackers say it would be anyway tough for the government to go about with anti-profiteering. Also, experts say about 80% of industries in India do not indulge in cartelisation, and therefore the competition will ensure they pass on the benefits to consumers. Companies also fear that any increase in profits due to reasons other than GST may also be construed as anti-profiteering, say experts.

"The anti-profiteering legislation has been drafted in a very wide manner, which may give rise to misinterpretations and disputes with businesses. Any change in prices or profitability may not be due to tax rate reduction or increase in input-tax credits, and there are several other factors which could potentially be misread by tax authorities," said MS Mani, senior director, Deloitte Haskins & Sells.

Source: The Economic Times
June 09, 2017

An Initiatve by

PANTOMATH CAPITAL ADVISORS PVT. LTD.

Re-CAP

A weekly mailer encapsulating capital market news

May 29, 2017 - June 03, 2017

NEW RULES TO CUT TRANSFER PRICING DISPUTES

India has unveiled a new set of rules that aim to further provide certainty to multinationals and reducing transfer pricing disputes and litigation.

The Central Board of Direct Taxes has revamped the norms called the safe harbour rules, unveiled in 2013 for the first time, under which income tax authorities do not question pricing of dealing between multinational companies and a related party such as their subsidiaries. The rules were not much relied upon by the industry that wanted them further aligned with the prevailing sectoral standards. The new norms would benefit a host of sectors such as IT, and ITeS, pharma and automobile.

CBDT has revamped the safe harbour rules of 2013; new norms would benefit IT, ITeS, pharma and automobile sectors

"In order to reduce transfer pricing disputes, to provide certainty to taxpayers, to align safe harbour margins with industry standards and to enlarge the scope of safe harbour transactions, the CBDT has notified a new safe harbour regime based on the report of the Committee set up in this regard," the CBDT said in a statement on Thursday.

Tax experts say India has made changes in line with the Multilateral Convention of Base Erosion and Profit Shifting.

"India has derived the principles for acceptability of management fee from BEPS Action 10 and though India has not accepted the BEPS Action 10 report on low value added service fees, it has partly aligned itself to the report of the OECD. It's a huge relief for smaller taxpayers and would help in reducing TP controversy," said Vijay Iyer, national leader-transfer pricing services at EY.

Management fee has been a big pain point for multinationals with subsidiaries in India and has been a matter of many appeals filed with the tribunal.

The new rules come into effect from April 1, 2017 and shall continue to remain in force for two immediately succeeding years thereafter, up to assessment year 2019-2020.

Assessees eligible under the present safe harbour regime up to AY 2017-18 shall also have the right to choose the safe harbour option most beneficial to them, it said.

A new category of transactions -Receipt of Low Value Adding Intra-Group Services -has been introduced.

Source: The Economic Times
June 09, 2017

FERT COS GAIN FROM LOWER WORKING CAP NEEDS, FALLING INTEREST RATES

Most fertiliser companies saw sizeable improvement in their financials last fiscal because of lower working capital requirement, declining interest rates and an effort by the government to clear fertiliser subsidy arrears.

The ₹10, 000-crore special banking arrangement announced by the government for fertiliser companies in February also helped, analysts and industry executives said.

According to data by Investment Imperative, there has been an improvement of 200 basis points in the average EBITDA margins of the industry-from 5% to 7%--in the past fiscal due to a 10% decline in cost of production owing a similar decline in fuel cost. According to K Ravichandran, senior vice-president, corporate ratings, ICRA, the top-10 listed fertiliser companies saw a 64% improvement in profit just in Q4 on account of lower interest cost and the special banking arrangement.

Companies like Gujarat Narmada Valley Fertilizers and Chemicals, National Fertilizers and Rashtriya Chemicals Fertilizers are among the companies that saw their finance cost, on an annual basis, fall to ` 203 crore, `189.7 crore and ` 94 crore, respectively, in FY17, from ` 296 crore, ` 228.4 crore and `145.3 crore, respectively, in FY16.

Rajiv Kumar Gupta, MD of GNFC, said," The past fiscal was the best performing year for us as we reported PBT of ₹715 crore for FY17, which is 167% higher against PBT of ₹268 crore in FY16. This growth was achieved mainly due to our robust performance and faster subsidy clearance as compared with the previous years, apart from the special banking arrangement."

The improvement follows the introduction of gas pooling facility for urea manufacturing units in March 2015.

Urea is most widely used fertiliser in the country.

Gas pooling enabled fertiliser units get gas, a key raw material, at a lower and uniform prices.

Source: The Economic Times
June 05, 2017

SBI SEEKS DIFFERENTIAL PRICING ON E-PAYMENTS

The State Bank of India has sought differential pricing on digital transactions from the National Payments Corporation of India citing the large volume it generates.

The state-run lender wants to pay lower charges on transactions facilitated by NPCI that include the national financial switch, UPI, IMPS, clearing system, cheque truncation system and the RuPay card transactions.

"We believe that SBI must get a discount because the volumes are so high. Even a 10% discount will mean that the bank will save ₹50-100 crore," said a senior SBI official. "So whoever our aggregators are, whether it is NPCI or a telecom operator, we are now negotiating so that we get the volume discount."

An NPCI official said the SBI's demand is not unfair. "One-third of our business volume comes from the State Bank of India. We do not have a special pricing for them, (but) they have been demanding this," the NPCI official said."Very recently they have renewed their demand that SBI should be viewed differently, as bulk of our revenue comes from them. I don't think this is an unfair demand."

The official said that while a discount for SBI is still under consideration it has requested SBI to seek better service than lower prices.

SBI controls bulk of the payments market, with more than 40% of the debit card market share and 25% of the internet banking.

Source: The Economic Times
June 09, 2017

An Initiatve by

PANTOMATH CAPITAL ADVISORS PVT. LTD.

Re-CAP

A weekly mailer encapsulating capital market news

May 29, 2017 - June 03, 2017

HDFC BANK RECONSIDERS MOVE TO CHARGE UPI TRANSACTIONS

THE HURDLE BANKERS FEAR THAT CHARGES ON THIS NASCENT MODE OF TRANSACTION COULD HAMPER FURTHER ADOPTION

HDFC Bank has said it is reconsidering its decision to charge Unified Payments Interface based transactions.

"We have held it back too like (a) few other banks. Reconsidering," a spokesperson of the bank, the country's second largest private sector lender, wrote on microblogging site Twitter on Thursday.

This came two days after the bank said in a letter to its customers that UPI payments till `25,000 will be charged ₹3 plus service tax and those between `25,000 and ₹1lakh will be charged `5 plus service tax.

The National Payments Corporation of India, which runs UPI railroads, had requested the bank to reconsider the decision and is expected to call a meeting with bankers soon. While UPI has gained significant ground post demonetisation and received a major fillip with the government promoting it through BHIM (Bharat Interface for Money), bankers fear that charges imposed on such nascent modes of transactions could hamper further adoption.

State Bank of India was also said to have started charging UPI transactions, but the largest lender in the country clarified that this was not true. "There are no charges on UPI based payments on SBI till September 30. We will review the situation after that," said Manju Aggarwal, deputy managing director of corporate strategy and new business at SBI.

As per the latest numbers released by the central bank, UPI clocked 9.2 million transactions in May, up from 6.9 million in the previous month.

Source: : The Economic Times
June 09, 2017

REGULATORY SETBACK - IRDAI REJECTS PROPOSED MERGER OF HDFC LIFE, MAX LIFE IN CURRENT FORM

HDFC Life and Max Life merger has received another regulatory setback with the Insurance Regulatory and Development Authority of India (IRDAI) rejecting the proposed union in the current form.

HDFC Life and Max Life had proposed a four-leg merger in August 2016 where in the first leg, Max Financial Services, a holding company, was to be merged with Max Life. That was to be followed by a demerger of the life insurance business, which would subsequently be merged with HDFC Life.

The promoters met with the insurance regulator on Wednesday and IRDAI re affirmed its original position regarding Section 35 of the Insurance Act, 1938, said HDFC in a statement to the Bombay Stock Exchange.

The particular section of the Insurance Act does not allow mergers between an insurance company and a financial services company.

Earlier, the Attorney-General had returned a file from Irdai, seeking his opinion on whether to permit the merger of HDFC Life and Max Life in the way the transaction was structured.

In November 2016, the two companies had informed exchanges about reservations raised by Irda to accept the amalgamation in the form they had proposed.

HDFC said in the statement that HDFC Life and Max Life remain committed to the merger and are evaluating other options.

The insurance regulator's move is in line with the Insurance Act that prevents mergers of insurance co with a financial services co

Source: : The Economic Times
June 09, 2017

AT ₹15,000CR, SBI KICKS OFF INDIA'S LARGEST QIP

Aimed at shoring up its capital base, State Bank of India, the country's biggest lender, on Monday launched its qualified institutional placement (QIP) offer to raise up to ₹15,000 crore (about $2.3 billion). This is the largest QIP offer in India. SBI plans to dilute up to 6.7% of its capital in the price range of ₹276 to ₹287 per share, merchant banking sources said. At the lower end of the price range, it will be at 4% discount to the stock's Monday closing price of ₹287 on NSE.

Bank of America Merrill Lynch, Deutsche Bank, IIFL, JM Financial, Kotak Investment Banking and SBI Capital Markets are the managers to the QIP. The offer is being run through the accelerated book-building method, which requires the managers to open an offer soon after the market's close and take orders from domestic and foreign funds through the night. The book usually closes early in the morning.

SBI plans to dilute up to 6.7% of its capital in the price range of Rs 276-287 per share. This is the largest QIP offer in India

Market sources said that LIC, the largest life insurer in the country, has already committed to invest ₹4,000 crore in the offer. Depending upon the book size, this could rise up to ₹7,500 crore, which is 50% of the offer, they said. Current Sebi rules for QIPs to close successfully require at least two investors with none picking up more than half the offer.

"In addition to LIC, several sovereign funds, hedge funds and long-only investors are among the foreign players who have shown interest in the offer. A large number of domestic investors -which include mutual funds, insurance companies and bank treasuries -are also bidding," one of the sources said.

In Monday's flat market, the SBI stock closed nearly unchanged at ₹287, while the sensex closed 36 points higher at 31,309, an all-time closing high. At Monday's close, SBI, with a market capitalisation of ₹2.33 lakh crore, was the seventh most valued company in India and the second most valued bank behind HDFC Bank at ₹4.2 lakh crore.

Source: The Times of India
June 06, 2017

An Initiatve by

PANTOMATH CAPITAL ADVISORS PVT. LTD.

Re-CAP

A weekly mailer encapsulating capital market news

May 29, 2017 - June 03, 2017

RATING AGENCIES IN WHIRLWIND OF NPAS

SEBI QUESTIONS DELAY IN RCOM'S DOWNGRADE; AGENCIES BLAME LACK OF DEFAULT INFO

Credit rating agencies in India are caught in a gale triggered by downgrades, defaults and a grim spectre of bad loans.

On one hand, Sebi has asked rating agencies to explain their actions on RCom bonds to know whether processes were followed, and what lead to downgrade of the company's debt securities and loans by several swift notches; on other hand, Reserve Bank of India, a week ago, asked agencies whether they could rate `restructured loans' -an activity that has regulatory and market implications which most agencies are not entirely comfortable with.

"Sebi wants to know whether investors could have been alerted and rating actions could have been initiated earlier... what lead to cascading downgrades was delay in information," a person aware of the development told ET. "Rating agencies have no access to loan default data -something they feel banks and RBI should share," the person said.

At the meeting held with rating agencies, RBI broached the subject on rating of bank loans to corporate that is undergoing a complex debt rejig programme that could involve entry of a new investor or a deal to monetise assets.

While agencies are ready to rate such loans or securities, they are unwilling to publish these ratings. However, Sebi rules disallow such `private ratings' that are not put in public domain for the benefit of investments and market participants.

"Agencies believe that rating of debts of a company which is undergoing, say a strategic debt restructuring, is based on assumptions and hinges on other factors. For instance, a company like RCom is likely to overcome the current difficulties once its proposed sale of the tower business goes through. But what if it is delayed? There could be similar situations that other debt-heavy companies would confront... There's a moral hazard in publishing ratings that are dependent on such outcomes..,"said an industry official.

BANKS CAN BENEFIT

However, a rating upgrade of debts of companies that are going through restructuring would benefit banks that are saddled with bad loans. "A higher and above-investment grade rating would lower risk weightage on these loans. This would improve their capital adequacy and thus require the government to infuse less capital. One can understand where RBI is coming from," said another person.

Sebi rules require agencies to publish all their rating actions. Even if the regulator allows private ratings -which are not disclosed to the market -it would not lower risk weights on banks' loan books. "A lower risk weight can be assigned only if such upgrades are published and known to the market and auditors. A private rating or view with the agency carrying out scenario analysis may present an evaluation of the adequacy ratio," said a banker.

The downgrade of various RCom debts -local debentures, offshore, debts and loans from domestic banks -could pave the way for agencies receiving information on loans where interest payment is overdue for 30 or 60 days. A loan is treated as non-performing asset if it is not serviced for 90 days. "Banks do not share such data, particularly if the client is high-profile. Even if they do, no bank will give it in writing. There's an information asymmetry that rating agencies face," said a source.

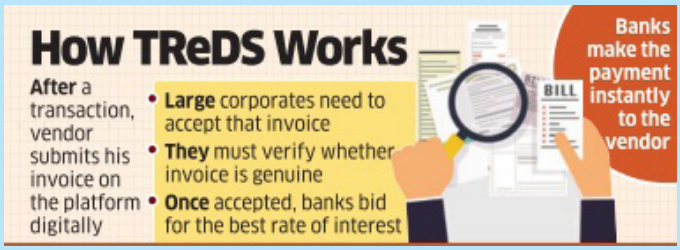
RBI and banks are reluctant to share such data due to its volatile nature and the impact it could have on the company's security and stock prices. "There are companies which regularise their accounts soon after a default or even within 30 or 40 days. Maybe, RBI will agree on sharing data where the interest is unpaid for 60 days or more. In case of RCom, rating agencies were late in getting a whiff of the situation as mutual funds were not holding RCom securities. Since agencies evaluate debt securities, they are typically more alert when MFs are investors," said a banker.

Source: The Economic Times
June 05, 2017

TREDS HELP SMES GET CREDIT FROM CORPORATES ON TIME

THIS IS A BILL DISCOUNTING SYSTEM WHICH ALLOWS BANKS TO MAKE PAYMENTS TO VENDORS AGAINST SUPPLIES TO CORPORATE

At a time when banks are averse to funding large projects of big corporates , they are all geared up to fund vendors who supply products to these corporate to give a push to the small and medium enterprise industry. Through the RBI promoted TReDS, the new kid on the block, smaller private sector lenders have taken the lead to take a credit call on corporate and make payments to their vendors on time. TReDS or Trade Receivables Discounting System is a digital platform based bill discounting system which allows banks to make payments to vendors against supplies to the corporates. "After a transaction is done, the vendor submits his invoice on the platform digitally. The large corporate needs to accept that invoice and verify whether the invoice is genuine," said Sundeep Mohindru, founder of M1 Exchange one of the RBI registered TReDS platforms. "Once accepted, banks bid for the best rate of interest at which they can discount that invoice and make the payment instantly to the vendor." RBI, in order to smoothen the payments process for the SME sector introduced TReDS in December 2014 and asked for applicants to register on the system. It is only over the past month that two exchanges, M1 Exchange and an NSE promoted entity started operations. "The initiative furthers the bank's digital agenda, digitising of receivable financing with no paperwork involved and digital acquisition of new-to-bank clients in the large corporate and MSME space. It opened a channel for new business," said Rajiv Lall, chief executive officer of IDFC Bank. "We are eager to take on those corporates on whom banks are ready to take a credit call, anything ahead of BBB which is investable grade. These industries are across electronics, FMCG and agri sectors. All are listed entities and in the. 1,500 to 10,000 crore," said size of ` Mohindru of M1Exchange.



Source: : The Economic Times
June 07, 2017