An Initiatve by

PANTOMATH CAPITAL ADVISORS PVT. LTD.

Re-CAP

A weekly mailer encapsulating capital market news

June 24, 2017 - July 08, 2017

INDEPENDENT DIRECTORS PART OF CLOSED CLUB: TYAGI

Taking a dim view of the absence of selection procedure for in dependent directors, Sebi chief Ajay Tyagi on Monday said ma ny are part of "closed clubs" who are appointed at whims and fancies of companies' promoters. While stressing that corporate governance practices need to be improved, Tyagi said some people are quite serious when they take up the role of an independent director, but there are plenty who are just eager to join the board according to convenience. Speaking at an interactive session with officials from public sector companies, Tyagi said corporate governance is an important issue even as he acknowledged that in India, it is very typical that promoters are quite dominant in companies. "There is no procedure for selection of independent directors. " "... I was told that the Companies Act, 2013 (rules) are so stringent that people can go to jail. My only question was that how many people have gone to jail? " Sebi also said the NSE may have to re-file papers for its Rs 10,000-crore IPO after addressing issues related to alleged preferential access given to some brokers, terming the colocation case as "a serious matter". In the high-profile NSE co-location case, Sebi wants its forensic audit to quantify unlawful gains made by some brokers, even as the exchange is trying to reach a settlement of the case through consent mechanism. Sebi further said it is "not happy"with the current state of affairs at credit rating agencies and will soon float a discussion paper for a new set of norms for them.

July 04 2017
Times of India

SLOW GOING - VC FUNDINGS DIVE 25% Y-O-Y IN APRJUNE TO DEALS WORTH $275M

Venture Capital (VC) investments slid 25% year-over-year to 78 deals worth $275 million during the April June 2017 quarter, according to Venture Intelligence data. Investment activity was lower 7% sequentially. April-June 2016 saw 104 investments worth $309 million. The January-March 2017 quarter saw 84 deals worth $349 million. In the recent quarter, the largest VC investment was Sequoia Capital's $20-million commitment to shared office space provider Awfis.

IT & ITeS companies -which still have the lion's share (69%) when it comes to investments in India -did not attract as much interest as they did last year with y-o-y investment activity down 33% to 54 investments worth $180 million.

Large tech-investments included e-commerce search software company Unbxd bagging $12.5 million from investors, including Eight Roads Ventures, while insurance marketplace Coverfox bagged $11 million from existing investors in a round led by US insurer Transamerica. Other notable deals were logistics tech-firm Fortigo's $10 million from Accel India and ex-UIDAI chairman Nandan Nilekani, and edu-tech company Unacademy's funding from Sequoia Capital and SAIF Partners.

The financial sector in to tal attracted 4 investments worth $25 million this quarter with the top deals being the $18 million bagged by OneAssist and $5.5 million by Ummeed Housing Finance.

Despite lower numbers, VCs are positive about the investment climate. "Going by anecdotal evidence, we are seeing a distinct rise in investor appetite, across early stage rounds. Many investments made several months ago haven't been announced revelled yet, for several reasons. There is reason to believe that the momentum will carry through the rest of 2017 and into 2018, "said Shubhankar Bhattacharya, venture partner, Kae Capital.

Seed rounds witnessed a 53% fall in Q2 2017 to 22 transactions, compared with the 47 deals inked for the comparable period last year. Series A rounds were the only category to witness a 15% rise in Q2 2017 to 39 transactions, data showed.

Bengaluru-based startups continued to top the funding charts attracting 26 investments during Q2 2017 despite a downtick from the 32 investments in the same period year ago.

July 07 2017
Times of India

ICEX, NMCE TO MERGE

National Multi Commodity Exchange (NMCE) will be merged with its peer Indian Commodity Exchange (ICEX), to create India's third largest commodity exchange.

The merged bourse will offer trading in derivatives contracts on bullion, oil, rubber and other agri-commodities. The exchange is also on course to launch world's first diamond futures contracts, a joint release from the bourses said. Among the shareholders of the merged entity will be MMTC, IDFC Bank, Indiabulls Housing Finance and Reliance Capital.

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LIMITED LIABILITY IF YOU REPORT FRAUD TO YOUR BANK IN 3 DAYS

RBI Bid To Make Card Use, Online Payments Safer Electronic payments have become safer for consumers with the Reserve Bank of India (RBI) introducing the concept of `zero liability' and `limited liability' for bank customers for any card or online fraud. The central bank has also made it mandatory for banks to register all customers for text message alerts and permit reporting of unauthorized transactions through a reply to the alert message.

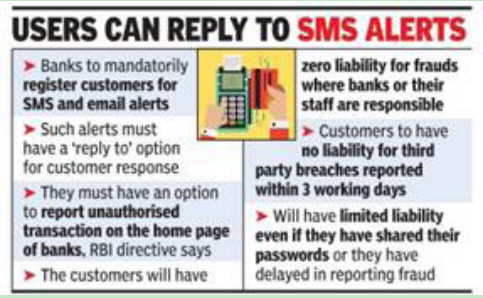
The proposal to limit customer liability in a fraudulent transaction was floated in a draft circular in August 2016. The RBI has now come out with final guidelines and sought to make rules stricter for banks than originally envisaged.

Under the new directive issued on Thursday, the onus has been placed on banks to link mobile numbers with bank accounts. "With the increased thrust of financial inclusion and customer protection and considering the recent surge in customer grievances relating to unauthorized transactions, the customer liability in these circumstances has been reviewed," said the RBI.

The central bank's circular covers online transactions as well as face-to-face transactions in stores using electronic payments.

Banks can disallow electronic transactions (other than ATM withdrawals) to customers not sharing their mobile number.

Besides asking banks to enable replies to text messages containing transaction alerts, the RBI has asked them to allow reporting of unauthorized transactions on their home page. Also fraud reporting will be possible through other channels including phone banking, sms, email, call centre and interactive voice response. A customer will have zero liability in respect of a fraudulent transaction if there is contributory fraud or negligence on the part of the bank. The customer will also not be liable if there is a third-party breach, without bank involvement, which is reported to the bank within three working days of receiving communication regarding the unauthorised transaction.



"Banks have been compensating customers for third-party frauds. What is new is the concept of limited liability. We are not clear how this will apply when the customer has shared his password, "said an official with a private bank.

In cases where the loss is due to negligence of the customer, like sharing one's password, the RBI has said the customer will bear the entire loss until he reports the unauthorized transaction to the bank. He will cease to be responsible once he has reported the unauthorized transaction. Similarly , where the loss is caused by a third party , the customer will be liable for the transaction value if he fails to report the fraudulent transaction within four to seven days of receiving the alert from the bank.

However, the maximum liability of the customer in the case of the above two transactions will be Rs 5,000 for basic savings bank account. For most other accounts, it will be Rs 10,000.

July 07 2017
Times of India

SEBI CRACKS DOWN ON NON-COMPLIANT COMPANIES ON DEFUNCT BOURSES

To safeguard investors of firms listed on non-operational bourses, Sebi on Friday decided to initiate action against companies that failed to submit an action plan to list on bourses or to provide exit option to shareholders.

Exclusively listed companies (ELCs) on the dissemination board were required to submit their action plans to either list on nation-wide bourses or provide exit option to shareholders by June 30, 2017.

The regulator had, in October 2016, provided three months time to ELCs to submit an action plan to list on bourses or to provide exit option to shareholder. In January this year, it had asked such companies to submit the action plan till March.

ELCs are entities listed on nonoperational exchanges and are currently on dissemination board of functional bourses where they are not traded.

Now, Sebi has decided to initiate action against the non -compliant `ELCs on Dissemination Board (DB)', and its directors promoters, the regulator said in a statement.

As on June 30, as many as 2,000 ELCs were on the dissemination board. Of these, 376 submitted the plan of action.

Besides, a total of 189 ELCs obtained listing on the main board exchanges and another 64 of them exited.

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NOW, NO PROPERTY TAX ON FLATS UNDER 500 SQ FT

Soon, homes in the city of up to 500 square feet will be exempt from property tax and those sized between 501 sq ft and 700 sq ft will get 60% discount on the tax. Shiv Sena has fulfilled its electoral promise by clearing the proposal at the BMC's general body meeting on Thursday. The proposal will be sent to the municipal commissioner to analyze the financial implications of the move and to find out how many homes will benefit in the city. The commissioner will then send the proposal back to the civic house for discussion. Once the house approves the commissioner's recommendations, it will be sent to the state government for its final approval.

While activists said they are happy with the move, they added that the city's old inhabitants--quite literally, "grandparents have occupied premises more than 50 years ago"--should be given similar exemptions for bigger houses, as they are forced to pay property tax according to its present market value. Housing activist Chandrashekhar Prabhu said, "It is a welcome mo ve. But why are they differentiating between residents of smaller houses and those who have lived in bigger spaces for generations? For instance, my family bought an over 800 sq ft flat 70 years ago for a few thousands and we have been living here ever since. Today, the civic body charges us property tax according to the flat's market value. This is completely wrong. I do not make that much to pay the tax. It is a ploy to throw out the city's original inhabitants. "

It was Shiv Sena leader Yashwant Jadhav who moved the proposal in the BMC house on Thursday. Surprisingly, the proposal was cleared without debate.

Jadhav said, "The state government will have to clear the proposal because it will not lose anything. The BMC will lose revenue while providing relief to citizens, and we are prepared for it. It was one of our poll promises, which we fulfilled. "

The BJP, though, said it was the first party to demand the waiver and wanted to add more benefits for slum dwellers, but in vain.

Most of the houses in the city are 1BHK or which have up to 500 sq ft carpet area.

60% RELIEF FOR 501-700 SQ FT FLATS

SENA'S PROPOSAL IN BMC

- No property tax for flats of up to 500 sq ft (carpet area)
- 60% property tax waiver for flats sized between 501 sq ft and 700 sq ft

WHO WILL BENEFIT?

- Most small 1BHK flats. Their number is not clear
- BMC's annual collection from property tax (₹4,900 crore in the last financial year)

July 07 2017
Times of India

MAURITIUS SIGNS TAX PACT TO PREVENT TREATY ABUSE

Mauritius on Wednesday signed the multilateral instrument (MLI) to mitigate tax avoidance through base erosion and profit shifting (BEPS) tactics. However, it has not covered the tax treaty with India under the MLI signed by it. India, which signed this MLI earlier on June 7, had covered the India-Mauritius tax treaty. According to international tax experts, the main reason for excluding India under the MLI is to ensure that the existing investments in Indian securities, made prior to April 1, 2017, by residents of Mauritius, stand protected from anti-abuse (or treaty shopping clauses).This allays fears of existing investors. During 2016-17, Mauritius was the top source of foreign direct investments into India, with inflows of Rs 1, 05,587 crore (or 33% of total inflows).

MNCs tend to park profits in low tax jurisdictions to reduce their global tax outgo -a BEPS tactic. The OECD-led BEPS project had sought to curb such practices through the medium of an MLI, which enables the existing network of tax treaties entered into between countries to be updated. Countries that are signatories to the MLI do not have to renegotiate treaties bilaterally to strengthen anti-avoidance or treaty shopping provisions.

An official statement from the Mauritius ministry of finance and economic development points out that 23 tax treaties entered into by Mauritius with various countries have been covered under the MLI signed on July 5. "For the remaining tax treaties not covered by the MLI, Mauritius will discuss bilaterally with the respective treaty partners to implement the BEPS minimum standards at latest by end of 2018." The BEPS minimum standards include action point 6, relating to prevention of tax treaty abuse.

After decades of negotiation India had signed a revised tax treaty (i.e. protocol) with Mauritius on May 10, 2016. This protocol gave India the right to tax capital gains on transfer of Indian shares acquired on or after April 1, 2017.

The existing investments were grandfathered.

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BY UNFAIR MEANS OR FOUL - TRADERS DIG OUT LOOPHOLES TO PAY LESS, AVOID TAX

A Chennai shopkeeper has begun to split the bill for a pair of shoes, selling each separately. A garment dealer is selling the quintessential dupatta separately from the salwar suit that it ostensibly belongs to. A leading basmati company, which established its brand with extensive print and electronic advertising for years, is seeking to withdraw trademark registration. It has informed the trade about other brands not being trademarked to claim tax exempt status.

Businesses are relying on innovative ways to beat the norms to ensure their products remain exempt or at lower rates under the goods and services tax (GST) that rolled out on July 1.

Most businesses are taking advantage of the GST Council's attempts to protect consumers, especially the aam aadmi.

Footwear of less than `500 faces GST of 5% while that above it is charged at 18%. Apparel under the GST regime attracts a tax rate of 5% if priced below `1,000 and 12% above that.

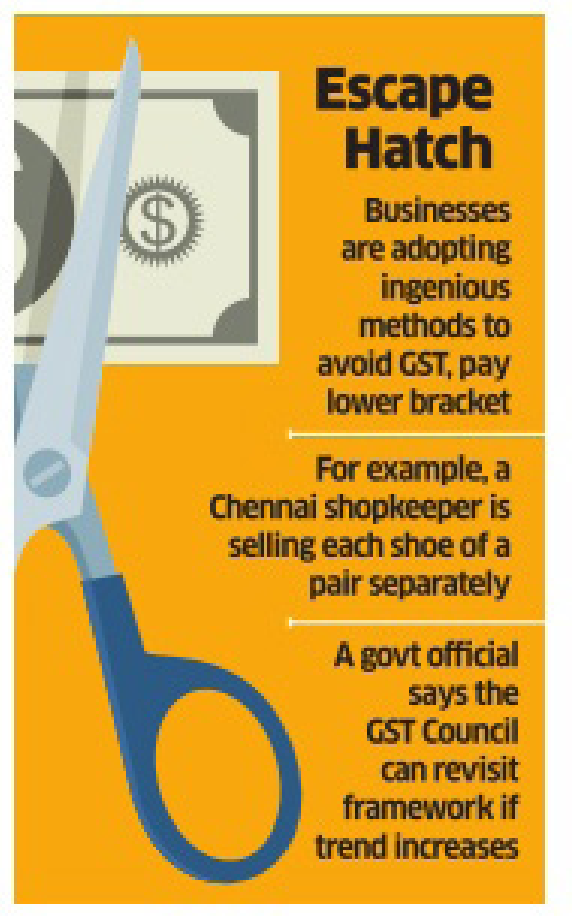
"Structurally, having different tax rates for differently priced goods creates classification disputes and litigation since there is an inclination on part of the taxpayer to find ways of charging a lower rate, "said Bipin Sapra, partner, tax and regulatory services, indirect tax, EY. Similarly, GST is zero on some food items. This includes cottage cheese or paneer, natural honey, wheat, rice and other cereals, pulses, flour of cereals and pulses, other than those in containers and bearing a registered brand, in which case GST is 5%.

The government is not amused by what businesses are doing. It s one thing to modify goods to avail lower rates and another to misuse the provision.

"This was not the intent, "said a government official, adding he council can revisit the framework if the trend increases.

Sapra said, "If GST rate is to be determined on the basis of registered brand name, there may be products not registered but equally popular. Basis of rate determination should be more objective and non-discriminatory. " Misuse has become possible because of multiple rates under GST -exempt, 0%, 5%, 12%, 8%, 28% and 28% plus cess.

Central government officials, who had seen classification disputes under central excise duty, were not much in favour of differentiation in rates on the basis of value. The view was that goods under the same HSN (Harmonised System of Nomenclature) should be at the same rate.



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IDFC, SHRIRAM COS MAY MERGE TO CREATE RS 65,000CR FIN MAJOR

Bank Also Explores Other Options To Expand Retail Reach

In an attempt to expand its reach in the retail sector, IDFC and IDFC Bank are evaluating options of either a buyout or a merger with companies in the financial sector. Mumbai-headquartered IDFC and IDFC Bank are exploring the option of a merger with Chennai-based financial services company Shriram Group. "A merger with Shriram Group is one of the proposals that IDFC is evaluating but nothing has been finalised yet which could be taken to the board level, "a source said. A merger of the two groups could form a major pan-India player in the financial services sector with total assets worth over $10 billion (about Rs 65,000 crore).

The partners in Shriram Group are set to meet on Saturday to consider a merger of all its assets with IDFC group, sources said. Billionaire investor and dealmaker Ajay Piramal owns a 20% stake in Shriram Capital, the unlisted holding company. Piramal also holds stakes in some of the group's subsidiaries.

There is speculation in the market that Shriram Transport Finance and Shriram City Union, the two listed arms within the group, could be the possible targets for IDFC and IDFC Bank. On queries from the bourses, all the companies responded that as part of corporate strategy they continuously evaluate various opportunities that could add value to their businesses and stakeholders. The companies, however, said that there was no concrete proposal before their boards of directors. The current market capitalisation of the four listed arms from the two groups are over Rs 63,000 crore, BSE data showed.

"Conversations are on with 2-3 companies with the focus on expanding our retail franchise. Over the next few days we will try and figure out which one is worth pursuing, "the source said. "Once we finalise the name, we would enter into exclusive talks and undertake due diligence, arrive at a valuation for the deal, and the regulatory approvals will follow. Nothing is finalised yet, "the source said.

Sources from the Shriram group said that if the merger with IDFC is sealed, it would involve all the businesses of the group, including financing of commercial vehicles, homes, consumer goods, life and general insurance, stock broking, distribution of financial products and wealth management.

On a stand-alone basis, the two groups hardly compete with each other so a merger will be of businesses which are complementary in nature, and the same could be said about their geographical presence too, market players said. IDFC is into infrastructure and development financing entity, while IDFC Bank is a commercial lender which started its operations in October 2015.

After market players started speculating on the chance of a possible merger or buyout for IDFC, the stock prices of IDFC and IDFC Bank have witnessed strong surge, accompanied by rising volumes. In the last three days, IDFC Bank on BSE has gained over 15% and IDFC is up nearly 12%. On the other hand, Shriram Transport Finance stock is up almost 8%. In IDFC and IDFC Bank counters, Thursday's traded volumes were more than three times what it was just a week ago.

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