

Stocks		Global Indices			
	Close	Chg			
BSE Sensex	17117.69	↑ 95.36	Nasdaq	2303.03	↑ 21.96
S&P CNX Nifty	5135.50	↑ 25.00	Dow (DJIA)	10255.28	↑ 5.74
Nifty Fut (Jun 10)	5119.95	↑ 24.00	FTSE 100	5211.20	↑ 59.90
Nifty Fut (Aug 10)	5117.85	↑ 24.65	Nikkei 225	9901.19	↓ 13.00

Money & Forex		Commodities			
	Rate/yield	Chg			
7.80% 2020 g-sec	7.56	↑	Gold (Rs/10gm)	18335.00	↓ 210.00
Inter-bank call	5.04	↓	Silver (Rs/1 kg)	29135.00	↓ 590.00
US \$	46.84	↑	Brent crude (\$/bbl)	74.83	↑ 0.52
Euro	56.85	↓	LME copper (\$/tn)	6525.00	↓ 143.00

Pune, Saturday, June 5, 2010

DAILY NEWS & ANALYSIS . MONEY

straws in the wind

HUNGARY SAYS ECONOMIC SITUATION 'GRAVE'

Hungarian bonds tumbled, pushing up borrowing costs by the most since October 2008, and the forint and stocks plunged after a government official said speculation of a default "isn't an exaggeration." Peter Szijjarto, spokesman for Prime Minister Viktor Orban, said "It's clear that the economy is in a very grave situation." Szijjarto said at a press conference in Budapest. The comment sparked concern that Europe's debt crisis is spreading after credit downgrades of Greece, Portugal and Spain.

RANBAXY RECALLS PAINKILLER

Ranbaxy Laboratories Ltd's UK unit is recalling all unused stock of a batch of gabapentin, a generic treatment for nerve pain, after failing to update mandatory safety information. Ranbaxy is working to update the safety information, said Makoto Kihara, a spokesman for Daiichi Sankyo Co, which owns a controlling stake in the company. Kihara declined to comment on any earnings impact the recall might have.

TOYOTA R&D CENTRE IN INDIA

Japanese car maker Toyota is exploring the possibility of setting up a research and development facility and engine plant in India, the head of its joint venture said. Managing director of Toyota Kirloskar Motor (TKM) Hiroshi Nakagawa said one of the options being considered now is to set up a R&D facility in India. The proposal is at the discussion stage and it is his "wish and hope" that it would be established in future.

GRASIM'S MP PRODUCTION HIT

Aditya Birla Group's flagship firm Grasim Industries said it has temporarily suspended production at its Madhya Pradesh fibre plant due to water shortage. The company has temporarily suspended production at its staple fibre plant at Nagda due to water shortage, till the arrival of monsoon, Grasim Industries said.

ANSAL DROPS WARRANTS PLAN

Ansal Properties and Infrastructure has decided to withdraw the proposed issue of 16.51 mln warrants on preferential basis to promoters. "Promoters currently hold around 59.4% stake in the company. At the current juncture, they do not feel the need to go ahead with the issue," a company spokesperson said.

ESSAR OIL TO RAISE \$300 M

Essar Oil said on Friday it will raise \$300 million from its promoters to fund the company's ambitious expansion projects. Essar Oil's shareholders had on April 22 approved raising \$1.7 billion through the sale of securities to promoters. The funds were to be raised through the issue of ADRs/GDRs/FCBs to the promoters on a preferential offer basis. The \$300 million FCCB issue is part of that fundraising.

nobody's business



Sanction my leave, sir. I assure you it will not affect the office work. I hardly do anything here.

Amfi plans guidelines to curb mis-selling

Leena Dagade & Himadri Buch, Mumbai

The Association of Mutual Funds in India will soon adopt steps to curb unethical selling practices of mutual fund schemes' distributors, chief executive H N Sinor said.

"Distribution is the trickiest part and is too much a fragmented industry. We need to see whether right selling is taking place or mis-selling. Sebi has released an interesting note, which we discussed at the advisory committee meet recently. We are trying to have a working group that will be able to come out with proper guidelines," Sinor said.

The proposed group will initially issue guidelines for banks followed by national and regional distributors, and then for independent financial advisors. "What is required is to create an appropriate incentive structure. There should be regular flow of information, and the information needs to be monitored carefully so it will throw light on distributors' activities. There has to be some kind of audit process and reporting

process at the trustee level. This will make the distributors responsible and trustees too," said Sinor.

Recently, Amfi had said asset management companies will not pay trail commissions to either old or new distributor while switching fund investments.

Also, Sinor said the fund industry should review business models in view of the series of regulations over the past one year. "Every entity—AMCs, distributors, registrar and transfer agents, all of them need to review their business model. So the top priority for Amfi here is to introspect and see that as a trade body group you also need to do," he said. nwis

Sinor believes more focus is needed on investor awareness and education, investor servicing, and handling grievances. "For investor awareness, we are trying to cover top 100 centres, penetrate through media, electronic, print."

AMFI is also looking at means to bring down costs in registrar and transfer activities via technology upgradation. nwis

Cos must have 25% public holding

About 170 cos will have to go for FPOs, raising Rs 160,000 crore

Nivedita Mookerji & Nitin Srivastava, Mumbai

After deliberating for long, the finance ministry on Friday said at least 25% shareholding of all listed companies should be with the public.

Companies which aren't there can reach the level through an annual addition of at least 5% stake.

Considering that the minimum listing norm now is 10%, companies will get a maximum 3 years to fall in line.

Crisil, the rating agency, estimates this would mean follow-on public issues from at least 170 companies which would raise about Rs 160,000 crore, including three Sensex companies — NTPC, Wipro and DLF.

Experts believe the move is a positive move that will help deepen the equities segment without deluging the secondary markets with floating stock.

"It's a welcome move, and has been pending for long. It would help increase the free float and market capitalisation. I do not see any major impact on the secondary markets as the timeline is quite sufficient," said Deena Mehta, managing director at broking house Asit C Mehta Financial Services.

"It will lead to the availability of more good quality paper. It will give new investors the opportunity to participate in equities through IPO route where they may even get some discount," Mehta said.

As for companies planning new listings, if the post-issue capital of the company calculated at offer price is more than Rs 4,000 crore, the company may be allowed to go public with 10% public shareholding.

It can then comply with the 25% guideline by increasing its public shareholding by at least 5% every year.

Companies whose draft offer document is pending with the Securities and Exchange Board of India (Sebi)

A Rs 126,000 crore bonanza for govt

- Price pressure on smaller stocks • MNCs may choose to delist • MMTC alone to raise over Rs 36,000 crore
- Theoretically, this year should see capital raising of over Rs 100,000 crore, the highest ever

Sachin Mampatta, Mumbai

About 35 public sector undertakings will have to sell an average 13.75% stake to reach the new minimum threshold of 25% public holding.

At current prices, that would mean raising Rs 126,000 crore or Rs 3,624 crores by each of the 35 companies in the next three years.

Theoretically, that should erase a third of the government's fiscal deficit of over Rs 400,000 crore.

A DNA Money analysis shows 164 companies from the 3,000-odd that are actively traded (there are around 6,500 companies listed on the Bombay Stock Exchange) will have to increase their floating stock.

Apart from the PSUs, 129 companies will sell stakes tantamount to about Rs 24,295 crore at current prices. In all, that would mean raising about Rs 151,000 crore.

Among the PSUs, MMTC would be the largest fundraiser - the govern-

ment will have to sell 24.33% stake in the company, that's equivalent to raising Rs 36,084 crore at current prices. NMDC would need to dilute 15%, raising Rs 16,265 crore.

NTPC and Hindustan Copper would need to dilute 9.5% and 24.59%, respectively, raising an additional Rs 26,742 crore.

"This will help to improve the fiscal situation of government. Overall, it's an extremely positive move which will help to attract more FII flows once good quality issuances to hit the market," Prateek Agarwal, head of equities at Bharti AXA Invest Managers.

The government had targeted raising Rs 40,000 crore through divestments in the current financial year.

The new regulations allow for companies to raise their public stake by 5% annually, which would translate into Rs 61,572 of fund raising over the year.

To top it, there are about 35 IPOs lined up to raise about Rs 36,640 crore.

The worst hit

Company	Public stake (%)		
	Current	To dilute	Issue size*
Top 5 PSUs			
MMTC	0.67	24.33	36,084
NMDC	10.00	15.00	16,265
NTPC	15.50	9.50	15,792
Hind Copper	0.41	24.59	10,950
SAIL	14.18	10.82	9,066
Top 5 private cos			
Wipro	20.48	4.52	4,353
Reliance Power	15.22	9.78	3,788
DLF	21.36	3.64	1,715
JP Power Ven	12.30	12.70	1,709
Mundra Port	19.83	5.17	1,419

*In Rs crore; based on Jun 3, 2010 market prices
Source: CapitalinePlus

With companies able to tap the market through qualified institutional Placements (QIPs), convertible instruments and follow-on public offers for existing listed companies and initial public offers for the ones new to the exchanges, this could result in the highest amount of capital raising ever, at nearly Rs 1 lakh crore this year. "Though a large amount of capital

would be raised thereby challenging market appetite, pricing would play a crucial role in the success of issues. The price at which illiquid stocks are quoting won't be relevant to the offer price and valuations would be determined based on inherent value and comparable prices of industry peers," said Nagendra Bhatnagar, MD & CEO of IDBI Capital.

Fund-raising reached a record in 2007 when 126 issues including 36 QIPs and 90 other issues raised Rs 77,744 crore.

The capital raisings, however, is not expected to have an effect on secondary markets.

"Companies have been given ample time to comply. They can also choose the route like private placements or QIPs for diluting stake. For smaller companies where liquidity is less, there could be short-term pressure on stocks. In the case of some multinational companies, they may consider the option of delisting," said Mehul Savla, director at Ripple Wave Equity Pvt Ltd.

must also increase their public shareholding by at least 5% per year, irrespective of the post-issue capital calculated at offer price.

Companies can increase their public shareholding by less than 5% a year only if they are able to comply with the 25% norm during that period.

Also, every listed company would have to maintain the public shareholding level at 25%. If it falls below that threshold at any point, the company must return to the required 25% public holding level within 12 months, the finance ministry has said.

Last year, finance minister Pranab Mukherjee had in his Budget speech proposed to raise the public holding threshold for all listed companies.

Mukherjee pointed out that the average public float in Indian listed companies is less than 15%.

He also said "deep non-manipulable markets require larger and diversified public shareholdings."

Mukherjee had added that "this requirement should be uniformly applied to private sector as well as listed public sector companies."

Soon after the July 2009 Budget, the finance ministry has floated a discussion paper on the issue, indicating the government's intention of implementing the measure at the earliest. The paper had underlined the need for defining 'public'.

Interestingly, the ministry had suggested "appropriate enforcement ac-

tion, including delisting", if the 25% minimum public holding norm was not complied with.

On the definition of the term 'public', the discussion paper had said, "If public means non-promoters and includes financial institutions, foreign institutional investors, mutual funds, NRIs/overseas corporate bodies, private corporate bodies and employees, the floating stock would be insignificant."

The norms relating to public holding are specified under the Securities Contract (Regulation) Act, which is administered by the finance ministry.

Currently, Sebi has powers to waive or relax the listing requirements under the Securities Contract

(Regulation) Act.

Stock exchanges can also relax listing requirements for a government company.

Among other countries, in Singapore, a company must have between 12% and 25% public shareholding for an IPO, depending on what the market capitalisation is.

For continuous listing, 10% public holding is a must in Singapore. In London, 25% public holding is mandatory both for IPO and continuous listing.

In Nasdaq, 1 million publicly held shares is essential in an listed entity, and 2.5 million publicly-held shares on the New York Stock Exchange (Worldwide), according to the finance ministry paper.

China bank plans world's biggest IPO

Agricultural Bank may seek to raise \$30 bn

Luo Jun, Shanghai

Agricultural Bank of China, the nation's biggest lender by customers, said it will sell a 15% stake in what may be the world's largest initial public offering.

The state-owned bank plans to sell 22.235 billion shares in Shanghai and 25.411 billion shares in Hong Kong, excluding an over-allotment option, it said in a prospectus posted on the securities regulator's website on Friday.

Agricultural Bank will compete for investors' money with publicly traded rivals that plan to raise a combined \$32 billion in stock and bond sales even as bank valuations are close to record

Mother of all issues

Top 10 global IPOs

Company	Country	Year	Size (\$bn)
Agriculture Bank of China	China	2010	30.0
ICBC	China	2006	19.1
Visa Inc	US	2008	17-18.8
NTT DoCoMo	Japan	1998	18.4
Enel SpA	Italy	1999	17.0
Deutsche Telekom AG	Germany	1996	13.0
AT&T Wireless	US	2000	10.6
Telstra Corp	Australia	1997	10.0
Bank of China	China	2006	9.7
China Construction Bank	China	2005	9.2

lows. The IPO also coincides with a government crackdown on real estate speculation and a European sovereign debt crisis that threatens to slow China's exports.

"Agricultural Bank has to sell what's so special about itself because the number of shares it's offering to the market is huge and investors have many banks to choose from," said Deng Yongming, who helps oversee about \$320 million at Changsheng Fund Management in Beijing. "The global and domestic economic picture isn't rosy either."

The lender may seek to raise as much as \$30 billion, Apple Daily reported on May 24. Agricultural Bank, with 350 million customers and Chi-

na's biggest branch network, didn't say how much money it will raise in today's prospectus.

The Shanghai Composite Index has fallen 22% this year and entered a bear market in May, making China the first among the world's 10 biggest stock markets to earn that distinction. "For Agricultural Bank it's really bad timing, but they weren't in a position to predict such bad market conditions," said Deng.

Chinese banks are under pressure to raise money after an unprecedented 9.59 trillion yuan of new loans last year weakened their capital and raised the risk of a rise in bad debts, and regulators imposed tougher guidelines for financial buffers. Bloomberg

SBI base rate by June 15, seen at around 8%

Parnika Sokhi, Mumbai

The State Bank of India (SBI) said it will finalise its base rate by June 15, it's chairman and managing director O P Bhatt said on Friday.

Its public sector peers are expected to follow suit after that since they were all waiting for Big Brother to show hand.

Bankers on Friday informally exchanged ideas on issues related to base rate implementation at a meeting initiated by the SBI on Friday.

Chiefs of Bank of India, Bank of Baroda, Union Bank of India were among those who participated in the meeting.

"We are looking at cost of deposits and not cost of funds to calculate the base rate," Bhatt said.

However the bank hasn't frozen on a benchmark tenure.

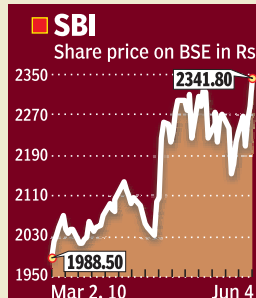
"We have a board meeting on Saturday to discuss the issues," said

Bhatt. "If the range of options given by the Reserve Bank of India were limited, it would have been easier for banks to implement the base rate system," said Bhatt.

The base rate for SBI will be around 8%, he said.

"Educating the customer about the shift from prime lending rate minus to base rate plus is an issue," said M V Nair, chairman and managing director, Union Bank of India. Other than these, bankers said there are operational issues and technological issues too.

On asked what fate the short-term loans will be once the base rate regime comes into force, bankers said corporates may shift to commercial papers because they do not come under the ambit of base rate. "CPs issued by banks are investments and not loans, so this shift will take place, but how much time it will take its not clear," said Bhatt.



H N Sinor

GM working on EV technology for India

Karl Slym, president and managing director of General Motors India Pvt Ltd, tells Praveena Sharma the US car major's pact with Reva Electric Car Company to jointly work on an electric variant of the Chevy Spark - e-Spark - went off the track as it was not a quick-to-market solution. Excerpts from the interview:

Why did General Motors (GM) and Reva sever technology ties after Mahindra & Mahindra (M&M) takeover?

It was not after M&M (takeover). We decided to move apart about six weeks earlier than that. Originally (when we had entered into a pact with Reva), we had thought we had quick-to-market strategy with Reva and Chevy Spark technology. (However), after having worked together for about a year, it became clear that even though we could have a (electric) solution (together), it would not be quick. So, therefore, we (GM) would not benefit from it compared to working in our own company. That's why we decided not to go ahead with the electric vehicle (EV) project with Reva. However, since we enjoyed working with Reva, we decided not to cancel it (the pact with Reva) totally. We thought let's con-



q&a karl slym

India and we got ours. When I talk about exploring potential in India, I mean that we have got a whole lot of work to be done for people to accept it (EV). It's one thing making a car or two and say here's a car but it's another thing to sell them (cars) to customers, who are happy with for many years. That's the piece (making commercially viable cars) we were not comfortable

with. It wasn't okay with us to bring to market something that customers weren't happy with. To get there, it was going to be a much longer development cycle (for Reva and GM). We found eventually that it wasn't going to be a quick solution after all.

Does that mean GM's e-Spark launch by the end of this calendar year is shelved?

Yes, there will be no e-Spark that we were going to launch in December this year.

Are you looking at any other EV launch in India in the near future?

Of course, there will be an EV (from GM) in future. In Shanghai, we are currently working on an ENV - electric network vehicle. In India, EVs will be sold in the small car segment.

By when can we expect an EV from GM in India?

As soon as we can find someone who can come up with an EV that is commercially viable. It should be car customers who should be happy to buy. We are also working on EV technology, which will have an Indian version as well. Everybody is working on EV. It's considered to be one of future potentials. It's not there yet but it's a potential. So just like people are working on fuel cells and hydrogen and hybrid cars,

they are also working on EV. There'll be an electric solution (in vehicles) soon. Today, GM's only vehicle in that category ready to go is the Chevy Volt. That too is an ERV, not an EV.

Till now, it is only Chevrolet brands that have dominated in India. Do you plan to bring any other brands into India?

Yes. We don't play in the luxury segment. GM has some very nice brands that fit in there. Cadillac is one such brand. Some time back (about two years back), we did a study to see if Indian consumers recognise the Cadillac and their views on it. We found that it (Cadillac) has a good image and opportunity in the market. But today, we need to focus solidly on continuing to grow Chevrolet and introducing LCV (light commercial vehicle) in the market. That's our priority.

When are you likely to bring the Cadillac to India?

There's no plan now. There is no time to plan for it. I am just saying Cadillac is well known in India. It has a good brand recognition. That's a product (in the luxury segment) that has some potential as opposed to, say, a Buick which is not so well known here. We sell loads of Buick in China but Buick's a name that isn't really known in India.