FICCI

Financial Foresights

Views, Reflection and Erudition

VOL. NO. 4 | ISSUE NO. 4 | Q4 FY 13-14

Disinvestment
Boon or Bane to Economy

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

Industry's Voice for Policy Change

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce. FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

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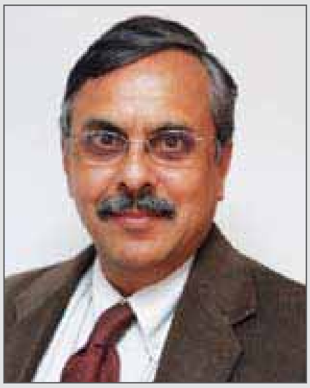

FICCI's 'Financial Foresights' is FICCI's Financial Sector's flagship research based initiative which aims at being a 'Knowledge Repository' to facilitate a comprehensive forum for dialogue amongst India Inc. and the government, thereby providing necessary directions to policy makers and business processes. Currently in its fourth year of publication, this Digest has gone a long way in providing valuable inputs for FICCI's extensive network of industry members and stakeholders on various topics concerning the financial sector. The current issue of our digest will focus on "Disinvestment – Boon or Bane to Economy".

India's disinvestment programme started as early as 1991 when inefficient public sector undertakings had become a drain on Government's resources. Hence, the need for the Government at that point of time was to reduce its exposure on these units and concentrate on its core activities instead. The idea then was to widen the equity base of PSUs, improve their management and allow them to raise more resources from the market once they were listed on the stock exchanges. It was also aimed at helping the government augment its revenue flows.

The Government in November, 2005 constituted 'National Investment Fund' (NIF), to be maintained into which the proceeds from disinvestment of Central PSU would be channelized. The objective of NIF was that 75% of the annual income of the fund would be used to finance selected social sector schemes which promote education, health and employment and creation of new assets. The residual 25% would be utilized to meet the capital investment requirements of profitable and revivable PSUs in order to enlarge their capital base to finance expansion/diversification. However, with effect from April, 2009 to March, 2012, the proceeds from the disinvestment channelized into NIF would be available in full as a one-time exemption, for meeting the capital expenditure in respect of identified social sector schemes decided by the Planning Commission and Department of Expenditure. The status-quo ante would be restored from April, 2012. This exemption was again extended till March 2013. Hence, the popular perception that government can tap disinvestment proceeds for revenue augmentation may not be correct. This leaves us with another question whether disinvestment will lead to fiscal consolidation in the long-run?

Disinvestment presents an opportunity for the government to eventually exit non-core business activities and focus on the critical areas of physical and social infrastructure and, more importantly, governance. Going forward, the sustainability of high economic growth will be determined by how effectively the government tackles the challenges at hand. It is in this context that through the voice of some of India's leading names in the financial sector, we will take a closer look at "Disinvestment – Boon or Bane to Economy".

It is my pleasure to announce that EBSCO International database, Washington (which is widely used in Libraries across the world) have tied up with us to take our deliberations to a global audience.We look forward to your views and suggestions to help us improve the content of the digest and make it more relevant and informative.

Dr. A. Didar Singh
Secretary General

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Disinvestment: Boon or Bane to Economy

Mr. Gautam Trivedi
Managing Director & Head of Equities - India
Religare Capital Markets Limited

Post-independence, Indian economic policy had advocated Government intervention and higher ownership in companies/ industries in order to bring about a balanced economic development and capex where the private sector could not commit sufficient capital. However, the Govt.'s extensive controls viz. on prices, production, import controls till 1980s, only led to structural problems and immense inefficiency in operations. It was in early 1990s that the Govt. of India initiated a package of major structural reforms (like liberalised industrial policy, opening of foreign trade, etc.) of which disinvestment was also a part, with the main objective being improve the efficiency and competitiveness of the public sector undertakings (PSUs) and creating investments and job opportunities.

However, even after 25 years since the Govt. first decided to promote private sector participation in key industries, Govt. control remains very high in India in some sectors. For example: nearly 65-70% of total banking assets is dominated by the public sector banks. Today, we have over 250 Govt. owned PSUs in India, with their turnover accounting for ~20-22% of the country's GDP. The other key sectors where the Govt. still holds significant control include coal, crude, petroleum (refining and marketing), power and defence. Even as other countries do have successful PSUs, it's been red

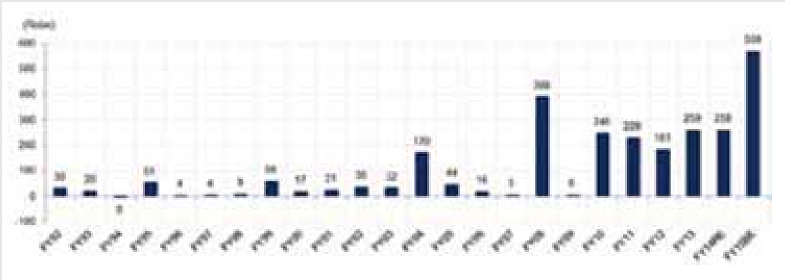
The Government's intention behind divestment over last few years has been to help fund its burgeoning fiscal deficit, a result of rising subsidy burden.

tapes, inefficient bureaucracy, ineffective and bad governance, lack of talent, corruption among others that have resulted in PSUs under-performing the private sector massively in India.

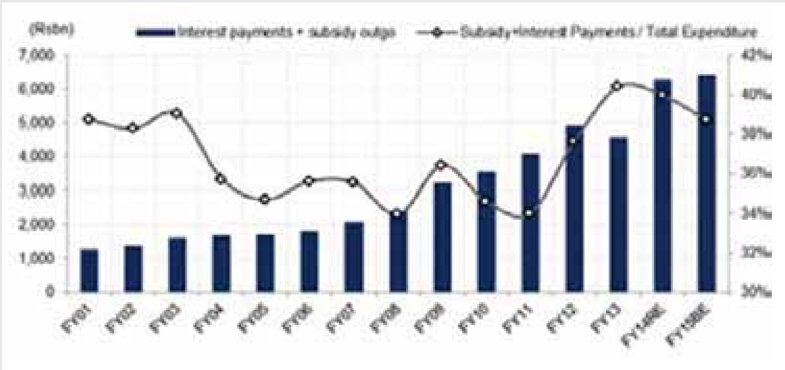
The Government's intention behind divestment over last few years, however, has been to help fund its burgeoning fiscal deficit, a result of rising subsidy burden. This has forced the Govt. to pursue divestment in bad markets and that too at a significant discount to market prices in order to achieve its fiscal targets, thus creating huge loss to the shareholders. Moreover, the revenues generated have not been used in infrastructure related areas, but to fund its rising subsidies/interest payments and compensate for falling tax collections in years of weak growth. While the Govt. has generated Rs.1 lakh 60 thousand crores (US$27 Billion) over last 10 years in the form of divestment proceeds, its subsidy burden over the same period has been Rs.1 lakh forty thousand crores ($23 Billion). Even as the last few years have seen the divestment proceeds being spent more on subsidies, it is clearly the right way to go in the long-term as it would not only facilitate a faster and efficient economic growth by attracting investments but would also enable the Govt. to use the proceeds in growth-oriented areas.

On the other hand, when the government has totally opened up a sector, the incumbent PSUs have gotten crushed. For example, the annual all India Telecom market is US$30 Bn

Annual divestment trend: Shows the trend of rising disinvestments with falling revenues



Subsidy and interest payments as a share of total expenditure



Capital expenditure share in the total expenditure has remained constant over the last four years

Government has mostly used disinvestment for fiscal reasons rather than growth objectives.

but the PSUs (BSNL and MTNL) have only a 7% market share. Fifteen years ago they dominated the Indian telecom sector. The other striking example is the Indian Aviation sector where Air India, which once dominated the skies, has only 19% market share and ranks a mere #4. Air India trails behind Indigo, SpiceJet and Jet Airways, in that order.

Lower Govt. intervention is always positive as it improves efficiency, generates higher return on capital on one hand with more capable managers with an undiluted focus, and frees up Govt. funds for social activities on the other. Loosening up Govt. ownership of the corporate universe has therefore been a key recommendation in almost every reform agenda over the last two decades. The move also presents opportunities for efficient use of foreign direct investment, which in turn leads to better liquidity and corporate governance for the companies.

But have investors necessarily made money by buying into these divestments? The answer unfortunately is No! The BSE PSU Index has underperformed the Sensex by almost 40% over the last 4 years. Stocks like Mahanagar Telecom Nigam Ltd. (MTNL) have been value destroyers, falling as much as 87% in the last 5 years. Other PSUs that have performed poorly over the same period include Bharat Earth Movers (-76%), Bharat Heavy Electric (-61%) and Shipping Corp (-51%).

If the objective of disinvestments was to mobilise resources for various critical functions of the government and to accelerate the growth momentum, then there is a long way to go. The key reason for that has been the fact that the government has mostly used disinvestment for fiscal reasons rather than growth objectives.

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Gautam Trivedi
Managing Director & Head of Equities - India
Religare Capital Markets Limited

Gautam Trivedi joined RCML in August 2011 as the Managing Director & Head of Equities-India. He is based out of our Mumbai office in India.

Gautam brings with him more than 17 years of experience of Institutional Equities in the Asian markets. Most recently, Gautam was with Goldman Sachs India Securities Pvt. Ltd. as the Managing Director, India Equities and the Member, Board of Directors. At Goldman Sachs, Gautam led the team that advised foreign & domestic institutional investors on investments in the Indian Equity markets and selling the India product internally to the Generalists equities desks in Asia, UK & US. He was also responsible for working closely with IBD and ECM to pre-market and distribute IPOs and follow on equity offerings.

Prior to Goldman Sachs India, Gautam worked with Goldman Sachs (Asia) LLC in Hong Kong as the Executive Director, Asian Equity Sales. In his career span, Gautam also worked with organizations such as Reliance Industries Ltd (India), Jardine Fleming Ltd (Hong Kong), Credit Lyonnais Securities Ltd. and DSP Merrill Lynch Ltd.

Gautam has completed his Masters in Business Administration (M.B.A) from the University of South California and his Bachelor of Law (L.L.B) and Bachelor of Commerce (B.Com) from the Mumbai University.

Can we go back to the basics?

Mr. Bharat Banka

Chief Executive Officer, Aditya Birla Private Equity

On the debate about the disinvestment being a boon or bane for the economy, let us touch upon the root of the cause and start from (well) the start i.e. why do the Public Sector Undertakings (PSUs) come into existence in any economy and what's the underlying rationale for any Government to establish PSUs in the first place. If we can go back to the basics for a little while, the answer to the question of disinvestment, the need for it and other related aspects can add a more efficient perspective. This is important to understand because intriguingly the ruling Governments across the globe, their opposition leaders in the parliament, general public, corporates, economists and intellectuals all are usually in rare consensus that "it is not the business of the Government to be in Business".

While the economic policy announced in 1991 had multiple rationales in favor of an argument to justify the disinvestment program in India, it would suffice to sum-up the long justifications in simpler terms that the most of it related to the disinvestment being necessitated due to the inefficiencies associated with the operations of such businesses and their poor profitability but the detailed underlying reasons thereof and any corrective measures to turnaround these businesses were very much a low focus area.

Entire focus rather shifts to a pre-assumed notion that as a PSU it must be inefficient and the only way to get rid of it is to shut it down or to disinvest.

Cutting across to the global experiences, way back in the 80's, the UK Government under the leadership of Margaret Thatcher Government successfully disinvested over 600 PSUs spanning over a decade, amidst strong criticism and divided house about the righteousness of such an exercise. While the initial experience for the public consumers immediately post-disinvestment manifested in terms of noticeable reduction in prices across products and services dished out by such enterprises, over a longer period of time after the disinvested enterprises settled in the hands of the private sector, one very visible and pronouncedly notable learning out of the disinvestment process was that some businesses that turned from the state monopolies to become monopolies in the hands of the private sector offered much worse outcomes for the public and consumers than hitherto.

Hence, in case of the businesses which can't perceptibly change their state of monopoly post-disinvestment, it might be more efficient for such businesses to be retained as monopoly in the hands of the state, to allow the state intervene in public welfare as per the needs from time to time.

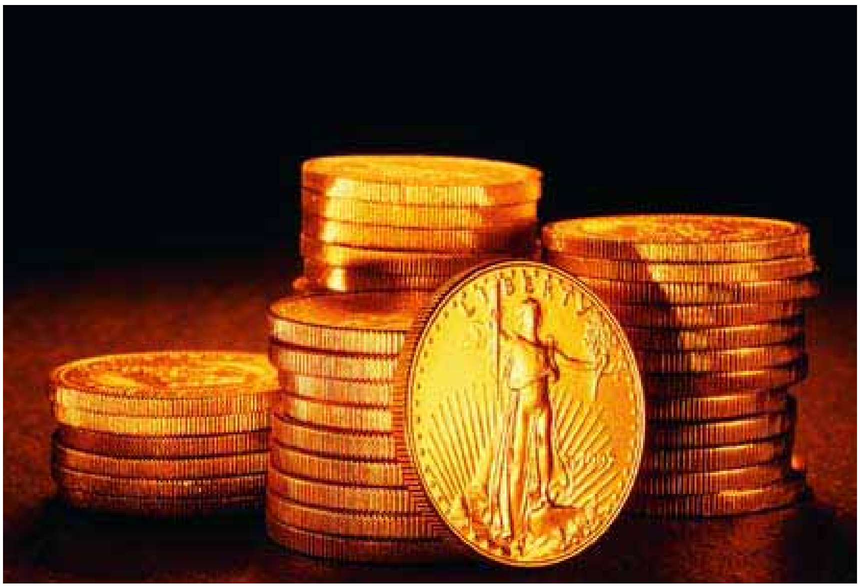
In view of the above experiences across global economies and in view of the tryst of our own economy with the disinvestment agenda back home in India, there are a few basic ground rules on why a state anywhere in the world should and does get into founding and managing the PSUs; some of the prominent ones being as follows:

- In the infancy of a democracy or at the initial stages of a newly formed economy, the state needs to take the responsibility for industrialization, to make essential goods and services available to the general public at affordable prices, create industrial and public infrastructure as foundations of an economy, to create employment, to put the national resources in the control of the state to efficient use for the purposes of public welfare and to build a robust economy
- At the later stages of the development of economy, to ensure sustained and continued provision of goods and services to general public and to prevent creation of the private sector monopolies or oligopolies to the detriment of consumers
- At various stages of an economy, to continue providing the essential goods and services in areas where the private sector is either not fully developed or is not prepared yet to be able to assume the risks of respective businesses involved
- At all times of the stages of an economy, to retain control on activities that are critical for the nation or are of national importance, the ones that can't just be entrusted in entirety or even in a modest from to the private sector e.g. defense, nuclear, etc.

It is intriguing that most of the times, the above basic grounds on which the PSUs are to be started and the purposes they are supposed to cater to move backwards in the background and oblivion at the time decisions are to be taken about their future. The entire focus rather shifts to a pre-assumed notion that as a PSU it must be inefficient and the only way to get rid of it is to shut it down or to disinvest it and the only other point of debate is what value the seller could expect from such a disinvestment.

The reasoning doesn't get any importance as to whether and how the underlying objectives behind formation of a specific PSU would be serviced in future upon disinvestment or whether any trade-off exists between the potential realizations from disinvestment and the costs the state and general public would pay cumulatively in future owing to such disinvestment. If one maps it with some of the above scenarios, there certainly would be few sharp questions: would creation of monopoly or duopoly arising out of a disinvestment be desirable or would it be wise for entrusting nationally critical businesses to the buyer who can move out or cite non-viability mid-way, disturbing entire schedule for such criticalities?

We can easily dip back into the history of Indian disinvestments or opening up of various businesses for private sector and the experiences and learning from the same. Since tele-phony was opened up about a decade back, the pricing of hardware and of services have considerably reduced, reaching a few paisa a second and the



availability has become more instant and widespread, benefitting subscribers big time. Arguably, the rationale to continue with state players like BSNL and MTNL needs deeper introspection, not only as service providers but even as entities that build huge amount of basic infrastructure which remains under-utilized or mispriced to the detriment of general public whose funds are used for this. Whether these entities should continue at all or continue to operate as they to currently or how can the valuable assets created by these entities be monetized more efficiently, remain questions but with few answers. On similar lines, the question around aviation and state operator therein is also very relevant.

When one analyzes the formation, management, functioning and eventually monetization of PSUs and puts in the context of some of the above restraints, even it sounds like too much of puritanism; there should be the following broad disciplines while dealing with the subject of control, management and ownership of the PSUs in the hands of the state:

■ The PSUs that must be kept under the control, management and ownership of the Government either due to the early stage of the evolution of an economy or due to early stage of evolution of such businesses that interface with general public welfare or due to the continued criticality of such businesses to the nation:

- In such cases, 100% equity of the PSUs can continue to be owned by the Government where the Government should not float such PSUs to capital markets through listing and should not get public shareholders at all
- As needed, the Government can induct a strategic partner or enter into Joint Ventures; the decision on subjects like majority/ minority stake, exit scenarios for partners, management, pricing decisions, etc. can be customized depending upon need in each situation

■ When above PSUs reach a stage of non-criticality or move beyond the objectives that necessitated 100% ownership for the state, the following could be basic ground-rules under different scenarios :

- To sell 100% equity completely to the strategic players through a transparent auction process, without any bells and whistles for future, except in a clearly defined "abuse of position to create monopolies/ duopolies or practices detriment to competition and general public"
- If at all a portion of stake needs to be held back by the state to realize a better value in future, the level of residual ownership should only be such (say 15%) that doesn't and can't obstruct business decision-making post-sale and also doesn't threaten to destabilize the current buyer on residual stake, except a customary disruption involved with sale of any normal minority stake in ordinary course
- The Government professionalizes and empowers management, sells 100% (or close to 100%) equity to large financial and public investors (domestic and international) and list the company as a business without any identifiable promoter; allowing it to be operated like institutions that run autonomously to a large extent. There are multiple examples of financial institutions in India that are listed, have dispersed shareholding amongst institutional and public shareholders and operate without any significant interference from the state, despite being regulated by their respective regulators like RBI, etc.
- The Government retains 100% equity control but entirely professionalizes and empowers the management, allowing them to run like an autonomous institution. This is altruistic and easier said than done, especially when there are rare examples of the same even in private sector.

There is another interesting subject around the state and rationale of listed PSUs i.e. should PSUs be listed at all and if these are to be listed, what should be the ground rules?

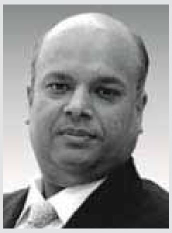
As a matter of basic corporate governance, when you have inducted multiple shareholder partners aka public shareholders, you must ideally cease to continue enjoying the brute and sole power enjoyed by a founder with 100% ownership to decide what you want to do with the business of the listed PSU or with its assets/ resources or the business direction of the company; not even if you have majority of equity or because you are the state. Why?

In the private sector, owners of majority in equity are expected to follow strong corporate governance standards in letter and spirit (and are crucified for the absence of such standards or the same not being up-to-mark) vis-à-vis minority shareholders. In the same wake, what would be a defensible argument for the Government to make an exception to this expectation and to covertly suggest or propound that the public shareholders unhappy with a unilateral decision of the Government can take a walk or sell and get out if they dislike the actions?

If on the one hand, the stock market regulator SEBI and the stock exchanges introduce guidelines around corporate structuring through M&A, etc. to be approved by non-conflicted majority of the minority shareholders and the conflicted (or interested) controlling shareholders to be kept out of such voting; should similar guidelines be not applicable to important corporate decisions involving the Government as a conflicted controlling shareholder (like dividends, cross-shareholding amongst PSUs, buybacks, pricing of products/ services, supply agreements, etc.). As it is said that 'charity begins at the home', even the basic governance standards and regulations should start from the center of an economy, to put in practice what is espoused.

Lastly, some comments and views about a universal argument on the approach that disinvestment of PSUs with an objective to generate resources for the Government in order to repay/ pare down the national (public) debt is undesirable. It would help to view this argument by adding another dimension i.e., while setting up the PSUs, the Government would have definitely used the national balance sheet (even if it were to be a few decades or centuries back), else where do you think all that money to capitalize nationalized banks or initial capitalization of PSUs came from? Now, few decades or centuries later, as a founder of such PSUs, if I as the Government wish to monetize some or all the value that I created over long periods of time, in order to repair my balance sheet; what could be the objection? If I were to be an owner of a private enterprise, would I do anything differently than reduce my ownership to raise cash and correct debt-equity ratio on my balance sheet?

It is said that 'charity begins at the home', even the basic governance standards and regulations should start from the center of an economy, to put in practice what is espoused.



Bharat Banka
Chief Executive Officer
Aditya Birla Private Equity

Bharat heads Aditya Birla Private Equity (ABPE) as its Founding CEO. With diverse experience of more than 20 years in business, strategy, principal investing, M&A, post-merger integration, capital markets & CXO-level roles, he brings unique value-creation abilities, commercial acumen for portfolio companies and strong team management skills.

In earlier role as Head of Group Finance at the Aditya Birla Group, he played a pivotal role in expanding the Group through complex M&A and organic routes. Before joining the Aditya Birla Group in 1994, he was responsible for primary capital markets, corporate advisory and managed the PSU practice at the Indian JV of J. P. Morgan with ICICI.

He is a Fellow Chartered Accountant from the Institute of Chartered Accountants of India (ICAI), an Associate Cost & Management Accountant from the Institute of Cost Accountants of India (ICMAI), a member of Institute of Company Secretaries of India (ICSI) and holds a Bachelor of Commerce degree from the University of Mumbai, India.

He is a member of Capital Markets Committee and Private Equity Committee of FICCI. He is recipient of the prestigious "Professional Achiever – Finance Sector" Award from the ICAI and writes his monthly column 'Bankanomics' for "The Entrepreneur", a Network 18 business magazine aimed at early-stage entrepreneurs. He is a member of the Academic Advisory Committee of BIMTECH, Noida.

Disinvestment – Boon or Bane to Economy

Shri S. S. Mundra
Chairman & Managing Director, Bank of Baroda

The Debate

The disinvestment debate has hovered around three major areas such as, should government be in the business; second, the need for disinvestment (with the debate whether private sector is really efficient under different market structures especially under natural monopolies structure), the usage of revenue (should it be used for covering the fiscal deficit or for undertaking other important government functions). While the issue has been debated across the countries, most of the countries of the world have undertaken disinvestment in the post 1980s period.

With both sides offering robust reasons for and against disinvestment, we will review the situation in India.

In the past 22 years, wherein disinvestment policy has been in operation in India, there has been a tremendous change in the way stock markets, share-holders and investors have functioned. While the basic purpose of disinvestment has many dimensions, the primary role played by disinvestment has been that of generating revenue to cover the fiscal deficit. The other purpose, of course, has been to broaden and deepen the capital markets and, to bring about more transparency and better corporate governance in PSUs. With the wider ownership of government companies, it was expected that the efficiency and productivity of these organizations would improve due to market discipline.

Most countries of the world have undertaken disinvestment in the post 1980s period.

It was also felt that the resources deployed by the Government for undertaking commercial activities should be unlocked and deployed for the relevant social activities. It was realized that the large number of public enterprises working under mixed economies were victims of "over-centralisation" in decision making and excessive "bureaucratization".

The importance of disinvestment lies in utilisation of funds for:

- Financing the large sized fiscal deficits
- Financing massive infrastructure development
- For retiring Government debt- Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest
- For spending on social programs like health and education

The fiscal support argument is important and deserves a deeper thought. The demands on the governments, both at the centre and at the states' level are increasing. There is a compelling need to expand the activities of the state in areas such as education, health and medicine. It is sometimes argued that the resources raised through disinvestment must be utilised for retiring past debts and thereby bringing down the interest burden of the government. The another important argument in favour of disinvestment is the contribution that it can make to improving the efficiency of the working of the enterprise. It increases the accountability of those in charge of the enterprise.

Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value. Between 1991-92 and 2013-14, India's government has raised resources worth Rs 1,39,559 crore through disinvestment in 165 companies. The highest amount of Rs 23,553 crore was raised in the year 2009-10.

Globally speaking, during the decades of 1980s and 1990s, it was considered that government should exit from various non-crucial functions and instead focus on their mainstream role. For instance in the UK, there was a aggressive disinvestment of various government owned companies such as British Telecom, British Gas and others, as they felt that government had no business to be in the commercial operations. Consequent to privatisation of telephones, electricity and gas supply, the cost of services fell, and quality of performance also improved significantly. However, it was found later that prices were increased disproportionately giving rise to unhealthy competition. In case of private monopolies, the position was exploited to the hilt to earn higher profits. It was also realized on the way that disinvestment implies selling of family silver to meet the short-term funding requirements to cover the fiscal deficit. Also, the Government will have to forego dividends on the equity holdings by selling off its stake. It was also felt that complete privatisation gives rise to a "situation", where political compulsions may make companies being sold cheap to preferred parties.

Evolution of the Disinvestment Policy in India

India's "Industrial Policy", July 24, 1991 stated that in order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers. Thus, disinvestment of the government's equity in Central Public Sector Enterprises (CPSEs) started in 1991-92, when minority shareholding of the Central Government in 30 individual CPSEs was sold to selected financial institutions (LIC, GIC, UTI) in bundles.

Since then the policy of disinvestment in India was shaped up by the successive Budget announcements in the subsequent years.

Between 1991-92 and 1996-97, India's disinvestment process was handled by the Department of Public Enterprises (Ministry of Heavy Industries) and subsequently, from 1st April, 1997 till 9th December, 1999, by the Department of Economic Affairs (Ministry of Finance). The Department of Disinvestment (DoD) was set up as a separate department on 10th December, 1999 and was subsequently renamed as Ministry of Disinvestment (MODI) from 6th

September, 2001. From 27th May, 2004, the Department of Disinvestment is one of the departments under the nation's Ministry of Finance.

Features of India's Disinvestment Policy

The salient features of the present disinvestment policy of India are:

- Citizens have every right to own part of the shares of Public Sector Undertakings.
- Public Sector Undertakings are the wealth of the nation and this wealth should rest in the hands of the people.
- While pursuing disinvestment, the government has to retain majority shareholding, i.e., at least 51% of the total stake and also the management control of the Public Sector Undertakings.

Indian Approach to Disinvestment

On 5th November 2009, India's government approved the following action plan for disinvestment in profit-making government companies.

- Already listed profitable CPSEs (not meeting mandatory shareholding of 10%) are to be made compliant by 'Offer for Sale' by Government or by the CPSEs through issue of fresh shares or a combination of both.
- Unlisted CPSEs with no accumulated losses and having earned net profit in three preceding consecutive years are to be listed.
- Follow-on public offers would be considered taking into consideration the needs for capital investment of CPSE, on a case by case basis, and government could simultaneously or independently offer a portion of its equity shareholding.
- In all cases of disinvestment, the government would retain at least 51% equity and the management control.
- All cases of disinvestment are to be decided on a case by case basis.
- The Department of Disinvestment is to identify CPSEs in consultation with respective administrative ministries and submit proposal to government in cases requiring "offer for sale" of government equity.

National Investment Fund

The Government of India constituted the National Investment Fund (NIF) on 3rd November, 2005, into which the proceeds from disinvestment of Central Public Sector Enterprises are channelized. The corpus of the fund is of permanent nature and the same has to be professionally managed in order to provide sustainable returns to the government, without depleting the corpus. The NIF was to be maintained outside the Consolidated Fund of India.

The NIF was initialized with the disinvestment proceeds of two CPSEs namely PGCIL and REC, amounting to Rs 1814.45 crore. Moreover, 75% of the annual income of the Fund will be used to finance select social sector schemes, which promote education, health and employment. The residual 25% of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion and diversification.

India's government missed its disinvestment target for four consecutive financial years and even in the current financial year so far has realised Rs 5,094 crore out of the initially budgeted Rs 40,000 crore.

Challenges to Disinvestment

India's government missed its disinvestment target for four consecutive financial years and even in the current financial year so far has realised Rs 5,094 crore out of the initially budgeted Rs 40,000 crore. During the fiscal years 2010-11 and 2011-12, the government had raised Rs 22,144 crore and Rs 13,894 crore through disinvestment, against the budgeted target of Rs 40,000 crore in each year. In 2012-13 also, the government had raised Rs 23,956 crore, against the target of Rs 30,000 crore.

In the interim Budget for 2014-15, February 17, 2014, the government revised disinvestment target for 2013-14 to Rs 16,027 crore, lower than the original estimate of Rs 40,000 crore.

The realisation of disinvestment targets depends on a variety of factors including volatility in the capital market, regulatory approvals, due diligence of the company etc. Some of the procedures take a lot of time, which results in delay in the disinvestment process.

The common reasons for such low disinvestment proceeds against the actual targets were:

- Unfavorable market conditions
- Unattractiveness of the offers to private investors
- Lot of opposition on the valuation process
- Strong opposition from employees and trade unions
- Lack of transparency in the process
- Lack of political will

Breaking of Disinvestment Logjam

The finance ministry's reported move to ask public sector undertakings to buy other PSUs' stakes from the government is a second-best solution to the disinvestment logjam. It was tried out in the 1990s when oil companies such as ONGC bought stakes in IOC and Gail. The cross-holding route is prudent from a macroeconomic point of view as the economy desperately needs investment. The cross-holding plan will help bridge the deficit while keeping government expenditure going.

Some Successful Examples of Disinvestment

Maruti is an example of a well thought out disinvestment process, which benefitted all concerned. This disinvestment brought about a major change in the capital market since it was a 'win win' for the government, Maruti, Suzuki and the public at large. It remains an example that with a strong promoter; large retail base and coordinated approach between the government and promoter, the government can not only unlock value for itself but also create value for the company, its shareholders and the general public.

BALCO (Bharat Aluminium Company Ltd.) is a fully integrated aluminium producing company, having its own captive mines, an alumina refinery, an aluminium smelter, a captive power plant, and down-stream fabrication facilities. It was set up in 1965 and has its corporate office in New Delhi. Its main plant and facilities are situated in Korba (Chhatisgarh). It also has a fabrication unit in Bidhanbagh (West Bengal). The refining capacity of BALCO is 2 lakh tonnes per year and its smelting capacity is 1 lakh tonnes per year. Its employee strength is around 7,000. The strategic sale process for BALCO started in late 1997, after the first decision of the Government, and finally came to end in 2nd March 2001. The 51% stake was sold to Sterlite Industries, the highest bidder, and fetched the Government Rs 551.50 crore. The price received was higher than the values indicated by the various methods of valuation used. The government, thus recovered Rs 827.50 crore from this privatisation against approximately Rs 10 crore as dividend it used to get against the 51% shares, it used to get in earlier years, during the peak Aluminium cycle.

However, there are many examples of not so successful disinvestment cases as well.

Conclusion

To conclude, we feel that the policy decisions on disinvestment need to be long-term in nature to inspire investor confidence. There is no 'one size fits all' method for disinvestment. The procedure best suited for the relevant PSU should be chosen in an objective and transparent manner. As each PSU has different equity structure; financial strength; fund requirement;

sector of operation etc., there cannot be a uniform pattern of disinvestment. Therefore, disinvestment has to be considered on merits and on a case-by-case basis. Also, efforts should be made to achieve a win-win situation for all the concerned parties.

India's experience with disinvestment so far shows that it is primarily driven by the compulsion of financing the fiscal deficit. This is in sharp contrast to the developed countries' experience where privatization and disinvestment were driven by a conscious recognition that this improves efficiency. We need to recognize that financing of fiscal deficit and/or releasing the funds for social spending cannot be the sole objectives of the disinvestment process. The reasons like its potential to improve efficiency through healthy competition and broadening and deepening of capital markets are equally important for India's sustainable development.

S. S. Mundra
Chairman & Managing Director
Bank of Baroda

Shri S. S. Mundra began his career as a Probationary Officer in Bank of Baroda on 21st March 1977. He holds a Masters Degree in Commerce and CAIIB.

During the course of his career, he held several challenging positions in the Bank and got promoted to the rank of General Manager of the Bank in June 2007 and took over European Operations (UK) before assuming the charge of Executive Director of Union Bank of India in September 2010. Shri Mundra, took over charge as Chairman and Managing Director of Bank of Baroda, the 2nd Largest Bank of the country on 21st January, 2013.

Shri Mundra has wide ranging Board experience as detailed here under :-

- Served as Director on the Board of various Companies namely The Clearing Corporate of India Ltd (CCIL), Central Depository Services (India) Ltd. (CDSL), MITCON-Consulting and Engineering Services Ltd., BOB Asset Management Company, India Infrastructure Finance Corporation (UK) Ltd. (IIFCL) , Star Union Dai-Ichi Life Insurance Company Ltd., National Payments Corporation of India Ltd, IndiaFirst Life Insurance and Bank of Baroda (Kenya) Ltd. Currently he is serving as Director on the Board of Baroda Pioneer Asset Management Co. Ltd., Bobcards Ltd., Export Import Bank of India (EXIM Bank). The experience of guiding these multi dimensional entities in their Board could provide wide leadership insights in the league of developing best practices in Corporate Governance.
- Served as a member on Reserve Bank of India's Committee on Fair Value Accountancy
- Served as a member on Indian Banks' Association's Sub-committee on Retail Banking.
- Serving as member on Governing Board of National Institute of Bank Management (NIBM)
- Serving as member on Managing Committee of Indian Banks Association and Chairman of the Committee on Financial Inclusion
- Served as a member of Nachiket Mor Committee on Comprehensive Financial Services (CCFS) for Small Businesses and Low-Income Households constituted by Reserve Bank of India

His Overseas experience:

- On the Board of India International Bank Malaysia Bhd. (IIBMB), Malaysia.
- Held the position of Chief Executive (European Operations) London, UK of Bank of Baroda for a period of three years.
- Worked during 1994-1997 in the Bank of Baroda's subsidiary at Uganda.
- Has travelled to various overseas countries like UK, Belgium, France, USA, Japan, China, Hong Kong, Singapore etc. and few African countries for various official assignments.

Recently, the name of Shri Mundra was included in the list of India Inc's Top 100 CEOs as per CD-ET Survey.

He has been conferred as Best Public Sector Banker – HR by The Sunday Standard Best Banks' Awards 2013.

Disinvestment: Boon or Bane to Economy

Mr. Himanshu Kaji
Executive Director & Group Chief Operating Officer,
Edelweiss Financial Services Ltd.

"It is time that the government adopt a new approach to the public enterprises"

This was the sentiment expressed in the Industrial Policy 1991, the watershed policy that put Indian economy on the path of liberalization, privatization and globalization. The Industrial Policy clearly acknowledged that the public sector units were facing serious problems be it lack of productivity, issues of quality of the management, low technological deepening and poor returns on capital. Thus started the process of disinvestment in India. Since 1992, total receipts from disinvestment have amounted to INR1.4trn, although the receipts have been quite uneven – very large in some years but minimal in others.

From India's perspective, it was a great leap forward. Early years post Independence were rooted in the belief that the State should progressively assume a pre-dominant and direct responsibility for setting up new industries. In fact, in my opinion, if one has to pick one policy from the socialist era, apart from licensing, which had a long lasting impact on the performance of the Indian economy, it will be the nationalization of major banks, insurance sector, coal mines in late 1960s and early 70s (by mid-1970s, public sector accounted for two-thirds of the total fixed capital invested in the economy). In that sense, the year

The UK, under the leadership of Margret Thatcher was the first major country to undertake large scale privatization (of gas, water, electricity, telecom, airways etc) in 1980s in order to enhance the performance of PSUs.

1991 marked a clear departure from the past. Partly it was the result of reforms undertaken in response to the balance of payments crisis, but it also reflected the changing global trend where disillusionment with the socialism was on rise and the role of the government in the economic activity was getting questioned. The UK, under the leadership of Margret Thatcher was the first major country to undertake large scale privatization (of gas, water, electricity, telecom, airways etc) in 1980s in order to enhance the performance of PSUs.

At philosophical level, the objective of the disinvestment is to improve the operational efficiencies of the PSUs (better utilization of labour and capital). There is a argument that in case of partial privatization, since the management control is retained by the government, there are little efficiency gains to be realized. This may not be entirely true. Nandini Gupta in her study "Partial Privatization and Firm performance" investigated the performance of the PSUs post partial privatization on several parameters – profitability, labour productivity, investment expenditures etc and found that relative to PSUs which have not sold equity, partially privatized firms are more profitable, efficient and they tend to invest more in R&D. The idea is that partially privatization impacts the manager's incentives through better information , monitoring and the performance of the stock price. Of course, from efficiency gains perspective, it can be argued that full privatization is better as it leads to transfer of managerial control; but caution is still warranted as in some cases state monopolies may turn into private monopolies. Therefore, effective privatization requires an ecosystem of competition and regulation. This is well illustrated by the UK experience, where the studies found that post the privatization of telecom and gas, productivity actually declined. It was only after the sector was opened to competition and regulations were made more effective that productivity responded favorably (David Parker, " The UK's privatization Experiment" 2004).

Another argument in favour of disinvestment is the mobilization of resources to improve the state of government finances or to meet other socioeconomic imperatives such as investing health, education, creating jobs. This line of argument has been more controversial. In the first place, there is case to be made that disinvestment receipts should not be part of the fiscal deficit, rather it should be accounted as a source of financing the fiscal deficit. Just as government borrows to fund the deficit, it may chose to sell its assets to fund the deficit. I would argue that pursuing disinvestment to alleviate budgetary pressures could be justified under certain extreme conditions when budgetary pressures are extreme. Even in the UK, very early phase of disinvestment in 1970s was primarily motivated by budgetary considerations. It was only when Margret Thatcher took over that the disinvestment process got more philosophical roots. However, addressing budgetary compulsions should not be the sole guiding principle. It is in this regard that India's experience with disinvestment in recent years has been disappointing. The fundamental basis of disinvestment (to enhance efficiency) has been trumped by fiscal imperatives as a result of which the process has moved forward without much plan. I would argue that even from fiscal perspective, the benefits of the disinvestment should be seen more from the perspective of boosting the economic activity (by improving business efficiency) which in turn will help raise the government tax revenues, rather than reducing the fiscal deficit/debt as a one time affair.

The question then arises as to what are appropriate modes of disinvestment/privatisation. Broadly there are two. One is the strategic sale, where the controlling stake is sold to one buyer (which can be called privatization) and second is open market sale where shares are sold to the public (but management control is retained by the government), which can be called disinvestment or even partial privatization. Both approaches have their own merits but one can argue that strategic sale is more suited to a loss-making PSU as wider public may not be interested to invest in such

PSU. On the other hand, for a profit-making PSU, open market sale could be a better strategy. Strategic buyer brings in benefits of expertise, new technology and sound governance but the downside is that it may lead to concentration of wealth in few hands; on the other hand, the open market sales leads to dispersion of ownership and wealth, professional management etc. Besides, open sale is politically more palatable option compared to strategic sale.

India's own history of privatization shows that different modes have been preferred at different times. Between 1992-1999, the disinvestment process relied more on open sale of shares. This changed under NDA especially during 2000-2003, when the process was pushed forward by going for privatization by way of strategic sale. However starting 2004, it was back to the method of public offer, in part led by the boom in the equity markets. International experience can also be a useful guide in this regard. Dr. Vijay Kelkar has pointed out that the experience with strategic sale especially in Latin American countries has not been very good as it inhibited dispersion of wealth and income in the country. Even Russia is a good example where during its transition from Communism, the public assets were sold cheaply to few oligarchs, thus leading to extreme concentration of wealth. On the other hand, OECD countries have overwhelmingly used open market sale as the way to go. Between 1990 and 2000, nearly two-thirds of privatization proceeds in OECD, were obtained using public offerings of shares in these countries. Even in countries such as China and Korea, open market sales has been predominantly relied upon.

Therefore, India clearly needs to move forward with its disinvestment process with the fundamental objective to widen the investors' base and unleash productivity gains in the businesses. Partial privatization does help to enhance productivity of

India needs to move forward with its disinvestment process with the fundamental objective to widen the investors' base and unleash productivity gains.

the businesses and is politically less difficult to carry out. Full privatization could definitely be a bigger game changer but it must be accompanied by a robust competition and effective regulations; else it could lead to worst social outcomes of creation of private monopolies and concentration of wealth in few hands. Further, the benefits to the fiscal situation should also be seen not in terms of one-time reduction in debt, but from the perspective of making the businesses more efficient, which in turn contribute to the economic growth and hence government fiscal resources.

Himanshu Kaji
Executive Director & Group Chief Operating Officer
Edelweiss Financial Services Ltd.

A Chartered accountant with a post graduate diploma in Securities Law, Himanshu brings to table his diverse experience of over two decades in the areas of business strategy, risk, regulatory frameworks, process re-engineering and technology strategy and implementation across the financial services space.

At 48, Himanshu oversees Finance, Risk, Human Resource, Resources, Operations, Technology, Governance, Administration, Investor relations and Compliance at the Edelweiss Group. In addition to this, he is also in-charge of the Corporate Planning, which will look at Strategy Development and Execution for the group.

Himanshu gave up his investment banking job at ICICI Limited to join his family business of broking. During this period he played a key role in the modernization of the oldest stock exchange in Asia – the Bombay Stock Exchange (BSE). Himanshu was part of a select group which oversaw the corporatization and the de – mutualisation of the BSE. He also served as Honorary Treasurer and Official Spokesperson for The Bombay Stock Exchange (BSE) during the year 2000-2001.

In the year 2004 he branched off as a corporate advisor to eminent Indian and global financial services companies. His areas of expertise in consulting were strategy for the introduction of new products, identifying and leveraging target customer segments, creating and implementing technology solutions and developing compliance and risk frameworks. He also advised many domestic and foreign players on their acquisition of domestic capital market players.

Himanshu is also member of Secondary Market Advisory Committee of SEBI and Risk Management Group of FMC.

Disinvestment: Boon or Bane to Economy

Mr. Anup Bagchi
Co-Chair, FICCI's Capital Markets Committee &
Managing Director & Chief Executive Officer, ICICI Securities Ltd.

Disinvestment to be prominent as core central reform

State-owned enterprises (SOE) form a sizable part of the Indian economy operating in a wide range of diverse sectors and contributing around 20% of the GDP and ~14% of the total stock market capitalisation. State owned enterprises for decades have been used as anchors for economic growth, industrial & infrastructure development, job creation, providing basic services such as water, electricity, communication, healthcare, education, transportation etc and other services to masses. Accordingly their contribution to overall economic growth was higher; however the cost for delivering these obligations outlived the benefits over a period of time due to lower economic efficiency. So in order to improve their efficiency, various policy tools such as privatization etc. were introduced to isolate ownership and economic utility.

Ownership of an enterprise holds significance as nations across the globe have struggled to improve and sustain the performance of these enterprises. Accordingly, these state owned enterprises are widely perceived to be a drain on fiscal resources, operationally inefficient and create market distortions – all of which lead to sub-optimal economic growth. Disinvestment of these enterprises is considered the key central reform for improving their

Ongoing financial crisis, deteriorating tax revenues and economic stimulus programmes have stretched government finances.

performance and generating budgetary resources for the government. There are primarily two major approaches to improving the effectiveness of state owned enterprises through ownership dimension i.e. privatisation where ownership is transferred to buyers and divestment where minority ownership gets transferred to buyers.

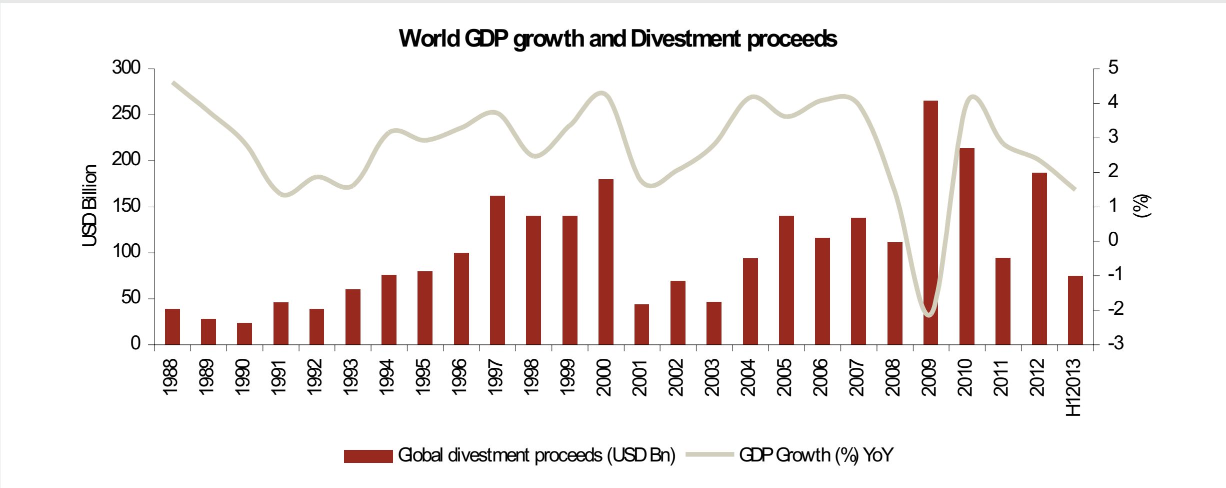
Disinvestment as a resource generator

Globally, privatisation or disinvestment has been pursued by governments in many countries. It is set to gain momentum as the ongoing financial crisis, deteriorating tax revenues and economic stimulus programmes have stretched government finances, thereby compelling governments to raise resources by partially or full divesting their portfolio of state owned assets. Historically, privatisation is on the rise with CY09 recording $265 billion during the crisis period when banks repurchased the shares the governments had acquired through rescues. India continues to figure among the top 15 economies globally besides Japan, the UK and Russia. The ex-Japan postal group, which runs one of the world's largest banks as well as Japan's largest insurer, is planning to raise around $40 billion in 2015. This is slated to be one of the world's largest ever disinvestment after very large and successful divestments of Japan Airlines ($8.47 billion) in 2012 and Japan Tobacco ($7.75 billion) in March 2013. A similar wave was witnessed in Germany wherein about 12,000 state owned enterprises were sold within a short span of just five years in 1990s for €33 billion. Some of the noteworthy names include companies like Volkswagen, Lufthansa, Deutsche Telekom, etc. The United Kingdom which coined the term "privatisation" was among the first countries to adopt privatisation three decade ago and popularised it as a core economic philosophy. The UK raised more than $80 billion during 1980-96 constituting 40% of the total amount raised during that period and recently raised ~$2.7 billion from the Royal Mail IPO in October 2013.

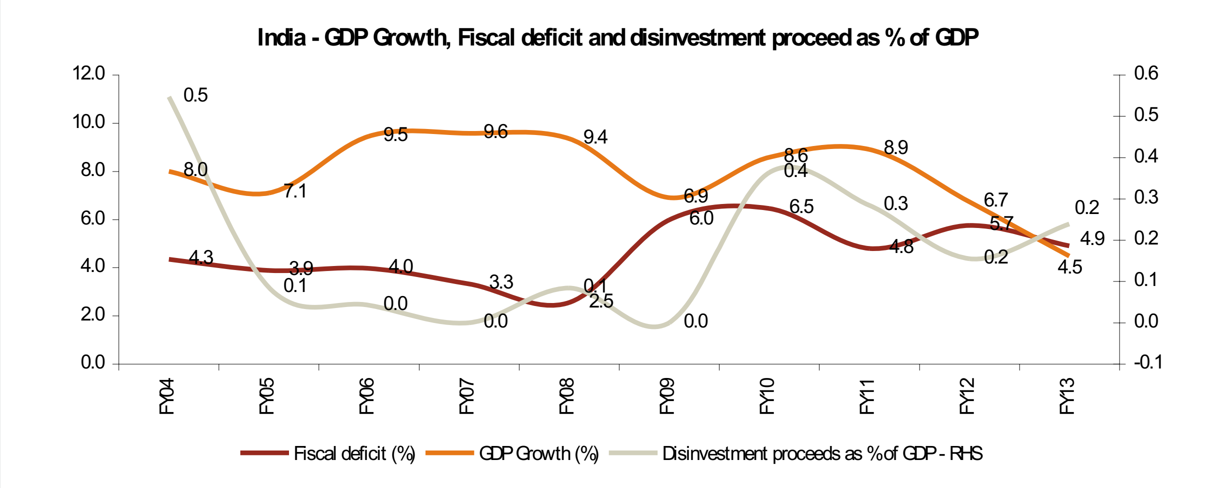
Disinvestment as a fiscal deficit management lever

The core objectives of any disinvestment programme are two-fold, a) to increase the efficiency of state owned enterprises and, accordingly, the overall economy as they contribute a sizeable portion to economic growth and b) reduce drain of public resources by way of subsidies and capital infusion, thereby putting pressure on fiscal deficits. Though initial privatisation efforts across the world were aimed at increasing efficiency, gradually as the world entered into economic turmoil, governments have increasingly tilted towards disinvestment as a route to finance fiscal deficits. This holds true in the Indian context as well.

Disinvestment offers only a brief respite for a government that is prone to overspending and is financially cramped. The Indian disinvestment programme has been fairly successful in raising ~Rs 1.4 lakh crore since 1992 and has helped the government in curtailing its fiscal deficit by around 0.2-0.4% over the past few years. Half of the disinvestment receipts came in during 2009-10, 2010-11 and 2012-13 with each year contributing in excess of Rs 20,000 crore per annum suggesting an ad-hoc approach towards disinvestment. Moreover, merely Rs 12700 crore during this period has been raised through a strategic sale (where the government has ceded management control). Also, the disinvestment process is largely dominated by a partial stake sale without transfer of management control (contributing ~90% of the total receipt).



Source: Privatisation Barometer, ICICI Securities
Note: 2013 GDP growth is full year, disinvestment proceeds is for H12013



Source: Bloomberg, RBI, ICICI Securities

Disinvestment as economic efficiency raising lever

The other main objective of any disinvestment process is to improve the overall economic efficiency by facilitating unlocking the true value of these SOEs for all stakeholders i.e. investors, employees, company and the government along with better transparency and accountability through market discipline. Ownership, competition and regulation play an important role in sustainable growth of any enterprise. The primary role of the government is to act as moderator for creating an ecosystem for competition and regulation while ownership holds the key for credible and timely decision making process.

Disinvestment, besides holding potential as a resource generator, has yielded significant benefits across countries along with a fair share of criticism as well. For example, in the UK, the privatisation programme happened in various stages. In initial stages, the government sold companies such as Britoil and British Airways, which were operating in a competitive environment and were self sustaining. During the second stage, it sold companies in the telecom and power generation space, which were monopolies such as British Telecom, British Gas, etc. However, these companies were restructured and allowed to compete within themselves before divestment. In addition, the government worked on creating a regulatory system and a regulatory body for better price and service regulation to protect the interest of end consumers. In the final phase, companies which depended upon government subsidy and were performing social duties on behalf of the government like Railtrack, etc. were sold. Here, in these cases, public private partnerships, allowing private operators to manage services while still receiving subsidies were established.

In China, due to its ideological aversion to capitalism, the government tried other ways of reforming state owned enterprises before resorting to privatisation. This led to a considerable delay. By the time privatisation efforts were carried out most Chinese state owned enterprises were loss making, half of them had negative or zero net worth and were collectively accounting for about 75% of overall bank credit. About ~$200 billion of this was classified as uncollectible debt. China adopted a "retain the large, release the small" strategy wherein the state was to keep control of largest 300 SOEs in strategic sectors and allow smaller firms to be sold. Moreover, the central leadership allowed regional governments ownership of SOEs within their jurisdiction and were allowed to sell their assets. Between 1995 and 2005, about one lakh firms with 11.4 trillion RMB (US$ 1.85 trillion as per current exchange rate) worth of assets were privatised, comprising two-thirds of China's SOEs and state assets.

However, China faced similar problem that India faces today about how to restructure loss making firms before selling since that involved laying off excess labour, upgrading plants & machineries and injecting new capital to wipe off accumulated losses. All this was both socially and financially costly. Thus, the government adopted multiple approaches to privatisation, depending upon the cost of restructuring. These included management buy-outs, for smaller, slightly less leveraged and less profitable companies. This approach accounted for about 47% of all the companies privatised during this period. The second approach adopted was selling the company to an outsider, which was used in 22% of cases. An outright sale to outsiders was used for companies, which were smaller in size, less leveraged and more profitable. Lastly, for larger enterprises, which the government intended to retain, public issue of shares was made to an extent where the government still held at least 50% holding. Also, in this case the government adopted a two-pronged approach towards restructuring; in about 25% of the cases it fully restructured the companies before listing while in the rest a holding company was created, which held all excess workers, obsolete plants and debt burdens while the subsidiary holding the most profitable assets was listed. However, since the government still held 50% of such Chinese firms, they were not free from political interference in decision making and appointment of top management. Therefore, the improvement in efficiency was limited.

Besides financial efficiency, the disinvestment programme also needs to consider the mechanism through which transfer of ownership happens between current and prospective stakeholders. The government can promote equity holding as a form of savings and capital accumulation among retail investors/general public by offering shares of large PSUs at a discount. A similar route was adopted by Germany to privatise Volkswagen in 1960s wherein about 4.5 million Germans with limited income levels were offered shares in the company. They were also awarded bonus shares, if the shares were held for a specific tenure. There have been some instances where shares were given away to general public free of charge or at a nominal symbolic price. In Russia, about 29% of shares in participating enterprises were offered using such a method. In the Czech Republic, most large-scale companies (about 55% of their value) were 'sold' (1991-2002) through this method.

Considering the effectiveness of disinvestment in improving overall efficiency of the state owned enterprises and misalignment of return and time horizon expectation of an asset between the government and private sector, disinvestment programmes have failed to produce the much desired efficiency benefits for all stakeholders. Empirically, private entities outperform their government held counterparts as the latter often get burdened with social responsibilities imposed by the government. Hence, disinvestment needs to be a much thought about reform with due deliberation on various aspects.

Repurposing disinvestment agenda

The disinvestment programme is expected to hold prominence in central policy decision making as continuing fiscal challenges would compel governments in India and abroad to utilise it as a resource generator. However, the same does not hold good in terms of raising efficiency for these enterprises as it often gets neglected in favour of immediate fiscal relief. So, the core problem remains that of misalignment between major disinvestment objectives. Divestment of majority stake should happen in state owned enterprises which are operating in matured, developed and capital efficient sectors whereas partial and gradual stake sale can happen in enterprises that operate in ecosystems which are still evolving.

Moreover, disinvestment produces good results if these enterprises operate in a competitive environment with market friendly policies. In addition, it acts as an effective tool in containing corruption. Hence, disinvestment is a good financial reform, which helps in establishing equilibrium between the collective interests of various stakeholders. However, the devil lies in the details of its implementation and, hence, its process shapes its outcomes.

Divestment of majority stake should happen in SOEs which are operating in developed and capital efficient sectors whereas partial and gradual stake sale can happen in enterprises that operate in ecosystems which are still evolving.

Annexure

Total disinvestment proceeds to government of India from 1991 – 2014

Disinvestment Route	Rs. Crore
Receipt through sale of minority shareholding in CPSEs	124,496.44
Receipts through sale of majority shareholding of one CPSEs to another CPSE	1,317,23
Receipts through Strategic sale	6,344,35
Receipts from other related transactions	4,005.17
Receipts from sale of residual shareholding in disinvested CPSEs/companies	6,398.27
Total receipts	142,561.46

Source: Department of disinvestment, ICICI Securities

India among top countries in terms of disinvestment in H12013

Country	Numbers of Deals	Total value (5 million)
China	13	12,874
Greece	3	11,269
Japan	1	7,753
Brazil	1	5,740
Russia	2	3,792
Turkey	1	3,460
India	3	3,281
Singapore	2	3,252
United States	2	3,132
Swaden	1	3,020
France	4	3,002
Nigeria	1	2,500
Ireland	1	1,740
Poland	1	1,674
United Kingdom	2	1,563
New Zeeland	1	1,418
Indonesia	1	1,304
Iraq	1	1,277
Belgium	1	1,074
Germany	1	809
Qatar	1	686
World Total	44	74,620

Source: Department of disinvestment, ICICI Securities

Key financial details about Indian PSUs

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Net Income Revenue	548912	613706	734944	829873	970356	1102772	1309639	1272219	1470569	1824627
Capital employed	417160	452336	504407	585484	661338	724009	792232	908007	1153947	1328027
Total Gross Turnover / Revenue	572833	630704	744304	837295	964890	1096308	1271529	1244805	1498018	1841927
Net Worth	241846	291828	341595	397275	454134	518485	583144	652993	709505	766439
Interest	23921	23835	22869	23708	27481	32126	39300	36060	29724	41060
Ovrall Net Profit / Loss	32344	52943	64963	69536	81055	81274	83867	92203	92128	97513
Profit of profit making CPSEs	43316	61606	74432	76382	89581	91577	98488	108434	113944	125116
Loss of loss incur-ring CPSEs	10972	8522	9003	6845	8526	10303	14621	16231	21817	27602
Divident	13769	15288	20718	22886	26819	28123	25501	33223	35700	42627
EBITDA to capital Employed	24.38	28.15	28.26	25.66	26.91	26.91	23.55	23.26	19.04	18.86
Net Profit to Turnover/Revenue	5.65	8.4	8.73	8.3	8.4	7.41	6.59	7.41	6.15	5.29
Net Profit to Capital Employed	7.75	11.71	12.88	11.88	12.26	11.21	10.57	10.15	7.98	7.34
Dividend payout Ratio	42.57	28.85	31.89	32.91	33.09	35.33	31.06	35.87	38.75	43.71

Source: Department of disinvestment, ICICI Securities

Anup Bagch

Co-Chair, FICCI's Capital Markets Committee &
Managing Director & CEO,
ICICI Securities Ltd.

Mr. Anup Bagchi is the Managing Director & CEO of ICICI Securities Ltd.

During his tenure of 20 years with ICICI Group he has held many key positions in the field of Retail Banking, Corporate Banking and Treasury. He is a Director in ICICI Securities Inc. He is a Co-chairman of Federation of Indian Chambers of Commerce & Industry (FICCI) Capital Markets Committee. Mr. Bagchi is also nominated as member on the Secondary Market Advisory Committee of SEBI. Mr. Bagchi is an alumnus of IIT Kanpur and IIM Bangalore.

ICICI Securities Limited (I-Sec) is India's one of the leading investment banking firm and is the first service in India to provide complete end-to-end integration, for seamless electronic trading on the stock exchanges through its brand ICICIdirect.com. Apart from being a leader across the spectrum of investment banking, it offers every aspect of business from domestic and international capital markets advisory, Private Equity syndication, Restructuring and infrastructure advisory.

Mr. Bagchi was honoured with `The Asian Banker Promising Young Banker Award'. Mr. Anup Bagchi has recently been honoured with `Industry Newsmaker Award' by Zee Business for his tremendous and unmatched contribution in the field of Finance.

Disinvestment- Boon or Bane?

Shri M.Narendra
Chairman and Managing Director, Indian Overseas Bank

Disinvestment is an evocative subject even in the developed economies. In a developing economy like India, with its tradition of successful and pervasive public intervention, it generates unique mind-blocks.

In India, the early post-independence leaders were influenced by socialist ideas and advocated government intervention to guide the economy, including state ownership of key industries. The objective was to achieve high and balanced economic development

How It All Began

In keeping with the prevailing theories in development planning after World War II, in the 1950s India opted for a centrally planned economy with a closed trade regime, heavy state intervention, and an industrial policy that emphasized import substitution.

This pro-state and trade-pessimistic development model was characterized by three sets of controls: internal, external, and those relating to the special role of the public sector. The internal regulatory regime heavily employed investment and production controls through industrial licensing system that regulated aspects of economic activity as varied as plant capacity, output prices, the quantity of capital, the quantity and type of inputs, technology, and the sectors or

Only three industries - rail transport, military aircraft and ships, and atomic energy generation -- are now reserved for the public sector.

industries that were required to be reserved for small-scale investors.

A host of tariff and quantitative controls were created to protect "infant" domestic producers from external competition. And the public sector was allowed extraordinary authority over the commanding heights of the economy, including the steel, power, telecom, and heavy machinery industries.

During the 1990s, under the looming prospect of a balance of payment crisis, reforms started to happen. It was felt that the macroeconomic stabilization necessary to ward off a crisis was not enough; it need to be reinforced by reforms to make the operational environment of firms more market-based. The buzzword became L-P-G, the acronym for liberalisation, privatisation and globalisation. The economic systems the world over have been deregulated and controls that existed in the past have been relaxed in great measure. Thus began a series of incremental reforms. The industrial licensing system has been almost completely abolished. Firms are free to make decisions about investment, pricing, and technology. Only three industries -- rail transport, military aircraft and ships, and atomic energy generation -- are now reserved for the public sector.

It was felt that a strong private sector and strong growth potential are essential for attaining higher degree of national output. And thus began the process of disinvestment.

Disinvestment is a process where Government sells its equity holding to private sectors. In other words it is a process of privatization where private parties are given shareholding in Government undertakings either wholly or partially. Disinvestment can meet the objectives of efficiency enhancement, domestic resource mobilisation and incremental capital outlays.

Progress under Disinvestment:

In the year 1991-92, 31 selected PSUs were disinvested for Rs.3, 038 Crore and in 1996 a Disinvestment Commission was set up which was wound up in 2004. The Commission short listed over fifty PSUs for disinvestment. Subsequently, a Department of Disinvestment was created in 1999 which was upgraded into a ministry in 2001 and later made a department under the Ministry of Finance since 2004. Against an aggregate target of Rs. 54,300 Crore intended to be raised from PSU disinvestment from 1991-92 to 2000-01, the Government could raise only Rs. 20,078.62 Crore. The disinvestment process picked up momentum after 2001 when divestment terms were changed to strategic sales by effective transfer of control and management to a private entity or an offer for sale to the public, with the government still retaining control of the management. During this period, against an aggregate target of Rs. 38,500 Crore to be raised from PSU disinvestment, the Government raised Rs. 21,163.68 Crore. After that, however, there was a lull in the process of disinvestment till 2009. Improved stock market conditions initially led to a renewed thrust on disinvestments through sale of minority stakes in listed and unlisted (profit-making) PSUs. However, from 2011 onwards, disinvestment activity seems to have slowed down. Even in 2013-14, against a hefty target of Rs.40, 000 Crore, the realization was only a fraction of it. The total proceeds from disinvestment in the last 22 years, apart from those privatized, are estimated at Rs 1.38 Lac Crore. About 50 PSUs are listed on the stock exchanges, accounting for about 15 per cent of total market capitalization of all listed companies.

Objectives of Disinvestment

- To reduce the financial burden on the Government
- To improve public finances
- To introduce, competition and market discipline
- To fund growth
- To encourage wider share of ownership
- To depoliticise non-essential services

Many undertakings traditionally established as pillars of growth had become a burden on the economy. The national gross domestic product and gross national savings were also getting adversely affected by low returns from PSUs. About 10 to 15 % of

the total gross domestic savings were getting reduced on account of low savings from PSUs. In relation to the capital employed, the levels of profits were too low.

The importance of disinvestment lies in utilisation of funds for:

- Financing the increasing fiscal deficit
- Financing large-scale infrastructure development
- For investing in the economy to encourage spending
- For retiring Government debt
- For social programs like health and education

Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.

In a country like India, there cannot be a moratorium on interest payments. While borrowing at market-determined interest rates and curbing present government expenditure disciplines future borrowing, the only solution to the debt overhang of earlier borrowing is disinvestments that can be used to retire public debt. That is what the ordinary citizen stands to gain from successful disinvestment.

If the Government does not engage in disinvestment, a similar amount has to be borrowed and the interest outlay would be more than what the Government would have received as dividend from the profit earning PSEs.

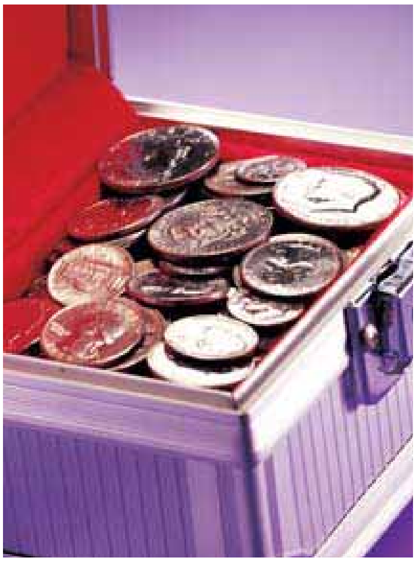
If the Government does not engage in disinvestment, a similar amount has to be borrowed and the interest outlay would be more than what the Government would have received as dividend from the profit earning PSEs. Thus it indicates that even profit making PSE's are worth disinvestments. Hence it is required to disinvest not only the loss making units but also the profit making units. The amount realized from disinvestments will be used for meeting expenditure in social sector

The adoption of a strategy of block sale of government stock in identified PSEs to a strategic partner, along with transfer of management control, as opposed to market sale of shares in small lots, shall enhance the value. It also ensures that these assets are put to productive use in the most optimum time frame and with the maximum benefit. While it is too early to quantify such benefits, there is sufficient anecdotal evidence of significant welfare gains for employees, institutional investors and the economy, along with the quantifiable gains for government, from the additional resources freed by the sale of PSEs.

Conclusion:

Disinvestment is win-win for the Government and the private sector. The Government has played an important role as producer for several years. It has manufactured innumerable number of products including steel and oil and rendered variety of services such as hotels industry, telecom etc

The Government Role in Industrialisation is required in an underdeveloped country while in the developing country it should carry out the role of a regulator providing an environment which is conducive for industrialisation and manage the deficit.



M. Narendra

Chairman and Managing Director
Indian Overseas Bank

Shri M. Narendra started his banking career when he joined Corporation Bank as a Trainee Officer in January 1975. In Corporation Bank, his hard work and dedication earned him the recognition of being a member of Chairman's Club for eight years in a row and 18 more years. He joined Bank of India as Executive Director in November 2008. While he was with Bank of India, the Bank won many awards.

Shri M. Narendra joined Indian Overseas Bank as the Chairman & Managing Director on 1st November 2010. The Bank had registered a low growth during the previous year 2009-10 and the same trend was continuing in the first half of 2010-11 also. In order to inject a new enthusiasm, he gave a call "Mission 100 days" to reach a business mix of Rs. 2,25,000 crores.

He led the mass outreach programme 'Walk-in-Bank', a campaign in which all the employees of the Bank participated. Another similar mass contact programme, 'IOB Smile' was launched to reach the unreached giving a fillip to the financial inclusion programme. These initiatives energised the rank and file, and the 100 day mission was accomplished successfully. The momentum built up created the buoyancy for a creditable growth for the year ended 31st March 2011, with the business level crossing Rs.2,50,000 crore mark. The improved performance continued for the years 2011-12 and 2012-13, when the business rose to Rs. 3,66,500 crore. From being the 10th rank in terms of business as of 31st March 2010, the Bank rose to 7th rank since March 2011.

Some of the prominent awards he won for IOB are :

- National Award for Excellence in MSE lending for the year 2010-11
- Dun & Bradstreet – Polaris Software Banking Awards 2011 – Best Bank Award for Micro Credit
- Skoch Award 2012 for Financial Inclusion of Nilgiri tribals
- Best Bank Award 2012 from All India Manufacturers Organisation
- National Award for Excellence in MSE lending for 2011-12
- National Award for Outstanding Performance in implementation of PMEGP in South Zone for 2011-12
- Dun & Bradstreet – Polaris Financial Technology Banking Awards 2013 – Best Public Sector Bank in Priority Sector lending
- Skoch Awards 2013 – Best Availability of WAN and Paperless Board
- The Sunday Standard Best Bankers Awards 2013 under
    - Best Indian Banker - Large
    - Best Public Sector Banker - Large
    - Best Public Sector Banker Customer Orientation
- ASSOCHAM's Social Banking Excellence Award 2013 under the Public Sector Banks category – runner-up
- Development Leadership Award given by 6th Agriculture Leadership Awards Committee 2013
- Government of India's RSETI Awards 2013 – AA ratings for 2 RSETIs & A ratings for 3 RSETIs, given during RSETI Diwas on 21st November 2013.
- Chamber of Micro, Small & Medium Enterprises CIMSME Awards 2014 for Best Bank in Financial Inclusion, Runner-up in Excellence in MSME and Jury Awards for New Initiatives.
- IBA Banking Technology Awards 2012-13 – Best Use of Business Intelligence
- Tamil Nadu Government Award for Best Bank – for excellence in extending credit to Self Help Groups for 2011-12
- National Award for Effective Implementation of PMEGP in South Zone for 2012-13
- IBJ Business Excellence Awards 2013 – Customer Focus Award

Indian Overseas Bank is in its 78th year of operations. The Bank has recently crossed Rs. 4,00,000 crore mark in global business.
Many initiatives have been taken in Indian Overseas Bank since his taking over. Some of them are :

- Massive branch expansion, by adding nearly 1250 branches since he took over, crossing the 3000 mark on 17th August 2013, and now 3,265.
- Opening of specialised branches (GenNext) to attract youngsters
- Opening of specialised agri credit branches
- Setting up of Rapid Retail Processing Centres and MSME Loan Processing Centres, to reduce turnaround in processing of applications
- Reorganisation of departments under business verticals
- Opening of City Back Offices, to centralise back-up jobs
- Record number of promotions during the last three years
- Large scale recruitment, staff strength crossing 30,000
    - IOB is among the top preferences of the bank job aspirants who take up IBPS selection

With his positive approach and unflinching faith, he desires to take IOB to be among the top 5 nationalised banks in the country, touching hearts and spreading smiles among its millions of customers and creating value to all the stakeholders.

Disinvestment: A boon or a bane

Mr. R. Shankar Raman
Chief Financial Officer & Memberof Board, Larsen & Toubro Ltd.

There have been considerable discussions on the need, the ability and the success of the Government in its disinvestment plans. Broadly, the government of any country focuses on providing or regulating general public welfare services, defence, public order and safety, economic affairs (including transportation, fuel and energy, communication), environment protection, housing and community services, health and recreation, education and social protection.

In recent past, the global trend towards privatization gathered pacein 1980s with Ms. Margaret Thatcher spearheading the privatization doctrine and implementing it with tremendous success in the United Kingdom. Many countries have witnessed the public policy pendulum swing from nationalization to privatization several times over in the 20th century. Thus, there seems to be no unique model that is universally sound for promoting efficiency of resource use. Perhaps it is a lesson for us - we have to search for a solution best suited to our conditions which is also broadly consistent with economic reasoning and public policy.

In India, the early post-independence leaders were influenced by socialist ideas and advocated government intervention to guide the economy, including state ownership of key industries. The objective was to achieve high and balanced economic development

One cannot in an absolute sense surmise whether disinvestment is a boon or a bane. The form, method and philosophy behind the disinvestment programme are important.

in the general public interest with particular programs and measures aimed at the poor. This belief was all the more convincing in India because of the country's large size, substantial natural resources, and desire to develop its own defence industries.

India's current economic reforms began in 1985 when the government abolished some of its licensing regulations and other competition-inhibiting controls. The pace of liberalization increased after 1991. By the mid-1990s, the number of sectors reserved for public ownership was slashed, and private-sector investment was encouraged in areas such as energy, steel, oil refining and exploration, road building, air transportation, and telecommunications. The average import-weighted tariff was reduced from 87 percent in FY 1991 to 33 percent in FY 1994.

India has travelled a long way since the reforms were initiated.We are now a USD 1.9trillion economy with foreign currency reserves nearing USD 300billion. Despite a current account deficit of 3% of GDP we are still attracting foreign capital. India's investment momentum has picked up, particularly since 2002 and investments account for over 30% of GDP. Participation of the private sector in investment formation has also increased manifold. Over the last decade we have seen significant investments (by both government and private sector) in power, roads, ports, airports, telecom and oil and gas.

However, after the 2007-08 global economic crisis, both the Government & the private sector were under severe stress. Due to lower tax collections arising out of slower economic activity, the government has increasingly found it difficult to meet its social commitments. Separately, the private sector is overleveraged. We are at risk of becoming a capital-constrained economy. Foreign capital may be needed to come out of the debt trap if remedial measures are not taken soon. Ostensibly, as a step in this direction, the Government has increasingly resorted to disinvestments of its stakes in Public Sector enterprises to augment revenues and promoting social expenditure.This seems to be intuitively counterproductive. Should India be selling its crown jewels to fund revenue expenditure& subsidies?While disinvestment per se is not a faulty approach, end use of the proceeds should not be misplaced. The Government need to create productive social infrastructure thro' the disinvestment process.

Globally there has always been a debate around whether the Government needs to be in business of running businesses. We have heard multiple arguments around it and it appears that these would continue. Advocates of liberalization believe disinvestment is a panacea for many economic ills, while socialists worry that disinvestment will inhibit inclusive growth. However, it is a bit simplistic to equate the term "disinvestment" to being a general catchphrase for economic & market reform. Thus, one cannot in an absolute sense surmise whether disinvestment is a boon or a bane. The form, method and philosophy behind the disinvestment programme are important. It is important to acknowledge here that disinvestment is an important weapon in the Government's arsenal for achieving economic freedom & inclusive growth.

India's disinvestment programme started as early as 1991 when inefficient public sector undertakings had become a drain on Government's resources. Hence, the need for the Government at that point of time was to reduce its exposure on these units and concentrate on its core activities instead.The idea then was to widen the equity base of PSUs, improve their management and allow them to raise more resources from the market once they were listed on the stock exchanges. It was also aimed at helping the government augment its revenue flows. Disinvestment, however, over the years seems to have become a financial exercise to raise additional revenue for reducing the fiscal deficit. Further, the general trend has been for the programme to fall short of its objectives. Every financial year invariably begins with the setting of a target of revenue that the government hopes to garner through disinvestment. But the target has been missed in all years except four in the last 2 decades: 1991-92, 1994-95, 1998-99 and 2003-04.While the disinvestment exercise of the last 2 decades has broad-based the PSU equity, there is doubt whether this has consequently led to an improvement in their management or in their ability to compete with the private sector. The Jury is still out when it comes to productive utilization of the disinvestment proceeds garnered this far.

The opening of the Indian economy has changed the market dynamics with the private sector playing a greater role in shaping the industrial landscape. Central Public Sector Enterprises (CPSEs) have been exposed to competition from domestic and multi-national corporations.

Disinvestments in India over the years have been carried out overwhelmingly in the form of share issue privatization(partial privatization without transfer of management control) as opposed to strategic sale(asset sale leading to transfer of management control).Strategic sales of PSUs took place briefly in the period 2000-03 which removed the recurrent need for subsidising many divested loss making enterprises. Strategic sales despite being a financially prudent method of

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divesting loss-making PSUs have not found favourin India. This is mainly due to the low level of formal employment in the country, which stands at less than 3 per cent of the total population. Since many PSUs are overmanned, strategic sales have caused universal job losses in the first three years of privatisation, which has made it difficult to sustain public support. Shunning strategic sales would mean that the government would continue to subsidise many PSUs in future years as there are no takers for loss-making PSUs through share issue privatisation. Even now, the Government is keen to retain at least 51% equity and management control, which then dissuades private sector participation. The presence of government in strategic sectors and in areas where private initiative is not forthcoming is of utmost importance but it should not become a norm for every sector.

The opening of the Indian economy has changed the market dynamics with the private sector playing a greater role in shaping the industrial landscape. As a consequence, the Central Public Sector Enterprises (CPSEs) have been exposed to competition from domestic and multi-national corporations. Recent data indicates that the performance of CPSEs is declining. During 2012-13, the number of profit-making CPSEs hasreduced to 149 while the number of loss-making CPSEs has increased to 79. Market capitalization of all CPSEs as a percentage of total market cap has declined from 20.24% in 2011-12 to 14.2% presently.

The main challenge lies in making a complex and control oriented ownership framework more effective in striking the right balance between CPSE autonomy and accountability.Private ownership though beneficial would not guarantee that all the benefits are passed on to the consumer if it actually ends up being a private monopoly. Reforms aimed at improving governance and increasing CPSE autonomy—such as Board appointment and empowerment, separation of ownership from policy functions—can facilitate broader policy reforms aimed at increasing market discipline through exposure to competition, tightening of budget constraints, listing of CPSEs on the stock exchange, and bringing in private sector participation. Market discipline in turn puts pressure on CPSEs to adopt further governance reforms and ensure transparency and accountability.

The underlying goal is to reorient the state's role away from being a market player to becoming a market regulator and from the day-to-day management of CPSEs towards exercising its core ownership rights based on sound corporate governance principles.These steps will go a long way in ensuring that disinvestment becomes a purposeful process and acts as a powerful catalyst in India's quest for becoming a sustainable economic power.

R. Shankar Raman
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Memberof Board
Larsen & Toubro Ltd.

Mr. R. Shankar Raman is a qualified Chartered Accountant and a Graduate of the Institute of Cost & Works Accountants of India. Over the past 31 years of professional work experience, Mr. Shankar Raman has worked for leading listed Corporations in varied capacities in the field of Finance.

Mr R. Shankar Raman is currently the Chief Financial Officer & Member of the Board of Larsen & Toubro Ltd, a leading Engineering & Construction company. Mr. Shankar Raman oversees the finance function across the L&T Group. Mr. Shankar Raman is also on the Board of Management of several companies within the Larsen & Toubro Group.

Divestment of Public Sector – Challenges and Prospects

Dr. V Shunmugam, *Chief Economist, MCX Stock Exchange*
Ms. Namita Kathuria, *Economist, MCX Stock Exchange*[1]

Introduction:

The recent financial crisis gathered momentum from the unsustainable housing boom created by the so called instruments of financial innovation such as CDOs and CDSs also exposed few of the sovereigns such as Ireland, Greece, Portugal, etc., to the brink of mere default in the global credit markets due to the nearly frozen credit conditions that prevailed post-Lehmann collapse. Except for the timely intervention of the global leaders and institutions such as IMF and ECB, the contagion of such sovereign defaults would have brought in few other sovereigns on the periphery of default including the likes of Spain and Dubai city into its ambit. Faced with social constraints of fiscal policy, the possibility of funding their public spends with the same public institutions and assets that the sovereign owned came up as an opportunity. Such public assets that could be either sold or securitized have never been valued in the markets and traded in markets like their peer asset-classes, they have also not been appropriately accounted per the standard public accounting process that nations undertake.

While on the one hand the public spending responsibilities remained the same or have increased, sources

Britain and Nordic countries have set up "sovereign-asset managers" or professionally managed asset holding companies that help separate management from ownership and promotes private sector like competition and openness.

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of revenue through fiscal and other non-fiscal tools remained a function of the challenge of covering all economic activities of the stakeholders, to bridge economic inequalities and to make them part of the organized economy apart from identification of non-fiscal sources of revenue. It gave rise to the debate of sovereigns and public entities raising funds through sale of public assets (financial/physical) or through appropriate securitization. While monetizing physical assets is a function of identifying them on the books and to value them per the prevailing market rates, the financial assets arising out of most of the public sector and utilities was something as a process started in the emerging markets as the means of privatization and liberalization that they have already undertaken. However, a large chunk remained yet public due to sensitivities associated with private ownership of public utilities.

India was accompanied by several developed economies in ascribing an important role to the development of PSUs (in the process of achieving its post-independence objectives of self-sufficiency and growth in the case of India), including Germany, France, the US, and UK. In India, the process of enlargement of the size of PSUs continued until 1980s in terms of capitalization; however with protection from competition, bankruptcy and takeover that allowed them to operate in public policy determined markets. However, the process of privatization and economic liberalization that was set in motion during 1990s made it inevitable for them to face public participated markets and to sell their goods and services at the market determined prices facing competition from an emerging private sector. Policy makers have rightly determined that gradual privatization would help in infusing efficiency and help face competition in a more effective manner. In this context it would be pertinent for one to look at global experiences in addressing the concerns of policy makers ranging from security to public assets to selling public stakes at the most efficient prices reflecting their value as a partially privatized entity while protecting the interests of the minority stakeholders more effectively.

International experience in Disinvestment: Globally, the trend towards disinvestment began in the UK when Margaret Thatcher successfully initiated steps to reduce state intervention in 1980s. This movement of disinvestment spread across Europe, where it gathered momentum in 1990s by divesting several State Owned Enterprises (SOEs) and later on in 2000s, where in the governments disinvested to take advantage of the good economic conditions and buoyant markets reflective of the same. Even though OECD countries began their disinvestment process more than 25 years ago, it had to reverse its policy due to the 2008 financial crises which saw several bailouts of banks and financial institutions. China, on the other hand, has been successful in selling minority stakes in energy, banking, broadcasting and engineering as part of the process of liberalizing state control on various assets.

Rationale for disinvestment in India- Then and Now: In India, steps towards disinvestment were introduced in the 1980s as several PSUs were found to be loss making entities, increasing the fiscal deficit burden on the sovereign financial condition. However, the financial crises brought the Government on an active mode towards disinvestment as stated per the then Industrial Policy statement (1991). As a result, to bridge the fiscal deficit, a small fraction of equity in selected central PSUs was sold, signaling a major departure in India's economic policy followed them with a larger public welfare motive. As can be seen from table#1, disinvestment started off on a good track in 1990's with a slump in early 2000s.Till date, INR 1,44,448 has been raised through disinvestment, which cumulatively represent about 2% of the current GDP.

Challenges to the Process of Disinvestment:

1. Identification, Recording and Valuation of Assets: In India, fundamentally strong firms such as Oil and Natural Gas Corp., Life Insurance Corporation of India (LIC) and Coal India Ltd (CIL) remained valuable because of the large resource base they held, - coal, oil, and funds. And thus, disinvesting stake of a resource-rich PSU should garner maximum funds. Correct asset valuation is relatively viable in cases where resource availability and the present value of future price of the resource can be matched with market/ competitor's prices. However, in India several many of the state undertakings remained the sole players in the market with large resources that poses the challenge of pricing the assets. Additionally, an unfavorable market environment or oversupply of resources could also lead to value destruction. There are possibilities that some of the assets of these PSUs shall go unnoticed in the process of valuation. Comptroller and Auditor General (CAG) report, several PSUs were evaluated on the basis of asset valuation methodology, wherein some of the core assets including housing, leasehold, township and plant and machinery, among other assets that were either ignored or not valued. This led to undervaluation of PSUs' with lower reserve prices constraining the political consensus process as well. Internationally, economies have placed importance to providing better retail access to their assets. Few examples include that of Britain, which has introduced a web system where in the public would be able to buy government assets mainly land and buildings in the open market. The country also publishes a "National Asset Register" that includes estimated value of government's (segregated into different departments) tangible fixed assets, intangible assets and public shareholdings in a regular manner. On the same lines, New Zealand updates its financial statements on a monthly basis, while going a step ahead in imposing a capital charge on properties of different governmental departments to make them the competitive users of these assets as well. Other innovative methods for valuing government held assets includes a path-breaking study undertaken by PwC (2011) in Sweden that used property tax values as a proxy to assess the market value of government assets. One of the most important takeaways for India could perhaps be from Britain and Nordic countries that have set up "sovereign-asset managers" or professionally managed asset holding companies which helps separate management from ownership and promotes private sector like competition and openness.

Year (Rs. crore)	Disinvestment Target	Total receipts from Disinvestment	Conversion Rate
1991-92	2,500.00	3,037.74	121.5%
1992-93	2,500.00	1,912.51	76.5%
1993-94	3,500.00	-	0.0%
1994-95	4,000.00	4,843.10	121.1%
1995-96	7,000.00	168.48	2.4%
1996-97	5,000.00	379.67	7.6%
1997-98	4,800.00	910	19.0%
1998-99	5,000.00	5,371.11	107.4%
1999-00	10,000.00	1,860.14	18.6%
2000-01	10,000.00	1,871.26	18.7%
2001-02	12,000.00	5,657.69	47.1%
2002-03	12,000.00	3,347.98	27.9%
2003-04	14,500.00	15,547.41	107.2%
2004-05	4,000.00	2,764.87	69.1%
2005-06	No target	1,569.68	-
2006-07	No target	-	-
2007-08	No target	4,181.39	-
2008-09	No target	-	-
2009-10	No target	23,552.93	-
2010-11	40,000.00	22,144.21	55.4%
2011-12	40,000.00	13,894.05	34.7%
2012-13	30,000.00	23,956.06	79.9%
2013-14 (to date)	40,000.00	7,477.96	18.7%

Source: Department of Disinvestment, Ministry of Finance-India

2 Sensitivity: Several economies have been reluctant in divesting certain government assets, mainly due to political and economic sensitivities associated with making them due to a larger public good that may be undermined by a smaller private profit. Few examples include US's effort to divest Tennessee Valley Authority, Sweden having to reverse its decision to sell-off a forest land, while in a similar case; in 2010 Britain had to retrieve from its decision to sell its Forestry Commission land due to huge public outcry. It is clear that some of the public assets will always be sensitive and may never enter the market. To effectively utilize such resources, several countries have developed innovative methods to earn revenues from them, such as leasing its buildings in relatively high rental areas, serving a twofold purpose of regular income that could help neutralize fiscal deficit partially, and helping in cases where the government is unable to obtain the correct value of the asset in the current economic position.

3. Corporate Governance- Socialists motive winning over Capitalists: As compared with the pre- liberalization era, where the economic growth hovered around 3.5-4.0%, the rationale for disinvestment was straightforward- loss making PSUs were considered a burden that could be off loaded to the markets to achieve higher efficiency and productivity. However, the same rationale was not applicable during the last decade wherein the average rate of growth has been above 7%. PSUs have not been performing due to corporate governance issues that continued to elude several PSUs from attaining profitability but that liberalization exposed them suddenly to the forces of competition. The ownership pattern of PSUs entails them to adhere to decisions that are not necessarily in favor of the organization's profitability, rather serving a larger public motive that could not be monetized by any means to account for the same in their books. Additionally, it has long been observed that PSUs have little or no commercial motivation leading them to take financial decisions which are "often subordinated to other macro-economic considerations" resulting in "shortage of funds" (R. Suresh, 2006).

4. Protecting Minority Shareholders' Interest: In the past, minority stakes have been either offloaded via "Offer for Sale" to the public or auctioned off to financial institutions. However, the present policy regime had introduced the concept of "Public Offers" keeping in mind wider access of the stakeholders to the public assets. Even though efforts to increase retail and hedge fund participation in PSU's have been taken, their financial decisions still continue to be taken by its major shareholder- the government, which might not always be in favor of minority investor's benefit.

Prospects:

1. Strategic Selling: Apart from other methods of disinvestment, strategic sales wherein the Government sells a major share of its stake (51% and above) to a strategic buyer and also offloads its management control, had also resulted in enhancing efficiency and profitability levels with active engagement of the strategic shareholders. Continuing to identify PSUs which could be sold through strategic offer would further enhance government's privatization and disinvestment efforts besides helping to bridge the fiscal gap.

2. Identifying Non- financial Assets: According to the IMF report (2013), the largest untapped financial resources of a government lie in land, buildings, oil and gas; and "non-financial resources". India faces the problem of detailed information about it non-financial resources such as roads, buildings, for example have not been appropriately valued. These asset prices have increased over time, mainly as a result of increased commodity and property prices and are mostly owned by state governments. According to the same IMF paper, "non-financial assets average 75% of GDP in advanced economies, though levels may range widely, from 40-50% in Canada and Germany to 120% in Japan. In most countries, these are worth more than the financial assets (stakes in listed firms, sovereign-wealth and securities holdings and the like). The value of the two combined is typically more than half gross public debt."

Recent International Developments to learn from: Privatization has picked up in several economies during the previous few years mainly due to the recent financial crises exerting an extra burden on the government finances as discussed earlier. A very recent example from which India could take note is from Britain selling its Royal Mail through public offerings in a fairly transparent manner (for valuing its land and buildings) and its willingness to overcome issues arising out of sensitivities associated with the same. Japan, on the other hand, is facing issues of restructuring its resources post the natural calamities and is looking to divest its postal services. With the slowdown in Australia's key commodity sector is also reported to be pushing the government towards disinvesting its aviation, postal and financial assets and the path to be taken by them would be interesting to watch.

Conclusion: Going all out to reduce the fiscal gap on one hand owning large financial asset in terms of investments in PSUs, the decision to use disinvestment and/or privatization as a tool to enhance revenue and reduce fiscal deficit could be the answer. Disinvestment could also assist in improving PSUs productivity and increasing the effectiveness of their response to emerging competition conditions by cutting down on the red-tapism and improving their response time to the markets. Though, disinvestment and privatization assist in raising the much needed resources for the government, care should be also be taken to ensure correct valuation, which if due to unhealthy external and economic conditions tends to be lower than its fair value through hiring appropriate assessment skills available from the market. Special care shall also be provided to those PSUs which can be made efficient and profitable with initial infusion of funds, rather than divesting, as in the long run, such PSUs could serve as a large resource base for the government. At the same time, it is also important that other public assets such as technology and innovations that emerge out of government funding should be appropriately capitalized upon through professional value addition or conversion of the same into an enterprise idea and reaping its value perpetually with a larger dividend. Also examples of several nations indicate efforts to improve book keeping of government assets, valuation of these assets, and an innovative way of perpetual reaping of their values would go a long way in reaping the public asset base in a more sustainable way and contribute significantly in the policy efforts to bridge the fiscal gap.

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Dr. Shunmugam V has a rich global experience in intensive policy matters, developmental economics & research and working in close proximity with policymakers and market regulators. He is a prominent figure in the industry, foreseeing and proposing policy changes for its impending impact on larger business environment. A thought leader and trained macro-economist with a wealth of network across ranks and files in Government, regulators, business, academics, he has expertise in dealing with multiple regulators, markets, products and strategic communication with various industry stakeholders.

In his role as Chief Economist at MCX-SX and at MCX prior to that, he has structured pragmatic policy recommendations based on the foresight about its linkages with various aspects of the economy and its impact on economic stakeholders, investors, producers, savers, intermediaries and institutions, leading to balanced and sustainable growth of the economy. Before his stint in India, Dr. Shunmugam worked with the US Government where he played a robust role of connecting the Governments of India and the US through trade relations, commodity market dynamics, trade & policy matters and facilitating workshops, conferences, and official missions.

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Namita Kathuria
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Namita Kathuria is working as Economist with the MCX-SX, focusing on developing analytical / research reports on various issues and developments with relevance to capital markets in domestic and global economies. Prior to joining MCX-SX, she worked as an Associate Economist with Roubini Global Economics and as a Research Assistant at IIM, Bangalore. She holds a Master's degree from Christ College, Bangalore and Bachelor's degree in Economics from Delhi University.

Disinvestment – Boon or Bane to Economy

Smt. Arundhati Bhattacharya
Chairman, State Bank of India

Introduction

The idea of disinvestment that started in early nineties,implies gradual withdrawal of government from economic activity and allowing market forces to ensure efficient allocation of resources. The policy therefore rests on the role of state in a globalised regime.

Many schools of thought exist with regard to the primary functions of the State, and the normative expectations of what the role of the State ought to be. Viewed from a functional perspective, the State, and governments, may be seen as coming into existence in order to solve the coordination problems in providing public goods, and prevent the disutility that emerges from the moral hazard of a short run utility maximizer[1] .

Inspired by such strands of thoughts, the process of disinvestment of Public Sector Undertakings (PSU) was started by the Government of India in 1991-92. In August 1996 Government established a Disinvestment Commission initially for a duration of three years to

The two broad goals of the disinvestment process as stated above are unlocking resources and fiscal consolidation

1 Based on Supreme Court judgment in Ram Jethmalani & Ors. Vs Union of India & Ors., Writ Petition (Civil) NO. 176 of 2009

advise it on all aspects relating to public sector disinvestment. Government classified in March 1999 PSUs into two groups - those functioning in strategic and non-strategic areas for the purpose of disinvestment. All PSUs except those in the three areas of arms and ammunition and allied items of defence equipment, defence air-craft and warships, atomic energy (except in the areas related to the generation of nuclear power and application of radiation and radio-isotopes to agriculture, medicine and non-strategic industries) and railway transport, were to be considered non-strategic PSUs.

The primary objectives of disinvestment of the PSUs as indicated in the manual of policy and procedure issued by Department of Disinvestment in April 2001 were the following:

- Releasing large amount of public resources locked up in non-strategic PSUs, for redeployment in areas that were much higher on social priority, such as, basic health, family welfare, primary education, social and essential infrastructure;
- Stemming further outflow of scarce public resources for sustaining the unviable non-strategic PSUs;
- Reducing the public debt that was threatening to assume unmanageable proportions transferring the commercial risk, to which the taxpayers' money locked up in the public sector was exposed, to the private sector wherever the private sector was willing and able to step in; and
- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSUs, and their time and energy, for redeployment in high priority social sectors that were short of such resources.

Disinvestment – Indian Experience

Whether disinvestment is 'boon' or 'bane' can only be ascertained by an impartial evaluation of the process itself in achieving the desired goals it has set. The two broad goals of the disinvestment process as stated above are unlocking resources and fiscal consolidation. However, one must bear in mind that disinvestment proceeds ideally do not form the part of the Consolidated Funds of India (CFI). The Government in November, 2005 constituted 'National Investment Fund' (NIF), to be maintained outside the CFI into which the proceeds from disinvestment of Central PSU would be channelized.

The objective of NIF was that 75% of the annual income of the fund will be used to finance selected social sector schemes and residual 25% to meet capital investment requirements of profitable and revivable PSUs in order to enlarge their capital base to finance expansion/diversification.The corpus of the fund is of a permanent nature and income generated from the investments made out of NIF is alone available for meeting the objectives of NIF.The income of the fund would be used to finance social sector schemes which promote education, health and employment and creation of new assets.

However, with effect from April, 2009 to March, 2012, the proceeds from the disinvestment channelized into NIF would be available in full as a one-time exemption, for meeting the capital expenditure in respect of identified social sector schemes decided by the Planning Commission and Department of Expenditure. The status-quo ante would be restored from April, 2012. This exemption was again extended till March 2013. Hence, the popular perception that government can tap disinvestment proceeds for revenue augmentation may not be correct. This leaves us with another question whether disinvestment will lead to fiscal consolidation in the long-run.

The performance of disinvestment exercise since 2006 is summarized in Table 1. Although the revenue proceed since 2009 were sizable, impact on fiscal in the short run was to increase liquidity in that year[2] . However, the impact of the sale in the long termfor the exchequeris the forgone future rev-

[2] Analysis based on Santos, Jose E (2012). "The Long-Run Fiscal Impact of Privatisation: An empirical assessment of the Brazilian experience" available at http://www.alde.es/encuentros/anteriores/xveea/trabajos/s/pdf/176.pdf

Table 1: Performance of disinvestment process (Rs Crore)

Year	Budget Target	Actual
2006-07	3,840.0	-
2007-08	1,651.0	4,181.0
2008-09	1,165.0	163.5
2009-10	1,120.0	23,552.9
2010-11	40,000.0	22,144.2
2011-12	40,000.0	13,894.1
2012-13	30,000.0	21,504.3

Source Outcome Budget Reports, Cabinet Secratariat Performance Management Department Disinvestment

Table 2 : Allocation of NIF funds 2009-10

	Fund allocation	Percent
Accelerated Irrigation Benefits Programme	1,463.0	6.2
Rajiv Gandhi Grameen Vidyutikaran Yojana	3,000.0	12.7
Indira Awas Yojana	5,280.0	22.4
Mahatama Gandhi National Rural Employment Gurantee Scheme	11,730.0	49.8
Jawaharlal Nehru National Urban Renewal Mission	1,922.0	8.2
Accelerated Power Development and Reform Programme	158.0	0.7
Total	23,553.0	100.0

Source Outcome Budget Reports 2011-12

enue from the assets which was sold. One must remember that dividends from PSU are non-tax revenues and are charged to CFI. Furthermore, the 26th Report of Standing Committee on Finance 2010-11 particularly flagged the issueof lack ofcompetition among market participants and its impact on price discovery. It observed that: "Though the disinvestments of PSU shareholdings through IPOs/FPOs, have been stated to be oversubscribed, details of the companies participating in these offers have not been divulged. The Committee apprehended the disinvestment programme, if carried out in the present manner, might have to be bailed out by Government owned companies". Hence, greater importance should be given to designing a disinvestment programme to promote competition and maximize efficiency.

Another allied issue related to disinvestment is the intended beneficiary of the disinvestment of PSU. Besides the strategic objectives of disinvestment mentioned above, another aim is to develop people's ownership of PSU through increased participation of retail investors. As on 2013, the household investment in equity as percentage of total savings is around 3%.

Last link in evaluation of disinvestment is the deployment of NIF funds of the exemption period 2009-2013. From April 2009 onwards, till March 2013 the disinvestment proceeds were being used in full for funding capital expenditureof the following social sector programmes of the Government namely - Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGA), Indira Awas Yojana, Rajiv Gandhi Gramin Vidyutikaran Yojana, Jawaharlal Nehru National Urban Renewal Mission, Accelerated Irrigation Benefits Programme and Accelerated Power Development and Reform Programme.From Table 2 we observe

The policy governing disinvestment should strike a balance between the short run and long run benefits of asset sale by government.

that MNREGA received the highest allocation.

Conclusion

The policy governing disinvestment should strike a balance between the short run and long run benefits of asset sale by government. The intended beneficiaries of disinvestment process, particularly the retail investors, must be ensured that the pricing process is reliable. The end deployment of funds through asset sale must be used for creation of new physical assets so that any possible loss of dividends due to reduced ownership is compensated by higher tax revenues in future.

Arundhati Bhattacharya
Chairman
State Bank of India

Smt. Arundhati Bhattacharya assumed the office as Chairman of State Bank of India on 7th October, 2013. She is the first woman Chairman of the country's largest Bank. She also has the distinction of being the first woman Managing Director of the Bank.

A Post Graduate alumnus from the Jadavpur University, West Bengal, Mrs. Bhattacharya joined SBI in the year 1977 and since then has held various important portfolios. Before taking charge as Managing Director, she was MD & CEO of SBI's investment banking arm, SBI Capital Markets. Earlier, as Dy. Managing Director in SBI, she headed the largest Human Resources Department of the Banking Industry consisting of a work force of over two lakh employees, which includes 65,000 Officers.

In her extensive service in the Bank, she has had the opportunity of working in Metro, Urban and Rural areas across the length and breadth of the country. She has handled forex, treasury, retail operations, HR and investment banking portfolios and large Corporate Credit. As Chief General Manager (New Businesses), Mrs. Bhattacharya was involved in setting up several new companies / initiatives of the Bank including SBI General Insurance, SBI Macquarie Infrastructure Fund, SBI SG Securities Ltd, etc., as well as the launch of new IT platforms such as Mobile Banking and Financial Planning in the Bank. As Chief General Manager, Bengaluru Circle, she took keen interest in promoting Financial Inclusion and financing of Self Help Groups. She also had a stint in the Bank's New York office where she was in charge of monitoring branch performance, overseeing External Audit and Correspondent Relations.

Her interests include reading and travel. She is also associated with various initiatives for empowering the challenged and differently abled with the aim of integrating them in the society.

Disinvestment-Boon or Bane to Economy

Shri Sudhir Kumar Jain
Chairman & Managing Director, Syndicate Bank

Infrastructure in any country plays a vital role for the economy's growth and development. The Indian economy is getting bigger and better with every passing year. And needless to say, Infrastructure will contribute significantly to the country's overall development. Disinvestment assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.

Whenever the term disinvestment comes up some questions creep in our mind viz. What is the necessity of selling the PSUs shares at all? Where these disinvestment proceeds will be used for? What are its repercussions on the country's economy?

The simple normative consideration for this is that Government should not patronize the enterprises which are not performing at all. We should understand that PSEs were not created only for the purpose of providing employment. They were meant to generate surpluses that flow into the government's non-tax revenue. Disinvestment will improve PSU performance, it will improve PSU competitiveness.

The public sector had overgrown itself and their shortcomings started manifesting in the shape of low capacity utilization and low efficiency due to over manning and low work

Disinvestment will improve PSU performance, it will improve PSU competitiveness.

ethics, over capitalization due to substantial time and cost over runs, inability to innovate, take quick and timely decisions, large interference in decision making process etc.

The collapse of socialist economy of the Soviet block convinced the policy planners, around the world, that role of the state should be that of a regulator rather than the producer.

In India, disinvestment started in 1990-91, when government started economic liberalization and structural reforms paving the way for more deregulation, privatization and a market friendly approach. The worsening balance of payment problem at that time also necessitated India to follow the path of disinvestment so that dependency on World Bank and IMF for grants of loan to bailout India could be reduced.

The ambit of disinvestment was gradually widened in the latter half of 1990s by the subsequent coalition governments to make a clear distinction between strategic and non-strategic enterprises so as to bring down Government share holding to 26 per cent in non-core undertakings through gradual disinvestment or strategic sale while retaining majority holding (51 per cent) in strategic undertakings.

Whether disinvestment is a boon or bane? If disinvestment is used just for meeting the fiscal deficit and for political mileage it will not be as effective as it ought to be. There is a need to reinvent the process of disinvestment in its right spirit which may leads to economic transformation by lifting the non-performers into performers and thus adding to the value of nation's stock.

Disinvestment will bring privatization which in turn helps in converting loss-making/underperformed enterprises into taxpaying companies through improved market discipline, corporate governance, professionalism and focused attention on price valuation that bear their fair of Indian social responsibilities.

I firmly believe that disinvestment will prove to be a boon not only for India but all third world and developing economies only if it will be taken up in the right spirit. Considering our experiences from disinvestment programmes, we believe that the public sector has a pivotal role to play in the growth of the Indian economy. Realizing the importance of market forces, there is a need to establish a balance between the development imperatives and corporate viability of the companies so that good corporate governance can be enhanced under the work culture of PSEs.

While the CPSEs have begun to enjoy substantial autonomy as far as Government control is concerned, it is time that our Maharatna, Navratna and Miniratna companies should show their mettle in the capital market. There is no better mechanism for making a company more accountable for its actions than to be made answerable to a larger body of shareholders.

The market participation in capital of PSUs through stock exchanges would enable the market to discover the latent worth of PSUs. The Loss making PSUs can be successfully revived by asking the strategic partner to infuse fresh capital and exercising excellent management control over sick PSUs.

Recently, the government has decided to sell 10% of its stake in the country's biggest refiner and fuel retailer, Indian Oil Corporation, to upstream oil companies ONGC and OIL in an off-market deal. It also cleared the way for 5% stake sale in Bharat Heavy Electricals Limited (BHEL) through a block deal to state owned Life Insurance Corporation (LIC). I think this is a good step forward for improving the climate for disinvestment within the country.

However, before going into disinvestment process the Govt should also undertake some overall restructuring of PSUs through mergers and acquisitions so that it will be best managed in enhancing the market value of the firm.

Advantages /Merits of disinvestment

There are two main reasons for advocacy of disinvestment in India-first it will provide fiscal support to government for retiring past debt and thereby bringing down the interest burden on the Government and second it will improve the efficiency of working of PSEs. The economy will be benefited by various means through the judicious disinvestment decision which are outlined below:

- Disinvestment would release huge amount of scare public resources locked up in non-strategic PSUs for development in areas much higher on social priority, such as, public health, family welfare education, social and essential infrastructure.
- Will improve the efficiency of an enterprise and can convert sick/weak units into productive units.
- Will also expose the privatized companies to market discipline, thereby forcing them to become more efficient and survive or cease on their own financial and economic strength.
- Will help in establishing more accurate benchmark for valuation and pricing and facilitate companies to raise funds from the market for their future expansion plan.
- Will also give salubrious effect by increasing economic activities and have an overall beneficial effect on the economy, employment and tax revenues in medium to long term.
- Will also end public sector monopolies and bring fairer competition in the market leading to varied choices before the consumers, cheaper and better quality of products and services.

Challenges faced in the field of disinvestment

The government faces various challenges in the field of disinvestment which needs to be properly addressed. Some of the key challenges which the government is facing in the area of effective implementation of disinvestment process are as under:

- A lack of long term policy framework for disinvestment and there is no time bound programme.
- No appropriate pricing of shares and complete transparency in the valuation of shares.
- Lack of coordination between disinvestment ministry and concerned ministries which leads investors hesitating to purchase the shares of PEs offered for strategic sales.
- Disinvestment has become only a means to meet the budgetary deficit.
- Multiplicity of agencies within the Government which kept setting different objectives, for the enterprises, which were often conflicting.
- Lack of clarity of objectives, due to which the management of the PSEs could not be held accountable for the performance.
- Absence of functional autonomy which made PSEs handicapped in their operation.
- Lack of preparation of enterprises for privatization/disinvestment viz. accounting and auditing treatment of losses, social and environmental safety net.
- Insufficient transparency and flexibility in term of the methods of disinvestment, balancing, ownership and control.
- Lack of legal framework viz. property right, foreign ownership, bankruptcy law.
- Unclear and weak institutional framework-decentralized or centralized.
- Lack of strong and high level political commitment to privatization /disinvestment programme.
- Lack of clear set of rules and guidelines for constantly monitoring of progress under disinvestment

Government should ensure that disinvestment may not result either in alienations of national assets nor result in private monopolies.

To conclude

The main objectives of disinvestment are to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our enterprises. But at the same time, Government should ensure that disinvestment may not result either in alienations of national assets nor result in private monopolies. Enhancement of productivity must be key goal of any nation and activities like FDI and disinvestment are only few of the means to achieve them. Disinvestment today is needed not because investment was made in wrong ventures but because they were failed to produce the desired results or achieve the set objectives. Though the disinvestment has shown some sign of resource generation is the country, the speed is very slow and spontaneous in comparison to other nations like China, Brazil, Poland and South East Asian countries of the world. Of course there is lot of lucrative opportunities in India for disinvestment of PSEs as they are failed to generate surpluses to support nation's growth and development. Hence, there is a need to revisit the subject and plug various hurdles / loopholes which are coming in the way of effective implementation and execution of disinvestment programmes through prudent fiscal management in the country. If taken up sensibly, PSU disinvestment and/or privatisation lead to greater productivity and better economic performance. The Government may also think of deploying investment proceeds in strengthening the PPP (public private partnership) mechanism through SPVs (special purpose vehicles) and VGF (viability gap funding) for infrastructure projects.

Sudhir Kumar Jain
Chairman & Managing Director
Syndicate Bank

Shri Sudhir Kumar Jain is a graduate in Commerce and a qualified Chartered Accountant. Shri Jain started his career as Chartered Accountant with M/s Lovelock & Lewis and later on moved to M/s J K Synthetics Ltd & M/s Indian Oil Corporation Ltd. for short periods. He started his banking career in June 1987 as a Credit Manager in Dena Bank and got elevated to various positions thereafter over the years. Shri Jain is a seasoned banker with over 26 years of varied experience in banking. He worked in various capacities in branches & administrative offices viz. Regional offices and Head office. As Regional Manager in Dena Bank, he worked in Kolkata, Ahmadabad and New Delhi Regions. As General Manager, he headed Accounts Department, Treasury Operations, International Division, Retail Banking and Investors' Relation Departments of the Bank. Shri Jain is also the chairman of the IBA Standing Committee on Accounting Standards and Taxation. Before assuming charge as Chairman & Managing Director of SyndicateBank on July 8, 2013, he was Executive Director of Bank of Baroda for one year.

Disinvestment – Boon or Bane to Economy

Shri Arun Kaul
Chairman & Managing Director, UCO Bank

Introduction

The State-led entrepreneurship played an important role in triggering India's industrialization and employment generation in the decades following country's independence. But the time has come to review the need for continuing with government ownership in the State Owned Enterprises (SOEs) in light of their less than satisfactory performance in terms of productivity, profitability and return on investments, the maturing of our private sector, our evolving development needs, and country's growing institutional capabilities. One has to critically examine and objectively ascertain what should be the composition of State assets in today's changed economics. Today's realities and priorities are vastly different from those when SOEs occupied the commanding heights of our economy.

The *aam admi* is now more informed, less forgiving. There are enormous expectations from the government voted to power that it would increase investments in agriculture, physical & social infrastructure, environment protection and more funds would flow to the rural poor. To achieve these objectives, the necessary resources can be mobilized either by raising taxes – a highly unpopular measure or by reallocating funds from other sectors. The choices have to be made carefully because when the State chooses to own Rs.1 of something, it foregoes owning Rs.1 of something else due to budget constraint.

Public listing increases transparency, brings in operational efficiency, and improves corporate governance

Why Disinvest

Obviously there are limits to which inter-sector reallocations of resources can be made. That is why the Government needs to go in for alternate source of revenue. By the mid-1980s, around the globe political opinion had moved decisively towards confining the role of the state to being regulator (rather than being producer) and unlocking the resources deployed by the Government in commercial activities for meeting its social objectives.

For any country there has to be a consensus and clarity about what should be the State's portfolio composition which again, cannot remain unchanged at all times. In India, the decisions to set up SOEs in sectors like steel, fertilizer, electricity generation & distribution, heavy engineering were made during the early growth trajectory of the country, when it was argued that capital and relevant technologies were not available with the private sector. But now the realities are quite different.

Take the case of steel. Today, private companies manufacture and export steel into the world market proving that we now have the required technology and skill sets to compete globally. We are also seeing Indian companies becoming MNCs and buying up steel companies of other countries, demonstrating that there is no dearth of capital availability for Indian companies. In another instance of Indian entrepreneurship, today private sector airlines are giving stiff competition to state run Air-India. (All over the world, governments have got out of airlines). The disinvestment/ strategic sales decisions pertaining to our SOEs must reflect this changed landscape.

In many sectors, we have a legacy of government ownership in commercial enterprises. In these enterprises, the distinction between what constitutes a policy issue making governmental engagement legitimate and what are purely commercial issues, remains

opaque. Decision-making thereby becomes all the more complicated. As a corollary, SOEs' productivity tends to be lower compared to their privately owned peers. The fear of bankruptcy is also absent as no government will be allowed to let that happen in case of public sector companies. There is also the issue of government being conflicted - as an owner and as the regulator.

Margaret Thatcher, the privatization pioneer, let go most of British Government stakes in various business enterprises during her Prime Ministership (1979-1990). British Telecom, British Airways, British Power, British Petroleum, British Gas, British Rail and Regional Water Boards are just a few examples. Her logic was that every employee and customer of British Gas, British Telephone and other major utilities shall buy into them and thereby acquire a stake in their efficient management. The workers would supplement their wages by dividends and capital gains from the shares they acquired. They would become owners of the means of production, at least as minority shareholders.

After UK showed the way, other countries like Taiwan, Hungary, Thailand, Philippines, Zambia, Korea, Turkey, Poland, Germany, Vietnam and even China carried out massive disinvestment programmes. In India, disinvestment in public sector undertakings was first mooted in Yashwant Sinha's vote-on-account budget of March'1991.

Visualising A Disinvestment Scenario

If for example, the Government disinvest a minority stake in Air India to raise say Rs.3,000 crore and utilize the proceeds for building social infrastructure like village roads or basic healthcare, it will not only serve the cause of public good but also bring in performance improvement in the perennially loss-making Airlines. Public listing increases transparency, brings in operational efficiency, and improves corporate governance. After becoming part owners of the company, the employees come on board about improving productivity and market share to generate surplus.

Going even further if there is a strategic sale (i.e. 'privatization') of Air India like British Airways or Alitalia, it will have a much greater impact. Government will be able to raise enormous amount of money from private entities who will be willing to pay huge amount for getting majority stake and full management control of AI.

The increase in India's GDP because of a better run Air India will be the first gain. Privatization brings about radical structural changes providing momentum in the competitive sectors, leads to adoption of the global best practices to foster sustainable competitive advantage, ensures efficient utilization of resources and prompt customer services.

Second, the money raised can be utilized for creating public assets that would greatly benefit the country. Imagine setting up a string of IITs & AIIMSs or building huge dams or world-class ports. The IITs, AIIMSs, ports or dams that we do not have are the opportunity cost that India loses every year for not unlocking its resources in AI.

There are other angles to disinvestment or privatization.

(a) After a SOE's shares get listed, its share price is determined by market forces. This acts as a real life price-discovery useful for future share issues in larger tranches

(b) With the listing of shares, every move of the company and its financial results will be constantly monitored and scrutinized by the media, investors, analysts and stock brokers and this in turn will keep management on their toes to perform

(c) At the macro level, privatization has a positive impact on the financial health of the economy by way of reducing the deficits and debts of the Government. The net transfer from exchequer to the State Owned Enterprises is lowered through privatization.

(d) The country gains if the private sector feels reassured about investing in India in regulated sectors like hydrocarbon, telecom

(e) The country gains when the government is able to raise funds to build highways and ports, dams and metro systems, which are vital for accelerating economic activities and rightly belong on the government's balance sheet.

The Process of Disinvestment

The question then is how public sector assets should be sold, through a strategic sale or open market sales to the public. A strategic investor is more likely to pay a higher price for management control and be ready to transfer technology and management skills. But sales to the public will be more politically palatable and can (a) help in sharing the benefits of disinvestment with the people of India through dispersed share ownership amongst crores of households, (b) increase support for the reforms process. This is in contrast with the narrow group of buyers who get to interact with the concerned agencies on strategic sales - a route that have been widely used in countries which lack domestic capital markets, such as the erstwhile communist countries.

But otherwise, open market sales have been widely used in all major countries which have well-established capital markets and strong regulatory mechanisms. Our stock market facilities are at par with the world, enabling millions of investors to access the market using tens of thousands of satellite terminals as well as through the Internet.

Disinvestment in SOEs present a great opportunity of wealth creation for the people of India. There are no fears in the investors' minds that these are fly-by-night companies. Pricing is their issue and if that is right, one can raise any amount of money.

There is no binary yes-no answer to "is disinvestment good or bad?" It is a process and any process is as good as its outcome. It has to be revisited and modified if necessary to meet the demands of the times.

From the Government's perspective, some smart choices on the candidates and timing for stake sales can maximise gains for the exchequer. If the Government cannot find companies which are fortuitously placed in their business cycle, the next best thing is to find those which are in unique businesses that would easily attract investors and fetch hefty 'scarcity premium' too.

The success or otherwise of a public offer depends on prevailing market

conditions. It would be best to retain some flexibility on when and how the sale is done. There is no harm in putting off the divestment if market conditions point to poor investor appetite or an abnormally low valuation for the business. If there is one thing that the market meltdown of 2008 and the stupendous bounce-back of 2009 have taught us, it is that there is nothing sacrosanct about stock prices or the valuations that investors are willing to pay for a business.

Selling new share to prospective investors in uncertain market conditions requires skilled marketing. Divestment mandates should be granted to the merchant banker who undertakes to fetch the best price for all the shares on offer. His fee must be pegged to the offer proceeds.

But to attract investors, the company also needs to offer growth prospects. The selected SOE should draw up, and share with investors, concrete plans on expansion/modernization and business strategy for the next five years or so.

Since 1991-92 till end Feb'2014, the total proceeds from disinvestment of Indian SOEs are estimated at Rs 1.43 lakh crore. Out of this, strategic sale or privatization of VSNL, Balco, Maruti Udyog, Hindustan Zinc, CMC, IPCL and a handful of hotel properties owned by ITDC gave the government less than five per cent, or only about Rs 6,300 crore

To make a success of large divestments, there is a need to be pragmatic.

- The offer pricing should consciously be aimed at leaving something on the table for ordinary investors when the shares get listed
- Jostling with the private sector in the race for funds may be unavoidable. But given the finite amount of liquidity available at any point of time, divestment offers should be spread out over a span of several months such that they do not all hit the market during a particular phase
- If the offer size of a particular divestment is very large, the government can consider doing it in two or three tranches instead of offloading its entire stock in one go to ensure that the sale does not fall victim to then prevailing market conditions
- The only opposition to partial divestment could come from employees. To counter this, employee stock options (ESOPs) should be introduced which would not only reward the employees and thereby win their support, but would also enlist their long-term commitment.

But mere disinvestment will not make PSUs more efficient. Business has to be made free of all legacy processes and all the baggage that comes with 30-40 years of being a "Public" Sector Enterprise. There has to be fire-walling about external intervention. The entity will have to run on purely commercial basis.

Conclusion

There is no binary yes-no answer to "is disinvestment good or bad"? It is a process and any process is as good as its outcome. It has to be revisited and modified if necessary to meet the demands of the times. But privatization/ disinvestment is not an administrative or economic issue anywhere; ultimately it is more a political issue in all countries.

What the country needs is a bold and imaginative programme for disinvestment and privatization to restructure the portfolio of State's assets. One is not advocating blind privatization but there are areas where privatization is desperately required. As per the Public Enterprise Survey (2010-11), there are 62 such loss-making PSUs, exemplified by Air India, BSNL, MTNL, ITI etc, incurring a loss of Rs.21,693 crore annually. The government cannot always fund loss-making PSUs; there are other critical sectors which need funding.

There is also growing unease about public sector Financial Institutions being frequently made to act as investor of last resort or PSUs having to buy into each other, thus liquidating their reserves. This kind of arrangement does not amount to any genuine disinvestment as it does not reduce the Government's effective role in business.

Final Thoughts

Yashwant Sinha's disinvestment plan of 1991 had two clear goals. One was to widen the equity base

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of PSUs, improve their management and allow them to raise more resources from the market once they were listed on the stock exchanges. The second goal, which seems to have gained priority and urgency during last few years was aimed at helping the government augment its revenue flows.

Mr Sinha's budget announcement was preceded by IMF providing structural adjustment loans with some harsh conditions to many financially-strapped countries including India. The conditions included among others, reduction of fiscal deficit, disinvestment of government equity in profitable SOEs, reforms of the financial sector and less government intervention. The IMF also insisted that the disinvestment proceeds cannot be treated as revenue receipts while calculating the fiscal deficit since the flow was not a regular stream of revenue.

The Indian government, however, negotiated hard and persuaded the IMF to make an exception for India. If the IMF had not relented, Indian disinvestment story would have followed a different trajectory and the entire discourse would have been different.

Arun Kaul

Chairman & Managing Director
UCO Bank

Born on 30th Jan'1956, Shri Arun Kaul obtained his Masters in Business Administration from Punjab University. Thereafter, Shri Kaul went on to achieve a remarkable feat in the annals of Indian Public Sector Banks(PSBs) by becoming Chairman of a large PSB like UCO Bank within 32 years of starting his career as a Probationary Officer in SBI.

From SBI he moved on to Punjab National Bank and rose rapidly to the post of CGM (Treasury, International Banking and Credit). An expert in treasury operations, he transformed the investment department of PNB into a highly successful profit-earning centre. On 22nd April 2009, Shri Kaul became Executive Director of Central Bank of India where, inter alia, his imaginative leadership of treasury management led to substantial improvement in bank's trading profit which grew by 400%.

He took over as Chairman and MD of UCO Bank on 1st Sep'2010. Widely acknowledged as the Chief Architect of the turnaround of UCO Bank in recent times, he embarked on the mission of transforming the organization into a customer-centric, profit-oriented, technology-driven, modern Bank practically from day one. With his insightful understanding of different aspects of banking, he concentrated on the core issues facing the Bank and ushered in some fundamental changes.

Under his leadership, Bank's branch-network is going to touch around 3000 in Mar'2014 by opening of almost 900 branches in 4 years between Mar'10 to Mar'14, as against 433 in the preceding 15 years. From a position of 477 ATMs as on Mar'2010, Bank is on course to having 2500 ATMs by Mar'2014. The Bank is acquiring 2.50 lakh customers per month giving a huge boost to its core deposit growth and substantial rise in retail assets portfolio. Meanwhile CASA percentage has jumped by 10% of domestic deposits to reach 34%.

A voracious reader, Shri Kaul is always looking for fresh ideas and innovation. A man of modern outlook, he puts great emphasis on leveraging technology, continuous upgradation of in-house skill sets and improvement in systems, processes and products for better customer satisfaction.

His vision for UCO Bank is to change its DNA, image and fortunes and make it an industry leader.

Disinvestment— Boon or Bane to Economy

Shri Arun Tiwari
Chairman & Managing Director, Union Bank of India

India's experience in policymaking provides an indispensible learning treasure for developing economies. Progressing from a controlled economy of license & quota, Government policymaking in India has made a long transition to competition based allocation of resources. Government role is now understood as 'the enabler' for the people's various pursuits rather than being 'the provider'. Beginning 1980s this shift in policymaking started manifesting when several controls on big businesses were lifted by diluting the Monopolies and Restrictive Trade Practices Act (MRTP Act). Government provided tax reliefs to encourage investments by private sector. Further, there were changes in legal framework to incentivize private sector doing direct resource raising from public. However, there was no corresponding adjustment in Government expenditure as public investments were widely considered having 'crowding in' effect on private investments.

With tax benefits now showered on businesses and political calculus restraining widening of direct tax net, Government, thus, had to create new sources of revenues to keep up with the expenses, e.g., through raising indirect taxes such as excise and custom duties. There was tremendous fiscal pressure on budgets in meeting the changing

Disinvestments took the shape of either strategic sales (wherein an effective transfer of control and management to a private entity were pursued) or an offer for sale to the public, with the management control still remaining with government.

expenditure priority outlays. Meeting new heads of expenditure warranted some limiting of new investments into public sector enterprises (PSEs). Focus was gradually shifting to improving capacity utilization as also the revenue realization by the PSEs. Beginning 1990s, disinvestment of PSEs was envisaged as another means to augment revenues for allocations for education and health.

Over the years, disinvestment was pursued to bring Government shareholding in PSEs down to make it a minority shareholder, excluding strategic central PSEs where the Government would retain majority shareholding. All other PSEs were to be considered Non-Strategic except three: (1) arms and ammunition and allied items of defence equipment, defence aircraft and warships, (2) Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries), and (3) Railway transport.

Beginning 2000s witnessed another policy shift wherein Government sought devolving full managerial control and commercial autonomy to successful, profit-making companies operating in competitive environment. 'Navratna' companies could raise resources from the capital market. However, efforts were to be made to modernize and restructure sick PSEs. Disinvestments took the shape of either strategic sales (wherein an effective transfer of control and management to a private entity were pursued) or an offer for sale to the public, with the management control still remaining with government.

There remain several arguments both in support of disinvestments of PSE stakes as also against it. For example, critics of the disinvestments argue that the PSEs, being a government entity, do not pursue profiteering to the extent that the private sector does. On the contrary, supporters argue that a more diverse ownership restrains undesirable control and micromanagement by the majority stakeholder. Given relative contribution of PSEs in tax kitty of Government (share in total tax at 31 percent) was higher (effective tax rate at 23 percent as against private sector's effective tax rate of 19.5 percent in 2006-07, critics argued that PSE divestments could inflict loss of major tax revenue source for the Government thus limiting capacity to meet obligations on the social expenditure. The However, supporters argued that even as there were losses in terms of dividend and tax income, this shortfall could be more than compensated by revenues and capital gains from disinvested entities where the Government continues to have stakes, though reduced. In this regard, a welcome relief could be that effective tax rate of private sector has gradually outmatched the PSEs (Table1).

Revenue implications for the Government notwithstanding, the utility of disinvestments need to be evaluated with a much broader prism viz. social optimum that could be achieved in terms of higher efficiency and productivity levels of firms with broadly distributed ownership vis-à-vis firms with highly concentrated ownership, public or private. Unfortunately, the evidence on this count is not conclusive. However, it is generally agreed that widely distributed ownership, while it may exacerbate some agency problems, also yields compensating advantages that generally offset such problems.

It appears much of the hostility against disinvestment could be borne of prevalent confusion between the terms 'Disinvestment' and 'Privatization'. Term 'privatization' evokes a distinctive emotional rage in India, particularly among the less well-off employees of PSEs who equate it with 'job insecurity'. Popular media, which have been using interchangeably these two terms, may have accentuated such mistrust further. However, there is a crucial difference between the two terms: Disinvestment may or may not result in Privatization. For illustration, when the Government retains 26 percent of the shares carrying voting powers while selling the remaining to a strategic buyer, it would have disinvested, but would not have 'privatized', because with 26 percent, it can still halt critical decisions for which

Table 1: Effective tax rate* of companies in the public and private sectors

		FY 2006-07				FY 2011-12			
S.N.	Sector	No. of Companies	Share in Total profits (%)	Share in Total Tax (%)	Effective Tax rate (%)	No. of Companies	Share in Total profits (%)	Share in Total Tax (%)	Effective Tax rate (%)
1	Public	2158	27.25	30.97	23.35	230	27.95	27.16	22.21
2	Private	325903	72.75	69.03	19.50	494315	72.05	72.84	23.10
	Total	328061	100.00	100.00	20.60	494545	100.00	100.00	22.85

** Effective tax rate is inclusive of surcharge and education cess*

Source: Statement on Revenue Forgone, Receipts Budget, 2008-09 and 2013-14 generally a special resolution (wherein three-fourths majority of shareholders) is required. There may be greater need to enhance awareness about the benefits of disinvestments

The recent experience has flagged dangers of Government pursuing disinvestments of PSEs in order to bridge the budget deficits, which have ballooned mainly due to rising share of subsidies and capacity creating expenditure. As macroeconomic strains began taking a toll on India's exchange rate, there came severe pressure on Government for meeting the budget deficit levels as any further deterioration could have accentuated the decline of currency. With difficulties in rolling back populist schemes, disinvestment of the PSE stakes could have made an obvious choice for bringing down the deficit. However, thank / blame it on poor market conditions, that Government couldn't pursue its disinvestment targets as set in budgets in last two years. In fiscal year period 2012-14, Government could mobilize a disinvestment receipt of Rs. 313 billion as against budget target of Rs. 840 billion; achievement rate of mere 37 percent.

However, with less than 1 percent of Indian households investing in equities, broadening the retail investor base of Indian equity markets is not a choice but an imperative. Relatively high ownership concentration, PSEs or private sector firms, could be reflective of low level of protection of minority shareholders. However, as financial markets mature and regulatory capacity is built, minority stakeholders' representation should rise accordingly. Even though Indian securities market has gained in reputations as a secure and better regulated one over the years, there continues to be lack of involvement by retail participants.

Since last few years, household savings have increasingly channelized into physical assets such as gold, with inflation eroding real gains on fixed income instruments such as bank deposits, saving certificates, etc. Financial savings of household sector as ratio to GDP declined to 7.1 percent in 2012-13 as compared to 11-12 percent in years prior to 2010. Such a sharp decline is a cause for concern given it is the financial savings that are required to finance productive investments. Moreover, when domestic savings do not add up to the extent of resources required for investment purpose, investors take recourse to borrowing overseas. This, in turn, has reflected in India' increased vulnerability to external developments.

Seen from the retail participation perspective, PSE disinvestments when offloaded to the public by way of an offer for sale, present the best opportunity of widening the retail base. However, there should be curbs and prudential measures in place in such issues so that institutional investors do not benefit unduly and defeat the very purpose of expanding the retail base.

Benefits of boarder retail participations could be harnessed without enraging the deep-seated, though misplaced, suspicions about privatization. At present, the Government's stated policy has been of minority disinvestments of PSEs via public offers. With this approach, management control remains in Government's hand even as there is increased diversity of investor base as the Government retains a majority stake in the company, typically greater than 51 percent. This approach has well served in case with Government allowing expansion of equity base in public sector banks (PSBs). Performance in general has improved in stark contrast to what it has been mere a decade ago. The continuous glare of analysts and investors forces the management to take swift action against any deficiency. There could be arguments of increasing short-term-ism in management which could instill some un-desirable practices too, the fact that PSB management sees it' performance benchmarked with best performers of industry is heartening.

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Table 1: Effective tax rate* of companies in the public and private sectors

		(Rs. billion)
1	Additional Equity Capital Requirements under Basel III	1400-1500
2	Of Additional Equity Capital Requirements under Basel III for Public Sector Banks	
2.a	Government Share (if present shareholding pattern is maintained)	880-910
2.b	Government Share (if shareholding is brought down to 51 percent)	660-690
2.c	Market Share (if the Government's shareholding pattern is maintained at present level)	520-590

Source: Reserve Bank of India

tal. According to Reserve Bank of India estimates, the additional equity capital requirements under Basel III for PSBs amounts to Rs. 660-910 billion, depending on whether the Government maintains its present shareholding pattern or brings down to 51 percent. Government is seen largely walking along the fiscal consolidation roadmap as suggested by the Kelkar Committee, wherein the centre's fiscal deficit is to be brought below 3.0 percent of gross domestic product (GDP) by fiscal year 2016-17. Hence, capital infusion by Government may not be adequate if it maintains the current shareholding. However, minority disinvestment scenario could bring down the requisite capital infusion from Government by Rs. 250 billion.

If we take a wholesome view of the developments over the last three decade and place the disinvestments pursued in the politico-economic context, the approach wherein the winner PSEs are to be encouraged to further rise on efficiency ladder while efforts are made for salvaging the sick PSEs, particularly the ones seen viable if administered proper medicine, seems to be best serving the social optimum. Indeed, difficult choices are made in most challenging of times.

Arun Tiwari

Chairman & Managing Director
Union Bank of India

Shri Arun Tiwari has assumed the Office of the Chairman and Managing Director of the Bank on 26th December, 2013. Born on 1st July, 1957, Shri Tiwari is an M.Sc (Chemistry) and has also done a course in Computer Programming.

Shri Arun Tiwari started his career in Bank of Baroda as Probationary Officer in 1979. He has worked in almost all key segments of Banking, in various capacities – at Branches, Zonal Office, and at Corporate Office as General Manager – MSME & Wealth Management, Whole sale Banking. His tenure in the Bank spanned various geographies of the country and overseas centers at Kuala Lumpur and Singapore, as Chief Executive of the respective territories. He had the privilege to set up operations at both these Centers. He also worked in CMD's Secretariat for two years.

Shri Tiwari was Head of Corporate Financial Branch, Mumbai, the largest branch of Bank of Baroda and also headed Greater Mumbai Zone of Bank of Baroda, in the rank of General Manager.

On his elevation as Executive Director, Shri Tiwari assumed the Office of Executive Director at Allahabad Bank from 18.06.2012 and handled the portfolios of CREDIT, Credit Monitoring, HR, IT, Risk Management, Finance & Accounts, Inspection, Vigilance and Branch Expansion & Support Services.

Under aegis of World Bank Shri Tiwari did a Study Assignment in USA and Europe for export oriented Small Scale Industries in India. He has undergone many trainings and courses at various prestigious institutes , like Arthur D'Little, Boston, USA, Kellog School of Management, Northwestern University, Chicago, Indian School of Business, Hyderabad, NIBM, Pune, Bankers' Training College, Mumbai, Indian Institute of Technology, Mumbai, etc.

The Policy Pulse

Banking Sector

January – March, 2014

RBI holds rates in RBI's first bi-monthly review

In its monetary policy review, the Reserve Bank of India has kept key rates unchanged. Repo rate stands at 8 per cent and the cash reserve ratio (CRR) has also been kept unchanged at 4 per cent.

Give customers a free copy of credit profile: RBI

Customers should be given a free copy of their credit profile as it would help in promoting financial discipline among loan seekers, says a Reserve Bank Report submitted by the committee headed by Aditya Puri, Chairman of HDFC Bank. "The committee has suggested that providing customers with a free copy of their credit information reports would help create awareness about the need to have credit discipline, enable customers to correct their behaviour and improve their score well before they plan to avail fresh credit of any kind," the report said.The move would also help detect identity theft at an early stage, it added. TheReport of the 'Committee to recommend Data Format for Furnishing of Credit Information to Credit Information Companies (CICs)' has been put up on RBI's website for comments. The Committee has made wide ranging recommendations on issues relating to credit information, such as, increasing its coverage, format of reports and best practices to be followed by credit institutions, credit information companies (CICs) and the RBI. It has also recommended use of common data formats and a common data quality index that could assist credit institutions in determining the gaps in data.

RBI wants trade receivables & credit exchange for financing MSMEs (FE Bureau)

The RBI has proposed setting up of a trade receivables and credit exchange (TCE) for financing micro, small and medium enterprises (MSMEs).In a concept paper, the central bank detailed the model through which TCE would function and alleviate some concerns over financing for MSMEs.The proposed model outlines two stages for trade receivables, the primary segment where MSME bills are dematerialised and discounted through the electronic platform through the mechanism of reverse factoring and the secondary market segment where the already factored or discounted invoices are further traded.In the primary segment, once an MSME delivers goods as per requirement to a corporate buyer along with a bill, the buyer on acceptance of the goods posts the bill on the TCE. These receivables of the MSME from the buyer become available to third parties for bidding. The MSME can access fresh funds through the bidding process.While the MSME gets funds ahead of the actual payment by the buyer, the buyer can directly pay to dues to the financier of the MSME. The RBI has sought comments from stakeholders on the functioning of the TCE and also the secondary market segment.

Vote on Account 2014: Government raises agri credit target to Rs 8 lakh crore for 2014-15 (Press Trust of India)

In a bonanza for farmers ahead of general elections, the government has set an agriculture credit target of Rs 8 lakh crore for 2014-15 as against an expected level of Rs 7.35 lakh crore this fiscal.Presenting the interim budget for the next fiscal, Finance MinisterP Chidambaram said farm exports would increase to over $45 billion this fiscal, as against $41 billion in 2012-13. He also estimated sharp increase in growth of agriculture sector to 4.6 per cent this year.Chidambaram further said interest subvention scheme on farm credit, introduced way back in 2006-07, would continue during the next fiscal. At present, interest rate on farm loan is 7 per cent, while it is 4 per cent for those who repay on time."There is a subvention of 2 per cent and incentive of 3 per cent for prompt payment. Thus reducing the effective rate of interest on farm loans to 4 per cent, so far Rs 23,924 crore has been released under the scheme. I propose to continue the scheme in 2014-15," he added.

RBI imposes restrictions on intra-group investment by banks

The Reserve Bank has imposed curbs on banks investing in their group companies in a bid to mitigate the financial risk from concentration of business.The measures are aimed at ensuring that banks maintain arm's length relationship in dealings with their own group entities, meet minimum requirements with respect to group risk management and group-wide oversight, and adhere to prudential limits on intra-group exposures, the RBI said.The RBI's guidelines on management of intra-group transactions and exposures, which contain quantitative limits, are meant exclusively for dealings with entities belonging to the bank's own group.Banks are allowed to invest 5 per cent of their paid-up capital in the case of non-financial companies and unregulated financial services companies. The limit is 10 per cent for regulated financial services companies.It also fixed an aggregate group exposure limit for intra-group transactions at 20 per cent for all financial and non-financial entities taken together and 10 per cent for non-financial and unregulated entities.The guidelines will become effective from October 1.

Presently, there are exposure norms for single and group borrowers. The objective is to limit the maximum loss in the event of a default of a counterparty to the extent that it does not endanger the bank's solvency.Banks should ensure they have systems and controls in place to identify, monitor, manage and review exposures arising from intra-group transactions, it said.The RBI may require banks to put in place additional internal controls and a more robust risk monitoring, managing, reporting and review mechanism on intra-group transactions and exposures, it said.According to the guidelines, banks must also ensure that transactions in low-quality assets with group entities, whether regulated or unregulated, are not done for the purpose of hiding losses or window dressing of balance sheets.If the intra-group exposure, either at the single entity level or at the aggregate level, exceeds prudential limits, it should be reported at the earliest in the prescribed returns along with the reasons for the breach, it said.In such situations, banks cannot undertake any further intra-group exposure (at the entity or aggregate level, as the case may be) until it is brought down to within the limit, it added.

Unhedged forex exposure: RBI prescribes stringent provisioning for banks

To discourage banks from providing credit facilities to companies that refrain from adequate hedging against currency risks, the Reserve Bank of India (RBI) has prescribed additional provisioning for lenders. It has also prescribed a manner in which losses incurred on unhedged foreign currency exposure should be calculated. According to estimates, about half the foreign currency exposure of the corporate sector is unhedged. Liabilities of companies will rise in case the rupee depreciates substantially against the dollar and its loan-servicing capacity diminishes, which could affect banks.

According to the final norms on unhedged corporate exposure released by RBI on Wednesday, banks have to provide 80 basis points on total credit exposure over and above the standard provisioning requirement if the likely loss is more than 75 per cent. For such losses, an additional risk weight of 25 per cent has also been prescribed.

RBI said if the likely loss was up to 15 per cent, no additional provision was required. For losses of 15-30 per cent, the additional provisioning requirement will be 20 basis points, for 30-50 per cent 40 basis points and for a likely loss of 50-75 per cent, additional provisioning will be 60 basis points. The additional provisioning and risk weight norms will come into effect from April 1, 2014.While banks have been asked to monitor the unhedged foreign currency exposure on a monthly basis, they have to calculate the incremental provisioning and capital requirements on a quarterly basis, at the least. "However, during periods of high dollar-rupee volatility, the calculations may be done at monthly intervals," RBI said.

Investment limit in inflation bonds doubled to Rs 10 lakh

RBI has said the investment limit in the inflation indexed bonds for individuals has been doubled to Rs 10 lakh.

Also, the limit for institutions like HUF (Hindu undivided family), Charitable Trusts, Education Endowments and similar institutions which are not pro-profit in nature has been increased from Rs 5 lakh to Rs 25 lakh per annum, the central bank said.The subscription for the Inflation Indexed National Savings Securities-Cumulative will close on March 31.RBI in consultation with government had launched the bond in December. Earlier, the bond was open for subscription during December 23-31, but was later extended to March 31. Interest rate on the bonds are linked to Consumer Price Index (CPI). These securities will be issued in the form of Bonds Ledger Account (BLA).

RBI hikes NBFCs' gold loan limit to 75% of value

In a significant breather for non-banking finance companies, especially gold loan companies, the Reserve Bank of India has allowed them to give higher amount of loan against gold jewellery pledged by borrowers.NBFCs can now give up to 75 per cent, up from 60 per cent now, of the value of the gold jewellery pledged as loan. The RBI has raised the cap with immediate effect in view of the moderation in the growth of gold loan portfolios of NBFCs in the recent past, and also taking into consideration the experience so far.In March 2012, the RBI had directed NBFCs not to give more than 60 per cent of the value of gold jewellery pledged in view of the rapid pace of their business growth and the nature of their business model, which has inherent concentration risk and is exposed to adverse movement of gold prices.

The central bank said the value of the jewellery, for the purpose of determining the maximum permissible loan amount, will be only the intrinsic value of the gold content therein, and no other cost elements, such as making charges, should be added thereto.

ATMs soon to fork out cash without bank account too

People without a bank account in India would soon be able to withdraw cash from an automated teller machine (ATM) with the use of mobile technology, Reserve Bank of India Governor Raghuram Rajan had announced. At present, only bank account holders can withdraw cash from an ATM."We have recently approved the in-principle setting up of a payment system which will facilitate the funds transfer from bank account holders to those without accounts through ATMs," Dr. Rajan said

"Essentially, the sender can have the money withdrawn from his account through an ATM transaction. The intermediary processes the payment, and sends a code to the recipient on his mobile that allows him to withdraw the money from any nearby bank's ATM. The system will take care of necessary safeguards of customer identification, transaction validation, velocity checks etc.," Rajan said.The RBI governor said cashing out is important for remittances, because the country has a large recipient population, most of whom do not have access to formal banking services.The Nachiket Mor Committee suggests the creation of Payment Banks as a step towards this goal. Other suggestions include interoperable business correspondents who will get the scale economies to serve in remote locations, and the usage of NBFCs as banking correspondents.

Implementation of Basel III Capital Regulations in India – Capital Planning

RBI has extended the transitional period for full implementation of Basel III Capital Regulations in India upto March 31, 2019, instead of as on March 31, 2018. This will also align full implementation of Basel III in India closer to the internationally agreed date of January 1, 2019. Of late, industry-wide concerns have been expressed about the potential stresses on the asset quality and consequential impact on the performance / profitability of the banks. This may necessitate some lead time for banks to raise capital within the internationally agreed timeline for full implementation of the Basel III Capital Regulations.

Capital Markets Sector

March 2014

Commencement of Foreign Portfolio Investor regime from June 1, 2014

The Foreign Portfolio Investor (FPI) regulations were put in place in January 2014 to make an easier registration process and operating framework for overseas entities seeking to invest in Indian capital markets. FPI has been created as a new class for all kinds of overseas entities investing in Indian capital markets and they would subsume existing categories like FIIs (Foreign Institutional Investors) and their sub-accounts.

SEBI has decided to extend the timeline for the new regime to June 1, 2014 (earlier scheduled to begin on April 1, 2014) after market participants said they were still in the process of putting in place necessary systems and procedures to discharge their assigned role effectively and sought an extension.

Format for Auditors' Certificate required under Clause 24(i) of the Equity Listing Agreement

Clause 24(i) of the Listing Agreement requires that the company, while filing for approval of any draft Scheme of amalgamation/merger/reconstruction, etc. with the stock exchange under Clause 24(f), shall also file an auditors' certificate to the effect that the accounting treatment contained in the scheme is in compliance with all the Accounting Standards specified by the Central Government in Section 211(3C) of the Companies Act, 1956. To bring in uniformity, SEBI has prescribed a standard format for Auditors' Certificate to be filed by companies.

SEBI Circular on enhancing disclosures, investor education & awareness campaign, developing alternative distribution channels for Mutual Fund products, etc.

In a recently issued circular, SEBI has described a Long Term Policy for Mutual Funds in India which inter alia includes enhancing the reach of Mutual Fund products, promoting financial inclusion, tax treatment, obligation of various stakeholders, increasing transparency, etc. The SEBI Circular relating to this covers aspects such as Disclosure of Assets Under Management (AUM), Disclosures of Votes Cast by Mutual Funds, Financial Inclusion, Developing alternative distribution channels and Prudential limits and disclosures on portfolio concentration risk in debt-oriented mutual funds schemes.

Reporting of OTC trades in Corporate Bonds on Trade Reporting Platforms of stock Exchanges

To bring in more transparency, SEBI has directed stock exchanges and intermediaries to ensure that all over-the-counter (OTC) trades in corporate bonds are reported only on any one of the reporting platform provided in the debt segment of stock exchanges viz NSE, BSE and MCX-SX within 15 minutes of such transactions. The decision will be effective April 1, 2014. Last year, the market regulator had enabled reporting of OTC trades by trading members and non-trading members on the debt segment of the stock exchanges. OTC trades are generally trades executed between two market entities without others being aware of the price at which the transaction was effected.

Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Obligations of Securities Market Intermediaries under the Prevention of Moneylaundering Act, 2002 and Rules framed there under

In view of the amendments to the Prevention of Money-laundering Act, 2002 (PML Act) and amendments to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 (PML Rules), some consequential modifications and additions to the SEBI Master Circular CIR/ISD/AML/3/2010 dated December 31,2010 have been made. These include aspects such as risk assessment, reliance on third party for carrying out Client Due Diligence (CDD), record keeping requirements, etc.

Partner Exchange

February 2014

SEBI Discussion Paper on 'Monitoring Agency Report and Related Disclosures'

In a discussion paper, SEBI has proposed mandatory appointment of monitoring agency for all issues, irrespective of its size. Till now, this was compulsory for all issues where the issue size exceeds Rs.500 crore. The monitoring agency is a public financial institution or one of the scheduled commercial banks named in the offer document as bankers of the issuer. Other suggestions in the discussion paper include mandatory submission of report by the monitoring agency on a quarterly basis till the funds are fully utilised and mandatory submission of monitoring agency report by companies to stock exchanges for public dissemination.

SEBI Discussion Paper on 'Annual Information Memorandum'

SEBI has released a Discussion Paper on 'Annual Information Memorandum' or AIM. The paper has proposed that listed companies may be required to prepare an annual document called 'Annual Information Memorandum', which would contain all information about the company's performance that is relevant to investment decision at one place. It is proposed that top 200 listed companies based on market capitalisation at BSE or NSE as on March 31, 2014 should implement this from financial year beginning on or after April 1, 2014 and all other listed companies from the financial year beginning April 1, 2015.

FII/QFI investments in Commercial Papers

Last year, SEBI had permitted FIIs and QFIs to invest upto US$ 3.5 billion in Commercial Papers within the Corporate Debt limit of US$ 51 billion. RBI has now reduced the existing sub-limit for FII/QFI investment in Commercial Papers from USD 3.5 billion to USD 2 billion. Accordingly, eligible investors shall be permitted to invest upto US$ 2 billion in Commercial Papers (and upto US$5 billion in Credit Enhanced Bonds) within the Corporate Debt limit of US$ 51 billion.

Safeguards to avoid trading disruption in case of failure of software vendor

SEBI has asked big broking houses to reduce dependence on single software vendor and engage more than one software vendor to avoid trade disruptions. It has also advised brokers to explore the possibility of setting up a 'software escrow arrangement' with their existing software vendors.

Testing of software used in or related to Trading and Risk Management

SEBI, in consultation with its Technical Advisory Committee, has decided to partially revise software testing used in or related to Trading and Risk Management. Stock exchanges may suitably schedule the requirements of mock testing, certification of test reports by system auditor(s) and the software approval process so as to facilitate a speedy approval and a smooth transition of the stock brokers to the new / upgraded software.

SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2014

SEBI has issued a Notification amending the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ('ICDR Regulations') to make grading of an initial public offer ('IPO') by one or more credit rating agencies voluntary by companies. In addition to this amendment, SEBI also altered the format of the Statement of Assets and Liabilities that needs to be disclosed by issuing companies in their offer document. The format has been revised to bring it in line with the format of the Balance Sheet under Part I Schedule III of the Companies Act, 2013.

Guidelines for inspection of depositories by Depository Participants

SEBI has issued a circular that lays down 'Guidelines for inspection of depositories by Depository Participants'. The Depository System Review Committee (DSRC) was constituted by SEBI to undertake a comprehensive review of the depository system of Indian Securities market. As a first measure, DSRC has reviewed framework adopted by the depositories with regard to the inspection of depository participants (DPs) and submitted its recommendations.

January 2014

SEBI (Issue and Listing of Debt Securities) Regulations, 2014

In order to facilitate development of a vibrant primary market for corporate bonds in India, SEBI has notified Regulations for Issue and Listing of Debt Securities to provide for simplified regulatory framework for issuance and listing of non-convertible debt securities (excluding bonds issued by Governments) issued by any company, public sector undertaking or statutory corporations. With this amended regulation in place, the capital market will become easily accessible for the entities covered under this regulation. The qualified entity will be able to raise money by way of debt securities for four times through a single shelf prospectus within a year from the date of opening first offer of such securities instead of complying with the long drawn process of public issue each time.

Information Technology (IT) governance for depositories

SEBI has issued guidelines to strengthen the IT governance framework of depositories following recommendations of a committee, which was formed by the regulator in December 2012 to review the country's depository system. Depositories will now have to formulate an IT strategy committee at board level to provide insight and advice in various areas that include developments in IT from a business perspective and competitive aspects of IT investments.

SEBI tweaks norms for interest rate futures

SEBI has made changes to the interest rate futures (IRFs) regime, enhancing monitoring requirements and easing certification norms for employees of intermediaries through two separate circulars. It has given brokerages two more years to ensure existing employees have the required interest rate derivative certification. New employees are to be given one year to comply. It has also sought to extend the depositories' monitoring of foreign institutional investor (FII) positions to interest rate futures as well. Earlier, depositories were only required to monitor the total FII investment values in government and corporate bonds. Depositories shall aggregate the gross long position of FIIs in IRF in each exchange and add it with investment of FIIs in government debt. FIIs will not be allowed to add to their long position once it reaches a certain percentage of prescribed limits. Once 90 per cent of limit is utilized, stock exchanges shall notify the same to the market and thereafter FIIs shall not further increase their long position in IRF till the time the overall long position of FIIs in cash and IRF comes below 85% of existing permissible limit.

Operational Guidelines for Designated Depository Participants

Ushering in a new regime for overseas investors as FPIs (Foreign Portfolio Investors), SEBI has issued operating guidelines for depository participants to register these new entities and to ensure that their combined holding in any listed company remains capped at 10 per cent. This new class of investors, FPIs, would encompass all Foreign Institutional Investors (FIIs), their sub-accounts and Qualified Foreign Investors (QFIs). SEBI approved Designated Depository Participants (DDPs) would grant registration to FPIs on behalf of the regulator and also carry out other allied activities in compliance with regulations. At all times, the DDP and custodian of securities of the FPI will be the same entity.

SEBI (Foreign Portfolio Investors) Regulations, 2014

SEBI notified new foreign portfolio investor (FPI) regulations in order to ensure an easier registration process and operating framework for overseas investors seeking to invest in stock markets in India. No person shall buy, sell or otherwise deal in securities as a FPI unless it has obtained a certificate granted by the designated depository participant on behalf of the Board. A qualified foreign investor may continue to buy, sell or otherwise deal in securities subject to the provisions of these regulations, for a period of one year from the date of commencement of these regulations, or until he obtains a certificate of registration as foreign portfolio investor, whichever is earlier.

According to the new norms, FPIs have been divided into three categories based on their risk profile and the KYC (know your client) requirements. The category-I FPIs, which would be the lowest risk entities, would include foreign governments and government related foreign investors. Category II FPIs would include appropriately regulated broad-based funds, appropriately regulated entities and broad-based funds, whose investment manager is appropriately regulated, university funds, university-related endowments and pension funds. The Category III FPIs would include all others not eligible under the first two categories. SEBI has also decided to grant them a permanent registration against the current practice of granting approvals for one year or five years.

SEBI (Procedure for Search and Seizure) Regulations, 2014

SEBI (Procedure for Search and Seizure) Regulations, 2014 have been notified to provide for detailed procedure and the manner in which the search and seizures operations shall be carried in accordance to power vested upon SEBI by the Ordinance. The Regulation requires the Investigating Officer to obtain warrant of authority from SEBI Chairman to conduct search and seizure of persons, enterprise, places and buildings, computer or any other data storage device and vessel, vehicle or aircraft.

Further, the New Regulations broadly provide for the detailed procedure relating to search and seizure, the powers of investigating authority (who is authorized by warrant of authority) at time of search and seizure; the rights and obligations of persons being searched and other person in charge; requirement to keep the seized documents in safe custody and requirement of return of documents seized and maintenance of confidentiality and penal provisions.

SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014

The SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 have been notified. Before this Regulation was notified, the consent mechanism guidelines governed the procedure and the manner in which the applicant could make a consent application for settling the matter. The rationale behind converting these consent guidelines into Regulations was the working of consent order mechanism in an ad hoc manner when it was first introduced in the year 2007.

The New Regulations broadly cover the manner for making application and prescribed time limit, cases where matter will not be considered for settlement, manner of withdrawing an application once applied, terms of settlement, factors to be considered to arrive at settlement, composition of High Powered Advisory Committee and details of procedure as well as settlement order.

SEBI (Collective Investment Schemes) (Amendment) Regulations, 2014

As per amendments brought in the definition of Collective Investment Schemes ("CIS"), any pool of above INR 100 crores shall be "deemed to CIS". Bringing this into effect,

the existing SEBI (CIS) Regulations have been amended wherein the provisions of "Application for grant of certificate" have been extended to even for "deemed CIS". Likewise, a New Chapter IXA has been added to mandate existing pool of funds above INR 100 Crores (earlier not coming under the definition of CIS) to register under the Regulations. It is also provided that no new scheme to be launched unless registered.

Further, additional requirement have been mandated for CIS when registered namely that Collective Investment Management company will now be required to enter into an agreement with a depository for units to be issued in Demat form; all the monies payable towards CIS shall be paid through cheque or demand draft and not by cash, this is intended to check mobilization of black money and comply with the KYC norms i.e. to say that the investee identity to be well defined.

SEBI (Investor Protection and Education fund) (Amendment) Regulations, 2014

SEBI (Investor Protection and Education fund) (Amendment) Regulations, 2014 have been notified. One of the important amendments brought out through these Regulations is that in case of amount disgorged and credited to fund (including interest), SEBI, wherever it deems fit, shall use the sum of amount primarily for restitution of identifiable and eligible investor who have suffered loss (this amount to be used only for this purpose).

New norms for Delivery Instruction Slip (DIS) Issuance and Processing

In order to safeguard the interest of the investors, SEBI has put in place a new framework to strengthen the supervisory and monitoring role of depositories and their participants for issuance and processing of Delivery Instruction Slips (DIS). A DIS is used by sellers of securities to instruct their depository participant to debit their demat account.

Insurance Sector

April 2014

Life insurance: Ninety-day window

As per a latest IRDA notification, insurers can now collect premium for a maximum three months in advance for both linked and non-linked plans. However, the premiums collected in advance can only be adjusted on the due date and commission to agents paid after that. The Insurance Regulatory and Development Authority (IRDA) has said that advance collection will be allowed only for the premium due in the same financial year. However, in cases where the premium due for the next financial year is being collected in the current fiscal, the insurer can collect the premium for a maximum period of three months in advance of the due date.

Third-party motor cover costlier by 10-20%

The insurance regulator has increased the mandatory third-party motor insurance premium rate for private cars by 20% and for two-wheelers by 10%. The rate for commercial vehicles has also been raised by 10-15% for certain categories, while for certain goods carriers, it has been reduced. The new rates became applicable with effect from April 1. This is fourth such hike in as many years. Under the Motor Vehicles Act, any vehicle that plies on the road needs a third-party cover. Insurers have to ensure that such cover is available at their underwriting offices. To arrive at the new rates, IRDA used data available with the Insurance Information Bureau for the underwriting years 2007-08 to 2012-13 for the number of policies, number of claims reported and the amount of claims paid up to March 31, 2013.

IRDA to allow distributors to have multiple tie-ups with insurers

Paving the way for a new distribution channel, the IRDA issued draft guidelines for insurance marketing firms which when implemented would allow distribution companies to have multiple tie-ups with insurers. In an exposure draft on insurance marketing firm regulations released by the regulator, the proposed model would be similar to independent financial advisor based on the recommendations of the Govardhan Committee on Distribution. The Insurance Marketing Firm would be licensed by the Authority to engage Insurance Sales Person (ISP) for the purpose of marketing all kinds of insurance products. It could also engage Financial Service Executive (FSE) in marketing of mutual fund products, pension products and financial products authorised for sale by investment advisers under the Securities Exchange Board of India (Investment Advisers) Regulations.

March 2014

Safety Rating System planned for cars may be linked to insurance

The government plans to formulate a safety rating system for cars based on their robustness, in the light of several issues being raised over the quality of vehicles made in the country, and the rules if implemented may be linked to lower insurance premiums.Talks will be held IRDA on improving safety and lower insurance premiums to entice the customer.

IRDA to raise fund for CSC

IRDA has asked insurance companies to pay Rs 20 lakh each to the Common Services Centre (CSC) e-Governance Services India Ltd, a special purpose vehicle (SPV), which has been set up to offer services through the CSC. The regulator has said the CSC-SPV On-boarding Corpus Fund would be set up with the fund from each insurance company, which has entered into an agreement with the former for distribution of its products through CSCs.

IRDA allows collection of advance premium

The life insurers can collect advance premium up to three months in advance from the due date.

In a circular issued by IRDA, as an addition to the existing regulations for both unit-linked and non-linked insurance products, T S Vijayan, Chairman, IRDA said the premium collected in advance should only be adjusted on the due date of the premium. The commission to the agents, however, could be paid only after the adjustment of premium on due date,'' he added.

IRDA to look into heavy discounts for group policies as complaints pour in

Concerned over the number of complaints regarding premium subsidisation in group insurance policies, the Insurance Regulatory and Development Authority (IRDA) is initiating steps to address the issue. The insurance regulator said a number of complaints have been received by it on the unfair discounts given to group policies, and it wants to see that the practice is being done away by insurance companies. IRDA has asked the General Insurance Council (GI Council), the apex body of non-life insurance companies, to provide the relevant data to understand how companies treat their customers.

Use-and-file regime still not insurers' favourite

In the use-and-file regime, an insurer doesn't have to file a product with IRDA; it has to adhere to the standardised norms and later send information on the product to the regulator. The insurance regulator has allowed insurers to have standard products that can be sold in the market under the use-and-file regime. However, none of the insurance companies have filed any product under the regime till date due to the limited product feature possibility in the structure. In the use-and-file regime, an insurer doesn't have to file a product with IRDA; it has to adhere to the standardised norms and later send information on the product to the regulator. In the meantime, the insurer can sell the product.Insurers said not many products had been filed under this norm, as there was some uncertainty over standardised rules for this category.

The regulator would soon come up with a hospital registry

The insurance regulator in the country is planning to come out with a hospital registry soon, to monitor the health insurance claims, said T S Vijayan, chairman of IRDA.

Insurers seek assistance for online policy buyers

Insurers have requested the IRDA to have an assistance model in buying insurance on the internet. Direct business done through the online channel contributes less than 5% of the total business of the insurance companies. Company executives said that research showed how majority of customers went online only to look for product information and then bought through an insurance agent or other offline distributors. This model will have assistance services to individuals who require help during purchase of an insurance policy online. The chief distribution officer of a mid-size private life insurance company said that dedicated personnel will be appointed who will take care of all queries arising during an online purchase.

Insurers rush to tie-up with web aggregators

With IRDA finalising the guidelines for web aggregators operating in the industry, insurers are now looking to tie-up with one or more such players.

Govt asks IRDA to lift cap on insurers' exposure to banking sector to 30%

The government has asked IRDA to increase the exposure limit of insurance firms to banking sector from to 30%. The insurance firms are currently permitted to have an exposure limit of up to 25% to banking industry.The government is looking out for possible ventures to inject capital into the public sector banks in order to meet the RBI's stringent Basel-III norms on capital needs.Last week, Finance Minister P Chidambaram said that the Pension Fund Regulatory and Development Authority (PFRDA) and IRDA must make changes in the existing regulations to permit insurance and pension funds to be invested in additional Tier I capital of state-run banks.

IRDA arm creates hospital registry

The Insurance Information Bureau (IIB) - a body created by insurance regulator IRDA - has created a registry of healthcare providers and assigned them unique IDs. Creation of this database is the regulator's first step in building an analytics capability for detecting endemics, assessing medical cost inflation, and in detecting fraud. IIB, said that the unique hospital ID registry is a compilation of all the hospitals that are currently in the provider network of health insurance. "The intention is to make the registry open to all hospitals who would like to enrol for future association with health insurers or third-party administrators."

The IIB is also part of a panel under the ministry of health and family welfare, which is developing a template for standard procedures for various ailments. Along with the standardization of procedures, the ministry is also coming out with a costing template. With insurance companies submitting claim data incorporating disease codes, procedure codes and hospital IDs, the regulator would be able to run its fraud analytics software.

IRDA prescribes standard format for insurance policy

Insurance regulator IRDA prescribed a standard format for life and non-life insurance policy to improve transparency and help people take informed decisions.

Banks ask govt to relax three conditions for adopting insurance broking model

Indian lenders have sought relaxation of at least three conditions framed by the government before they enter into insurance broking business. Banks are required to have separate staff for insurance business under the norms laid by the government. They are not allowed to carry out any banking transactions. Banks have asked to remove this condition.

Banks have asked for easing the rules that requires an insurance broker to earn not more than 25% of its business in a financial year from the insurer it has promoted.Banks also wants the government to relax the earning limit from insurance broking. The Insurance Regulatory and Development Authority (IRDA) has recommended the maximum limit for commission earned by the bank to be fixed at 30%.

IRDA allows enabling guidelines for insurers to invest in new categories, including IDFs, ETFs and AIFs

The Insurance Regulatory and Development Authority (IRDA) had in the recent past issued many enabling guidelines for insurers to invest in new categories, including infrastructure debt funds (IDFs), equity exchange traded funds (ETFs) and alternative investment funds (AIFs).

These include debt capital instruments, redeemable non-cumulative preference shares and redeemable cumulative preference shares under Tier-II capital.

February 2014

Policyholders will be able to get details of unclaimed insurance online

Insurance customers and their nominees don't have to suffer inordinate delays in claim settlement anymore. A new circular from Insurance Regulatory and Development Authority (IRDA) is going to change the current opaque scenario from April 1."While unclaimed amount is not uncommon in insurance sector, a steep increase in unclaimed amount is a cause of concern," the regulator said in the circular that put out the figures of unclaimed insurance proceeds in the public domain for the first time. The unclaimed amount swelled from Rs3,037 crore in 2011-12 to Rs4,865 crore in 2012-13 — an increase of over 60 per cent. The unclaimed money is the result of insurance proceeds that have failed to reach policyholders or their nominees in time for various reasons. Needless to say, it completely defeats the entire purpose of buying an insurance cover.

Insurers, MFs await regulatory go-ahead for bond trading

Mutual funds and insurance firms are awaiting go-ahead from their respective regulators -- SEBI and IRDA -- with regard to their participation in the newly launched Interest Rate Futures (IRF) on stock exchanges.All three national bourses -- NSE, BSE and MCX-SX -- launched trading last month in cash-settled IRF contracts, which are based on the benchmark 10-year government bonds, one of the most liquid debt paper instruments.

January 2014

Indians in ECR countries to benefit from pension-insurance schemes

Indian workers residing in Emigration Check Required (ECR) countries will soon be able to avail life insurance and pension benefits under a government scheme. "Mahatma Gandhi PravasiSurakshaYojana (MGPSY) has beenlaunched in UAE. The scheme will soon be launched in other Emigration Check Required (ECR) countries," Overseas Indian Affairs minister Vayalar Ravi said addressing a conference of Indian Heads of Missions in ECR countries.

IRDA to charge tax on providing services to players

Insurance regulator IRDA will charge service tax from industry players on providing services such registration and renewal.

FICCI's Data Centre

Indian Economy-An Update

Key Economic Indicators

GDP	4.7% - Q3 FY14 4.8% - Q2 FY14.
Inflation	Wholesale price index (WPI) indicated continued downward adjustment in price levels. The WPI inflation rate stood at 4.7% y-o-y in February 2014, lowest in about nine months. The corresponding figure in January 2014 was 5.0% and 7.3% in February 2013. Primary articles segment reported an inflation rate of 6.3% y-o-y in February 2014.The corresponding figure a year back was 10.5%. Food article prices indicated moderation, increasing by 8.1% y-o-y in February 2014 vis-à-vis 8.8% growth in January 2014; the non- food article segment reported a rise in price levels. Non food articles inflation rate was 5.1% y-o-y in February 2014 vis-à-vis 4.5% in January 2014. The retail inflation (Consumer price index) declined for the third consecutive month to 8.1% y-o-y in February 2014, vis-à-vis 8.8% in January 2014. The corresponding number in February 2013 was 10.9%.
IIP	The overall IIP index registered a growth of 0.1% y-o-y for the month of January 2014, a tad higher than the re vised growth of (-) 0.2% y-o-y (earlier it was -0.6%) in December 2013. The corre sponding growth in January 2013 was 2.5% y-o-y.
Current RBI Rates*	Bank Rate: 9.00% (w.e.f. 28/01/2014) Repo Rate under LAF: 8.00% (w.e.f. 28/01/2014) Reverse Repo Rate under LAF: 7.00% (w.e.f. 28/01/2014) Cash Reserve Ratio: 4.00% (wef 09/02/2013) -announced on 29/01/2013 Statutory Liquidity Ratio: 23% (w.e.f. 11/08/2012) (announced on 31/07/2012) Marginal Standing Facility: 9.00% (w.e.f. 28/01/2014)
Exchange Rate	Rupee against dollar closed at RS.60.9/USD on March 18, 2014.The last time Rupee value was below Rs.61 /USD was on August 12, 2013 at Rs60.8/ USD.

**Source MOSPI, RBI*

Highlights

The overall economic situation continues to remain fragile. The GDP data released for Q3 of FY14 indicated a growth of 4.7% marginally lower than 4.8% growth witnessed in Q2 FY14. It seems the 4.9% growth estimate for 2013-14 put out earlier this year would be an uphill task to achieve.

Industrial sector continues to be a drag on the overall growth. The performance of the manufacturing sector remains in slack mode and is still elusive to any signs of recovery. Investment sentiment is still damp and we have not seen any substantive movement in the projects cleared. Implementation of these projects has not seen much progress. Gross capital formation witnessed a (-) 1.1% growth in Q3 FY 14.

A rebound has been noted in the services segment though. The sector registered a growth of 7.6% in Q3 FY14, which was a five quarter high. This was primarily driven by a double digit growth witnessed in financing, insurance, real estate and business services. The high growth came at the back of swap window provided by RBI last year. With the RBI window now closed, there is a high chance that this pick up would wane off in quarters ahead.

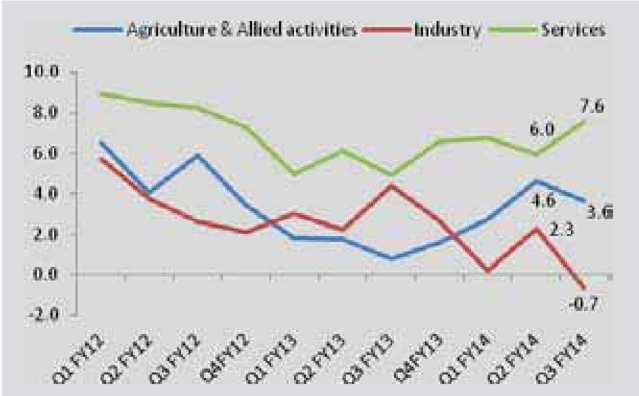
On the inflation front, both whole-sale price index and consumer price index have set afoot on a downward trajectory. The prices have eased in the past few months and this has been led by discernible moderation in food prices (notably vegetable prices). This definitely gives some leeway to maneuver the monetary policy levers towards supporting growth.

The external sector has recouped considerably from the situation last year. However, we need to assure that India remains in a comfortable position in case of any exigency. Export growth after being in the positive terrain for seven consecutive months; once again noted deceleration in February 2014. Going ahead, we need to take firm steps towards charting out a vision of having a non oil trade surplus.

Gross Domestic Product (GDP)

The latest gross domestic product (GDP) data released for Q3 FY14 indicated a growth of 4.7% y-o-y. The

Gross Domestic Product (GDP)



growth rate has remained below 5% for the seventh consecutive quarter. Also, the quarterly growth rates for 2011-12 and 2012-13 have been adjusted downwards in sync with revised annual estimates.

The agriculture and allied activities sector expanded at a slower growth rate of 3.6% y-o-y in Q3 FY14 vis-à-vis 4.6% growth witnessed in Q2 FY14. The second advance estimate indicates a record food grain production of 263.2 million tonnes in 2013-14. However, the recent unseasonal rains do not bode well for rabi crops and is likely to impact production.

Industry sector continued being a drag on the overall growth. The sector recorded (-) 0.7% growth in Q3 FY14 vis-à-vis 2.3% growth in Q2 FY14. The corresponding growth in the same quarter last year was 4.4% y-o-y. Both mining and manufacturing sub segments registered negative growth in Q3 FY14; while electricity gas & water supply and construction sub segments also witnessed moderation in growth.

Service sector reported a pick up and registered a growth of 7.6% y-o-y in Q3 FY14, which was a five quarter high. The corresponding growth was 6.0% in Q2 FY14 and 4.9% in Q3 FY13.

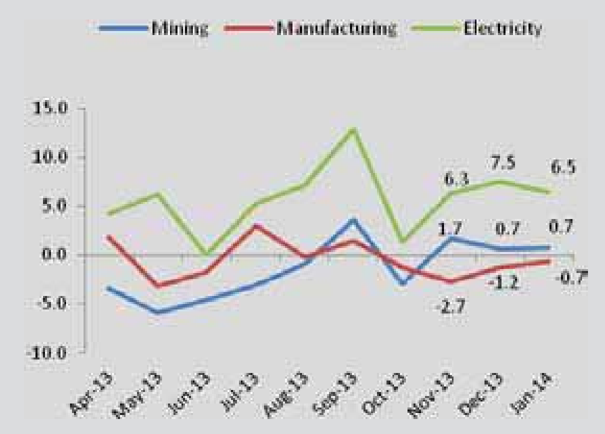
The growth in service sector was driven by 'financing, insurance, real estate and business services' segment, with the latter recording a growth of 12.5% in Q3 FY14, vis-à-vis 10.0% in Q2FY14. This double digit growth came at the back of swap window facility provided by RBI last year. Also, 'community, social & personal services' segment recorded a growth of 7.0% in Q3 FY14, vis-à-vis 4.2% in Q2 FY14.

Index of Industrial Production (IIP)

Latest IIP figures indicated a marginal improvement in growth numbers. The overall IIP index registered a growth of 0.1% y-o-y for the month of January 2014, a tad higher than the revised growth of (-) 0.2% y-o-y (earlier it was -0.6%) in December 2013. The corresponding growth in January 2013 was 2.5% y-o-y.

Mining and electricity segments registered 0.7% and 6.5% growth respectively in January 2014. The corresponding numbers were 0.7% (revised) and 7.5%, in December

Index of Industrial Production (IIP)



Source: MOSPI

Use-base classification (% growth)

	IIP	Basic goods	Intermediate goods	Capital goods	Consumer durable goods	Consumer non-durable goods
Aug-13	0.4	0.9	3.8	-2.0	-8.3	5.4
Sep-13	2.8	6.7	4.4	-6.6	-10.6	12.0
Oct-13	-1.2	-0.4	2.7	2.5	-12.0	1.9
Nov-13	-1.4	2.7	3.4	-0.1	-21.5	2.1
Dec-13	-0.2	2.5	4.9	-2.5	-16.1	2.5
Jan-14	0.1	0.9	3.4	-4.2	-8.3	4.4

Source: MOSPI

2013 respectively. The moderation in growth of these sectors was possibly due to negative growth witnessed in coal production.

Manufacturing sector growth was in negative terrain for the fourth consecutive month, recording (-) 0.7% y-o-y growth in January 2014. The corresponding number was (-) 1.2% in December 2013 and 2.7% in January 2013. Despite Cabinet Committee on Investment (CCI) showing green flag to various projects, there remains a huge lag between the initial clearance and actual inception of the projects. This has dampened the prospects of recovery in the manufacturing sector.

Amongst 22 sub-sectors of the manufacturing group (as per 2-digit NIC-2004), 11 sub-sectors reported positive growth in January 2014 vis-à-vis 14- sub sectors in December 2013. 'Medical, precision & optical instruments, watches and clocks' showed a positive growth of 17.6%, followed by 15.2% in 'Electrical machinery & apparatus n.e.c.' and 14.4% in 'Wearing apparel; dressing and dyeing of fur'. While sectors 'Radio, TV and communication equipment & apparatus' recorded a negative growth of (-) 28.2 %, followed by (-) 14.0% in 'Motor vehicles, trailers & semi-trailers' and (-) 9.5% in 'Fabricated metal products, except machinery & equipment'.

As per use-base classification, basic goods, intermediate goods and consumer non-durable goods registered positive growth of 0.9%, 3.4% and 4.4% respectively in January 2014 vis-à-vis respective growths of 2.5%, 4.9% and 2.5% in December 2013. Capital and consumer durable good segments continued to register negative growth. Though growth in consumer durable goods has been in the negative terrain for 14 months now; a slight improvement was witnessed in few sub-products like passenger cars, bicycle and other automobile products and accessories in January 2014.

Core Sector

Core Sector- Growth (%)

	2012-13 Apr-Jan	2013-14 Apr-Jan	Jan-13	Dec-13	Jan-14
Overall	6.9	2.4	8.3	2.1	1.6
Coal	6.5	1.0	4.0	-0.6	-0.7
Crude Oil	-0.4	-0.3	-0.2	1.6	3.0
Natural Gas	-13.6	-14.1	-16.8	-9.9	-5.2
Refinery Products	30.1	1.4	35.1	-1.7	-4.5
Fertilizers	-4.0	2.5	-9.1	4.1	1.2
Steel	3.3	4.1	6.3	3.1	3.4
Cement	8.1	3.4	10.2	1.1	1.5
Electricity	4.8	5.2	6.3	6.7	5.7

Source: MOSPI

To some extent, declining growth in exports has also had an impact on domestic industrial production. While the demand in the advanced economies is gradually gaining momentum, going forward it will be imperative to give correct policy signals to get the domestic industry in to recovery mode.

Core Sector

Overall core sector index registered 1.6% growth in January 2014 vis-à-vis 2.1% growth y-o-y in December 2013. The corresponding growth in the same month last year was 8.3% y-o-y.

Natural Gas registered (-) 5.2% growth in January 2014 vis-à-vis (-) 9.9% growth in December 2013. The corresponding growth in January 2013 was (-) 16.8%. Domestic crude oil production reported an improved growth of 3.0% in January 2014 vis-à-vis (-) 0.2% growth in the same month last year.

Coal and Electricity sectors witnessed a growth of (-) 0.7% and 5.7% respectively in January 2014 vis-à-vis (-) 0.6% and 6.7% growth in December 2013. The cumulative growth during April'13-January'14 was 1.0% and 5.2% for coal and electricity sectors respec-tively.

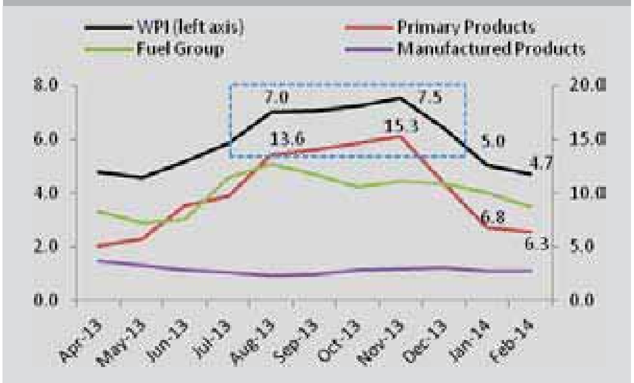
Fertilizers registered 1.2% growth in January 2014 vis-à-vis (-) 9.1% growth in January 2013.

Inflation

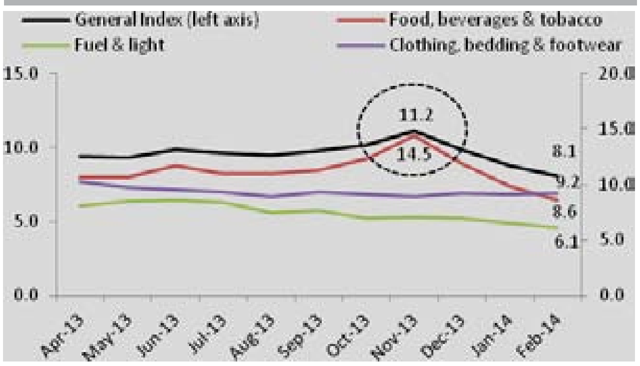
Latest numbers for the Wholesale price index (WPI) indicated continued downward adjustment in price levels. The WPI inflation rate stood at 4.7% y-o-y in February 2014, lowest in about nine months. The corresponding figure in January 2014 was 5.0% and 7.3% in February 2013. The sharp fall in prices of primary articles has led to an overall softening in inflation rate. Primary articles segment reported an inflation

Inflation

Wholesale Price Index (WPI) – growth rate (%)



Consumer Price Index (CPI) - growth rate (%)



rate of 6.3% y-o-y in February 2014.

The corresponding figure a year back was 10.5%. While food article prices indicated moderation increasing by 8.1% y-o-y in February 201-4 vis-à-vis 8.8% growth in January 2014; the non-food article segment reported a rise in price levels. Non food articles inflation rate was 5.1% y-o-y in February 2014 vis-à-vis 4.5% in January 2014.

In the food article segment, vegetable prices have witnessed a steady fall since November 2013. The vegetable prices increased by 4.0% in February 2014 vis-à-vis 16.6% in January 2014. Prices of essential vegetables like potato, onion and tomato have come down in the past couple of months. However, inflation rate for other food products like fruits, cereals, milk and egg meat fish sub segments remained over 8.0%.

Fuel and power segment recorded an inflation rate of 8.7% in February 2014 vis-à-vis 10.0% in January 2014. Moderation was noted in prices of mineral oil and electricity sub segments. However, the latter remained in the double digit terrain witnessing a growth of 23.7% in February 2014.

Manufacture segment prices remained flat, registering a growth of 2.8% in February 2014. The manufacturing inflation rate was 2.8% in January 2014 and 4.8% in February 2013.

The retail inflation (Consumer price Index) declined for the third consecutive month to 8.1% y-o-y in February 2014, vis-à-vis 8.8% in January 2014. The corresponding number in February 2013 was 10.9%. The decline here was once again led by food, beverages & tobacco prices. However, the recent non seasonal rainfall may have an impact on crop production and put pressure on food prices once again.

Foreign Trade

Trade data for the month of February 2014 was a little disappointing. Export growth after witnessing positive growth for seven consecutive months reported deceleration. Exports registered (-) 3.7% growth in February 2014, vis-à-vis 3.8% growth in January 2014. Export growth averaged around 12.4% between Jul'13 and Oct'13 and was sluggish thereafter. India's major export items including petroleum products, gems & jewellery, engineering goods and drugs& pharmaceuticals witnessed a decline in February 2014.

Petroleum exports declined by 10.4% in February 2014. The refinery output has been negative for four consecutive months owing to a temporary shutdown on account of periodical maintenance. Then gems & jewellery and engineering good exports declined by 4.2% and 2.8% respectively in February 2014. The three have a share of a little over 50.0% in India's export basket.

Foreign Trade

Trade deficit (in $ bn)	2013										2014
	Feb	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
	14.1	18.5	20.0	12.2	12.5	10.6	6.4	10.6	9.9	10.5	9.9	8.1

Source: RBI

	Dec 13	Jan 14
Imports	36.46	36.36
Petroleum products	13.91	13.19
Non-POL items	22.55	23.17
Exports	25.95	26.40
Agricultural products	4.46	3.99
Ores & minerals	0.43	0.49
Manufactured goods	15.76	16.89
Petroleum products	4.64	4.51
Other commodities	0.65	0.52

Source: CMIE

Apart from these products, exports of drugs & pharmaceuticals also declined by 1.6% in February 2014. The ban imposed by US Food and Drug Administration (FDA) on India's drug manufacturers on the pretext of quality issues will have an impact on India's pharma exports.

Imports registered a (-) 17.1% growth in February 2014, vis-à-vis (-) 18.1% in January 2014. Imports have fallen across all major groups including petroleum products which account for 35-40% of India's import basket. Petroleum imports declined by 3.1% in February 2014. Further, gold and silver imports have witnessed deceleration for eight consecutive months, majorly on account of restrictions imposed by RBI. The gold and silver imports fell (-) 71.4% in February 2014.

The massive decline in imports could manage to off-set fall in exports to register a record trade deficit of $ 8.1 billion in February 2014, a 5-month low. The corresponding figure a year ago was $14.1 billion.

Foreign Investments

Total foreign investment inflows declined to $3,418 million in January 2014 after touching $ 4,747 million in December 2013(which was a seven month high). Net foreign direct investment inflows declined for the second consecutive month in January 2014; however cumulative numbers indicated an increase. Between April and January 2014, net FDI amounted to $ 21, 502 million, vis-à-vis $16,787 million in the same period last year.

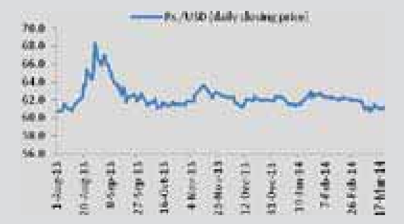
Net portfolio investment declined by 57.5% in January 2014 as compared to January 2013. Even the cumulative figures indicated a discernible decline. Between April and January 2014, net portfolio investment inflows amounted to (-) $1866 million. The corresponding number was $ 21,619 million in the same period last year.

However, daily data for foreign institutional investments points towards some return in optimism. The foreign institutional investors have invested about $ 6.8 billion between February 2014 and March 26, 2014.

Exchange Rate

After witnessing sharp volatility between July'13 and August '13, the Rupee value has remained stable by and large. The Rupee value

Exchange Rate



	Re / Dollar	Re / Euro	Rs/ 100 Yen	Rs/Pound sterling
Apr-13	54.3	70.7	55.7	83.2
May-13	55.0	71.3	54.5	84.1
Jun-13	58.4	77.1	60.0	90.4
Jul-13	59.8	78.2	60.0	90.8
Aug-13	63.2	84.2	64.6	97.9
Sep-13	63.8	85.1	64.3	101.1
Oct-13	61.6	84.1	63.0	99.2
Nov-13	62.6	84.5	62.6	100.9
Dec-13	61.9	84.8	59.8	101.4
Jan-14	62.1	84.6	59.7	102.3
Feb-14	62.3	85.0	61.0	103.0
Apr'13-Feb'14	14.8	20.2	9.5	23.7
Apr'12-Feb'13	3.8	5.5	0.5	-9.4

Source: RBI

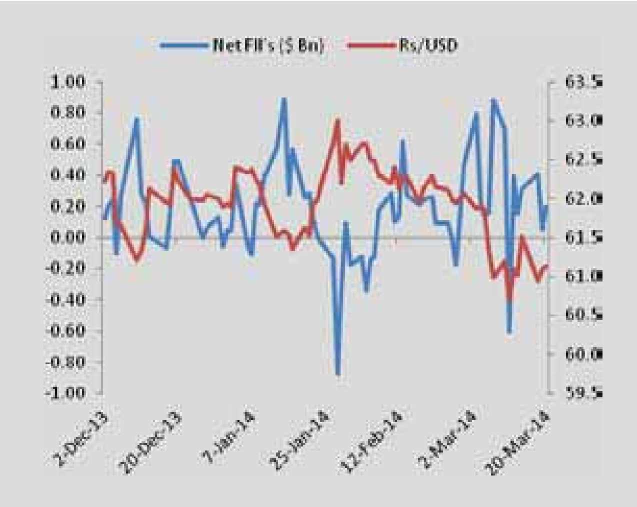
Note: 1. Highlighted values are indicating depreciation/appreciation of the respective currency over the reference period

2. Negative values indicating an appreciation

Foreign Investments

	(Net) Foreign Direct Investment (USD Million)	(Net) Portfolio Investment (USD Million)	Total Foreign Investment Inflows (USD Million)
Jan-13	2,701	6042	8,743
Feb-13	2210	4101	6311
Mar-13	822	1171	1993
Apr-13	2772	1621	4393
May-13	1843	6783	8625
Jun -13	1826	-8627	-6801
Jul-13	1925	-4716	-2791
Aug-13	1618	-2031	-413
Sep-13	4502	145	4646
Oct-13	1847	-451	1395
Nov-13	2,381	–53	2,328
Dec-13	1,861	2,886	4,747
Jan-14	848	2,570	3,418
Apr'12-Jan -13	**16,787**	**21,619**	**38,406**
Apr'13-Jan-14	**21,502**	**-1,866**	**19,636**

Source: Reserve Bank of India



Source: Reserve Bank of India and Securities and Exchange Board of India

Foreign Exchange Reserves

	Total foreign exchange reserves (USD Bn)	Foreign Currency Assets (USD Bn)	Gold (USD Bn)	SDRs (USD Bn)	Reserve Tranche Position (USD Bn)
Feb-13	290.9	257.9	26.3	4.4	2.3
Mar-13	292.0	259.7	25.7	4.3	2.3
Apr-13	293.9	263.3	24.0	4.4	2.2
May13	287.9	258.5	22.8	4.3	2.2
Jun-13	282.5	254.4	21.6	4.3	2.2
Jul-13	277.6	250.3	20.7	4.4	2.2
Aug-13	275.5	247.4	21.7	4.3	2.0
Sep-13	277.2	247.9	21.7	4.4	2.1
Oct-13	282.9	254.5	21.7	4.5	2.2
Nov-13	291.3	263.7	21.2	4.4	1.9
Dec-13	295.7	268.6	20.6	4.4	2.0
Jan-14	291.1	264.6	20.1	4.4	2.0
Feb-14	294.3	266.9	20.9	4.4	2.0

Source: Reserve Bank of India

Fiscal Position

Indicators	Revised 2013-14	Actuals@ up to Jan 2014	% of Actuals to Revised Estimates	Growth (Actuals up to Jan'14 over Actuals up to Jan'13
	Rs. Crore	Rs. Crore	In %	In %
Revenue Receipts	1029252	721905	70.1	14.8
Tax Revenue (Net)	836026	575945	68.9	9.1
Non-Tax Revenue	193226	145960	75.5	44.9
Total Receipts	1575434	737102	69.2	14.2
Non-Plan Expenditure	1114902	900841	80.8	13.3
Plan Expenditure	475532	369103	77.6	16.8
Total Expenditure	1590434	1269944	79.8	14.3
Fiscal Deficit	**524539**	**532842**	**101.6**	**14.4**
Revenue Deficit	**370287**	**378850**	**102.3**	**7.6**
Primary Deficit	**144472**	**247463**	**171.3**	**6.7**

Source: India Budget 2014-15

has been in a comfortable range of Rs. 61/USD to Rs. 63/USD since mid-September 2013.

The average Rupee value vis-à-vis USD depreciated by 14.8% in Apr'13 to Feb'14 vis-à-vis 3.8% depreciation over the period in Apr'12- Feb 13.

Rupee against dollar closed at RS.60.9/USD on March 18, 2014.The last time Rupee value was below Rs.61 /USD was on August 12, 2013 at Rs60.8/ USD.

Foreign Exchange

The total foreign exchange reserves rose to $294.3 billion in February 2014 vis-à-vis $291.1 billion in January 2014. The corresponding number in February last year was $290.9 billion.

Foreign currency assets rose to $266.9 billion in Feb-ruary 2014 after witnessing a fall in January 2014. The corresponding figure in February last year was $257.9 billion.

Gold reserves rose a bit to $20.9 billion in February vis-à-vis $20.1 billion in January 2014.

Total foreign exchange reserves as on Mar 7, 2014 stood at $295.4 billion, which was the highest in about 10 weeks.

Fiscal Position

India's fiscal deficit in the first ten months of the fiscal year 2013-14 (April-January) breached the revised estimate put out in the interim budget. The fiscal deficit was 101.6% of the target for 2013-14. The corresponding number was 89.4% over the same period last year. This would put pressure on the government to curtail expenditure.

The revenue receipts registered a growth of 14.8% in the first ten months ending Jan'14. During the period April-January 2014, revenue receipts could reach 70% of the targeted level.

Tax revenue registered a growth of 9.1% between April and January 2014. The corresponding growth was 15.1% during the same period last year. The non-tax revenue receipts, on the other hand, recorded a growth of 44.9% over the period April-January 2014, vis-à-vis a growth of 11.3% during April-January 2013.

Non-plan expenditure rose by 13.3% between April-Jan'14, vis-à-vis a growth of 12.3% between April-Jan'13. Plan expenditure recorded a growth of 16.8% during the period April-January 2014.

Key Policy Announcements

Cabinet note on FDI in rail, construction sectors cleared- The cabinet note on allowing foreign direct investment (FDI) in the railway and construction sectors has been cleared. The Department of Industrial Policy and Promotion has proposed relaxation of FDI norms in the construction sector and 100 per cent FDI in the railway sector.

RBI simplifies foreign portfolio investment norms- RBI has put in place an easier registration process and operational framework to attract greater portfolio investment inflows.

Government set a panel to review the LPG subsidy scheme – A committee headed by S G Dhande, former director of the Indian Institute of Technology, Kanpur has been formed to recommend changes in a scheme to pay the cooking gas subsidy into consumers' bank accounts.

RBI hikes trade transaction limit to Rs 5 lakh- RBI hiked the trade related remittance limit from Rs 2 lakh to Rs 5 lakh per transaction, amid increased number of transactions being handled by Exchange Houses.

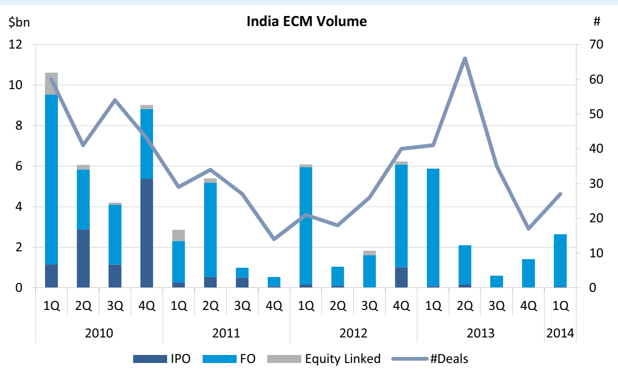
Investment Banking Updates

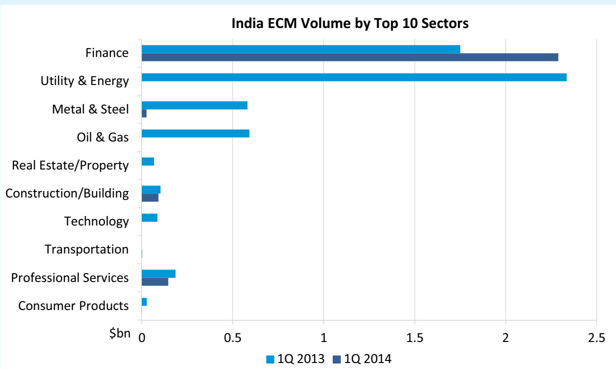
Equity Capital Markets

In association with dealogic

- **Indian ECM** volume stood at $2.6bn via 27 deals for 1Q 2014, a 55% decrease on the $5.9bn (via 41 deals) raised in 1Q 2013
- **IPO** volume totaled $47m (via 12 deals) for 1Q 2014, compared with $87m (via 12 deals) for 1Q 2013. There were no convertible issuance for the first quarter of 2014
    - **Follow-on** volume for 1Q 2014 dropped to $2.6bn compared to $5.8bn for 1Q 2013. Number of deals also dropped to 15 versus 29 deals for 1Q 2013
- **State Bank of India's** $1.3bn follow-on via bookrunners **Citi, Deutsche Bank, BAML, HSBC, JPMorgan, UBS** and itself is the largest ECM transaction for India in the first quarter of 2014

Top 10 ECM Deals in 1Q 2014					
Date	**Issuer**	**Sector**	**Deal Type**	**Deal Value**	**Bookrunners**
30-Jan	State Bank of India	Finance	FO	1,285	CITI, DB, BAML, HSBC, JPM, SBI, UBS
21-Mar	Axis Bank	Finance	FO	906	CITI, JM Financial, JPM
13-Mar	MakeMyTrip Ltd	Professional Services	FO	145	CITI, JPM, DB
14-Mar	L&T Finance Holdings Ltd	Finance	FO	97	CS
13-Feb	Engineers India Ltd	Construction/Building	FO	80	ICICI, IDFC, KOTAK
25-Mar	Bharti Infratel Ltd	Telecommunications	FO	37	GS
10-Mar	Koovs plc	Retail	IPO	37	PEEL HUNT
20-Mar	Mukand Ltd	Metal & Steel	FO	23	ICICI
28-Jan	Hinduja Foundries Ltd	Auto/Truck	FO	13	AXIS
18-Feb	Coromandel Engineering Co Ltd	Construction/Building	FO	10	AXIS, TATA SECURITIES





Equity Capital Market Tables

Asia Pacific ECM Volume by Nation 1Q 2014				
Pos.	Nationality	Deal Value ($m)	No.	% Share
1	China	25,976	153	44.7
2	Japan	12,666	66	21.8
3	Hong Kong	4,947	60	8.5
4	Australia	3,890	144	6.7
5	India	2,647	27	4.6
6	Malaysia	1,934	20	3.3
7	Taiwan	1,398	27	2.4
8	South Korea	1,281	21	2.2
9	Singapore	739	13	1.3
10	New Zealand	690	5	1.2

India FO and Conv. Volume 1Q 2014				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	JPMorgan	534	3	20.5
2	Citi	534	3	20.5
3	JM Financial Ltd	302	1	11.6
4	Deutsche Bank	232	2	8.9
5	UBS	184	1	7.1
5	State Bank of India	184	1	7.1
5	HSBC	184	1	7.1
5	Bank of America Merrill Lynch	184	1	7.1
9	Credit Suisse	98	1	3.8
10	ICICI Bank	50	2	1.9

India ECM Volume by Industry 1Q 2014				
Pos.	Industry	Deal Value ($m)	No.	% Share
1	Finance	2,290	6	86.5
2	Professional Services	146	2	5.5
3	Construction/Building	91	3	3.4
4	Telecommunications	37	1	1.4
5	Retail	37	1	1.4
6	Metal & Steel	26	3	1.0
7	Auto/Truck	13	1	0.5
8	Textile	3	3	0.1
9	Transportation	2	2	0.1
10	Consumer Products	1	2	0.1

Equity Capital Market Tables

India ECM Volume 1Q 2014				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	JPMorgan	534	3	20.2
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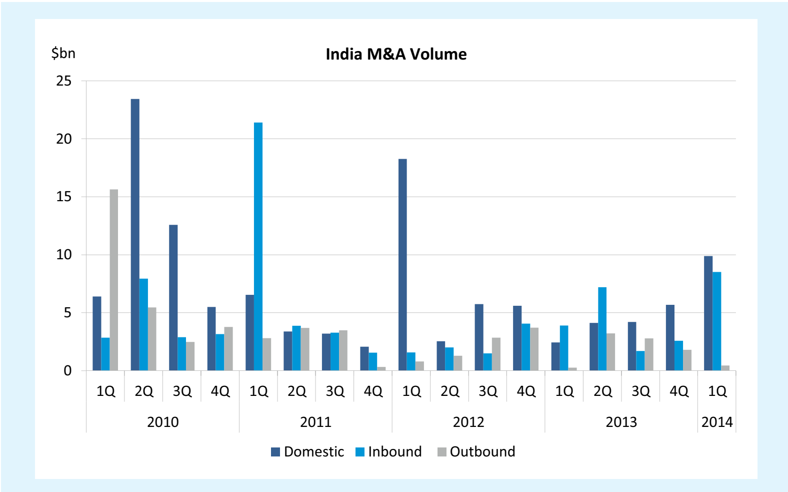
5	HSBC	184	1	6.9
5	Bank of America Merrill Lynch	184	1	6.9
9	Credit Suisse	98	1	3.7
10	ICICI Bank	50	2	1.9

India Block Trade Volume 1Q 2014				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	JPMorgan	351	2	29.5
1	Citi	351	2	29.5
3	JM Financial Ltd	302	1	25.4
4	Credit Suisse	98	1	8.2
5	Deutsche Bank	48	1	4.1
6	Goldman Sachs	37	1	3.1
7	AXIS Bank	1	1	0.1
8	Unique Stockbro Pvt Ltd	0	1	0.0
9	Frontline Securities Ltd	0	1	0.0
10	Hem Securities Ltd	0	1	0.0

India Deal Sub-Type Volume 1Q 2014				
Pos.	Deal Sub-Type	Deal Value ($m)	No.	% Share
1	FO - Fully Marketed	1,378	3	52.1
2	FO - Accelerated Bookbuild	1,188	8	44.9
3	IPO - Fixed Price	45	11	1.7
4	FO - Rights Offer	33	2	1.3
5	IPO - Open Price	3	3	0.1

Mergers & Acquisitions

- **India** remained the fifth targeted nation in Asia Pacific region for 1Q 2014 with $18.4bn, up considerably compared to $6.4bn announced in 1Q 2013
- India **Outbound M&A** volume dropped to $453m in 1Q 2014 compared to $1.8bn for the last quarter of 2013. However, it was up by 74% on the 1Q 2013 volume of $261m
- India **Inbound M&A** volume rose substantially to $8.5bn for 1Q 2014 from the $3.9bn for the similar period in 2013
- **Domestic M&A** volume increased considerably to $9.9bn for 1Q 2014, compared to $2.4bn for 1Q 2013. However, deal activity was on a low of 177 deals compared to 194 deals for 1Q 2013
- **Indian Government's** sale of blocks of telecom spectrum through auction, for a combined total of $9.6bn in February, to **Vodafone Group, Bharti Enterprises, Reliance Industries and Idea Cellular** pushed the M&A volume for India in the first quarter of 2014

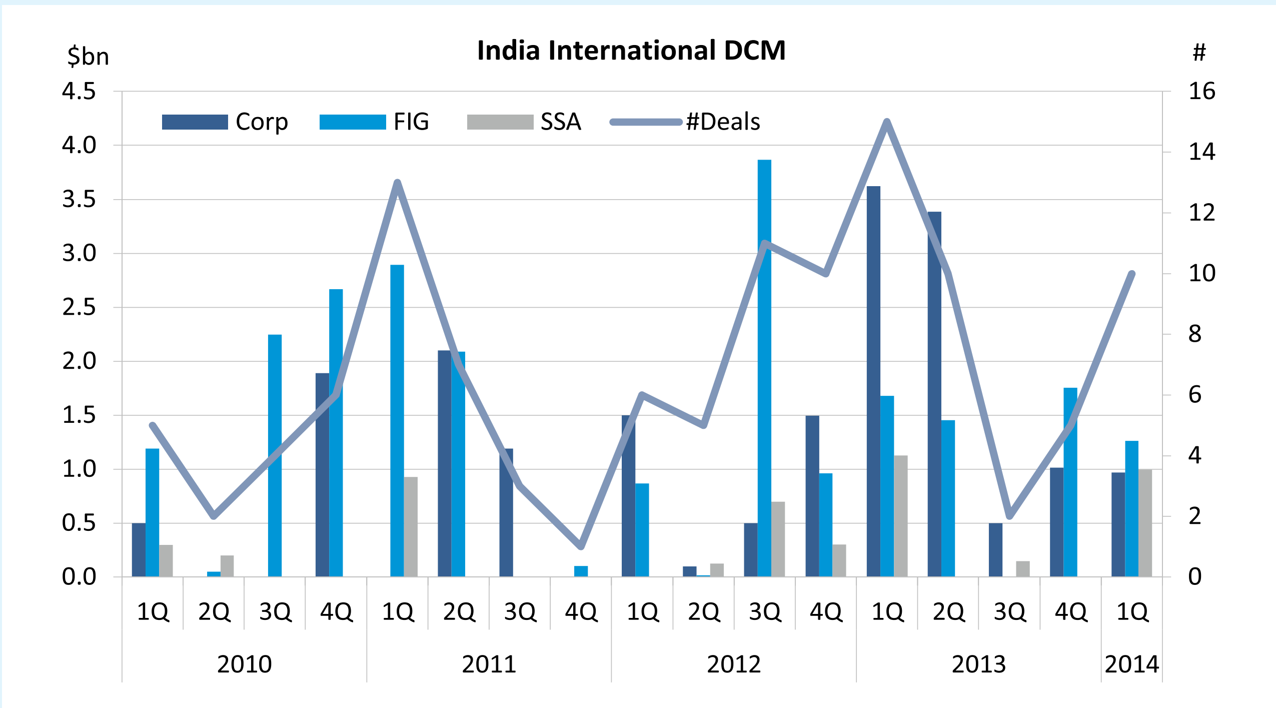


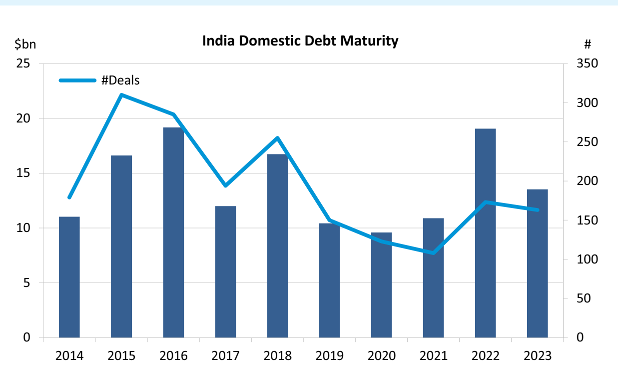
India Announced M&A Advisory Ranking 1Q 2014				
Pos.	**Advisor**	**Value $m**	**# Deals**	**% Share**
1	Rothschild	3,456	2	18.8
2	Ernst & Young	1,617	3	8.8
3	JPMorgan	979	2	5.3
4	VTB Capital	796	1	4.3
4	Greenhill & Co	796	1	4.3
6	Barclays	281	1	1.5
7	Citi	222	2	1.2
8	Deutsche Bank	183	1	1.0
9	Standard Chartered Bank	169	2	0.9
9	Motilal Oswal Investment Advisers Pvt Ltd	169	3	0.9

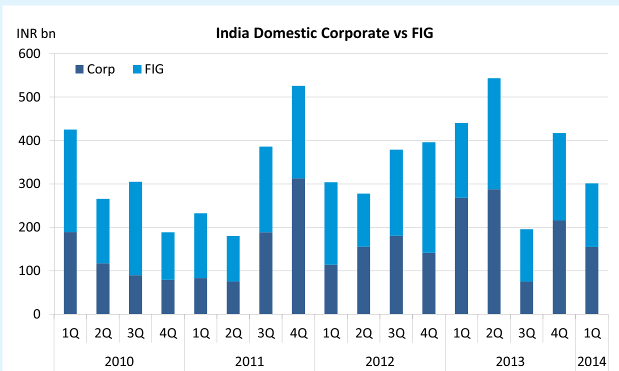
Asia (Ex Japan, Australia, New Zealand) M&A Ranking by Target Nationality 1Q 2014				
Pos.	**Nationality**	**Value $m**	**# Deals**	**% Share**
1	China	56,475	758	45.2
2	South Korea	21,177	207	17.0
3	India	18,399	238	14.7
4	Singapore	12,378	106	9.9
5	Hong Kong	8,069	91	6.5
6	Malaysia	2,910	155	2.3
7	Taiwan	2,023	31	1.6
8	Indonesia	1,417	51	1.1
9	Thailand	1,242	48	1.0
10	Philippines	426	37	0.3

Debt Capital Markets

- **India DCM** issuance for 1Q 2014 reached $9.1bn via 83 deals, down 52% on the $19.0bn raised in 1Q 2013 also marking the lowest quarterly volume since 3Q 2013 ($4.9bn)
- **Corporate IG** and **Agency** bonds accounted for 74% and 21% of the total DCM volume with $6.7bn and $1.9bn, respectively for 1Q 2014
  - **Bank of Baroda** led the offshore issuer table for 1Q 2014 with a 23% share, while **Food Corp of India Ltd.** topped the domestic issuer ranking with a 22% share
- India **Domestic DCM** volume recorded a low of INR360.2bn for 1Q 2014, down 47% from the INR681.1bn raised in 1Q 2013. Activity decreased to 73 deals in 1Q 2014 from the 165 recorded for the same period in 2013
- **International** issuance for 1Q 2014 reached $3.2bn, down 50% on the 1Q 2013 volume of $6.4bn. Activity decreased to 10 deals compared to 15 deals for 2013

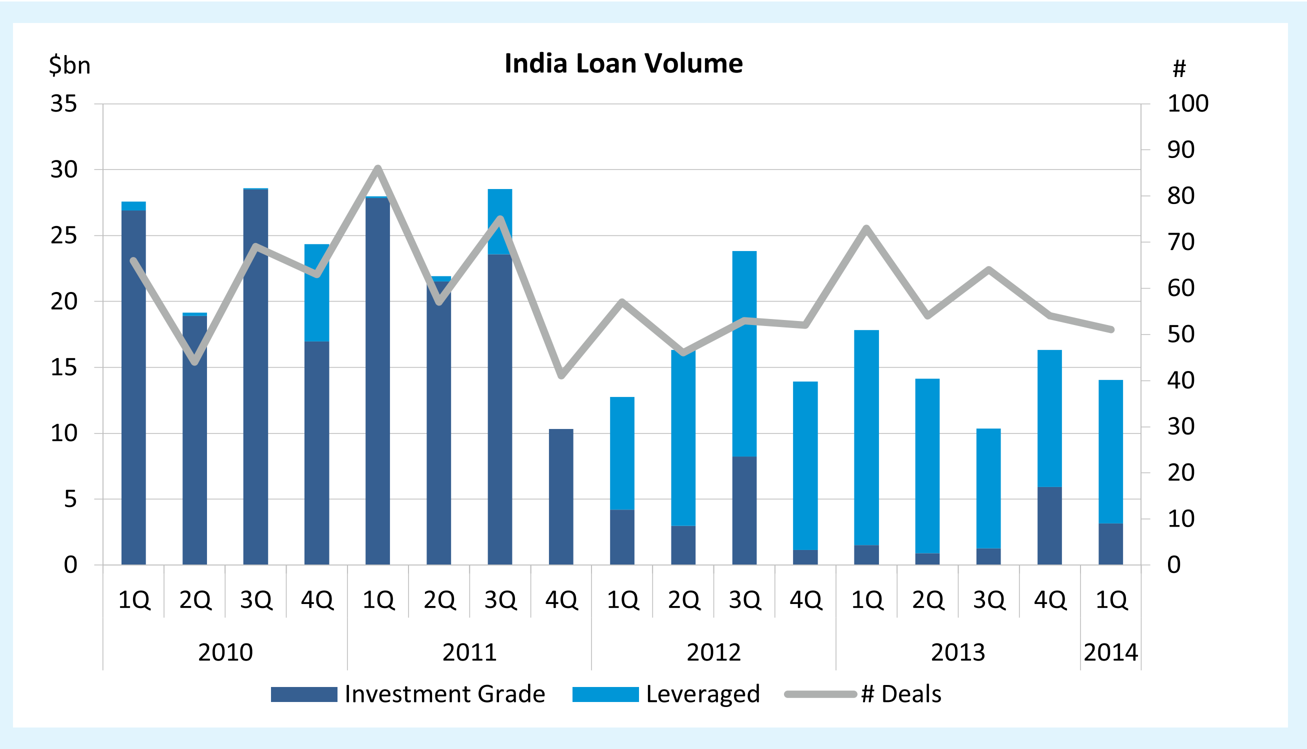


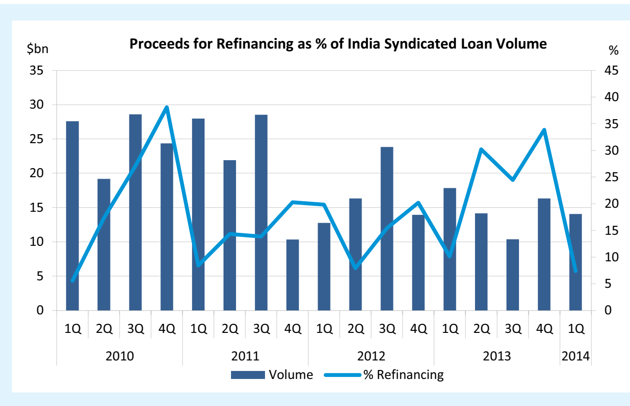


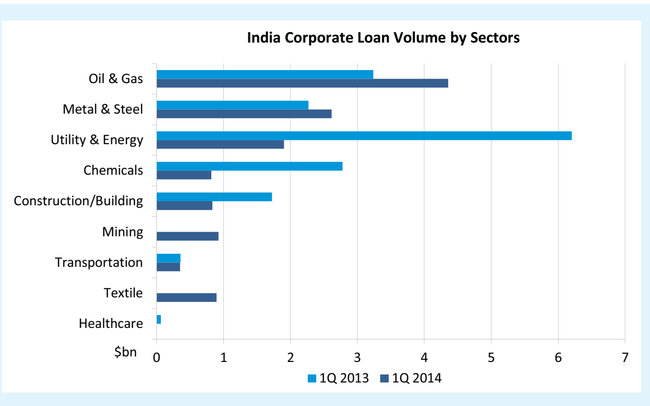


Loan Markets

- **India loan** volume reached $14.0bn for 1Q 2014, down 21% on the $17.8bn for 1Q 2013. Number of deals dropped to 51 versus 73 deals for 1Q 2013
  - **Leveraged** loan volume dropped 33% to $10.9bn via 45 deals, compared to $16.3bn (63 deals) for 1Q 2013
  - **Investment grade** loan volume increased considerably to $3.2bn versus $1.5bn for 1Q 2013
- Among the corporate borrowers, **Oil & Gas** sector topped the industry ranking for 1Q 2014 ($4.4bn) with a 32% share
- **Aban Holding's** $1.3bn leveraged deal in March 2014 arranged by **SBI,** is the largest loan transaction for 1Q 2014







Project Finance

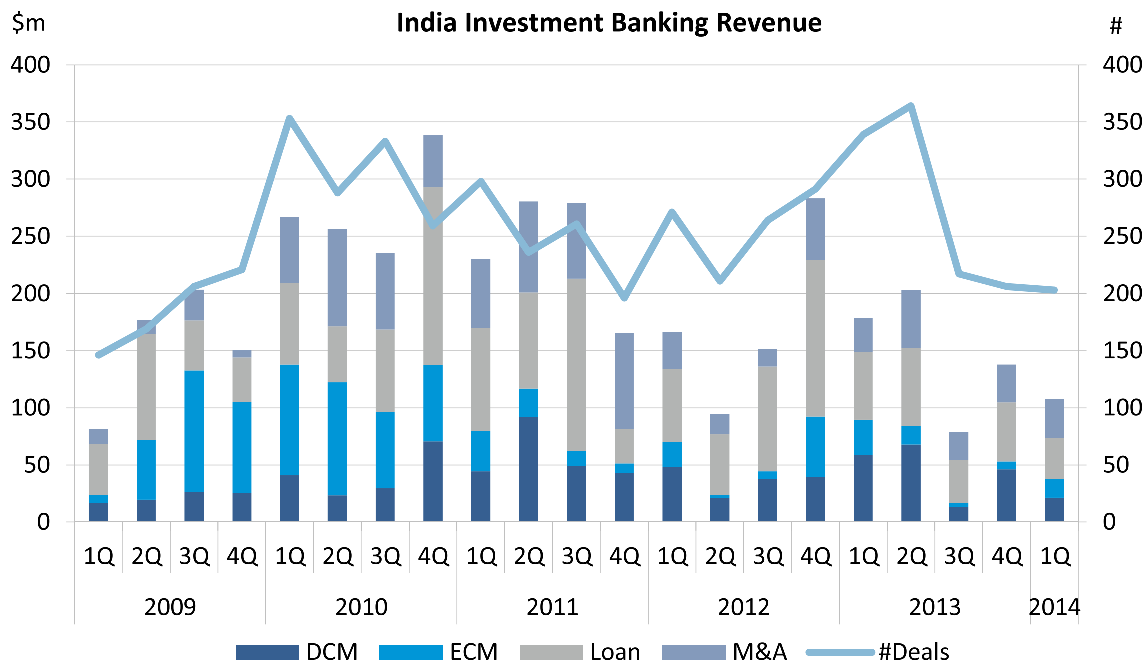
India Project Finance Loans Ranking 1Q 2014				
Pos.	Mandated Lead Arranger	Value $m	# Deals	% Share
1	State Bank of India	5,516	15	61.0
2	IDFC Ltd	2,672	8	29.6
3	Axis Bank Ltd	160	1	1.8
4	ICICI Bank Ltd	140	1	1.5
5	Central Bank of India	84	3	0.9
6	Bank of India	61	2	0.7
7	HSBC Holdings plc	50	1	0.6
7	IDBI Trusteeship Services Ltd	50	1	0.6
7	Yes Bank Ltd	50	1	0.6
10	India Infrastructure Finance Co Ltd	44	3	0.5

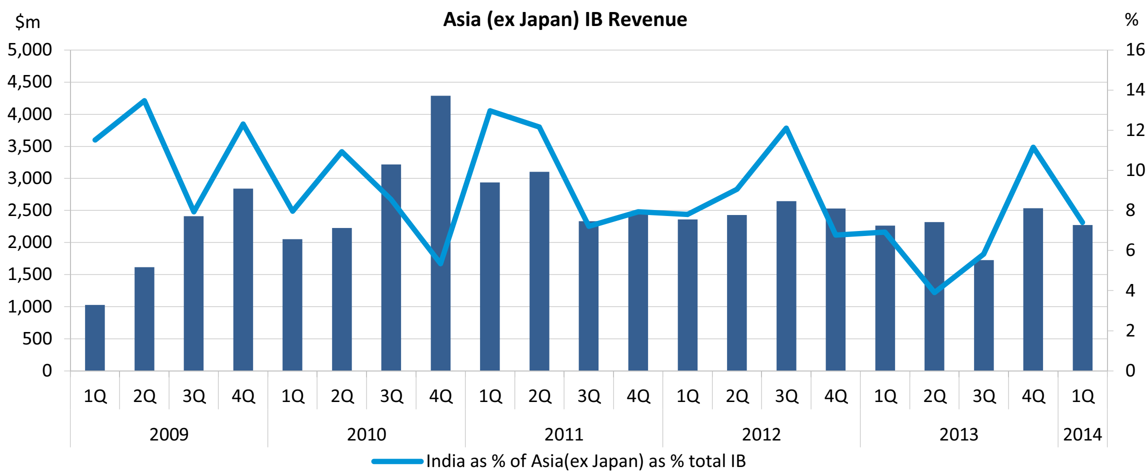
India Sponsor Ranking for Project Finance 1Q 2014				
Pos.	Mandated Lead Arranger	Value $m	# Deals	% Share
1	Maxis Communications Bhd	2,133	2	19.0
1	Sindya Securities Investments Pvt Ltd	2,133	2	19.0
3	Bhushan Power & Steel Ltd	1,347	1	12.0
4	Tata Group	796	3	7.1
5	Bharti Enterprises Ltd	770	2	6.9
6	State of West Bengal	354	2	3.2
7	Abu Dhabi Water & Electricity Authority	302	1	2.7
7	IDFC Ltd	302	1	2.7
7	Public Sector Pension Investment Board	302	1	2.7
10	Vodafone Group plc	241	1	2.2

Top 10 Indian Project Finance Deals 1Q 2014				
Financial Close Date	Borrower	Project Name	Sector	Value $m
29-Mar	Aircel Ltd	Aircel 2G, 3G and BWA Telecom Project Capex	Telecom	3,612
30-Dec	Hindalco Industries Ltd	Mahan Aluminium Smelter Complex Refinancing	Processing plant	1,634
12-Mar	Bhushan Power & Steel Ltd	Rengali Integrated Steel Plant Phase VI	Steel mill	1,347
14-Mar	Jaiprakash Power Ventures Ltd	Karcham Wangtoo Hydro Projects PPP Refinancing	Renewable fuel	905
26-Feb	Maithon Power Ltd	Maithon Power Project Capex and Refinancing	Power	705
10-Mar	Aircel Ltd	Aircel Additional Financing and Refinancing	Telecom	653
30-Jan	ONGC Tripura Power Co Ltd	726.6MW Palatana Gas Based Thermal Power Plant Refinancing	Power	647
21-Jan	Bharti Airtel Ltd	Bharti Additional Telecom Spectrum Project	Telecom	456
14-Feb	Bharti Airtel Ltd	Idea Cellular Additional Telecom Spectrum Project	Telecom	314
30-Jan	HPCL-Mittal Energy Ltd	Guru Gobind Singh HPCL Mittal Refinery Expansion	Oil Refinery/LNG and LPG Plants	256

IB Revenue

- **India IB revenue** reached $107m in 1Q 2014, down 39% on 1Q 2013 ($178m) and almost down by 21% compared to 4Q 2013 ($137m)
- **Syndicated Loan fees** accounted for 34% of total India IB revenue in 1Q 2014 with $29m, the second lowest since 4Q 2011 ($30m)
  - Despite the record share in 1Q 2014, Loan revenue is down 29% from the $51m earned during 4Q 2013
- **DCM revenue** reached $21m in 1Q 2014, down 63% on 1Q 2013 ($59m) and almost down by 54% compared to 4Q 2013 ($46m)
- **M&A fees** accounted for 31% of total India IB revenue in 1Q 2014 with $34m via 39 deals compared to $33m for 4Q 2013
- **ECM fees** accounted for the lowest share (15%) of India IB revenue with $16m via 26 deals in 1Q 2014, down 48% on 1Q 2013 ($31m via 38 deals)





Markets Watch

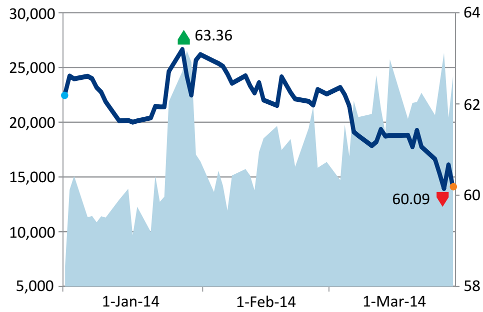
Powered by MCX SX India's New Stock Exchange

USD-INR

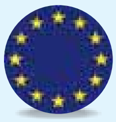
JAN-MAR 14

Turnover* (₹/cr)
1,025,844.47

Volume* (in lots)
138,682,880.00



Open: 63.21 | High: 63.36 | Low: 60.09 | Close: 60.17 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till Mar 31, 2014)*

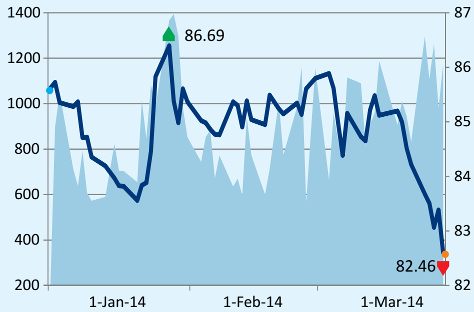


EUR-INR

JAN-MAR 14

Turnover* (₹/cr)
52,091.73

Volume* (in lots)
6,118,976



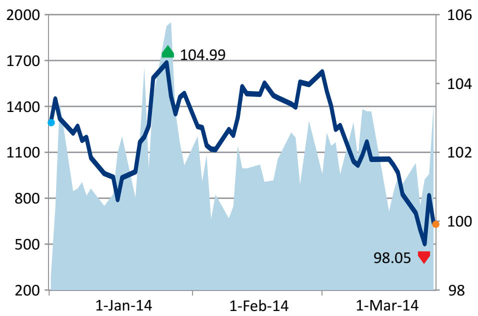
Open: 86.42 | High: 86.69 | Low: 82.46 | Close: 82.61 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till Mar 31, 2014)*

GBP-INR

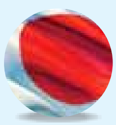
JAN-MAR 14

Turnover* (₹/cr)
62,317.62

Volume* (in lots)
6,048,462



Open: 104.30 | High: 104.99 | Low: 98.05 | Close: 99.96 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till Mar 31, 2014)*

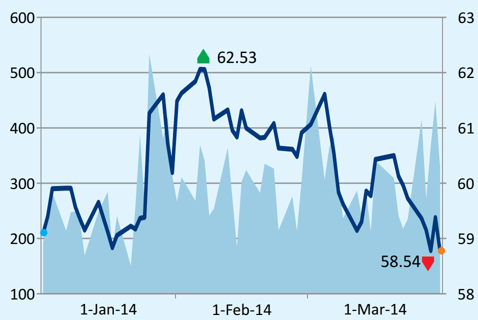


JPY-INR

JAN-MAR 14

Turnover* (₹/cr)
17,246.19

Volume* (in lots)
2,836,405



Open: 62.25 | High: 62.53 | Low: 58.54 | Close: 58.77 — Price — Volume
Currency futures prices from MCX-SX. *Combined turnover and volume of all exchanges compiled from exchange websites. *(Data till Mar 31, 2014)*

Market Commentary

Year 2013 was an extremely volatile year for the Indian Rupee as Rupee fell sharply against the US Dollar. With the Start of the year 2014, Rupee has shown some signs of stabilization as Rupee surprisingly appreciated by 6 percent in the January-March 2014 period, making it one of the best performing currency in the world so far. An improvement in economic fundamentals such as the balance of payments report, reduced current account deficit, easing inflation and announcement of a general election timeline has sparked a rally in the Indian equity markets and a sharp appreciation in Rupee value in last couple of months.

Increasing support in the opinion polls for a BJP led NDA Coalition, which is perceived as market friendly also supported Rupee rally however anything contrary to opinion polls may just put brakes on the rally seen in the markets and the Rupee. Global funds have pumped $10.2 billion into Indian shares and bonds this year, the most among eight Asian markets tracked by Bloomberg.

The Rupee's movement ahead largely depends on election outcome and only a government that has pro-growth policies will help it appreciate further.

In the Technical Charts of USDINR, Pair has depreciated around 6 percent to 59.59 levels from 63.2850, a level seen on 27th January 2014. USDINR has breached some key technical levels and appreciated quite sharply so profit booking at lower levels may pull it again towards 61.00 levels. Immediate support is at 59.50 below this level pair may test 58.60 which is another key support on the downside. On the upside immediate resistance is at 61.60 above this pair may test 63.00 levels which looks a rare possibility at this time.

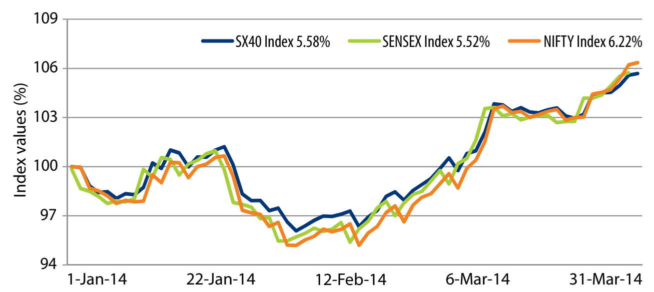
- Rekha Mishra,
AVP - Research (Currency Derivatives),
Bonanza Portfolio Ltd.

Index Characteristics (as on March, 31st, 2014)	
Index Universe	Large Cap Companies
No. of Companies	40
Base Value	10,000
Base Date	31/03/2010
Industry Classification	ICB®
Minimum Free Float	10%
Review	Semi – Annually
Industry Capping	20%
Weight of Largest Constituent	09.76%
Top 10 Holding	63.45%

Computed Period	SX40	NIFTY	SENSEX
FY 2010-11	11.70%	11.14%	10.94%
FY 2011-12	– 8.84%	– 9.23%	– 10.50%
FY 2012-13	8.31%	7.31%	8.23%
FY 2013-14	19.59%	17.53%	18.67%
FY 2010-13	32.98%	27.72%	27.72%
Return Since launch	16.45%	13.56%	14.89%

Source: Bloomberg

SX40 Vs NIFTY & SENSEX - Quarter ending March 31st, 2014 (Rebased)



Source: Bloomberg

Industry Weights	
Industry Name	**SX40 Weights (%)**
Industrials	15.59
Consumer Goods	17.30
Telecommunications	2.45
Oil & Gas	12.32
Health Care	5.88
Basic Materials	3.13
Technology	18.37
Financials	21.04
Utilities	3.18
Consumer Services	0.74

As on March 31st , 2014

SX40™

INDEX OF INDIA

SX40 is the flagship large cap Index of the MCX Stock Exchange (MCX-SX). It is a free float based index of 40 large-cap liquid stocks representing diversified sectors of the Indian economy. SX40 is designed to measure the economic performance of the broad market, through optimal representation of various industries and sectors based on ICB®, the leading global Industry Classification System from FTSE. The Index has been devised to offer cost-effective support for investment and design of structured products such as index futures and options, index portfolio, exchange traded funds, index funds, etc.

Per the selection process, the constituent stocks should remain within the top 100 ranked on the basis of average daily trading value for the earlier three months; must also have been traded on at least 90 percent of the trading days during the review period. The top 40 stocks, amongst the basket in terms of average free float market capitalization would then form a part of the index. Industry exposure shall however be capped at 20% to avoid any undue sectoral influences. However starting from the next review and rebalancing period, the selection-cum-capping methodology has been fine-tuned to include all in the industry into a capped industry group and adjust their total sectoral weight to add to 20 percent as opposed to the earlier cap and reject methodology adopted.

Though as per the new methodology, it would impact sectoral diversification but would help the index reflect the broad market trends. Thanks to its diversified portfolio, SX40 returns remained higher than its peer broad market large cap benchmarks available for any given period in time since 2010 (Table above). Financial sector representing broadly that of the banking sector has the highest weightage to be followed by technology and the consumer goods sector as per the ICB© classification.

Synopsis of Past Events

Interactive Sessions with Ministry of Finance (MoF) & Forward Markets Commission (FMC) Officials

March 18, 2014, New Delhi

L to R: Mr Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee & MD & CEO, ICICI Securities Ltd; Mr Sunil Sanghai, Chair, FICCI's Capital Markets Committee & MD, Head of Banking-India, HSBC Ltd.; Dr. K. P. Krishnan, AS (CM) & DG (DoC), DEA, Ministry of Finance; Ms Naina Lal Kidwai, Immediate Past President, FICCI and Country Head - HSBC India & Director - HSBC Asia Pacific; Mr. Ramesh Abhishek, Chairman, Forward Markets Commisssion (FMC); Mr Jayant Manglik, Chair, FICCI's Working Group on Commodities & President-Retail Distribution, Religare Securities Ltd; Mr Samir Shah, Co-Chair, FICCI's Working Group on Commodities & MD, NCDEX

Interactive session with Dr. K P Krishnan, Additional Secretary, Department of Economic Affairs & Mr. Ramesh Abhishek, Chairman, Forward Markets Commission

Members of FICCI's Capital Markets Committee and FICCI's Working Group on Commodities met with Dr. K P Krishnan, Director General, Department of Currency and Additional Secretary, Department of Economic Affairs, Ministry of Finance & Mr. Ramesh Abhishek, Chairman, Forward Markets Commission on March 18, 2014 in New Delhi. The objective of the meeting was to provide a platform for officials of the government, regulator and the industry to interact and deliberate on issues facing Indian capital markets and commodities markets. During the interaction, Dr. Krishnan mentioned that the objective of the work being done by the Department of Economic Affairs, MoF, was to support the real sector and reduce the cost of capital for India Inc. He further said that since 1991, financial sector reforms in India had responded in a very timely manner to whatever the polity perceived to be the requirements of the real sector. Mr Ramesh Abhishek, Chairman, FMC mentioned that the Commodities Markets need a lot of policy support if it has to play its rightful role for various stakeholders in the economy. He also mentioned that a more consolidated approach is needed for APMC Laws in India.

Interactive Session on Foreign Investment and Tax issues

FICCI's Capital Markets Committee organized a closed-door interactive session with Mr. Prabhat Kumar Mishra, Joint Secretary (Investment & Currency), Department of Economic Affairs, Ministry of Finance and Mr. Akhilesh Ranjan, Joint Secretary (Foreign Tax & Tax Research), Department of Revenue, Ministry of Finance on March 18, 2014 in New Delhi. The two MoF officials shared the government's perspective on foreign investment and tax issues impacting capital markets and the industry in general. Specific issues discussed at the meeting include transfer pricing, FATCA (Foreign Account Tax Compliance Act), GAAR (General Anti Avoidance Rules), definition of control and FIPB approval procedure.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Wednesday, 18 June 2014
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FINSEC 2014

2nd Financial Sector Conclave

'Synergies for Bolstering Development in South India'

10th - 11th July, 2014

ITC Kakatiya, Hyderabad

Key Session

- Infrastructure Financing
- Financing of Agri Value Chain
- Family Constitutions/Codes, Disputes and Dispute Resolution in Family Business
- MSME Financing
- Business Transition Issues during Generational Control Change
- Role of Credit Rating Agencies
- PSL and Banking Sector
- Re-Insurance
- Financial Markets and Consumer Protection
- Critical Discussion on the Nachiket Mor Committee Report

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