June-July, 2010

FICCI

# Banking & Finance

Issue:2

JOURNAL

## Funding needs of the Indian Industry

### Opportunities and Challenges

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# 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 and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 39 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 79 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.

# PREFACE

Over the years, FICCI has made its presence felt by being an integral part by providing essential inputs on economic and policy issues. Building further on our research capabilities and our goal to provide incisive analysis on pertinent issues to our stakeholders, we at FICCI decided to publish 'FICCI Banking and Finance Journal'.

The inaugural issue of the journal was unveiled at FICCI's 7th Annual Capital Markets conference in Mumbai on April 20, 2010 by Mr. C.B. Bhave, Chairman, SEBI. The issue was on 'Corporate Bond Market in India'. The contributors to the issue stressed on the need for a vibrant corporate bond market and discussed various remedial measures that the regulators should take in this direction.

Indian economy is growing at a fast pace and India Inc. needs to move at a similar speed to meet growing demand of the economy. Funding needs of India Inc. obviously are growing too and this raises a pertinent question as to how do we fund growth plans of India Inc.

This issue of our journal aims to bring to the forefront perspectives of experts from Indian Inc. and financial sector intermediaries on 'Funding needs of the Indian Industry - Challenges & Opportunities'. Eminent people from various industries have expressed their views on the possible remedial measures that should be taken to make the availability of credit easier.

We thank our partner MCX for extending their support to help achieve our endeavour.

We do look forward to views and suggestion from the readers to help us improvise the content of the journal and make it more relevant and informative.

**Dr Amit Mitra**
Secretary-General
FICCI

# Funding needs of the Industry: Searching for the El Dorado

*FICCI Banking and Finance Team*

Industry is one of the key drivers of the transformation in the growth trajectory of the Indian economy witnessed during the post-2000 period. Though, a cyclical slowdown did have some adverse effect on the industrial sector in 2007-09, the growth rebound is now amply evident. Gross domestic product (GDP) growth has clearly revived in the second quarter of the last fiscal year and the industry has emerged as one of the prime movers of the process.

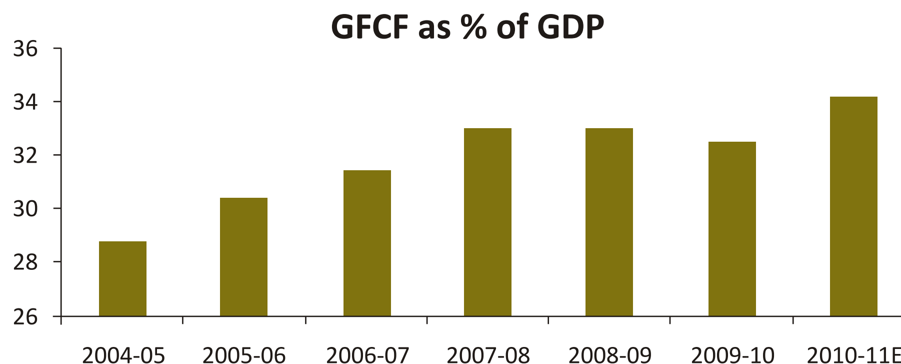
As the expansion plans of the Indian industry are back, so has the need for funding investment. The task is arduous keeping in mind that one not just has to keep going but also has to make up for the lost time.

FICCI looked at two such parameters that will give you an indication of amount of funds required for the current financial year (2010-11), if we are to maintain are growth assumption and also give an approximation of amount of funds that Indian industry is planning to invest and hence raise in the coming years.

The first parameter that is considered is - the incremental capital output ratio (ICOR) defined as the ratio between investment and the growth in output. It indicates the marginal amount of investment capital necessary for an entity to generate the next unit of production. So, if a country has an ICOR of 4 and it expects a GDP growth of 5 per cent, one can find out the required investment as per cent of GDP - in this case 20 per cent of GDP.

So as an input for the model, to begin we expect a GDP growth of 8.4 per cent for 2010-11, and we calculated the average ICOR for the last ten years as 4.07, hence, the amount of Gross Fixed Capital Formation (a proxy for investment growth) required considering the GDP assumption and the ICOR will be 34.18 per cent of GDP. (See table 1)

**Table 1**



The second matrix considered was the amount of investments (projects) that went under implementation. According to CMIE CapEx database the average quarterly investments that were under implementation in 2007-08 amounted to Rs. 1.2 lakh crore. The amount increased to Rs. 2.3 lakh crore in 2008-09 and further to Rs. 3.8 lakh crore in 2010-11. Of course, the amount will be expended over a period of time. Other important positive trend to see is that the share of the private sector in outstanding investment went up steadily from 39 per cent at the end of March 2004 to 59 per cent on March 2010.

The data further reveals that a total of 809 new projects were announced in the March 2010 quarter, entailing an investment of Rs. 4.3 lakh crores. With this announcement, the outstanding investment also crossed Rs. 100 lakh crores mark of the first time.

## Financial Reforms hold the key in quenching the thirst for Funds

Even as we brace for raising resources for the Eleventh Five Plan (2007-12), the government has set its sights for the Twelfth Plan (2012-2017). The government plans to double the infrastructure spending to Rs. 50 lakh Crore for the Twelfth Year Plan.

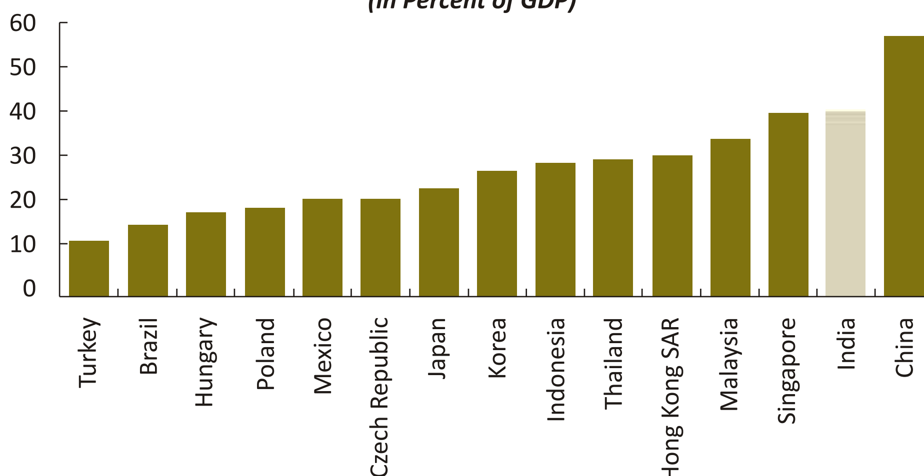
Hence the enormous funding needs cannot be met by banks alone and the development of new sources of financing is a foregone task. However, one doesn't need to look too far, as the funding sources are 'right here' and the time is 'right now'. The following set of approaches will help in achieving the goal of revving up the funding needs of the industry:-

1. Innovative Approaches to Finance
2. Encourage public private partnerships (PPPs) to raise additional financing.
3. Encourage investment by domestic institutions and other institutional investors.
4. Diversify and expand traditional revenue-raising sources.

### So far so good...

As investment takes off, the priority should to ensure that the domestic financial system stays ahead of the needs. While India's savings are relatively high, about a third is in physical assets; hence deepening the financial system and its ability to intermediate more efficiently remains critical. (See table 2)

**Table 2**




***Sources:*** *IMF, WEO database; and staff estimates.*

The government has taken some steps to address the constraints and those need to be commended. The planned introduction of a takeout financing[1] scheme by the India Infrastructure Finance Corporation Limited (IIFCL) and the reduction in capital requirements for this instrument, the introduction of New Pension Scheme and repos with corporate bonds will help promote long-term debt financing. Similarly, the introduction of interest rate and currency futures provides additional instruments to manage market risk. Perhaps, it is also time to re-consider the draft RBI guidelines on CDS in October 2007, in the light of the financial crisis.

## Does the search for El Dorado ends here?

Let's have a look at some of the existing avenues of raising money - how they can contribute more towards the funding needs of the industry.

1. **Banks and Financial Institutions -** A significant share of banks' assets, roughly corresponding to the size of their long-term liabilities, is already invested in infrastructure. Thus, banks would face considerable asset-liability mismatch if they were to expand their exposure to the sector any more. While the introduction of a takeout financing scheme by the IIFCL and the RBI's reduction in capital requirements could help banks alleviate such asset-liability mismatch[2] , the availability of takeout financing is still very limited.

2. **Corporate Bond Market -** Further development of the corporate bond market is crucial to increase the availability of financing for infrastructure. India's corporate bond market remains small compared to other Emerging Markets (see table 3), despite an increase in issuance in recent months and measures to promote its development. Long-term obstacles - including a lack of liquidity in the government bond market and the absence of a benchmark yield curve, limited hedging tools for investors and traders to mitigate credit risk and interest rate risk, poor and lengthy enforcement laws relating to default proceedings, and limited participation by domestic institutional investors should be removed. In particular the following issues need to be looked upon[3] :-

- Non-existence of a standardized trading platform and a central clearing house.
- Stamp duty is complex and variable between locations leading to increased cost of stamp duty.
- The number of participants in the market is relatively small and there is little diversity of view, and hence little incentive to trade.
- Retail participation remains low due to lack of knowledge and understanding of bonds as an asset class.
- Life insurance companies and pension funds, which have incentives in investing for longer tenor, are governed by strict investment norms.
- Lack of risk management/hedging products, the interest rate derivative market is not well developed due to existing regulations.

[1] *Take out Financing is a method of providing finance for longer duration projects (say of 15 years) by banks by sanctioning medium term loans (say 5-7 years). The loan will be taken out of books of the financing bank within pre-fixed period, by another institution thus preventing any possible asset-liability mismatch. After taking out the loans from the banks, the institution could off-load them to another bank or keep it*

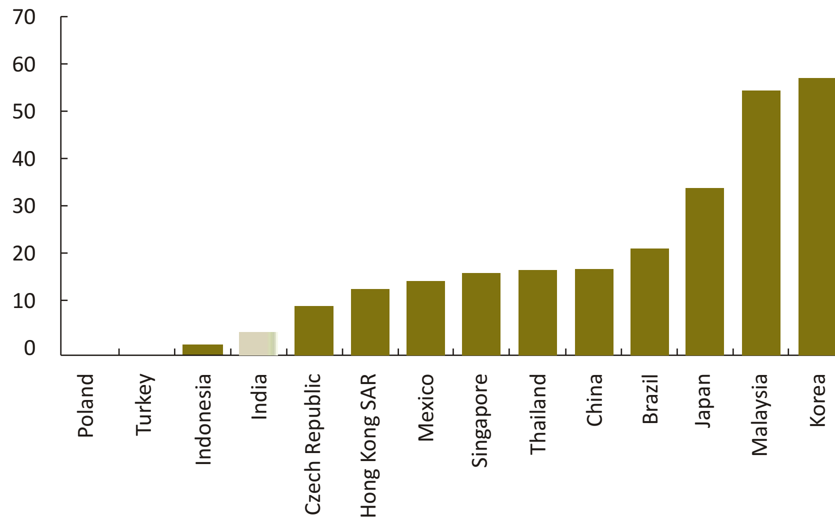
[2] *Should Banking Be Made Boring? - An Indian Perspective. Keynote address by Dr. Duvvuri Subbarao, Governor, Reserve Bank of India at the International Finance and Banking Conference organized by the Indian Merchants' Chamber on 'Banking - Crisis and Beyond' on November 25, 2009 in Mumbai.)*

[3] *For more on Corporate Bond refer to the April issue of FICCI Banking & Finance Journal*

**Table 3**

**Corporate Bond Market**

***(In percent GDP)***




***Source:*** *IMF 2009*

- Currently, co-operative banks are permitted to invest up to 10 per cent of their deposits in PSU Bonds and only scheduled co-operative banks are allowed to invest in private sector bonds. Allowing all co-operatives banks to invest in high quality corporate bonds would assist the development of the debt markets.

3. **Increasing the depth of Financial markets**

   International experience suggests that domestic institutional investors play a key role in making the markets more resilient, while participation by foreign players makes the market more liquid. In several Latin American countries (See table 4) - Chile and Mexico the growth of domestic pension funds and insurance companies, played an important role.

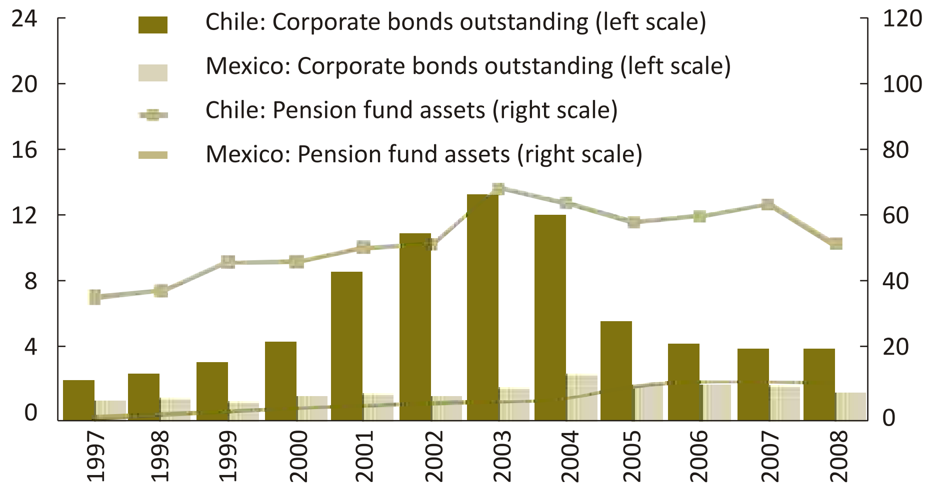
- The New Pension System (NPS) has enormous potential, which was expanded to include unorganized sector workers in 2009 has enormous potential to mobilize long-term savings, but is still in its infancy. It's a welcome beginning, though. Further vibrancy in this sector will help in mobilizing much needed long-term capital for economy.
- The expansion of insurance industry has certainly helped in enhancing financial investor base, which will help in the overall expansion of financial markets and in particular meeting the long term financing needs of the economy. The proposed Insurance Bill amendment, which proposes raising foreign ownership limit in insurance companies from 26 to 49 per cent, should help attract large foreign players into the market. Also further flexibility in investment norms could help in enlargening the support base for equity and bond market.

While the Government has recognised the importance of the issue, the pace of reforms and establishment of an institutional framework has been slow in comparison to what has been achieved by competing economies. In order to meet huge magnum of investments as identified in earlier section of the article, efficient channelising of the relatively high domestic savings would be required. The urgency of financial sector reforms, therefore, to move ahead cannot be overemphasized.

Table 4

## Pension Fund Assets and Corporate Bonds Outstanding

*(In percent of GDP)*




***Source:*** *BIS, OECD; and IMF, World Economic Outlook database.*

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# Funding needs of the Indian Industry: Trade Finance

*Ajay Sahai*
*Director General, FIEO*

The current financial crisis has underlined the criticality of trade finance to international trade. The capacity to trade is significantly affected by both the availability and cost of financing, as well as the availability of instruments to mitigate the risks associated with international trade transactions.

## Market Size

The global market for trade finance (credit and insurance) is estimated to be from $10–12 trillion – that is roughly 80 per cent of 2008 trade flows valued at $15 trillion.

The World Bank estimates that 85–90 per cent of the fall in world trade since the second half of 2008 is due to falling international demand, and 10–15 per cent is attributable to a fall in the supply of trade finance.

This Policy Insight lays out some recent facts and explains decisions made at the G20 London Summit regarding what is potentially one of the main sources of contagion of the financial crisis from a trade perspective – the supply of trade finance.

Further, a UN- ESCAP study suggests that a 10per cent decline in the amount of trade finance may lead to a drop of up to 3.6 per cent of total merchandise trade in developing Asia, a staggering $129 billion.

## Trade Finance: Post-crisis Scenario

Banks, global buyers and firms surveyed independently by the World Bank, International Monetary Fund (IMF) and Bankers Association for Finance and Trade (BAFT), have felt that lack of trade credit and other forms of finance, such as working capital and pre-export financing has affected growth in world trade. In addition, the costs of trade credit have substantially gone up and are higher than they were in the pre-crisis period, raising the challenge of affordability of credit for exporters. Higher funding costs and increased risk continue to put upward pressure on the price of trade credit.

In 2008, as the financial crisis intensified, the spreads on trade finance increased by a factor of three to five in major emerging markets, like China, Brazil, India, Indonesia, Mexico, and Turkey. For example, the spread (over the six-month LIBOR) for Turkey jumped to 200 basis points in November 2008 from 70 basis points in the third quarter (Q3), while Brazil's spread almost trebled in 2008 (from 60 bps to 175 bps);

India's spread increased from 50 bps to150 bps during the same year. Similarly, spreads for several Sub-Saharan countries jumped from 100 basis points to 400 basis points.

Small and Medium Enterprises (SMEs) and exporters in emerging markets appear to have faced the greatest difficulties in accessing affordable credit. Increased uncertainty initially led exporters and importers to switch from less secure forms of trade finance to more formal arrangements. Exporters increasingly asked their banks for export credit insurance (ECI) or asked importers to provide Letters of Credit (LCs). Importers were asked to pay for goods before shipment and exporters sought more liquidity to smooth their cash flow. Further, the realization of export proceeds was not taking place on the due date. This led firms to trim down inventories, and direct the funds so generated to meet their working capital requirements.

## Perspectives and Issues related to Trade Finance in India

**(i) Export Credit as percentage on Net Banking Credit (NBC)**

India has weathered the global economic crisis better than most countries and as per the, Economist Intelligence Unit forecast India will be the ninth fastest growing economy in the world and the second fastest growing major economy this year. It states that India will overtake China as the fastest-growing major economy by 2018.

The Economic Intelligence Unit (EIU) predicts that India will sustain an average annual growth rate of 6.4 per cent to 2030 and high savings rate (32.5 per cent of GDP) and investment levels (34.9 per cent of GDP) will spur India's economic acceleration but inflation would be a risk.

*Higher funding costs and increased risk continue to put upward pressure on the price of trade credit.*

**The present slowdown has seen a decline in the export credit vis-à-vis the net bank credit as given below:**

### Export Credit

| Outstanding as on | Export Credit (Rs. Crore) | Variations (percent) | Export Credit as percent on NBC | Export Credit as percent exports |
|---|---|---|---|---|
| March 24, 2000 | 39118 | 9.0 | 9.8 | 24.5 |
| March 23, 2001 | 43321 | 10.7 | 9.3 | 21.3 |
| March 22, 2002 | 42978 | -0.8 | 8.0 | 20.6 |
| March 21, 2003 | 49202 | 14.5 | 7.4 | 19.3 |
| March 19, 2004 | 57687 | 17.2 | 7.6 | 19.7 |
| March 18, 2005 | 69059 | 19.7 | 6.3 | 18.4 |
| March 31, 2006 | 86207 | 24.8 | 5.7 | 18.9 |
| March 30, 2007 | 104926 | 21.7 | 5.4 | 18.4 |
| December 22, 2006 | 97763 | 13.4[b] | 5.6 | 26.5 |
| December 21, 2007[a] | 117719 | 12.2 | 5.5 | 29.5 |

***Source : Reserve Bank of India***

a Over the corresponding figure as on March 30, 2007 (variation)

b Variation over March 31, 2006

Note:

1. Data up to March 2004 release to select banks accounting for 90 per cent of bank credit.
2. March 18, 2005, onwards, data pertain to all scheduled banks excluding RRBs availing export credit refinance from the RBI.

The Economic survey in its analysis of India's export credit as a percentage of net banking credit has indicated a declining trend, in turn impacting the country's trade. As a result export credit as a percentage of net banking credit has fallen from 5.5 per cent as on March 28, 2008 to 4.6 per cent as on March 27, 2009 and further to 4.1 per cent as on January 15, 2010. The outstanding export credit as on March 28, 2008 was Rs 129,983 crore, a growth of 23.9 per cent over the previous year. The export credit as on March 27, 2009 was Rs 1,28,940 crore, a fall of 0.8 per cent from the previous year. On January 15, 2010, it was Rs 1,24,360 crore, a decline of 3.6 from the March 2009 figure. As per World Bank estimates the shortage in trade finance in the market would have accounted for 10-15 per cent of the decline in global trade.

The proposed Government Panel being set up to review the export credit related issues may do well in examining the cause and effect of this trend and how much of the decline in the export credit vis-à-vis net bank credit (NBC) can be attributed to the overall contraction in global demand and/or the fact that the cost of export credit per se makes export uncompetitive not to mention the innumerable transaction costs that have been discussed in the latter half of this Memorandum.

**(ii) Cost of Credit**

**Need for comparable interest rates vis-à-vis competing countries for the MSME export sector**

Cost of Credit vis-à-vis competing countries has an adverse impact on 2export growth in an inherently high cost economy where transaction costs/overhead costs are 18 to 20 per cent.

Interest rates of some competing countries is as under:

| Country | Interest rates, per cent 3-month Latest |
|---|---|
| United States | 0.16 |
| Japan | 0.30 |
| China | 1.94 |
| Euro area | 0.66 |
| Singapore | 0.50 |
| Hongkong | 0.13 |
| India | 3.92 |
| Taiwan | 0.90 |

*[ Source : The Economist,February, 2010]*

**(iii) Priority Sector Lending for MSME Export Sector**

As per the RBI Guidelines on Priority Sector Lending which earmark 40 per cent of the funds for the priority sector, 18 per cent of the net bank credit (NBC) has been allocated for agriculture and 10 per cent for weaker sections including MSMEs. Only 15 out of 27 public banks and 17 out of 23 private banks have met their target (as per a study conducted in May, 2009).

It is suggested that the MSME Ministry, RBI and Finance Ministry have been considering a sub allocation under the priority sector of 15 per cent which needs to be implemented at the earliest.

**(iv) Interest Subvention**

As a measure to counter rupee appreciation and later due to recession the interest subvention facility was extended since July 2007 to various sectors including textiles and RMG which form a sizeable amount of our exports in the textile sector. However, in the RBI notification of 16th December 2008 while textiles were included garments did not find any mention. Further labour intensive sectors such as leather, gems and jewellery and marine

*A sub allocation under the priority sector of 15 per cent needs to be implemented at the earliest.*

sectors have been deprived the benefit of 2 per cent interest subvention which has been extended for sectors such as handicrafts, handloom and SME sectors. Many of these sectors deprived of subvention would have negative growth in 2009-2010 and few of them may have shown a positive growth but that too on a very low base.

Since sectors such as Leather, gems and jewellery and marine sectors are highly employment intensive sectors with very high capital employment ratio Government should continue to provide them interest subvention both with a view to promote export as well as to encourage additional employment in these sectors.

Further, the benefit of interest subvention may be extended to merchant exporters also who may be classified as SME based on the investment in equipment. Further, RBI notification at present only covers manufacturers with a ceiling of Rs.10 crores on investment in plant and machinery which needs to be upgraded to Rs.25 crores.

**(v) Liberal debt to equity ratio for export credit**

Export credit should be kept outside the purview of the Tandon and/or Chore and Kannan Committee norms where a equity to debt ratio of 1 : 2 was suggested. Debt/equity ratio for export credit may be kept at higher levels, for example, such as 9 : 1

**(vi) Non-availability of dollar loans for export finance**

MSME export sector has drawn our attention to the fact that post the announcement of the reduction in Foreign Currency Loans to LIBOR + 2 per cent vide RBI Circular No. DBOD.DIR.(Exp). No. 76/04.02.001/2009-10 dated February 19, 2010, banks are refusing PCFC Loans. Prior to the reductions PCFC Loans were being extended at interest cost totalling 3.90 per cent but with the refusal of the banks to provide dollar loans at the said rates, the credit costs (in rupee loans) have increased to twice the earlier rates.

**(vii) Other problem areas include:**

Flexibility in Packing Credit Limits; Penal Rate of Interest adding to credit costs; Inadequacy of Working Capital / Term Loans; delays and limited flexibility in restructuring package; Delinquency / NPA norms; lack of transparency in dispensation of export credit and assessment of credit worthiness of borrower (exporter); lack of an effective regulator of banks who can check and ensure compliance of its own instructions and guidelines; third party credit rating requirements under BASEL II for loans above Rs.10 crores which is adding to the overhead costs; excessive collateral to exposure requirements demanded by banks; high service charges in the banking channel adding to cost burden etc.

*Export credit should be kept outside the purview of the Expert Committee norms*

Hence, Trade finance plays an important role in facilitating trade by securing finance in order to manage cash flows risks and costs; raise funds and capitals; and help in trade expansion.

The role of government in trade financing is crucial, especially in emerging economies, as in such countries, there may be underdeveloped financial and money markets, with exporters having restricted access to financing. Governments may either pay a direct role like provision of trade finance or credit guarantee or indirectly by facilitating the formation of trade financing institutions as developmental agencies. In most of the instances ECAs or Exim Banks have been established as developmental institutions with 100 percent government shareholding to provide the needed support the export sector. Proactive role of such institutions in trade finance increase the access to trade finance in emerging economies and contribute to trade expansion and facilitation. The commercial legal system must be transparent and must be integrated with the financial infrastructure in order for it to be effective.

**Mr. AJAY SAHAI**

## About the Author

Mr. Mr. Ajay Sahai is the Director General of Federation of Indian Export Organisations (FIEO) jointly set up by the Ministry of Commerce, Government of India and trade and industry in the year 1965 in promoting India's exports.

He was earlier Joint DGFT in the Policy Division of the Directorate General of Foreign Trade where he played a key role in the formulation of the Foreign Trade Policy from 1996 to 2003. He was member of the High level task force of Government of India on Exim Policy.

Mr. Sahai specializes in “Agreement on Subsidies and Countervailing Measures” (ASCM) of WTO. He had defended numerous anti-subsidy cases against Indian export products in the European Union, USA and Canada.

# How to bridge the funding gap

*Pallav Sinha*
*Managing Director and Chief Executive, Fullerton Securities*

Corporate India now enjoys one of the highest returns on equity globally at around 20%, coupled with healthy balance sheets and strong cash flows, all of which ensures that a part of their capital requirements can be met through internal accruals. In fact, post the financial crisis most companies have been de-leveraging their balance sheet. In FY 2010 India Inc. raised over Rs. 47,800 crores through public equity offerings through IPOs and FPOs. The number of issues in FY 2010 was forty-four as compared to twenty-one issues in FY 2009. Public Sector Undertakings dominated, raising almost Rs 31,000 crores out of which almost 21,162 crores was raised through disinvestment by the Government while the balance was raised through fresh issue of shares. For the current financial year the Government has an even higher disinvestment target.

In contrast, private companies adopted the QIP route to raise capital. During CY 2009 corporate raised Rs. 31,100 crores through QIPs and have additionally raised close to Rs. 5000 crores during the first quarter of 2010. Some of the major QIP issues to hit the markets have been Axis Bank, HDFC and GMR Infrastructure. While Axis bank and GMR Infrastructure were equity issuance HDFC's QIP was a Rs. 40 billion zero coupon NCD and warrants.

Foreign Direct Investment (FDI) in India has been robust during the first nine months of FY 2010 at USD 16.5 billion as compare to USD 14.3 billion during the corresponding period FY 2009. FII flows too have been strong in 2009 at USD 17.5 billion. During the first quarter of 2010 FII's have further pumped in USD 4.4 billion in Indian equities.

This may seem to indicate that Indian industry may not have significant funding challenges. That however is not the case.

Indian Corporates are faced with both macro-economic and institutional challenges in funding. Not only are significant macro-economic headwinds which will make funding more challenging, sectors such as infrastructure pose significant challenges. India's infrastructure sector funding requirement is enormous and expected to jump up to 8% of GDP by FY 2011/12. What's more, this entails long-term funding, hence surfacing challenges of tenor mismatch with the source of funds.

## Macro-economic challenges

The ongoing sovereign debt crisis in the Euro region has bought to the forefront the importance of prudent fiscal management not just for corporate but also nations. Greece which had the highest fiscal deficit at 13.6% of GDP in 2009 coupled with high public debt at 115% of GDP was singled out by the markets with yields on the Greek 10 year benchmark shooting up to 15.3%. The central issue to the European debt crisis was the high external debt burden. The external debt for Greece stood at 82.5% of GDP which meant that tax revenues earned in the country is used to make interest payments to non residents.

India's debt on the other hand is largely financed domestically. While that is an advantage, for sectors such

as infrastructure, which require long-term funding, access to foreign capital is necessary as long-term capital is more easily available offshore. Moreover, the FRBM act which was introduced in 2003 with the intention of reducing the fiscal deficit to 3% of GDP by FY 2009, will be a constraint as far as unbridled Government funding is concerned. The fiscal stimulus required in the midst of the global financial crisis has pushed up deficit in FY 2010 to 6.9% of GDP. The debt of the central Government stood at 61.4% of GDP at the end of FY 2010. The Government intends to bring down the center's debt to GDP ratio to 54% of GDP in FY2013.

This clearly implies that the current financing gap in sectors such as infrastructure needs to be bridged through other sources. India is currently on a high growth path is facing an issue of infrastructure constraint which as per estimates is shaving off approximately 2 percentage points from GDP growth every year. As per the eleventh five year plan India needs investments of USD 400 - 500 billion during the eleventh five year plan in order to sustain a GDP growth rate of 9%. As per the planning commission the Gross Fixed Capital Formation (GCF) rate must rise from 32% in the Tenth Plan to 39% by the end of the eleventh five year plan. The key driver of increasing GCF in the eleventh five year plan would be Private investment. Private investment is expected to provide the bulk of the increased investment accounting for 78% of the total, about the same as in the Tenth Plan.

The share of public investment has been declining over successive Plan periods from 34.7% in the Eighth Plan to 22% in the Tenth Plan. In the Eleventh Plan its share is expected to stabilize at the level in the Tenth Plan. Higher investment rates will be supported by high domestic savings rate of 34.8% and a relatively manageable current account deficit of around 2% of GDP. The household sector is the main contributor to the domestic savings, but the share of public sector is also expected to contribute positively to savings,

*The Government intends to bring down the center's debt to GDP ratio to 54% of GDP in FY 2013.*

reflecting a significant turnaround compared with past experience. The challenge however will be for financial services to intermediate a larger part of India's domestic savings to corporates which require funding for their projects in infrastructure and other sectors in need of funding.

## Institutional challenges and opportunities for long-term financing

Macroeconomic issues such as nature of savings, fiscal discipline, availability of risk capital, concentration of risks and the capacity to absorb capital inflows may prove to be constraining factors in the pursuit of achieving the required investments.

There are significant institutional constraints which deter funding in sectors such as infrastructure which have unique requirements. These relate to issues such as a) developing the domestic debt capital markets (b) institutional risk diversification by encouraging NBFCs and insurance companies to play a more active role in financing (c) tapping foreign investment into debt for some of these sectors while retaining the economy's ability to manage the monetary fallout of such inflows. Banks which have been a major facilitator in extending credit to the infrastructure sector may face constraints in extending credit to the infrastructure sector due to exposure norms and asset liability mismatch. Insurance companies have invested limited amounts in private infrastructure development due to regulatory restrictions, underdeveloped corporate bond markets and the absence of efficient credit risk transfer mechanisms.

It is therefore important that other investment options such as debt securitization and Pass Through Certificates (PTCs) are facilitated. Equally, financing through NBFCs, pension and insurance companies, FDI/ QIPs, Private Equity all need to be used optimally for funding corporates, specially those in the sectors in need of funding.

## Infrastructure Investments needed to drive growth

If India has to achieve the targeted growth of 9% during the eleventh five year plan then the targeted investment in infrastructure has to materialize. Total investment in Infrastructure is envisaged at Rs. 20,56,150 Crores as against

*Insurance companies have invested limited amounts in private infrastructure development*

anticipated investment of Rs. 8,71,445 Crores during the tenth five year plan. Public investment is estimated at Rs. 14,36,559 Crores with the centre contributing to Rs. 7,65,622 Crore while states would be contributing the balance Rs. 6,70,937 Crores. Investment in infrastructure by the private sector is estimated at Rs. 6,19,591 Crores or 30% of the total investments.

Of the projected investment of Rs 7,65,622 crores by the Central Government nearly 48% is estimated to be financed through equity contribution with the balance being financed by market borrowings. For States the equity portion is estimated to be higher at almost 77%. Therefore for the public sector as a whole the debt to equity ratio is estimated at around 39%. For the private sector the debt to equity ratio is estimated at 70% during the eleventh five year plan. Thus Infrastructure investments during the eleventh five year plan are expected to be financed with a debt to equity ratio of 48:52. The equity portion of the public sector is expected to be

financed by budgetary support and extra budgetary resources.

The total requirement of debt by the public and private sectors is likely to be Rs 988,035 crore (US$ 247.01 billion). However, the availability of debt financing for infrastructure during the Eleventh Plan is estimated at US$ 206.38 billion or 83.5% of the total requirement which leaves a financing gap of US $40.6 billion.

## Primary market and institutional investors key to equity capital

Gross domestic savings will not only have to continue to increase, it will also require very efficient intermediation for the funding needs of India's corporate. It will be important to attract household savings to financial savings vs. physical savings. Also schemes to unlock the value of physical savings such as gold deposit certificates would need to be explored.

So other forms of risk capital such as mezzanine financing, subordinate debt, FCCBs and private equity need to be facilitated. Reliance only on the primary markets and institutional investors will not work beyond a point. Also treatment of unlisted equity and SPVs formed for infrastructure projects needs to be reviewed to ensure optimal funding.

**Recent changes in hybrid funding instruments and regulatory impact**

*Reliance only on the primary markets and institutional investors will not work beyond a point*

Hybrid funding instruments such as Convertible Debentures, FCCBs, warrants etc, have recently witnessed a number of regulatory changes. In Jan 2010 RBI tightened ECB norms as a part of series of roll backs from the regulator.  RBI has brought back cost ceiling on external borrowings and has withdrawn the buyback facility for FCCBs. Overall direction seems to be to prevent excessive flow of capital into the country. RBI is going to be very conscious of impact of high capital flows on Rupee as well as on inflation. With the cost ceiling in place, only high quality companies will be able to tap external funding sources. However, RBI has eased norms for companies in telecom, infrastructure and NBFCs to access external borrowings.

The Government is also likely to review FDI policy in sectors like defence, insurance, retail, telecom and agriculture by September'10. DIPP has recommended raising of FDI limit to 74% in defence and govt has shown inclination to increase FDI in insurance and retail. Many insurance JVs are eagerly awaiting raising of FDI limit to 49% so that the foreign partner can bring in more equity. Similarly in retail, companies like Walmart, Carrefour and others are likely to bring in capital and knowhow to help the sector grow. This is likely to be significant to the development of supply chain for food products in India, helping bring down wastages and bringing producers closer to the market.

## Debt financing to play a crucial role

In terms of sources of finance, banks and NBFC's are expected to play the key role by providing almost 65.6% of the total debt requirement while external borrowings are expected to provide 12.4% of the financing. Insurance/pension companies are likely to provide around 7% of the debt requirement. As banks and NBFC's are expected to provide majority of the funding for infrastructure projects which have long payback periods it may lead to severe asset liability mismatch as borrowings by the sector have shorter maturity period. Thus over exposure to infrastructure financing may put a strain on the sector's balance sheet which is not desirable.

However, one of the biggest challenge for Indian corporate is an under developed corporate bond market. While India has a well developed secondary Gilts markets and equity markets the corporate

bond market is still under developed. This is substantially due to the regulatory restrictions that apply to debt as compared with loans. Development of corporate bonds and securitization market is a very key area of opportunity. Issues such as TDS on corporate bonds, reduction of stamp duties for issuance of debt, and streamlining private placement of debt and developing an OTC market for trading in these are well documented and addressing these will make corporate debt a real alternative for corporate funding.

## Policy initiatives needed to facilitate investments in Infrastructure

In order to facilitate investments in Infrastructure the Government had incorporated IIFCL in 2006 . IIFCL is a dedicated institution for financing and development of infrastructure projects in India. At the end of Dec 2009 IIFCL had a balance sheet size of over Rs. 20,000 Crores and has raised over Rs. 18,000 crore through market borrowing by issuing tax free bonds. IIFCL not only funds projects directly but also provides refinance facility to banks and financial institutions for loans with tenure exceeding five years. The refinancing facility provided by IIFCL provides a key role in helping banks manage their asset liability mismatch and free up funds which would otherwise have been blocked for longer tenures.

The Union Budget 2010 has allowed tax deduction on investment in Infrastructure bonds till Rs, 20,000 for individual investors. This move would increase the attractiveness of infrastructure bonds for individuals and would help raise debt capital required for infrastructure investments.

## Conclusion

There are sectors such as infrastructure, telecom, insurance, retailing which will continue to require funding and will also be engines of growth for India. A range of issues, but specially those around developing the corporate bond market, debt securitization, channeling long tenor domestic liquidity from insurance / pension funds need to be considered. The role of financial services companies in intermediating the domestic savings into sectors such as infrastructure will be key. Movement away from physical savings through instruments such as gold deposit certificates would be necessary. Excessive foreign funds pose some monetary challenges, but easier availability of long term funding overseas fits in well with the long-term nature of funding of sectors such as infrastructure. Clarity on hybrid instruments is also required to facilitate FDI. The role of Private Equity & QIPs has already been established. Together these steps can adequately address corporate India's funding requirements and power India to 9% GDP growth over the next few years.

**Mr. Pallav Sinha**

### About the Author

Mr. Pallav Sinha is currently the Managing Director and Chief Executive for Fullerton Securities & Wealth Advisors Limited, India, a 100% subsidiary of Fullerton Financial Holdings, the bank holding company of Temasek. He has over 20 years of professional working experience in the banking and financial services sector.

In his career Pallav Sinha has had successful stints in diverse assignments in personal financial services across branch banking, credit cards, small business banking, wealth management, capital markets and sales & marketing. He holds a Management Degree (MBA) from the Faculty of Management Studies, University of Delhi, and B.A (Hons) degree from St. Stephen's College, Delhi.

# Funding Lessons from the Recent Crisis and Opportunities going forward

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## Introduction

If one were to scope out the choices available to funding managers in India, then we would settle upon five accepted modes of funding that non stressed environments would offer. Depending on the risk and projected asset profile of the individual firm, liability managers would choose one of the following in a non-stressed scenario: Equity Capital, Commercial Paper and Certificates of Deposit, Foreign Currency Convertible Bonds and External Commercial Borrowings, Fully and Partially Convertible Debentures, and Bank Loans.

In the recent crises, specifically during the sub-prime crisis, we note that all of the above save Bank Loans, have become either unavailable or have become dramatically reduced in their availability to liability managers. Hence the focus in stressed environments, whether driven from the outside or not, is seen to shift the focus of funding to sourcing bank loans.

As India recovers from the global crisis, indeed leads the way, we note that certain opportunities for diverse funding sources are coming alive once again. The objective of this article is to sound certain cautions and also provide a way to navigate possible pitfalls going forward. Accordingly, the following section points out one such opportunity in detail. This is followed by an analysis of the pitfalls in unrestrictedly following the opportunity, and finally a solution to the risks involved.

## Opportunity: An Analysis of the External Commercial Borrowings (ECB) Policy

The ECB opportunity is best understood by reviewing the events of the past two years. In October 2008, the RBI decided to modify some aspects of the ECB policy as follows:

1. ECB up to USD 500 million per borrower per financial year was to be permitted for Rupee expenditure and / or foreign currency expenditure for permissible end - uses under the Automatic Route. Accordingly, the requirement of minimum average maturity period of seven years for ECB more than USD 100 million for Rupee capital expenditure by the borrowers in the infrastructure sector was dispensed with.
2. ECB borrowers would be extended the flexibility to either keep these funds off-shore or keep it with the overseas branches / subsidiaries of Indian banks abroad or to remit these funds to India for credit to their Rupee accounts with AD Category I banks in India, pending utilization for permissible end-uses. However, the rupee funds were not being permitted to be used for

investment in capital markets, real estate or for inter-corporate lending.

3. In view of the tight liquidity conditions in the International financial markets, the all-in- cost ceilings were rationalized as under:

Three years and up to five years, the all in cost was: 300 bps over LIBOR.

More than five years and up to seven years: 500 bps over LIBOR.

More than seven years: 450 bps over LIBOR.

4. All other aspects of ECB policy such as USD 500 million limit per company per financial year under the Automatic Route, eligible borrower, recognized lender, end-use, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remained unchanged.

In January 2009, a further liberalization focused on infrastructure NBFCs came into effect. As per the extant ECB policy, Non-Banking Financial Companies (NBFCs) were previously permitted to avail of ECB for a minimum average maturity period of five years to finance import of infrastructure equipments for leasing to infrastructure projects in India.

It was now decided to allow NBFCs, which were exclusively involved in financing of the infrastructure sector, to avail of ECBs from multilateral / regional financial institutions and Government owned development financial institutions for on-lending to the borrowers in the infrastructure sector under the Approval route. It was also decided to permit corporates in the Hotels, Hospitals and Software sectors to avail of ECB up to USD 100 million per financial year, under the Automatic Route, for foreign currency and / or Rupee capital expenditure for permissible end-use. The only restriction was that the proceeds of the ECBs should not be used for acquisition of land.

In December 2009, some new cost ceilings were proposed, as under:

For average maturity periods for three years and up to five years: 300 basis points over LIBOR.

More than five years: 500 basis points over LIBOR.

In addition, Indian companies were allowed to buy back their Foreign Currency Convertible Bonds (FCCBs). It was decided to discontinue the facility with effect from January 1, 2010. The relaxed norms for infrastructure and telecom NBFCs continued.

The latest changes, in Feb 2010, are as follows:

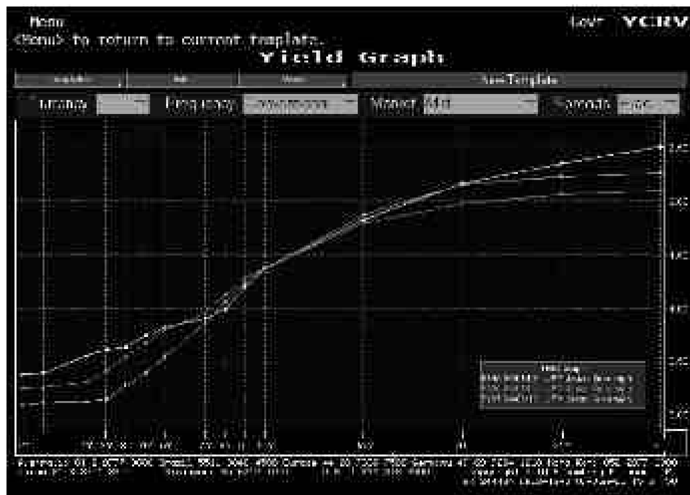
1. Investment banks may approve changes / modifications in the drawdown / repayment schedule of the ECBs already availed, both under the approval and the automatic routes, subject to the condition that the average maturity period is maintained.
2. Investment banks may allow changes in the currency of borrowing, if so desired, by the borrower company, in respect of ECBs availed of both under the automatic and the approval routes, subject to all other terms and conditions of the ECB remaining unchanged, as long as the designated banks ensured that the proposed currency of borrowing was freely convertible.

The above point by point description shows how the ECB window has steadily opened as India moved out of the crisis into growth mode.

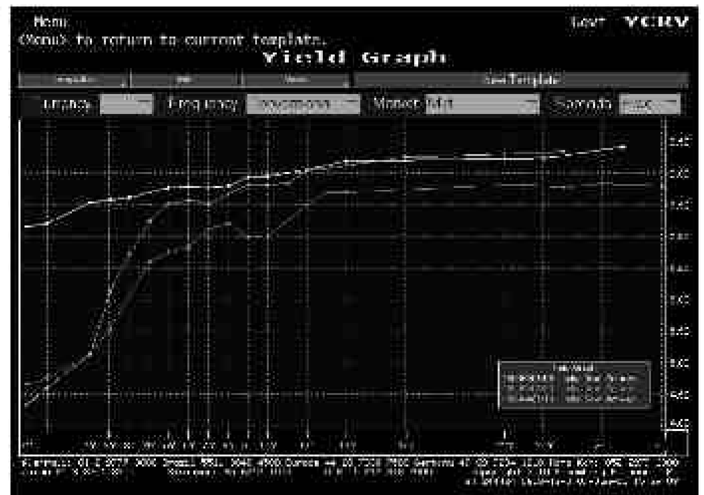
## Possible Pitfalls and Cautions

The opportunity for liability managers today is to borrow from abroad, keeping a few facts in mind. First, an analysis of yield curve movements across the world show up some opportunities.

Consider Japan:




*Source: Bloomberg*




*Source: Bloomberg*

We note that in the 3 year to 5 year, Japan has shown a flattening of around 30 bps over the last year. In contrast, India has shown a steepening of around 80 bps in the same 3 year to 5 year sector. Hence, it is clear that an opportunity for ECB borrowing in Japan has become available.

In the event that a liability manager does so, it is clear that currency risk becomes the prime focus. The caution that we would like to sound here is that this situation was very similar across Indonesia and the US in 1997. The domestic rates in Indonesia were high compared to the US rates, and the Indonesian Rupiah was pegged to the US Dollar. At the time, the steady and dramatic weakening of the Rupiah, even though the borrowing rate differential held, caused what we know today as the Asian crisis.

## Conclusion

In the coming months, we may well expect a spate of borrowings under a more liberalized ECB regime. Hence, we expect that the ECB window will be highly utilized. With current growth numbers in India, there may be every temptation to not hedge JPYINR keeping the long term view of India intact. Hence, we offer the caution that such rate differential exploitation via the ECB route in the absence of a currency hedge is fraught with danger.

The existence of JPY, EUR, GBP and USD currency futures, with increasing liquidity both in MCX-SX and the NSE offer the opportunity to create such hedges, and do so at much tighter bid-offer spreads than their OTC forwards counterpart, at least in the short end. A fully hedged position is long run cheaper as all expected uncertainty is removed. A combination of futures and forwards for the term of the borrowing would be the ideal mix. The prudent liability manager would do well to ensure that currency risk is hedged via a combination of instruments such as the ones discussed here as the new opportunities open up, in addition to the interest rate risk hedges available in the market.

**Mr. U. Venkataraman**

### About the Author

Mr. U. Venkataraman is the Executive Director of (MCX-SX), India's new Stock Exchange, which commenced operations in the Currency Futures segment on October, 2008. MCX-SX is a national level Stock Exchange recognised by the Securities and Exchange Board of India (SEBI). MCX-SX has achieved a significant growth in average daily turnover and open interest in the exchange traded Currency Futures segment.

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**Disclaimer:**

The views expressed in this article are those of the authors and do not necessarily reflect views of MCX Stock Exchange

# Infrastructure Investments: Need for concrete measures to enhance funds availability

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The Planning Commission estimates investments in infrastructure projects in India will be more than $1100 billion over 2010-11 to 2016-17, an amount higher than its real GDP in 2009-10. The share of private sector investment will rise from 30 per cent in the 11th Plan, to about 50 per cent in the 12th Five Year Plan. This will increase the requirement of debt in upcoming infrastructure projects. Banks have financed half the requirement of debt until now. In future, shackled by asset-liability mismatch and group exposure norms, banks will find it increasingly difficult to lend to infrastructure projects.

India will hence need to explore new measures to improve availability of debt funds, in order to achieve its planned infrastructure investments. The measures could include - easing investment norms for insurance companies and pension funds, developing an efficient debt market for long-term bonds, providing traction to takeout financing, relaxing external commercial borrowing (ECB) norms, putting in place new credit enhancement measures and innovative financing instruments such as mezzanine financing.

## High requirement of debt funds to meet planned targets

According to the government of India's mid-term appraisal of the 11th five year Plan in March 2010, about 45 per cent of infrastructure investments were funded through budgetary support, 14 per cent through equity, and 41 per cent by way of debt, in the past three years. India will invest $1100 billion on infrastructure over the next seven years - about five times the investment in the past three years. Coupled with the expected increase in the share of private sector investments, from 30 per cent in the 11th Plan period to 50 per cent in the 12th Plan, the requirement of debt funds will be high.

## Infrastructure industry could face constraints in availability of debt funds

The industry faces challenges that could constrain the availability of debt funds for infrastructure projects. The key challenges are:

*India will invest $1100 billion on infrastructure over the next seven years - about five times the investment in the past three years*

1. **Banks' financing ability to be constrained by asset liability mismatch risk and group exposure norms**

Banks have met almost 50 per cent of the debt requirements of the infrastructure industry until now. The outstanding infrastructure portfolio of banks has grown at a compounded rate of 38 per cent over the past seven years, much higher than the 25 per cent growth in overall credit over the same period. The proportion of infrastructure loans in the total credit of banks has doubled to about 10 per cent during the period. The frenzied pace of growth in infrastructure lending poses the risk of asset liability mismatch for banks. They also run the risk of violating group exposure norms set by the regulator.

**Asset liability mismatch**

Infrastructure project loans have tenure of 10-15 years. To minimise asset liability mismatch, banks' liabilities need to have a similar tenure and pattern of cash flows. About 80 per cent of bank term deposits have a maturity of less than three years. Although a portion of these term deposits and current and savings accounts are included in the core deposit base, long term infrastructure lending by banks will still remain restricted.

**Group exposure norms**

While managing their loan portfolio, banks have to comply with the prudential exposure norms set by the regulator and sector credit limits set by their boards. RBI has restricted banks' exposure in infrastructure funding at 20 per cent of capital funds (tier I and tier II capital) for single borrower, and 50 per cent for a borrower group. As major industrial groups with a significant share in upcoming infrastructure projects may have already borrowed for other businesses, the banks would face constraints in lending to these groups owing to group exposure norms.

2. **Low proportion of long-term funds channelled into infrastructure**

Life insurance companies could invest only about 12 per cent of their available long-term funds in infrastructure in 2008-09. (Life insurance companies and pension

funds had an annual inflow of more than Rs 2,600 billion in 2008-09.) Regulatory guidelines restrict life insurance companies from investing a significant proportion of their long-term funds in infrastructure SPVs (special purpose vehicles). As per the investment norms set out by the regulators, life insurance companies are encouraged to invest in highly rated companies whereas most of the Infrastructure SPVs tend to be rated low as they are constituted on a non-recourse basis, have a long gestation period for their projects and high project-execution risk in the initial years.

**3. Lack of depth and low liquidity in bond market**

Government bonds dominate the Indian debt market. Corporate bonds are privately placed and are traded in low volumes in the secondary market. Foreign funds have a low interest in the bond market, on account of the 20 per cent withholding tax.

## Government has taken measures to improve availability of debt funds...

The government, with support from the Reserve Bank of India (RBI), has taken steps to improve flow of debt funds to the infrastructure industry. The measures include:

*Foreign funds have a low interest in the bond market, on account of the 20 per cent withholding tax*

- Formation of IIFCL (Indian Infrastructure Finance Company Limited): CRISIL Research believes the formation of IIFCL to refinance infrastructure projects is a positive step for the industry. IIFCL has sanctioned loans of Rs 210 billion for 125 infrastructure projects as of February 2010. It would play an important role in takeout financing growth in future.
- Tax holiday to developers: The government scheme to provide a 10-year tax holiday to infrastructure developers has resulted in higher cash accruals for the companies. However, companies are liable to pay Minimum Alternate Tax (MAT) during this period.
- Tax exemption to individuals: Tax exemption for individuals to invest up to Rs 20,000 in infrastructure bonds will help funnel much needed resources to the infrastructure segment.
- Infrastructure bonds by banks: Allowing banks to raise long-term resources through infrastructure bonds will help mitigate risks of asset liability mismatch to an extent.
- Infrastructure bonds in held-to-maturity (HTM) category: The RBI has permitted banks to classify infrastructure investments with residual maturity of at least seven years in the HTM category. The bonds will not be subject to 'mark to market' requirements, and banks will therefore have an incentive to increase their exposure to infrastructure investments.
- Separate category of infrastructure finance non-banking financial corporations: This will enable the government to frame policies that will encourage these institutions to grow.

- New fund proposed to finance infrastructure projects: The government has proposed to set up an Rs 500 billion infrastructure fund. While the modalities are still to be worked out, around 40 per cent of the corpus is expected to be raised from foreign investors.

## ...More measures are required to bridge the gap in debt funding

The measures initiated so far have not succeeded in tapping existing pools of long-term funds and encouraging investor participation in debt funds. More effective measures are needed to develop the secondary debt market and increase the participation of life insurance companies and pension funds. Some of the measures would include:

- **Reduce asset-liability mismatch:** While allowing banks to issue long-term infrastructure bonds is a step in the right direction, exclusion of these bonds from SLR and CRR requirements would enhance availability of funds for investments in infrastructure projects. Automatic approval by Reserve Bank of India and Ministry of Finance for issuance of tax free bonds by large public and private sector banks actively involved in financing infrastructure projects could help increase the volume of infrastructure bonds. Moreover, tax incentives for investing in these bonds would provide an impetus to this initiative. The proposed takeout financing by IIFCL will also help reduce the risk of asset liability mismatch.
- **Ease group exposure norms:** CRISIL Research expects a higher number of projects to be implemented on a non-recourse basis through SPVs, as the size of infrastructure projects increases, and a few large corporates bid for various projects. Banks could be allowed to exclude these projects (non-recourse SPV projects) from the group exposure limits. This will enable banks to incrementally lend to these corporates without violating the group norms.
- **Innovative financing instruments:** Instruments such as mezzanine debt can attract funds for infrastructure projects. (Mezzanine debts are hybrid instruments that fall between debt and equity. They are subordinate to secured debt but have a higher charge than equity in the hierarchy of creditors.) These instruments appeal to investors, who look for higher returns than secured debt through a share in the upside potential of a project. The separation of interest and principal receivables or securitization of debt through various tranches (senior, subordinated) would also help in selling them to investors with varying risk profiles.

*The proposed takeout financing by IIFCL will also help reduce the risk of asset liability mismatch*

- **Increase participation of insurance companies and pension fund:** Relaxing investment norms for life insurance companies and pension funds could help channelise long-term funds to the infrastructure industry. Moreover, allowing these institutions to invest some portion of their incremental portfolio in bonds or mezzanine debt issued by infrastructure SPVs with a minimum rating of 'BBB' could help increase the flow of debt funds to the infrastructure projects. In addition, insurance companies could also be encouraged to participate in takeout financing scheme.

- Develop bond market: There are many ways to develop the bond market - identify market makers, rationalise taxes and stamp duty, introduce credit derivatives, initiate a structured migration to net settlement systems. A central database tracking bonds issued by companies with price history, quantities traded, and rating migrations will strengthen investor participation. A liquid secondary bond market would give bond-holders exit options, channelise savings, and encourage foreign institutional investors to participate in high-risk and long-gestation projects. A developed bond market will also enable infrastructure companies to raise capital directly through local debt markets.

- Introduce credit enhancement measures: Measures to enhance credit - government guarantees, refinancing, viability gap funding and non-government mechanisms such as credit swap, insurance of debt payments by insurance companies - could make infrastructure projects commercially viable or help improve the credit rating of an infrastructure project.

- Relax ECB norms: Removing the ceiling on the principal amount of ECBs (USD 500 million) and the interest rate (LIBOR plus 500 basis points) would enable infrastructure companies to raise longer tenure loans. Permitting refinancing through ECB will also benefit the industry.

## Conclusion

The potential solutions would help enhance timely flow of funds to support the debt requirements of infrastructure projects. Although it will be important to resolve financial issues, there is a need to attend to non-financial concerns as well, in order to encourage timely and long-term investments in infrastructure. The most pressing non-financial concerns include - simplifying project clearance mechanisms, implementing projects on time, and strengthening the contractual framework. Allaying these concerns will reduce the risk and increase the comfort level of financers. The government could also establish a distinct regulator to address the concerns of the infrastructure industry.


### About the Author

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# Funding The Industry - Doing The Basics Right

*Mr. P Sanyal*
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India's GDP growth of 9.20 per cent in 2007-08 came down to 6.70 per cent in 2008-09 and improved to 7.20 per cent in 2009-10. Considering the growth of both developed and under developed countries, a growth of 6.70 per cent in difficult times is by no standard a mean achievement. The expectation within the country is different, and keeping China as a benchmark and to meet aspiration of the Indian population, probably growth below 8 or 8.5 per cent could be looked down upon. For many within the country, a GDP growth below 7 per cent may even be termed a 'recession'. The silver lining in the whole issue is that the country has set a higher standard for itself and once the goal is set consciously higher, planned and sustained efforts will help in reaching better achievements. On the other hand aspiration without the supporting efforts would lead to nowhere. A sustained endeavour would therefore be necessary to meet the planned growth target.

The broad composition of GDP is Agriculture (direct and indirect) 20.78 per cent; Manufacturing (includes mining & quarrying, electricity, gas & water supply, Construction) 27.47 per cent; Services 51.72 per cent. In the sub group direct agriculture 18.9 per cent, manufacturing 15.32 per cent and trade 12.6 per cent taken together constitute 46.82 per cent of GDP.

To help these sectors to improve performance, the demand need to be created and to meet the same adequate and timely funding would be required. In other words if the funding is not done to the extent required and that too at a reasonable time and price, the performance of these sectors will be affected. Many businesses have suffered during the financial crisis of 2008-09 and are yet

to recover from the down turn. Their top line and bottom line both have gone down. They neither have the desired volume nor can offer adequate security/margin to raise finance. Even if they struggle to meet the margin required, the crisis of confidence is a prominent deterrent in the present scenario. While on one side the borrowers are unable to provide collateral security and /or third party guarantee, on the other side there exist strict Risk Management system evolved by the Banks.

To bridge the two sides, objectively may be, good track record, financial discipline and reliable credit information/rating etc will be desirable. In case the funds are available at reasonable price and are used for genuine productive/value addition purpose, there is fair chance of better debt servicing.

Business establishments often suffer from Supervision related problems. Faster and more transparent approval process need be established. Applications/requests seeking approvals should as far as is possible be submitted 'on line'. Fees and hard copy etc to be deposited in a designated Bank/desk and personal interaction should be reduced to bare minimum. Some awareness and conviction at various levels for cleansing the path of growth will go a long way to improve business climate. The strained employer-employee relationship often results in loss of production. If the country has to progress faster than other developing countries, it should be our responsibility to make optimum use of the capacity.

The series of not so happy news coming from various parts of Europe, Asia etc is making the lenders apprehensive about the immediate future of the global economy. The talk of 'double dip' to describe the expected crisis is heard more often than not. Though India cannot remain isolated from the global financial problems, the lesson learnt in last two years is that the local problems would be proportionately lower and the recovery will be faster. Though there are chances of flight of FII initially, mainly to tackle the problems elsewhere, the chances of investment in emerging markets like India are quite high and the reversal of outflow should happen pretty soon. This will ensure vibrancy in the stock market. Money will also flow to the bond market as well. The investors will look for return by way of interest/dividend and also some exchange gain due to

*Speedy recovery in case of default in loan servicing needs to be developed soon*

rupee appreciation. The aspiration of overseas investors would be rising stock market, reasonable interest rate and appreciation of rupee.

After substantial credit growth for couple of years, last 2 years saw a reversal of trend and posted a subdued growth in credit. It is almost an obvious thing to have happened given the all pervading gloomy scenario around the globe. As against the lower growth of credit, the gross NPA level of the Banking system has gone up from 2.18 per cent to 2.30 per cent to 2.80 per cent by March 2010. The carry cost to fund those non-performing assets is significant. In the back drop of considerable strain to protect the Net Interest Margin (NIM), it would be difficult to withstand the pressure of growing NPA. Banks are therefore being increasingly cautious to extend credit facilities. Mechanism for speedy recovery in case of default in loan servicing needs to be developed soon. Some modification in law and procedure will help improve the recovery process. Perhaps the

lenders will to some extent be nurturing the borrower while implementing the risk management tools.

The highest yields on 10 year G-sec paper in 2007, 2008 and 2009 were 8.27 per cent, 9.47 per cent and 8.01 per cent, respectively. This level of yield covers the cost of funds and leaves some margin. In fact, some of the larger banks are planning to set their 'base rate' around 8-8.5 per cent. Further, the Government of India securities are eligible for borrowing under Repo or CBLO to take advantage of arbitrage benefit to increase earnings. A softer interest rate regime or restrictions in Repo quantum would discourage the Banks to invest more than required funds in G-Sec/Repo in one hand and also would help the borrowers to get cheaper credit.

The target should not only be 'growth' but for an overall/ inclusive growth across all sectors in a transparent manner. To meet the challenge the expectations would be:-

- Easy flow of credit to meet genuine business requirements. This will reduce the hassles for the borrowers.
- Interest rate should be optimal to meet the need of the investors (who look for interest income) while ensuring that the debt servicing would not be much difficult.
- Rupee should be stable or appreciate. If the growth is ensured, considering global position, rupee should appreciate.
- Recovery system i.e., law and procedure should be faster. This will enhance lender's confidence
- Increasing transparency in supervision and control by various departments (licensing).Some modifications in labour law or a reasonable exit policy would improve the performance of various sectors

It is not difficult to aim at the possible improvements some of which are suggested above. There is every reason to believe that growth as planned can be achieved. Let us wait and see how the situation turns around.

**Mr. P sanyal**

## About the Author

Mr. Pundarik Sanyal is currently the Managing Director of Securities Trading Corporation of India Limited.

Mr. Sanyal has over 3 decades of experience in the field of Banking and Financial services. Mr. Sanyal has served in various capacities in many government institutions, including in Central Warehousing Corporation of India under the Ministry of Food and Agriculture from April 2005 to December 2008 as nominated Director, independent Director in Clearing Corporation of India Limited, et al.,

Mr. Sanyal is a B. Tech in (Textile Technology) from University of Calcutta, India

# Funding Needs of the Indian Industry - Challenges and Opportunities

*Mr. Mehul Choksi*
*Chairman and Managing Director, Gitanjali Group*

The Investment Commission of India estimates the investment levels for the Indian industry (infrastructure, manufacturing, natural resources) in excess of $600 billion in the next five years. Despite the attractive investment potential the industry is challenged by the non-availability of adequate low cost and timely financing.

## Financing Indian industry

India is in the early stages of a long economic boom and companies will need growth capital. Indian companies will have to keep raising money from shareholders/ PE firms/ Financial Institutions to fund growth.

**Domestic investment**

Indian households have traditionally steered clear of investing in shares and equity mutual funds, preferring the safety of bank deposits and government schemes such as the public provident fund. Investments in financial assets as a percentage of total household financial savings fluctuate widely- from 2 per cent to around 12 per cent.

*Lack of domestic participation may be attributed to overpriced IPOs*

Lack of domestic participation may be attributed to overpriced IPOs. Moreover financial scams have not done much to convince ordinary Indian savers that they would be better off buying equity rather than parking money in instruments such as bank deposits that often yield negative real rates of return.

This leaves a gap between required funding for growth and availability of the same, hence the need for foreign investments.

**Foreign investment**

Keeping in mind that FDI is widely perceived as an important resource for expediting industrial growth of developing countries (in view of the

fact that it flows as a bundle of capital, technology, skills and sometimes even market access), India has gradually enhanced the regulatory environment to make it more conducive for FDI inflows, yet Indian FDI/ GDP ratio is one of the lowest in the world.

- "Doing Business" report published by World Bank, gives India a rank of 169 which is way below comparative economies like China (151), Brazil (126) and Russia (106). India fares badly in number of procedures required, time and cost of starting a business. Global recession in the recent past and resulting low investor sentiments has posed an additional challenge
- Though India fares well in parameters such as getting credit and protecting investors, a lot needs to be done in other parameters mentioned above. Moreover India needs to emphasize on policy reforms, as well as right sectors and industries which can utilize the spillover effect and reduce the crowding out effect.

This lack of adequate financing (domestic as well as global) affects both policy making and manufacturing decisions as it has a bearing on the growth of industry and consequently GDP on one hand and fiscal deficit on the other. Needless to say that, different sectors in the economy have different financing needs and challenges. To understand sector specific financing needs we shall analyse a few important industries like:

## Manufacturing Sector

**Gems and Jewellery Industry**

India is the fastest growing jewellery market in the world, with a compounded annual growth rate of 15 per cent. The domestic jewellery market is pegged at about $16-$18 billion. The Industry is also a leading foreign exchange earner accounting for more than 12 per cent of India's total exports. The annual export revenues in the next 5 years are estimated at $25-$35 billion.

Despite its significant contributions, bank credit penetration is low in the domestic retail industry with CAGR of 10 per cent during 2006-08 as against 26 per cent for overall industry.

*India is the fastest growing jewellery market in the world, with a compounded annual growth rate of 15 per cent*

Hence jewellery retailers contributing to maximum value addition in the supply chain currently rely on credit period extended to them by their suppliers.

Though the finance requirements of the industry are high, since the inventory itself has a very high value, limited funding is available to the jewellery industry due to the below mentioned characteristics:

- Perceived lack of transparency: most companies are family owned and closely held and there is low corporatization of the sector
- High cost of financing: high premium rates for Packing Credit, Gold Loans, Cash Credit, LC, etc.
- Limited innovative finance options
- Inadequate documentation for domestic transactions due to cash based business: only exports documentation is in place due to statutory requirements

To achieve desired growth, the industry needs access to innovative finance at competitive rates.

In International markets, jewellery retailers have access to low cost and secured finance options such as Asset based lending, the same can be made available to Indian retailers as well.

Lending Model

- Advance rates are applied to the GOB (Going out of business) value of assets
  - Inventory based financing - advances up to 75 per cent
  - Accounts receivable based financing - advances up to 90 per cent
- Assets serve as collateral for the revolving credit

The Lending Model improves the health of the retail industry by providing a cost-efficient alternative to finance rapid growth of business, greater flexibility and borrowing capacity and encouraging greater transparency.

The advantages for lending institutions include secured financing and greater transparency of transaction through ongoing monitoring of the collateral

The government can provide further support to exporters in the gems and jewellery industry through provision of below mentioned initiatives:

- Continued interest subvention of 2 per cent or
- Further extension of the adjustment assistance scheme to provide enhanced Export Credit Guarantee Corporation (ECGC) cover to exporters in this industry
- Clearly defined policies/ schemes for exporters in the gems and jewellery industry and communication of same to concerned authorities including funding institutions

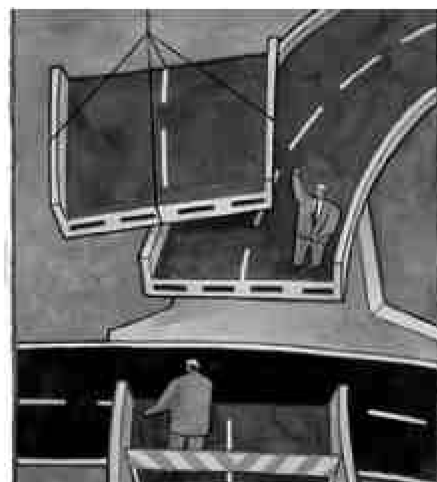
## Infrastructure Sector

The infrastructure sector has an investment potential of $380 billion in the next five years, but the sector fraught with long gestation periods, faces a wide gap between the potential demand of funds for higher growth and the available supply, as lenders are not willing to increase their exposure to infrastructure. Also, so far, the most of infrastructure has been in the public sector, operating in a protected environment with large subsidies from the government. But now, the Fiscal Responsibility and Budget Management Bill (India) laws constrain government spending and as a result, reduces borrowing clearly indicating that further subsidies may not be available in this sector. To a large extent, banks do not allocate more then 15-20 per cent of their portfolio on the infrastructure sector, which given the sectoral requirement looks low. Therefore, this sector needs large private and foreign investment.

Though the government has allowed investment under the automatic approval route, raising funds in foreign currency does involve risk. In times of economic uncertainties, External Commercial Borrowings (ECBs) are available only to borrowers who have high credit ratings. Moreover the borrower is not only exposed to currency risk but also to interest rate risk for the period of loan.

However the government can provide necessary support to the infrastructure sector by making a few fiscal arrangements for the sector like:

- Allow Non-Banking Financial Institutions (NBFCs) that specialize in infrastructure funding to access long-term funds through the ECB route
- The NBFCs, backed by the government guarantee scheme,



*The borrower is not only exposed to currency risk but also to interest rate risk for the loan tenor*

can try to avail of relatively inexpensive funds and in turn, lend them to the infrastructure sector either in foreign currency or Indian rupees after adding some reasonable margin

- A mature corporate bond market can also address lot of long term funding issues. The government can rope in public sector insurance companies, which are traditionally known for having abundant long term funds to participate in the bonds or non-convertible debentures of infrastructure companies.

Importantly, banks, too, can be persuaded to be more aggressive in lending to this sector. They can invite retail investors to put funds for longer tenures at lucrative interest rates, and after adding some margin this portfolio can be used to infuse funds into the industry. This will reduce banks' risk from the asset-liability mismatch perspective and individual investor's money will flow into the system.

## Opportunity for Improvement

**Regulatory**

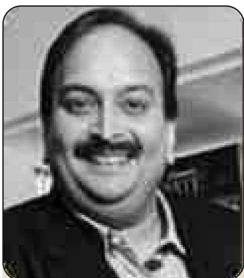
Ordinary investors need to be convinced that the Indian capital market is indeed well regulated rather than being a stomping ground for con artistes.

**Market Infrastructure**

The ease with which investors can buy and sell shares and mutual funds. There have been huge strides made in these two areas over the past decade.

**Risk Aversion mindset:**

Awareness amongst Risk-averse Indian investors to bridge from the safety of bank deposits to the volatility of equity returns.



**Mr. Mehul choksi**


### About the Author

Mr. Mehul Choksi is Chairman and Managing Director, Gitanjali Group, one of India's largest integrated diamond and jewellery manufacturer-retailers and a leading name in the global gem and jewellery industry.

He is a visionary who from the mid-80s has led the expansion and diversification of the company. He pioneered the development of branded jewellery in India, launching Gili in 1994, and has developed a large portfolio of jewellery brands including Nakshatra, Gili, D'damas, Asmi, Sangini and others, for different consumer needs and segments. The group has also developed its retail presence in international markets like USA, Middle East and China.

Mr. Choksi is now spearheading forward and backward integration of the Group into the luxury lifestyle segment with a major expansion at the retail level and the development of sector specific SEZs for the manufacturing of high end jewellery.

# Evolution of the Indian Industry

*Mr. Vardhan Dharkar*
*CFO, KEC International*

## EVOLUTION OF INDIAN FINANCIAL SECTOR

**India stands on the cusp of the decade, having completed a First Phase of financial sector reforms (Libralisation) and stepping towards the second phase, transforming itself from a closed, controlled, slow growing economy to more open, liberalized, one of the fastest growing economies of the world.**

### FIRST PHASE - Financial Liberalization

It began in the early 1990s. At that time, the key factors that highlighted India's financial sector were –

- The Interest rate structure in India was mostly state administered
- Foreign Currency Funding was not available, Only Rupee loans were available
- Nationalised banks were the only channel for working capital financing
- Project financing requirements were mostly met by Development Financial Institutions like ICICI, IDBI, IFCI, etc. & Investment Institutions like LIC, UTI, etc.
- Capital Markets were Inefficient-Information and transparency was limited, Pricing of Initial Public Offerings was not market determined and it was based on price formula determined by the Controller of Capital Market Issues' regulations.
- Secondary Capital markets were not matured and lacked depth; there was lot of scope for manipulation. .
- Trading in the capital markets was costly, reflecting the lack of competition due to the Bombay Stock Exchange's dominance, the limited number of dealers and the high costs for accessing the market through a system of sub-brokers. Cost of retail transactions was very high

**The policy of liberalization has transformed the prospects for the Indian economy. Post Libralisation, following were the major structural changes seen in Indian financial sector**

- India started becoming one of the favored destinations for global investments.
- More attention was given to legal, regulatory, supervisory and taxation framework.
- Securities & Exchange Board of India (SEBI) was given powers in 1992 including regulation of new issues.

- National Stock Exchange was created in 1992, competing with the Bombay Stock Exchange, resulting in a substantial reduction in transaction costs, to the point where they are now among one of the lowest in the world. Further, it substantially increased liquidity and transparency.
- Concept of operating through Mutual Fund started in large scale from 1993-94
- Foreign institutional investors (FIIs) were allowed, beginning in 1992; and Indian firms were allowed to issue global depository rights (GDRs) offshore.
- External Commercial Borrowing Norms were relaxed
- Commercial papers were introduced to fund working capital requirements
- Funding for acquisition outside India was allowed

**SECOND PHASE - Transformation to one of the fastest growing economy in the world**

*The integration benefits both the consumers & suppliers of funds and an opportunity to diversify risk.*

## Opportunities for Indian Industry

Today India is becoming a priority destination for different foreign investors and attracting large amounts of foreign capital into the economy. Previously, this was not the case; most of the early entrepreneurs had to face hindrances in the path of their success due to scarcity of funding and capital.

The financial reforms have brought in policy changes in terms of freedom of entry, investment, location, usage of technology, import and export. These changes have created an investment friendly environment.

Today, we are seeing a structural change in the Indian Financial System with Multiple funding sources like Public Financial Institutions, NBFCs, Mutual Funds, Commercial Banks, Housing Banks, Private Equities, Venture Capitals, Insurance companies; Capital markets etc are available to meet funding requirements of Indian Industry.

Post Libralisation, financial health of the commercial banks has improved significantly, with respect to capital adequacy, profitability, Asset quality and risk management. Further, deregulation has opened new opportunities for banks to increase revenue by diversifying into investment banking, insurance, credit cards, depository services, mortgage, securitization, syndication etc. Liberalization has created a more competitive environment in the banking sector.

Current debt market has become more efficient, transparent and vibrant with retail participation.

The integration of world financial and capital market with that of the Indian markets provides greater benefits to both the consumers and suppliers of funds and opportunity to diversify risk. This globalisation has added depth to the market with a large number of market participants.

Since Libralisation, Indian funding scenarios has undergone a paradigm shift

- Indian companies can borrow for very long periods also (15 years)
- Foreign companies have started coming to India to raise equity funding

- Indian companies can easily raise funding in foreign currencies for acquisitions outside India
- Multiple Risk Management and structuring tools (derivative, swapping) are available to mitigate cross border risk and return expectations.

**Challenges to the Second Round of Reform**

- Presently, there is no active corporate bond market. There is a lack of depth and liquidity in this market. This has prevented Indian corporate from accessing retail bond market in big way.
- High fiscal deficit raises the risk of macroeconomic instability, increases risk premia internationally.
- Higher interest rates regime in India makes domestic player uncompetitive and unviable as compared to its global competitors.
- RBI keeps changing External Commercial Borrowing (ECB) norms to keep economic conditions stable.
- Non uniform Stamp Duty structure across states results in higher transaction cost.
- Small scale industries face lot of challenges in accessing debt markets. Availability of timely credit to small scale sector will improve India's growth rate substantially.
- Project Export companies have to take post award approval under "project exporters manual" from authorized dealers in every case, if project size is more than $100 million then the committee comprising RBI & EXIM bank is only authorized to give the approvals, resulting in delays.. This limit has not been revised for a long time.
- Liquidity in short term markets dries out in volatile times. This creates a major challenge for Indian corporate in managing funding requirements during that period.
- Risk Management (Currency commodity etc.) is getting complex by the day, especially in high volatility scenario. Indian corporate need to invest in risk management systems to stay on top of the situation.
- Financial Institutions are yet to cover rural masses.
- Long term funding (More than 10 years) is generally not available for growing needs of Infrastructure Sector.
- Consolidation in banking industry by amalgamating small banks and concentrating banking activities in a few Mega Banks to increase in the size, capacity and capability of the banks is also a big challenge.

Presently, Small size Indian banks face lot of difficulties in funding very large size projects. To grow at GDP rate of 7-8% consistently, Mega size banks are needed to fund the large capital expenditure requirements.

- Presently, India has restricted Capital Account Convertibility (CAC) of Rupee, if it is allowed than Rupee can be freely converted into foreign currencies for acquisition of capital assets abroad and vice versa. Though, over the last 2 decades, RBI has handled the monetary policy quite well but for this, they are still not able to give clear Road Map. CAC would help in managing the excessive foreign exchange reserve. If it is allowed, Rupee may be treated as one of the premier currency in the world. In addition to this, Interest rates would become more realistic.

To conclude, Liberalization of financial sector has played a vital role in India's economic growth in last two decades & help India improve its economic standing. Today, there are ample opportunities for Indian Industry to raise efficient funding with multiple sources & products available globally. However, government and policy makers are expected to continuously monitor the worldwide market scenario and take regulatory, supervisory and policy decisions in timely & proactive manner for India to emerge as major economic power.

Mr. Vardhan Dharkar

## About the Author

Mr. Vardhan Dharkar is a Chartered Accountant with rich experience in various areas of finance. He commenced his long tenure with Wokhardt Limited (1988-2006) as an Officer in Finance and progressed to become the Vice President Finance in 2002. Subsequently, he was the Chief Financial Officer at Dabur Pharma Limited. He has been associated with KEC International since 2007.

He was recently conferred the prestigious award of Best CFO 2009-Infrastructure & Construction Category by the Institute of Chartered Accountants of India.

# SIDBI's Role in Meeting the Funding Needs of MSME Sector

*Sh. N K Maini*
*ED, SIDBI*

The Micro, Small and Medium Enterprises (MSME) sector is an important pillar of the Indian Economy. It plays a significant role in promoting balanced and sustainable growth of the Indian economy by contributing more than 45% of industrial manufacturing, 35% of total exports and more importantly, emerging as the second largest source of employment generation of more than 60 million people. Outpacing other segments of the economy, the MSMEs grew at a CAGR of 11.6% during the period 2003 - 04 to 2007 - 08.

Though the MSME Sector is growing in size and importance, it faces a number of challenges, such as, availability of adequate, timely and cost effective credit, information asymmetry, delayed payments, inadequate infrastructure, technology obsolescence, lack of marketing expertise, etc. The sector additionally needs handholding services towards capacity building, technology access, marketing support and equity finance.

Apart from the finance requirement for direct operations, MSMEs require finance for various other developmental aspects as well, i.e., promotion of products in different markets, investments in R&D, procuring technologies, hiring more talent and training and development of the existing human resources, to name a few. Now-a-days, one more challenge is how to protect the environment, in the wake of global shortage of energy resources and emphasis on green technologies. The MSMEs have to follow the environment protection measures and this has to be reflected in the entire supply chain, for which, the other links have to follow the standards. This would require funds for procuring energy efficient technologies, etc. These initiatives require financing as well as non-financial inputs which become difficult to obtain, particularly for the intangible components. The financial institutions have to look at these challenges as new opportunities to serve the MSME sector with customized solutions and fulfilling not only the financing needs, but also the developmental needs of the MSMEs by adopting a credit plus approach.

*Outpacing other segments of the economy, the MSMEs grew at a CAGR of 11.6% during the period 2003 - 04 to 2007 - 08.*

## Role of SIDBI - Meeting the credit needs

As the Principal Financial Institution for the MSME sector, SIDBI, since its inception in 1990, has been contributing to the promotion, financing and development of the MSME sector through both financial and non-financial products. It has always endeavored to take along the expectations and aspirations of the sector and design suitable, customized products which constantly get reviewed as per customer feedbacks and requirements of the MSMEs.

It may be mentioned that SIDBI is primarily a Refinancing Institution giving refinance support, for onward lending to MSMEs, through more than 82,000 branches of 900 Primary Lending Institutions (PLIs), such as, banks, State Financial Corporation's (SFCs), State Industrial Development Corporations (SIDCs), besides Micro Finance Institutions (MFIs), etc. SIDBI realized that in certain strategic areas, it may have to evolve and showcase the financing programme through its direct lending operations before the products or services could be scaled up through the normal banking system. Hence, it started direct financing of MSMEs with the primary objective of supplementing the efforts of the banks/ FIs in meeting their credit needs. Along the way, a need was felt to supplement the term lending to MSMEs by introducing a Working Capital (WC) facility also; accordingly, SIDBI started providing WC limits to its existing clients through the technology platform of IDBI Bank. In order to address the problem of delayed payments of receivables, SIDBI also operates the MSME Receivable Finance Scheme (RFS) for MSME sellers/ eligible service providers in respect of their sales and services rendered to purchaser companies.

Going one step further in this direction, SIDBI, with National Stock Exchange (NSE), has launched an e-discounting platform called NTREES (NSE Trade Receivables Engine for E-discounting in association SIDBI), for bill discounting on an Electronic platform on RTGS basis. This would make the process of bill discounting faster, paper less and the pricing more competitive.

Pursuant to the announcement of setting up of MSME Risk Capital Fund of Rs.2,000 crore by Hon'ble Union Finance Minister in the Budget Speech for FY 2008 - 09, a Risk Capital Fund for MSMEs has been set up in SIDBI to provide equity support to MSMEs. The Bank has set up "SIDBI Foundation for Risk Capital (SFRC)" to manage the Fund. SFRC has developed more standardised and appropriate risk capital products for the benefit a large spectrum of MSMEs.

In order to cater to the growing credit demand of the rural population at the bottom-of-the-pyramid of our society, SIDBI started its Micro Finance activity by setting up of a specialized department called SIDBI Foundation for Micro Credit (SFMC) in 1999. SFMC aims at reaching both financial and non-financial services to the disadvantaged sections of the society. The primary objective of SFMC is to "create a national network of strong, viable, and sustainable Micro Finance Institutions (MFIs) for providing micro finance services to economically disadvantaged people of India, especially women". The MFIs have the advantage over Formal Financial Institutions (FFIs) in terms of reaching out to the doorsteps of rural people and also over local money lenders by charging lower interest rates. SIDBI's micro finance assistance, through the MFI route, has so far covered more than 300 lakh beneficiaries across the country through about 150 partner MFIs.

Thus, over the years, SIDBI has evolved itself as a one-stop institution to meet the various types of credit requirements of the MSME sector by offering specialised fund based and non-fund based financial products. In keeping with the spirit of innovation and entrepreneurship, the Bank has also evolved its bouquet of offerings over the years.

*Thus, over the years, SIDBI has evolved itself as a one-stop institution to meet the various types of credit requirements of the MSME sector*

## Financing Energy Efficiency - Innovative Solutions

One emerging requirement of MSMEs is the financing of energy efficient, green technologies which also offers a tremendous opportunity for the banking sector. With new norms and improved technologies, huge capital investment by industries is foreseen which needs to be essentially catered to. SIDBI addresses this need by providing credit to MSMEs out of energy efficiency lines of credit received from Japan International Cooperation Agency (JICA), Japan and KfW, Germany. The Bank is also adopting the Environment & Social (E&S) standards in its lending to MSMEs through a World Bank line of credit.

Some of the initiatives of SIDBI under the Energy Efficiency lending for micro entrepreneurs are -

- ***Assistance to Mumbai Taxi owners -*** In view of phasing out of taxis which are more than 25 years old from plying in Mumbai, SIDBI devised a special Scheme for providing assistance to the affected taxi owners for replacing the old taxis with latest energy efficient versions, using a simplified credit delivery arrangement with active association of the two local taxi associations. Under the arrangement, assistance at concessional rate has been provided to more than 800 taxis owners under JICA LoC with credit guarantee coverage through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Mumbai.
- ***Solar lanterns -*** Friends of Women's World Banking (FWWB), Ahmedabad, an MFI was sanctioned assistance of Rs.10 crore for providing assistance to micro entrepreneurs for Solar Lanterns of 2 watts each. 50,000 micro entrepreneurs are proposed to be covered under the assistance.
- ***Auto Rickshaw Financing -*** 640 CNG fitted Auto Rickshaws were provided assistance in Chandigarh by Delhi Finance Corporation (DFC), with refinance support from SIDBI.
- ***Rickshaw Sangh Programme -*** SIDBI and American India Foundation (AIF), New Delhi have signed an MoU to provide livelihood support to the low-income groups through a joint initiative called the "Rickshaw Sangh Programme", under which SIDBI has initially sanctioned financial assistance of Rs.50 lakh to Bhartiya Micro Credit (BMC) under its Micro Credit Scheme for extending microfinance as well as for financing livelihood of programmes of BMC. Under the programme, BMC has provided 500 rickshaws to poor people residing in and around Lucknow with credit support from the

SIDBI and Technical support from AIF. Under the programme, the beneficiaries would also be provided licences and Municipal permits, uniforms, life insurance for client and spouse, accident insurance, etc. The initiative is proposed to be scaled up in other backward States through more MFIs.

## Promotional and Developmental activities

The credit operations of SIDBI are supplemented by Promotional & Developmental (P&D) activities, which are designed to support enterprise creation in the MSME sector, as also strengthening of the existing MSMEs to overcome the emerging challenges of intense competition and increasing internationalization. Some of the important initiatives in this direction are-

- ***Cluster Development -*** SIDBI has consistently been attending to requirements of cluster centric MSME development. So far, more than 100 clusters have been provided various types of developmental assistance in the areas of environment management, energy efficiency, marketing support, business development services, skill development, etc.

- ***MSME Financing & Development Project -*** SIDBI is implementing a multi-activity, multi-agency MSME Financing and Development Project (MSMEFDP) aimed at making MSME lending an attractive and viable financing option, as also to facilitate increased turnover and employment in the MSME sector. International partners for the project are the World Bank; Department for International Development, UK; KfW and GTZ, Germany. While Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency, SIDBI is the Implementing Agency of the Project. The objective of the Project is to attend to demand and supply side issues of MSME sector through financial and non-financial services.

- ***SIDBI's Initiative for North Eastern Region -*** The Bank accords priority to the development of underserved areas like North Eastern Region (NER) through its activities under micro finance, rural industrialization, handicraft cluster development, entrepreneurship development, marketing support, etc.

- ***Coordination Activities -*** With the objective of all-round development of MSME sector, SIDBI coordinates with a number of national and international organizations as well as accredited technical and management institutions to synergize their services to MSME sector.

- ***Nodal Agency for Government Schemes -*** SIDBI extends Nodal Agency services to the Govt of India for schemes sponsored by various Ministries for encouraging implementation of modernisation and technology upgradation by manufacturing units in the MSME sector.

*SIDBI has consistently been attending to requirements of cluster centric MSME development.*

## Institutional Development

SIDBI has also been constantly working on building various institutional mechanisms to cater to the emerging needs of the MSME sector and has setup various subsidiaries/ associates, viz., SIDBI Venture Capital Limited (SVCL), Mumbai for providing venture capital to MSMEs, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Mumbai to provide credit guarantee support to MSEs for availing collateral free credit from

banks/ FIs, SME Rating Agency of India Limited (SMERA), Mumbai to provide independent third-party ratings for MSMEs, India SME Technology Services Limited (ISTSL), New Delhi to provide a platform for MSMEs to tap opportunities at the national and global levels for acquisition of modern technologies and India SME Asset Reconstruction Company Ltd. (ISARC), Mumbai for the resolution of Non-Performing Assets (NPAs) in the MSME sector.

## Recognition of SIDBI's services

SIDBI has received several awards/ recognition for its contribution to the MSME sector, viz., ADFIAP awards in 2009 for "SIDBI's initiative towards setting up of India SME Asset Reconstruction Company Limited (ISARC), the best website and to Shri R.M. Malla, CMD, SIDBI for being the "Outstanding CEO of the year 2009". SIDBI has also received "Amity Corporate Excellence Award for Corporate Social Responsibility" awarded to CMD, SIDBI and ADFIAP Merit Award for "MSME Financing & Development Project (MSMEFDP) and a special Award in the category of 'Best in Membership Recruitment' during FY 2010.

SIDBI recently celebrated completion of 20 successful years of journey as the principal financial institution for MSMEs on April 02, 2010. Its activities, driven by missionary zeal, are aligned to national priorities and the Millennium Development Goals, with overall emphasis on Triple Bottom Line of People, Planet and Profit. It has played a major role in Green and Energy Efficient financing including taking the lead in developing a 'Green Rating Model' through its associate - SMERA.

## The Way Ahead

It is an acknowledged fact that India is poised to become a global economic power in the coming years. During the period of recent economic crisis in FY 2008 - 09, while the major economies were posting a negative growth, India's growth was only moderately impacted and our country has shown its resilience and is all set to regain its fast paced growth rate of pre-crisis period. The GDP growth during FY 2010 increased to 7.4% as against 6.7% in FY 2009 and is expected to record still higher growth of over 8% during FY 2011. This growth of the Indian economy presents a number of opportunities for the MSME sector, which is the backbone for the inclusive development of India.

MSMEs are critical contributors in the growth story of India. While the sector faces challenges of globalization, it has shown great resilience. Stakeholders seem to be quite optimistic about the future of the MSME sector. SIDBI shall continue to play the role of a catalytic agent facilitating Government of India's efforts to further strengthen the enabling environment, thus putting the Indian MSMEs even more prominently on the global map.

Sh. N K Maini


### About the Author

Shri Navin Kumar Maini is Executive Director in Small Industries Development Bank of India (SIDBI), Lucknow, India, the premier financial institution for Micro, Small & Medium Enterprises (MSMEs).

Starting his career in the Banking Sector in 1977 as a Probationary Officer in UCO Bank, he subsequently served in IDBI before joining SIDBI at its inception in 1990. He has been the CEO of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Mumbai which is in the business of providing guarantees to eligible Member Lending Institutions (MLIs) for collateral free loans extended to small industries.

He is a graduate from St.Stephens College, Delhi, India and holds a degree in Law from Delhi University. He is also a Postgraduate in Management from Management Development Institute (MDI), Gurgaon and International Trade from Indian Institute of Foreign Trade (IIFT), Delhi. Besides, he is a Certified Associate of Indian Institute of Bankers (CAIIB).

# Indian Economy - An Update

## *Quo Vadis?*

Well this time it was an exception to the thumb rules - Good things come in small packages. Not only did good things come in a bouquet, they also came at the right time for the Indian economy. From the recent robust GDP number for the Jan-March quarter 2009-10 & for 2009-10 to even the monsoon, which seems to have kept its date with India – all have given us a sigh of relief.

Starting from the latest, India's economic growth accelerated 8.6 per cent for the three months ended March 2010 from a year earlier after a revised 6.5 per cent gain for the in Oct- Dec quarter. While, the figures are a testimony to the fact that the Indian economy has regained shape after last year's stumble, the situation warrants a caution so as to prevent it from becoming a 'crankshaft' economy.

Even as India weights the adverse impact of the Europe's debt crisis, the strong GDP growth may give the central bank more confidence. At the same time, the credit needs to be given to the foresight of the Reserve Bank and to the meticulous planning of the government which tilled the land with great care and caution, which has bore sweet fruits.

## Economic activity bounces

GDP will now grow at 7.4 per cent (as against 7.2 per cent in the Advance Estimates) over the Quick Estimates of GDP for the year 2008-09, the Q4 expansion figure is now pegged at 8.6 per cent. Both the figures were in line with FICCI's forecast in its Economic Outlook Survey conducted in April this year.

The upward revision in the GDP growth rate is mainly on account of higher performance in 'agriculture, forestry and fishing', 'mining and quarrying' and 'manufacturing', than anticipated. Manufacturing led the way, with a whopping 16.3 per cent growth in the quarter and 10.8 per cent overall, while even agriculture, which was expected to decline, ended with marginal growth of 0.2 per cent year-on-year after growing 0.7 per cent.

The expansion in the Index of Industrial Production (IIP) has stayed above 10 per cent for seven months in a row. IIP recorded a growth of 17.6 per cent in April and is close to the 20-year high of 17.7 per cent recorded in December 2009. The growth convinced Planning Commission Deputy Chairman Montek Singh Ahluwalia as he expressed the hope that industrial

growth will continue to remain in double-digit in the current fiscal as well.

Some policy makers, though, are wary of this fast pace acceleration in industrial activity as they feel moderation is desirable, to ensure that rapid growth doesn't feed into core inflation and that's where the Reserve Bank of India will have to do a tight rope walking.

The main thrust for the growth momentum in the near term will be on the manufacturing sector and in order to retain the fast pace in the current year, the high growth in the sector will be critical, FICCI has argued. FICCI's recent Business Confidence Survey indicates that supplier and downstream industries will have to grow faster to support expansion seen in the manufacturing sector. "Hiking interest rates at this point in time will act as a break on the overall growth process," FICCI, President, Rajan Bharati Mittal said.

## Windfall gains for the government: 3G

The 3G auction might have left the telecom companies cash-strapped, but it was the government which laughed all the way to the 'bank'. The auction of 3G spectrum combined with the broadband wireless access auction raked in a total of Rs 100,000 crore or over $20 billion exceeding the initial estimates of the government by almost double. While the cash outflow will certainly weigh heavily on the already battered telecom sector, the government on the other hand 'suddenly' has all its hands full and the balance sheet looks healthy. No doubt the high returns from above auctions will provide an extra elbow room to the government faced with a steep fiscal deficit.

There are a lot of ways in which the resources can be productively utilized. For example, if the entire proceeds were to be used to bridge the fiscal deficit, the figure would drastically come down from 5.5 percent of GDP in 2010-11 to 4.5 per cent of GDP, says estimates of Barclays India. The figure for 2009-10 stands at 6.6 per cent of GDP. The proceeds can also be used to give a breathing space for Oil companies. The possibilities are huge, but it should be used in a productive manner and certainly not in any populist moves.

## Capital flows – Boon or Bane?

This is an equation difficult to balance. Capital flows are essential for the Indian economy, there cannot be a second thought on that, but the strong rupee, which is a direct outcome of surge in capital flows in India's case - one risks a decrease in exports.

Thankfully, the situation is not that bad. Despite the strong rupee, exports have managed robust

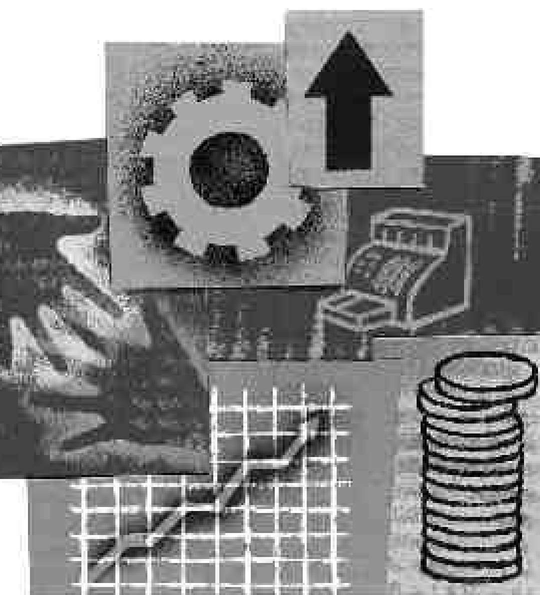
### India's stand vindicated on capital flows

Inflows of foreign capital in response to higher interest rates have in turn raised concerns about hot money and the destabilizing impact of sudden, large movements of foreign capital. The International Monetary Fund has also recently cautioned that emerging economies in the Asia-Pacific region need to prevent asset price boom-bust cycles that tend to follow surges of foreign capital. The IMF has gone so far as to alter its long-held policy against capital controls, acknowledging that capital controls can be "a legitimate component of the policy response to surges in capital flows." India has experienced both floods and droughts of capital in recent years, and the RBI is determined that such occurrences do not stall the economy's momentum. The monetary authorities have reiterated that they are ready to intervene in foreign capital markets whenever necessary.

growth. The zeitgeist has it that the strength of India's recovery over the next few months is likely to continue to outweigh the negative effects on exports of the rupee's appreciation.

Although the rupee in April strengthened against the dollar for the fourth straight month, gaining an average of 5 per cent since the beginning of the year, trade data released failed to generate much support for exporters' demands. Merchandise exports this April grew 36 per cent from a year earlier.

Although Indian exporters have demanded central bank action to depress the rupee's value to help their competitiveness, the recovery has allowed the Reserve Bank of India to resist pressures to intervene in the foreign exchange market. The RBI believes that inflation is a threat to the macro-economy, however, if need be the central bank will pitch in and ensure that is no liquidity crunch that might act as a deterrent to smooth functioning of the economy.



## Inflation - we live to fight another day

With the overall economic activity trending up, increases in the inflationary expectation are also seen not only in food articles but also spreading to non-food articles. With domestic demand strong and crude oil prices firm, inflation has already touched double digits. RBI raised its three policy rates by a quarter points each in its April policy meet to rein in inflation, which did its bit to arrest the rate of increase in inflation.

Revised figures released on June 14, 2010 showed that the wholesale price index had risen 11 per cent in March year-on-year, overturning earlier relief that the economy had restrained inflation in single digits. In May, the WPI rose 10.2 per cent. The annual food inflation, based on the Wholesale Price Index, rose 16.12 per cent in the week ended June 5, lower than from the previous week's annual rise of 16.74 per cent.

Planning Commission, member Abhijit Sen recently said the food inflation will come down to 4 to 5 per cent by second half. The government though has its assumptions in place, but that also are contingent to normal monsoon and global crude oil prices, which would be the key determinants that could decide where the inflation is headed.

While FICCI did acknowledge the initial tightening of the RBI, we are of the view that any further action down the line should be viewed with great caution. At a time when the RBI has itself noted that price situation should show moderation, the RBI should maintain a stable interest regime. The Finance Minister has also expressed the hope that food prices would ease after July and that the monetary policy should ensure requirement of industry are not affected.

## Conclusion

The recent developments in Europe, especially in Greece with respect to the concerns surfacing about their inability to repay debt have showed us that things can change real fast. So, while some see light at the end of the tunnel, some argue that this light could also be of a train that might run over you. Hence stay vigilant!

The Greece episode and the risks for Asia remain tiled to the downside, said the International Monetary Fund. The IMF said that, though Asia is leading the global recovery, it must be wary of downside risks including heavy dependence on external demand and fallout from Greece's sovereign debt woes. Risk aversion and 'sudden stops' in capital flows could have impact on countries like India and China – economies which are leading the second phase of recoveries.

While RBI is confident that the crisis will be contained and will not impact its policy moves, the central bank has also maintained it will step in case of any liquidity shortfall, and it actually did.

As the world and even the Indian economy adjusted itself to the 'new normal', the challenges today are not less than what they were a year ago.

## Banking sector

1. The credit growth surpassed Reserve Bank's projection of 16 per cent in fiscal 2009-10 mainly on account of public sector banks reporting robust growth in lending. According to the report on macroeconomic and monetary developments for 2009-10 released by RBI, while advances by public sector banks grew at 19.5 per cent, private sector banks were able to grow credit by only 11.7 per cent.

2. The RBI has asked private banks to take its approval before launching Qualified Institutional Placements (QIPs). Banks need to approach the RBI along with details of the issue once the bank's board approves the proposal of raising capital through the QIP route, it said.

3. The Reserve Bank has asked all the banks operating in the country to put in place by next year a system where credit and debit card customers would need to provide an additional password for IVR (interactive voice response) transactions.

4. The RBI has put an end to concessional interest rates on export loans by freeing the pricing of these loans with effect from July 1. So far, interest rates charged on export finance by banks were capped at 250 basis points below the bank's prime lending rate. RBI has said banks can now either lend at their base rate or above the base rate, which will be the new benchmark for all floating rate loans from July 1.

5. Punjab and Sind Bank has announced its intention to come out with an Initial Public Offering (IPO), later this year, aimed at raising around Rs. 500-600 crore for business expansion.

6. Indian Banks' Association (IBA) and bank unions have signed a long-pending agreement on pay revision, which gives a 17.5 per cent hike in salaries to bank employees and officers, besides an option for pension for those who did not opt for it earlier.

7. The Reserve Bank has emphasised that all NBFCs desirous of making any overseas investment must obtain 'No Objection' of the Department of Non-Banking Supervision of RBI before making such investment, from the Regional Office in whose jurisdiction the head office of the company is registered.

8. Delay in settling cheque bounce cases will now cost the defaulter dear, up to 20 per cent of the cheque amount. The penalty for delayed settlement of the cheque amount, after conviction in the trial court, would rise steadily from 10 per cent in district courts, 15 per cent in high courts to a whopping 20 per cent in the Supreme Court.

9. RBI has decided that it would allow healthy urban co-operative banks to open up offsite ATMs. So, those banks which have low NPA levels, are in profit for three consecutive years and have professionals on their boards can set offsite ATMs without prior approval of RBI. The banks have to maintain their NPAs below 5 per cent. A bank which has failed to meet CRR or SLR requirements would be disqualified. Also, a capital adequacy ratio of less than 10 per cent would bring in disqualification.

10. The pricing norms for sale of equity shares by an Indian entity to non-resident entity and vice-versa under the foreign direct investment route have been modified. According to the new guidelines issued by Reserve Bank of India, when a resident

entity is selling shares of a listed Indian company to a non-resident, the price of the transferred shares should not be less than the price at which a preferential allotment of shares can be made under the SEBI Guidelines.

11. Indian firms can borrow up to $40 billion this year from overseas markets, with the government moving in to ensure easy availability of funds for the rapidly recovering economy. The high level co-ordination committee on External Commercial Borrowings decided in principle to raise the annual indicative ceiling to $40 billion for 2010-11 from $35 billion last year.

12. The Planning Commission has suggested that the Human Resource Development Ministry examine the option of setting up a loan guarantee authority as a separate division within the purview of the proposed National Education Finance Corporation (NEFC). The proposed NEFC aims at refinancing student education loans and institutional loans at concessional rates with longer repayment, which will help expansion and new investments in the higher education sector, particularly universities.

13. RBI has told banks to be ready with Advanced Internal Rating Based approach — a new methodology to assess a bank's capital requirement. As of now, banks are following the standardised approach, wherein banks assign risk to the asset based on the rating given by external rating agencies.

14. As a measure of liberalisation of the existing procedures, RBI has decided to permit the Infrastructure Finance Companies to avail of ECBs, including the outstanding ECBs, up to 50 per cent of their owned funds under the automatic route, subject to their compliance with the prudential guidelines already in place. ECBs by IFCs above 50 per cent of their owned funds would require the approval of the RBI and will, therefore, be considered under the approval route.

15. To give a boost to investment in infrastructure, the UPA government is considering setting up Rs 50,000 crore infrastructure fund to support private sector investment in the sector. The government has appointed a committee headed by HDFC chairman Deepak Parekh, which will look into the proposal. Mr. Parekh has recommended a change in rules by sectoral regulators for easy flow of funds towards infrastructure financing

16. The government is planning to inject Rs 2,200 crore in 40 weak Regional Rural Banks (RRBs) over the next two years that have CRAR of less than 7 per cent. The move is part of the recommendations of the 10-member committee headed by RBI deputy governor K C Chakraborty set up to suggest ways to strengthen RRBs.

17. In order to ease liquidity pressure, RBI raised the limit on bank borrowing under its repo facility by 0.5% of their deposits to meet liquidity requirements due to heavy fund outflows on account of 3G payments and FII outflows. The RBI will also conduct a second repo auction every day until July 2. The special steps taken will be from May 28 to July 2.

18. The RBI has set up a committee that will have the mandate to look into interest rates and bank fees and charges. The committee, headed by former Securities and Exchange Board of India, Chairman M. Damodaran, will look into the issue of services offered by banks to retail and small borrowers, including pensioners, and suggest a mechanism to expedite grievance redressal.

19. To give a boost to the financial inclusion drive started by the banks, the Reserve Bank has constituted four working groups that will help identify issues and suggest probable solutions in different areas of operations.

20. The government has infused Rs 1,500 crore into four public sector banks, including UCO Bank and Central Bank of India, as part of their recapitalisation package. Of the total, Vijaya Bank got Rs 700 crore, UCO Bank got Rs 300 crore, Central Bank of India and United Bank of India received Rs 250 crore each,
21. Clearing the deck for the merger of State Bank of India and its associate, State Bank of Indore, the Reserve Bank has approved the amalgamation proposal. SBI holds a 98 per cent stake in State Bank of Indore. SBI has already announced a share swap ratio of 34:100 for the merger.
22. In a report titled “Trends in Select Micro and Small Scale Production Items during Phases of Industrial Slowdown”, the central bank has said that the business cycles of micro and small enterprises (MSE) may not always coincide with the overall industry and hence policies on credit and technology for the sector need to be customised to the nature of the their business cycle, nature of its product and the markets it caters to.
23. State Bank of India's Chairman OP Bhatt has been elected as the new chairman of the Indian Banks Association (IBA) for 2010-11. Bhatt will take charge from MV Nair, Chairman & Managing Director of Union Bank. YES Bank's Managing Director & CEO Rana Kapoor has been elected as honorary secretary of the Association.
24. Finance minister Pranab Mukherjee has expressed concern over low credit and deposit growth and rising sticky assets despite the higher-than-anticipated GDP numbers and good performance from the manufacturing sector during 2009-10. The credit growth has been around 18 per cent while deposit mobilisation in absolute amount has fallen in recent times.

## Capital market Sector

1. SEBI has directed FIIs to disclose more information about investment structure in India.

   “It is not about FIIs investment, it is about what structures FIIs have for investments in India,” Securities & Exchange Board of India (SEBI), Chairman C B Bhave said.
2. Market regulator SEBI asked brokers not to refuse services to investors in case they fail to furnish power of attorney in favour of them. Power of attorney (PoA) is legal arrangements, which allows brokers to access bank and demat accounts of their clients. “No stock broker or depository participants shall deny services to a client if the client refuses to execute a PoA in their favour”, SEBI said in its new PoA guidelines
3. As a precursor to the launch of a Small and Medium Enterprises (SME) platform, SEBI announced rules for market makers on the SME exchange, which include two-way quotes by them for 75 per cent of the time in a day. Any member of the exchange will be eligible to act as market maker provided they meet the criteria laid down by the exchange.
4. Any unlisted company offering shares to a foreign company or individual will have to price them according to the comparable market price, the RBI said. The shares in unlisted companies will now have to be valued using a discounted cash flow model. This will remove any discretion in price-fixing and also reduce the chances of lower valuation under the earlier guidelines that fixed the price at average of two different valuations.
5. Retail and institutional investors will now be treated alike in terms of bidding for shares in public offers, a move also likely to bring down the exorbitant levels of over subscriptions in the primary market. As per a new directive from the market regulator SEBI, institutional investors will have to pay upfront 100 per cent money in primary issues, just like the retail investors.
6. Credit rating agencies (CRAs) will have to give granular details about rating movement of issuers from investment to non-investment grade and vice-versa at half-yearly intervals, according to the guidelines issued by the capital markets regulator.
7. SEBI on Thursday said mutual fund houses need to put

complete details about investor's complaints on public domain. The details of complaints will be signed off by the trustees of the mutual fund house. Experts feel, this is one of the major steps to bring more transparency in the mutual fund industry.

8. SEBI's panel has proposed to raise the minimum net worth requirement of mutual funds five times to Rs 50 crore, double it to Rs10 crore for merchant bankers and Rs100 crore for custodians. The SEBI board will study the recommendations before making any changes, but no time frame has been indicated.

9. SEBI has issued a model listing agreement for SME seeking listing on the SME exchange. The agreement relaxes the listing requirements for SMEs on proposed stock exchanges dedicated for the sector, a move likely to encourage small companies to get listed. According to the circular, companies listed on the SME exchange are required to send only a statement containing the salient features of all the documents to their shareholders instead of the entire annual report. Further, SME-listed companies need to submit financial results only on a half yearly basis.

10. The Indian economy expanded by 7.4 per cent during 2009-10; in the final quarter, the performance was very impressive, with real GDP up by a hefty 8.6 per cent from a lackluster 5.8 per cent a year ago. Compared with the preceding fiscal, the momentum gathered pace in as many as six of the eight sectors that comprise the GDP.

11. From now onwards mutual fund distributors and agents will need a National Institute of Securities Market (NISM) certificate to sell policies. “With effect from June 1, 2010, the associated person, i.e. distributors, agents, or any person engaged in the sale of MF products, shall be required to have a valid certification from NISM,” SEBI said in a notification.

12. The Finance Ministry has said that at least 25 per cent shareholding of all listed companies should be with the public. Companies which aren't there can reach the level through an annual addition of at least 5 per cent stake. Considering that the minimum listing norm now is 10 per cent, companies will get a maximum 3 years to fall in line.

13. Market regulator SEBI has asked fund houses to disclose their dividend payouts in rupee terms, instead of percentage-wise. It has also asked MFs to benchmark returns on investment against the Sensex and Nifty instead of sectoral indices. Stepping in once again to make mutual funds investor-friendly, the Securities and Exchange Board of India (SEBI), in a letter sent to the fund houses, has directed them to disclose to investors the dividend in the form of Rs per unit in their future communications and advertisements.

14. Beating all expectations, India's industrial production in April expanded at a record pace of 17.6 per cent in April, with the spectacular 73 per cent growth in capital goods output.

15. An index tracking wholesale food prices climbed to 16.74 per cent for the week ended May 29 compared with 16.55 per cent in the previous week. The food price inflation rose for the second week running due to a rise in the prices of essential commodities such as fruit, pulses and milk.

16. The government on June 15, 2010 released a revised discussion paper on the draft direct tax code, which seeks to replace the 50-year-old Income Tax Act. The new direct tax law proposes sweeping taxation changes to promote long savings and retirement benefits. The first draft tax code was released in August 2009. Among other radical changes in the tax structures, the new draft has proposed EEE method of taxation for GPF, PPF and RPF and the pension scheme administered by PFRDA. In a major change, under the new code, the current distinction between short-term investment asset and long-term investment asset on the basis of the length of holding of the asset will be eliminated. Income under the head Capital Gains will be considered as income from ordinary sources in case of all taxpayers including non-residents. It will be taxed at the rate applicable to that taxpayer.

## Insurance sector

1. After a year of dismal growth, the life insurance industry saw a rebound in business in 2009-10 with a 25 per cent growth in new premium income. Riding on recovery in auto sales and retail health segments, the general insurance industry too recorded 13.4 per cent growth in gross premium collected during the last financial year.

2. State-run Life Insurance Corporation (LIC) pumped over Rs 61,000 crore into the capital market during 2009-10, 50 per cent more than what it invested in the previous fiscal.

3. Insurance Regulatory Development Authority (IRDA) has told insurers to disclose explicitly the commission in the `benefit illustration', a document that contains the benefits due to a policyholder upon maturity of an insurance policy. In a circular to all life insurance companies, the IRDA said companies will have to disclose the commission paid to agents with effect from July 1, 2010.

4. In a relief to insurance companies, the Finance Ministry has revoked its demand asking insurers to pay service tax on commission they receive from reinsurance companies. The Central Board of Excise and Customs has clarified that service tax cannot be levied on the reinsurance commission because an insurance company does not provide any service to a reinsurance company.

5. IRDA has proposed to cap surrender charges and standardise the revival period for polices that had lapsed. In the draft guidelines, the regulator suggested the surrender charge during the first year of the policy be fixed at 12.5 per cent of the premium paid in case the policy term is less than 10 years. For longer duration policies, surrender charges are proposed to be capped at 15 per cent.

6. IRDA has come down heavily on insurance companies for the way they are conducting referral arrangements with banks, leading to a higher premium being charged to the policyholder. The insurance regulator is now working on putting in place draft guidelines on streamlining the referral fee structures, which have escalated the already rising costs of insurers.

7. IRDA has asked all insurance companies to carry out regular, annual on-site inspection of corporate agents with whom they have corporate agency agreements. In a circular issued to insurance companies, the insurance regulator said there have been many instances where same set of individuals float different corporate agencies, while many agencies employ the services of people, who do not have proper licence to sell insurance products.

8. LIC has signed a MoU with the Unique Identification Authority of India, under which the insurance major will share data with the Nandan Nilekani-led entity.

9. IRDA has issued a circular barring as many as 4,261 corporate agents of leading life and general insurance companies from selling any insurance policy as they have not renewed their license.

10. IRDA has come out with draft guideline for selling insurance products through telecallers, e-mails and other distance marketing modes. While soliciting the clients, the telecallers will not cause any “inconvenience, nuisance or harm to the clients... and shall comply with all requirements of confidentiality, privacy and non-disclosure” said the guidelines on which IRDA has invited comments from stakeholders till June 20.

**“The above news items have been collated from different newspapers.”**

# FICCI Economic Outlook Survey April 2010

## About the Survey

The Economic Outlook Survey was conducted during the period March 20, 2010 to April 10, 2010. As part of the survey, a structured questionnaire was drawn up and sent to key economists for their inputs and views. 12 economists of repute participated in the survey. These economists largely come from the banking and financial sector. The sample however also includes economists from industry and research institutions.

The economists were asked to provide their forecast for key macro economic variables for the year 2009-10 and 2010-11 as well as for Quarter 4 (Jan-Mar) of 2009-10 and Quarter 1 (Apr-Jun) of 2010-11.

In addition to these, FICCI sought the views of economists on six topical economic issues - expected monetary policy action by RBI in the forthcoming monetary policy review and potential impact on interest rates and industry performance; resource mobilization by corporate India for funding investments; how realistic is the Rs. 40,000 crore disinvestment target for 2010-11?; besides disinvestment and 3G auction how can government raise more resources in 2010-11?, is the rebound seen in India's exports sustainable?; and is it time to look at some policy action towards capital flows?

The feedback received from the participating economists was aggregated and analyzed. The results obtained are presented in the following pages.

**The findings of the survey represents the views of the leading economists and do not reflect the views of FICCI.**

## FICCI Economic Outlook Survey - April 2010

## Executive Summary

**Annual Forecasts for 2009-10**

- GDP growth - 7.2 percent
- Agriculture and allied activities growth - (-) 0.2 percent
- Industry growth - 10.0 percent
- Services growth - 8.1 percent
- Fiscal Deficit - 6.7 percent of GDP
- IIP - 10.5 percent
- Bank credit growth - 16.5 percent

**Annual Forecasts for 2010-11**

- GDP growth - 8.4 percent
- Agriculture and allied activities growth - 4.0 percent
- Industry growth - 9.2 percent
- Services growth - 9.3 percent
- Fiscal Deficit - 5.8 percent of GDP
- IIP - 10.0 percent
- WPI inflation rate (End March 2011) - 5.5percent
- USD / INR exchange rate (End March 2011) - Rs. 43.25 / USD
- Bank credit growth - 19.0 percent

**Quarterly Forecasts for Q4 of 2009-10 and Q1 of 2010-11**

- GDP growth - 8.7 percent (Q4, 2009-10) and 8.9 percent (Q1, 2010-11)
- Agriculture and allied activities growth - (-) 0.5 percent (Q4, 2009-10) and 3.0 percent (Q1, 2010-11)
- Industry growth - 12.9 percent (Q4, 2009-10) and 11.0 percent (Q1, 2010-11)
- Services growth - 8.8 percent (Q4, 2009-10) and 9.2 percent (Q1, 2010-11)
- IIP - 15.2 percent (Q4, 2009-10) and 13.0 percent (Q1, 2010-11)
- WPI inflation rate - 9.3 percent (Q1, 2010-11)
- USD / INR exchange rate - Rs. 44.75 / USD (Q1, 2010-11)
- Bank credit growth - 16.6 percent (Q4, 2009-10) and 16.6 percent (Q1, 2010-11

## Economists' views on

- **Expected monetary policy action by RBI and potential impact on interest rates and corporate performance.** Majority of the surveyed economists expect another round of monetary tightening by RBI in the forthcoming monetary policy review. Repo and reverse repo rates are expected to be hiked by 25 bps each. CRR could be hiked by up to 50 bps. Majority of the participants also feel that given the comfortable liquidity position in the system, a hike in policy rates by RBI is unlikely to be followed by an immediate hike in interest rates by banks. Even if banks increase the lending rates, corporates would not see much of an impact on their bottom line as other (non-bank sources) of funds could be substituted for bank funding.
- **Resource mobilization by corporates for funding investments.** Consensus amongst economists that investment cycle is gaining strength. Expect more money to be raised through the ECB, FCCB, ADR / GDR route. Companies are also expected to raise sizable resources from the equity market in the current year in view of the trend observed in the latter part of 2009. With sub-PLR lending being discontinued following the introduction of base rate framework, one can expect companies, especially large corporates, to use Corporate Deposits and Commercial Paper route in a larger manner for raising resources.
- **Feasibility of the Rs. 40,000 crore disinvestment target for 2010-11.** Majority view is that this is an ambitious target but is achievable. Meeting this target is contingent upon - alignment of IPO/FPO prices closer to market expectations, initiating a few big ticket issues such as BSNL, MMTC, SAIL, and continued good performance of equity markets. The downside risk to equity market this year is on account of sovereign debt crisis as seen in Greece, tightening of monetary policy by RBI and upward movement in oil prices.
- **How government can raise additional financial resources in 2010-11.** Economists feel that in the current year a robust growth path will automatically help shore up government's revenues. Cutting down on subsidies and

linking prices of oil and oil products to the market were some suggestions that were received from a few economists. Finally, there was a clear agreement amongst all survey respondents that the government should push for quick implementation of the GST regime and the DTC regime as these are expected to generate greater resources for the exchequer.

- **Sustainability of recent export performance.** The majority view is that outlook for exports is positive and we can expect exports to clock 15 percent growth (median forecast) in 2010-11. As Asia now accounts for a sizable part of India's exports, growth in this region augurs well for our near term export performance. However, recovery in western economies is still fragile with unemployment levels in US, UK and Eurozone still high. Consumption levels in these markets are still quiet low and with rising oil prices it could get further dented. With sovereign defaults risks looming large and pressure on countries to undertake fiscal correction, how the western markets can provide sizable demand remains a question. In addition to this, movement of the Rupee vis-à-vis the Dollar and Euro would also have a bearing on exports. These are the risks for a sustained pickup in India's exports going forward.

- **Whether rising capital flows demand some policy action.** No policy action against capital flows is warranted at this point in time. Capital flows into India are in line with the fundamentals of the economy, particularly the buoyant domestic growth prospects. Our current account deficit is widening and additional capital flows will offset this. Rising capital flows would even otherwise temper once the developed economies normalize their monetary policy conditions. With an ambitious disinvestment programme on the anvil, it is imperative that the government takes no steps that could hurt sentiment of foreign investors.

# FICCI Survey on Greece Debt Crisis - June 2010

## Background

As the global economy is on its way to recovery, developments in Greece and a few other European countries might have greater than expected implications. While many foresee another slowdown, others think that the issue has been resolved with IMF and EU's timely intervention.

To understand the implications of the developments taking place in Greece in particular and the Euro zone in general, FICCI has undertaken a quick survey amongst economists. The survey was conducted during the period May 10, 2010 to May 28, 2010.

As part of the survey, a structured questionnaire was drawn up and circulated amongst economists for their inputs and views. Eleven economists of repute participated in the survey. These economists largely come from the banking and financial sector. The sample however also includes economists from industry and research institutions.

FICCI sought the views of economists on **five key concerns** arising from the crisis –

**(1) Possibility of the sovereign debt crisis of Greece spilling over to other nations;**

**(2) Possibility of global economy seeing a double dip recession;**

**(3) Whether the bailout provided by IMF and EU was the right approach;**

**(4) Likely impact of Greece crisis on India and**

**(5) RBI's monetary policy stance in the light of emerging European crisis**

The feedback received from the participating economists was collated and analyzed and the views obtained are presented in the following pages.

**The findings of the survey represents the views of the leading economists and do not reflect the views of FICCI.**

## Survey Highlights

- **Economists' views on whether sovereign debt crisis of Greece could spill over to other nations**

  The majority view on this issue is that ring fencing of the Greece problem may prove to be a challenging task and that there is a good chance that other vulnerable economies in the region such as Portugal, Spain and Ireland may face a situation similar to that of Greece given their already weak public finances. Economists have also pointed out that countries like France could also come under some pressure as the country's banking sector has large exposure to some of the above mentioned countries.

  The chance of the crisis spreading to other European countries through the banking channel is

higher as the risk of default is the most crucial issue at this stage. Notably, foreign banks are exposed to the tune of US$ 236.2 billion of public and private debt in Greece and nearly a third of this is held by French Banks. Banks could act as the conduit that can rattle the ecosystem in other countries that have large exposure to Greece and lookalikes.

- **Economists' views on possibility of global economy seeing a double dip recession**

Most economists ruled out the possibility of a double dip recession due to Greece debt crisis. They however agreed that the global economy could see a situation of 'below to average growth rate' in the short to medium term owing to the reduction in growth in the Euro zone.

European countries with high fiscal deficit and high debt obligations have announced stringent austerity measures like cut in public expenditure, hike in tax rates and cut in wages for the public sector employees. Economists feel that such strict austerity measures will lead to a reduction in consumption and investment demand in the economy and put a break on growth.

Further, as credit ratings of some of the economies get downgraded, it will become difficult for them to raise fresh money from the markets. Already signs of this happening are visible on the horizon. Economists feel that global investors could single out the weaker economies and be reluctant to divert resources to such regions. This would limit availability of funds for these countries and could put further pressure on their growth rates.

Even countries like France and Italy are under pressure on account of strain on their banking sector which could undermine growth in the region.

In short, while one can expect global growth and global trade flows to see some moderation in the near term, the dip would be much smaller than what was seen during the 2008/09 great recession.

- Economists' views on whether the bailout provided by IMF and EU was the right approach

There is a consensus amongst all economists that there was no option at this point in time other than bailing out Greece from this difficult situation. All the participating economists spoke in one voice on this issue.

Economists have pointed out that the traditional medicine (lowering interest rates and devaluing currency) of working out of such a problem is not available to countries such as Greece that are part of the Euro currency. These economies do not have the flexibility of devaluing their currencies and returning to the path of high growth and greater competitiveness. The EU and IMF could do little at this juncture except to prop up these economies with the bail- out package and help restore confidence in their bond issues.

Allowing Greece to default would have had long term repercussions as it would inflate the overall debt and fiscal deficit. This could have posed serious questions on the viability and the stability of EU region and their currency Euro.

The participating economists criticized the fact that there was no central agency in the Euro zone to monitor public finances of member countries. In fact this has been a major challenge right from the beginning when the EU came into being.

Economists have mentioned that EU is a heterogeneous grouping with there being differences amongst countries in terms of stage of economic development. Ensuring fiscal discipline in such a situation was always difficult. Anyhow, just like ECB, which coordinates the monetary policy for the EU, there should have been a monitoring agency for keeping a tab on the fiscal situation in different constituent countries.

- Economists' views on likely impact of Greece Crisis on India

- **India's Exports to the EU region**

Economists ruled out the possibility of any hit on India's overall exports if the crisis remains restricted to Greece, as India's exports to this affected country accounts for just 1 to 2 percent of our overall global exports. Further, the impact will still be marginal even if the crisis spreads to other PIIGS countries as India's export to PIIGS is also limited.

However, a generalized and widespread slowdown in the EU region, as expected by a few, would be a negative development for Indian exports as EU region accounts for about a fifth of our total global exports.

An additional point towards which attention was drawn relates to availability of trade finance in the EU region. As banks in the EU region suffer losses, they could well cut down on their overall operations including the business of trade finance and in case this happens then like all countries India too would see a slowdown in exports to the EU region.

A small set of economists have said that this slowdown in exports could shave off about 0.25 to 0.5 percentage points from India's GDP growth in the year 2010-11.

- **Capital inflows to India**

Majority of the economists felt that there could be a knee-jerk reaction here as capital market is sentiment driven. With deleveraging expected to continue in the global markets, there is likely to be flight of capital from equity markets in emerging economies including India.

Further, debt related flows could also be lower as global financial market players hesitate to invest in non- dollar areas. Consequently, capital flows to India could be on the lower side in the next six months or so.

- **Liquidity situation**

With majority of the economists expecting capital flows into India to slow down if not completely reverse in the coming six months, the liquidity situation is also expected to be a little tight in the days and months ahead.

- **Rupee value**

With majority of the economists expecting the sell off pressure from FIIs in the Indian markets to continue from some time, the Rupee is expected to be under pressure in the near term. Already we have seen the Rupee depreciate against the US$ quite a bit in recent times. INR in fact posted its biggest weekly decline for the week ended May 21, 2010 in nearly 14 years, amidst concerns about euro zone's growth prospects and implications for funds flows into India

Economists' views on RBI's monetary policy stance in light of emerging European crisis

Majority of the economists have pointed out that while concerns over inflation would last for some more time, concerns of liquidity are expected to build up fast on account of slowdown / reversal in capital flows, 3G payments, advance tax flows and overseas banks resources getting preempted due to the crisis.

They further added that RBI would ensure enough liquidity in the system to keep the growth momentum going, and may therefore not be in a hurry to raise interest rates. This camp was of the view that inflation is likely to dip in the second half of the year due to the high base effect in the same period last year. Also, if the monsoon this year is good as forecasted, the inflationary pressure would further ease. RBI can therefore be expected to act keeping in mind the liquidity situation and this would mean some pause in policy action.

While the above is the majority view, there is a feeling amongst a smaller set of participants that inflation will continue to be the focus of the central bank and it will continue with its current monetary policy stance of gradual tightening up. This set of economists were of the opinion that given the liquidity challenge at best you can expect that RBI would refrain from any intra policy date rate hikes. Finally, while RBI is expected to continue moving the rates up the quantum may be restricted to 25 bps.

## Seminar on 'De Risking the Indian Economy : Commodity Futures & Options'

**Date: 12th March 2010**
**Venue: Federation House, New Delhi**

The government and private sector have used commodity futures and options in some commodities in the past, which has had a beneficial impact for industry and economy. Nevertheless, hedging is still limited to a few sectors, and there is scope for hedging practices to be extended to sugar, iron ore, and other industrial sectors to reap the potential of these instruments. However, before moving forward, there is a need for dialogue at the business and regulatory level as also the need to create political consensus on showcasing the advantages of the use of these instruments for the economy. With this vision **FICCI organized a Seminar on 'De Risking the Indian Economy: Commodity Futures & Options', on 12th March 2010 at Federation House, New Delhi** under the guidance of Mr. M. S. Verma, Chairman, FICCI Task Force on De-Risking the Economy, Former Chairman SBI & TRAI and Chairman, IARC.

This seminar provided a platform to kick-start a debate between policy makers and industry stakeholders, and focused on:

- Creating a roadmap for efficient and enhanced risk management and price discovery through commodity futures and option.
- Positive international experiences and best practices.
- Institutions and structures required to ensure effective utilization of these instruments for beneficial impact on the economy.

*Shri Kaushik Basu*, Chief Economic Advisor, Ministry of Finance, Government of India delivered the Keynote Address at the Seminar.

The seminar consisted of two panel discussions: -

- Dimensions Of De Risking The Indian Economy
  *Chair: Shri Sharad Joshi*, Member of Parliament, Rajya Sabha
- Institutions And Structures Available In India
  *Chair: Shri. Rajiv Agarwal, Secretary, Department of Consumer Affairs, Government of India*

The seminar was addressed by some of the leading experts in the field. Some of them were as follws:

- **Shri Sharad Joshi,** Member of Parliament, Rajya Sabha
- **Mr. Rajiv Agarwal,** Secretary, Department of Consumer Affairs, Government of India
- **Mr. P. V. Ananthakrishnan,** Country Head & CEO, Mashreq Bank, India
- **Mr. Ted Huang,** Director, Energy Marketing & Origination, Citi Asia Pacific
- **Mr. Jayant Manglik,** President, Religare Commodities Ltd.
- **Dr. Chiragra Chakrabarty,** Director, Market, Derivatives & Treasury Group, Deloitte Touche Tohmatsu India Private Limited
- **Mr. Manu Dua,** Director, Corporate Sales and Structuring, Citibank
- **Mr. Sanjay Kaul,** MD & CEO, National Collateral Management Services Limited
- **Mr. Sanjay Gakhar,** Vice President-Business Development, MCX
- **Mr. Joby** CO, Vice President, ATMNE IFMR Ventures
- **Mr. D. K. Aggarwal,** Chairman, SMC Wealth Management Services Ltd.

## FICCI – Sa-Dhan National Microfinance Conference

**Date: 12th March 2010**

**Venue: Ashoka Hotel, New Delhi**

FICCI in collaboration with Sa-Dhan, the Association of Community Development Finance Institutions organised the National Microfinance Conference on 17th - 18th March, 2010 in New Delhi. The theme of this conference was 'Financial Inclusion and Responsible Microfinance'.

National Microfinance Conference is being organised every year from the last eight years, to provide a platform for policy dialogue & a forum for stakeholders to exchange views, experiences and suggestions on various operational issues of microfinance and enterprise building.

This year over 1000 delegates participated at the forum. The Conference has been instrumental in providing impetus to the growth of the sector and draw attention of policymakers in formulating favorable policy changes. The forum helped identify the changes required to support the financial inclusion initiatives in the Microfinance sector as well as provide appropriate financial services.

The conference was addressed by some of the leading Industry experts such as:

- Mr R Gopalan, Secretary, DFS, Ministry of Finance, Govt of India
- Mr G C Chaturvedi, Addl Secretary, DFS, Govt of India
- Mr Tarun Bajaj, Joint Secretary, Ministry of Finance, Govt of India
- Mr Jyotiradiya Scindia, Hon. Minister of State for Commerce and Industry, Govt of India
- Mr Salman Khurshid, Hon Minister for Corporate Affairs, Govt of India
- Dr Montek Singh Ahluwalia, Dy Chairman, Planning Commission
- Dr K C Chakrabarty, Deputy Governor, RBI
- Mr Anil Swaroop, Joint Secretary, Ministry of Labour, Govt of India

- Ms Naina Lal Kidwai, Group General Manager & Country Head-India, HSBC Ltd
- Mr Nandan Nilekani, Chairman - Unique Identification Authority of India (UIDAI) et al.

The National Microfinance Conference has been instrumental in providing impetus to the growth of the sector and draw attention of policymakers in formulating favorable policy changes. The forum helped identify the changes required to support the financial inclusion initiatives in the Microfinance sector as well as provide appropriate financial services

## 7th Annual Capital Markets conference - CAPAM 2010
## Theme: 'Capital Markets 2020: Going for 3X'

**Date: 20th April 2010**
**Venue: Hotel Grand Hyatt, Mumbai**

FICCI organized the Conference on 7th Annual Capital Markets conference – CAPAM 2010 on 20th April 2010 at Hotel Grand Hyatt, Mumbai. The Welcome Address was delivered by Mr. Rashesh Shah, Chairman, FICCI's Capital Market's Committee, and Chairman, Edelweiss Capital Ltd while the Theme Presentation was made by Mr. Naveen Tahiliyani, Partner, McKinsey & Company and Special Address was delivered by Mr. Joseph Massey, MD& CEO, MCX Stock Exchange. Mr. C. B. Bhave, Chairman, Securities and Exchange Board of India (SEBI) delivered the Keynote Address.

Some of the key issues discussed at the conference were

- Greater retail participation in the markets,
- New and innovative products beyond equities,
- Answering the challenges faced by the mutual fund industry, and
- The need to make Indian markets more globally competitive.

**Some of the key takeaways from the conference include:**

- The need to better the market infrastructure and take steps to make the markets more efficient to encourage investors
- Importance of technology and how it can be used to the advantage of retail investors, like for example improved risk containment mechanisms.
- Equity markets should be made more accessible, and there is a need to remove restrictions on pension funds with regard to investment in equities
- Need to increase domestic institutional participation which is currently minimal in the derivatives market
- There is a need for greater localization in terms of exchanges, intermediaries and other support institutions
- Reducing costs, i.e., the high customer acquisition cost and cost of intermediaries, to bring in more retail investors
- Make investors realize the importance of mutual fund as a vehicle for long term savings

- There is a need for innovative products targeted at retail investors in order to expand retail participation
- Non homogeneous stamp duty regime across states holds up the development of bond market
- More steps should be taken for protection of investors so that they are encouraged to invest in the market.
- The aim of the conference was to discuss and debate the key issues to obtain regulatory, policy and business updates, learn about the regulator's perspective on the future of Capital Markets – Vision 2020, to interact and network with policy makers & practitioners on issues and challenges being faced by the industry, to understand and assess potential market opportunities and risks involved to the stakeholders.

## FICCI's Asset Reconstruction Forum

**Date: 26th May 2010**
**Venue: Hotel Taj President, Mumbai**

FICCI organised a one day seminar on Asset Reconstruction: The Way Forward on 26th May, 2010 at Hotel Taj President, Mumbai. Mr. Alok Nigam, Joint Secretary, Financial Services, Ministry of Finance, Govt. of India delivered the Keynote Address in the Inaugural Session of the conference.

Some of the key issues discussed at the forum were as follows:

- Role of Asset Reconstruction Companies in Economic Development
- Asset Reconstruction: Role of ARCs
- Bank-ARCs participation in NPL management – Issues and challenges
- Valuation: Key driver to success in NPL sales

The Indian ARC Sector has evolved significantly during the last five years and has played an important role in regulating and controlling Non Performing Assets (NPAs) of the financial sector and redeployment of idle capital for productive uses. However, ARCs today face certain challenges which if not addressed in a timely manner would hamper their efficient functioning. To name a few, the challenges faced by ARCs include NPA Valuation, Information and Data Availability, Recovery Period, Standardisation of Sale Process etc.

The forum highlighted some of these challenges faced by ARCs and put forth an action plan for sustained growth of ARCs. FICCI is also in the process of setting up a task force to further probe the issues required for efficient functioning of ARCs.

The conference was addressed by some of the leading Industry experts. The key speakers at the forum were as follows:

- Mr. Rashesh Shah, Chairman, FICCI's Capital Markets Committee and Chairman, Edelweiss Capital Ltd
- Mr M.S. Verma, Former Chairman, State Bank of India and TRAI and Chairman, IARC
- Mr. Alok Nigam, Joint Secretary, Financial Services, Ministry of Finance, Govt. of India
- Mr. S Khasnobis, Managing Director & CEO, Arcil
- Mr. Arun Kaul, Executive Director, Central Bank of India
- Mr. Sharad Bhatia, CEO, Phoenix ARC Private Limited
- Mr. Anish Modi, Managing Director and CEO, India Debt Management Private Limited, Partner, ADM Capital and Director, IARC
- Mr Ravi Kumar, MD & CEO, Invent ARC Pvt. Ltd.

- Mr Anil Bhatia, MD & CEO, JM Financial ARC Pvt. Ltd.
- Ms Ranjana Kumar, Former Chairman and MD, Indian Bank, Former Vigilance Commissioner, Central Vigilance Commission (CVC) and Director, IARC
- Mr. P Rudran, Managing Director & CEO, India SME Asset Reconstruction Co. Ltd.
- Mr M.R. Umarji, Chief Legal Advisor, Indian Banks' Association
- Ms. Neeta Mukerji, President and COO, Arcil
- Mr. Ananda Bhoumik, Senior Director and Head, Financial Institutions Ratings, Fitch Ratings India
- Mrs. Renu Challu, Managing Director, State Bank of Hyderabad
- Mr. Neeraj Garg, Executive Director, PwC
- Mr. Sandeep Singh, Director, Structured Finance Group, Fitch Ratings
- Mr. Saurav Ghosh, President and Chief Investment Officer, Arcil
- Mr. Birendra Kumar, Managing Director & CEO, IARC

## FICCI's Health Insurance Conference July 2010

**Date: 30th July, 2010**

**Venue: Federation House, New Delhi**

FICCI is organising a one day conference on Health Insurance in July, 2010. Mr. J. Hari Narayan, Chairman, IRDA has been invited to deliver a Keynote Address in the Inaugural Session of the conference.

Health Insurance penetration is important for access to quality healthcare by enhancing affordability for masses at large. Although, health insurance has recently seen several positive developments which are clearly reflected in the significant growth of the sector in last two years, there is no room for complacency. The road to achieve universal health insurance coverage is long. Lack of consumer awareness & satisfaction, claim settlement issues, need for standardization of services provided & understanding between the health care providers and health insurance companies, lack of product innovation etc are some of the issues of concern.

There is a strong need to make the health Insurance a viable business proposition through better understanding between healthcare providers and health insurance companies.

FICCI is deeply involved in the space of Health Insurance and has made several path breaking initiatives in health insurance. FICCI has constituted an Advisory Board on Health Insurance comprising senior representatives of the healthcare providers, the health insurance companies, QCI, World Bank and IRDA to identify a few critical issues that would pave way for greater penetration of health insurance and greater customer satisfaction.

**The focus of this year's FICCI's Health Insurance Conference is:**

1) To share the findings and disseminate the work done so far on:
   - " Promoting Quality Healthcare through Health Insurance"
   - " Standardisation of Billing Procedures in Hospitals"
   - " Standardisation of TPA/Insurer and TPA/Hospital Contracts"
2) To discuss the way forward to increase health insurance penetration in the

Country and to make quality healthcare affordable to masses at large.

## 9th Edition of FICCI-IBA Global Banking Conference:

**Date: 7-9th September 2010**
**Venue: Hotel Trident, Mumbai**

**FICCI and IBA are pleased to announce the 9th edition of FICCI – IBA Conference on "Global Banking: Paradigm Shift"**. The conference will play an important role in defining the shape of the economy in the next decade. This requires SWOT analysis of the banking system vis-a-vis its global counterparts, identifying the road blocks and defining the road map ahead.

Globally, the financial sector regulations are undergoing a shift and are surely going to have an impact on the banking sector across the globe. This forum will therefore look at the evolving framework & it's possible impact and also provide necessary inputs in defining the financial regulatory architecture.

Acclaimed by past attendees as an industry-relevant world class event with outstanding content, speakers and organisation, the forum would once again provide a key platform for the financial services industry experts not only to gain insights about changing consumers behaviour, regulatory developments and forecasts of the future economic landscape but also to interact with the movers and shakers of financial services industry.

**Key Stakeholders** – The conference will aim to bring together the following at this platform.

- Executives of the Banking and Financial Services sector
- International Banking and Financial Services Companies foraying into India
- Policy makers and regulators
- Financial and Commodity Exchange Operators
- IT vendors and technology providers
- Private Equities and Venture Capitalists
- Fund Managers and Institutional Investors
- Consultants and Analysts
- Corporations
- Educational Institutes

**The theme of this years' conference is: "Banking 2020: Making Decade's Promise Come True."**

**Day 1**

1. Inauguration
2. Setting expectation: Promise of the decade and role of banks
3. Giving wings to corporate aspirations
4. Infrastructure financing: breaking the deadlock

**Day 2**

1. Retail Finance –Act II: Funding the dreams of Indian households
2. Transactions in the next decade: Faster, Cheaper and Easier
3. Supporting the inclusion aspirations: Rural and agricultural banking
4. Debate: Preparing Indian banks for global competitiveness – Consolidate or not

**Day 3**

1. Special session by FSA (counter cyclicality and stress testing)
2. Defining new paradigms in regulation
3. Renewing the aspirations: Mumbai as finance hub
4. Valedictory

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