

ConneKt...to the New Beginnings

NMA

NEWS ROOM
(MAJOR NEWS HIGHLIGHTS OF THE MONTH)

VALUE CREATION
(NMA'S VALUE ADD TO THE "K" FACTOR)

CORPORATE WATCH
(FINANCIAL AND STATISTICAL REVIEW OF SELECT LISTED COMPANIES)

NOTIFICATIONS AND PRONOUNCEMENTS
(GIST OF IMPORTANT CASE LAWS, NOTIFICATIONS AND ANNOUNCEMENTS)

DUE DATES
(YOUR MONTHLY COMPLIANCE CALENDAR)

BUSINESS GAGS
(ON A LIGHTER NOTE)

NEWS ROOM

Govt may want MTNL beyond Delhi, Mumbai

Dropping MTNL profits have prompted the government to take a fresh look at the issue of letting the state-run company take its services to areas beyond Delhi and Mumbai. Communications and IT minister A Raja has asked MTNL for a concrete proposal on this matter at a meeting with the company brass recently. The minister expressed concern about the decline in the profit of the company.

Suzuki sideswipes Tata small car

Corporate battles seem to be the flavour of the month. Even as conflict rages in the telecom sector between GSM operators and Reliance Communications Ltd over spectrum allocation, on December 11th 2007, Suzuki Motor Corporation (SMC) chairman Osamu Suzuki opened another front in the auto sector. Speaking on the sidelines of an industry conference in the capital, Suzuki, who was on a three-day visit to the country, expressed doubts about Tata Motors' credentials as a responsible automaker.

TCS to launch smart cards for microfinance

India's largest IT-ITeS company, Tata Consultancy Services (TCS), is all set to launch its smart card solution that would enable banks to reach the remote areas and address their need for microfinancing. To begin with Punjab National Bank (PNB) and Bank of India (BoI) have come forward to implement the solution on a pilot basis. While PNB intends to apply it in three locations spread across Punjab, Gujarat and Delhi, BoI is planning to enforce it in Maharashtra. "We are expecting to start the pilot projects in a couple of weeks," M Vidyasagar, executive vice-president, Advanced Technology, TCS, told Business Standard, adding that banks were in the process of finalising the locations.

Reliance Retail looks to 'refresh' business

In a dramatic shift in strategy, Reliance Retail has decided to minimize its exposure in the fruit and vegetable business and position Reliance Fresh as a pure play super market focusing on nine categories including food, FMCG, home, consumer durables, IT, wellness and auto accessories, with food accounting for the bulk of the business. The company may not stock fruit and vegetables in some states, Orissa being one of them. Though Reliance Fresh is not exiting the fruit and vegetable business altogether, it has decided not to compete with local vendors partly due to political reasons, and partly due to its inability to create a robust supply chain.

Vikram Pandit to take a long, hard look at Citi

A fortnight after an Arab fund bailed out Citigroup — the world's biggest bank — a person of Indian origin (PIO) will now take a hard look at it and shape the destiny of the American company that sells almost all financial products under the sky. "We will undertake an objective and dispassionate review of all our business. We will do it individually and on an aggregate basis to make sure that we are positioned for the future.," Vikram Pandit said in a conference call soon after taking over as the Citigroup CEO.

SBI eyes more banks abroad

State Bank of India's overseas shopping spree continues as the country's largest public sector lender wants to buy another Indonesian bank. Not just SBI, some other Indian banks, too, are eyeing Indonesian banks. This is according to Muliaman D Hadad, deputy governor of Bank Indonesia.

"Some of the big Indian banks are already in Indonesia to buy banks. SBI and a couple of others are also keen on buying banks in Indonesia.

ICICI, for example, has worked very closely with Indonesian banks and has bought banks there," he told FE in an exclusive interview.

GMR Infra plans coal mine acquisition

GMR Infrastructure Ltd is scouting for acquisition for coal mines and is in advanced stage of due diligence. The company said that part of the Rs 3,965 crore raised by offering equity to Qualified Institutional Buyers (QIB) will be utilised for the purpose.

VALUE CREATION

EXTERNAL COMMERCIAL BORROWING

Whenever there is a discussion about the sources of borrowing for Country's corporates, ECB always finds a place. ECB has been the main source for many companies setting up their offices in India, eyeing multi digit growth, overseas market.

Keeping in view the dynamics of the economy and the boom in the number of foreign Companies entering India, ECB has become a topic of discussion amongst the corporate fraternity. Further, given its low cost and liberalization of rules in India, the demand for ECB has been incessant. Considering such a scenerio and the sensitivity of foreign money flowing into India, RBI, which is the regulatory authority governing ECB has also come up various guidelines to regulate the same.

To start, let's have a look at the definition of ECB and later the provisions governing it. We have tried to lay down the provisions in brief for everyone's understanding.

What is External Commercial Borrowing

External Commercial Borrowing or ECB can be defined as borrowing from lenders and investors outside India. Such borrowings are being permitted by the Government as a source of finance for Indian corporates for expansion of existing capacity as well as for fresh investment. ECBs mainly include commercial bank loans, buyers' credit, suppliers' credit, bonds etc.

ECBs are a key component of India's overall debt. The Government of India in consultation with RBI frames policies for ECB. The important aspect of ECB policy is to provide flexibility in borrowings by Indian corporates.

With a view to manage the country's external debt prudently, the Finance Ministry sets an annual cap on the total ECBs that Indian corporates can access in a year. The guiding principles of ECB policy are to have long borrowing maturities, low costs, and encourage infrastructure and export sector financing, which are crucial for overall growth of the economy.

In order to enable Indian corporates, to have greater access to international financial markets the Government has empowered Reserve Bank of India to approve ECBs in accordance with the guidelines brought out for the same. RBI has delegated this task to the authorized dealers namely the public and private sector bank and made them accountable to ensure that all the ECB approvals are given after ensuring that the norms specified in the ECB guidelines are fulfilled.

In order to ensure that the money received by the way of ECB is not utilized for unlawful purpose, government has defined the end use for which it can be utilized.

Regulatory Requirement for ECB

Borrowings for ECB can be done either through automatic route or obtain a specific approval. Rules have been laid down for both the modes. We will discuss each of these in detail:

Automatic Route

Under automatic route borrowing can only be made by a Company as defined under the Companies Act, 1956. No borrowing would be available for financial institutions, microfinance agencies, partnership firms, proprietorship firms or any individuals under this route.

The amount that can be raised in a financial year under this route is restricted to USD 500 million.

RBI has also specified lenders from whom the borrowings can be made.

In a similar way RBI has specified the end use and the purpose for which the money borrowed can be utilized. These are:

- Investment to be made in specified sectors, including Small and Medium enterprises.
- For direct investment in overseas JV/WOS subject to direct investment guidelines.
- For first stage acquisition of shares in the divestment process.

VALUE CREATION

EXTERNAL COMMERCIAL BORROWING (*CONTD...*)

Other than the above utilizations the borrowings cannot be utilized for any other purposes. The regulations have also laid down the minimum average maturity for the borrowings in foreign exchange. They are:

- For loan upto USD 20 million - Not less than 3 years
- For loan exceeding USD 20 million and upto 500 million - Not less than 5 years

Even though the borrowing is under automatic route, still the borrower would have to abide the rules with regard to loan agreement, the drawdown terms and reporting requirements.

Approval Route

Under approval route the borrowing can be made to the entities covered under the approval route and also include financial institutions dealing exclusively with infrastructure and other financial institutions participating in the textile or steel structuring repackaging as approved by the Central Government.

In a similar way RBI has specified the lenders, the end uses and the purposes for which the money borrowed can be utilized. These are similar to those mentioned under the automatic route.

A special mention has also been made specifying that the end use cannot be made for on lending, investment in capital market, investment in real estate business, working capital requirements, general corporate purposes and the payment of rupee loans. Though real estate would not include development of integrated township.

The regulations with respect to maturity are also similar to the ones specified under automatic route.

With respect to the application for approval, RBI has bifurcated the same between two of its offices. The applications for raising loans upto USD 100 million should be submitted through the authorized dealer to the Exchange Control Department and the loans of more than 100 million USD should be submitted to the Department of Economic Affairs.

The Current Scenario

In the current day scenario of fast growing economy and the number of foreign players testing the Indian markets there is an ECB has got a huge number of takers.

RBI at their end has been proactively looking at any loopholes left in the provisions and is always ready to tighten the screws wherever required.

CORPORATE WATCH

GMR Infrastructure Ltd.

GMR Group is one of the fastest growing and leading private sector Organisations in India with interests in Infrastructure and Agri-Business. Founded in 1978, by its present Chairman Shri G.M. Rao, the Group is well diversified and professionally managed.

The core businesses of the Group are in the sectors of Infrastructure comprising of Energy, Roads and Airports. With its recent foray into the sector of Airports, the Group has established itself as a front runner and pioneer in the core infrastructure areas of the country, comparable to some of the best in the world like Macquarie Group - Australia, Ferrovial - Spain, Conglomerates – Vinci, China Merchant Holding International - Hong Kong.

Chairman of the Company	Mr. G.M. Rao
Face Value of the Share	Rs. 2.00
52 week High	Rs. 268.70
52 week Low	Rs. 41

Amount in Rs. (Crores)

Particulars	Mar 06	Mar 07	Sep 07
Sales Turnover	57.44	33.39	22.82
Other Income	2.94	0.74	1.41
Total Income	60.38	34.13	24.23
Total Expenses	7.36	8.70	2.75
Operating profit	50.08	24.69	20.07
Gross Profit	53.02	25.43	21.48
Interest	17.29	19.96	11.74
PBDT	35.73	5.47	9.74
Depreciation	0.22	0.20	0.07
PBT	35.51	5.27	9.67
Tax	-0.04	2.39	0.01
Net Profit	35.55	2.88	9.66
Earnings Per Share	1.34	0.09	0.29
Equity	264.44	331.07	331.07
Face Value	10.00	10.00	10.00

CORPORATE WATCH

DETAILS AS ON 20th December 2007

Top 3 Shareholdings in the Company

Resident individuals	79.94
Total Institutions	10.59
Total Foreign	7.66

Top 3 Mutual Fund Holding

Scheme Name	Amount (Rs. Crores)
Sundaram BNP Paribas Equity	15,00,692
Sundaram BNP Paribas Rural	500,727
Kotak Emerging Equity Scheme	437,500

Comparative Data of GMR with its Peer Companies

(in Rs. Crore)

Company Name	Last Traded Price	EPS (TTM)	PE Ratio	Face Value of Share	Market Capitalisation
Lanco Infra	740	4.31	171.46	10	16,499.25
Unity Infra Proj	796	31.80	25.03	10	1,068.10
GMR Infra	238	0.14	1,703.93	2	39,365.89

NOTIFICATIONS AND PRONOUNCEMENTS

NOTIFICATIONS AND CIRCULARS

NOTIFICATION NO. 282/2007 - FTD
[F. NO. 503/5/2004-FTD] DATED 28-11-2007

Vide the notification, Central Government has directed that all the provisions of the Protocol annexed with the notification, amending the existing agreement between the Government of the United Arab Emirates and the Government of the Republic of India for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income shall be given effect from the 1st day of April, 2008.

Notification No.43/2007-Service Tax

Central Government, on being satisfied that it is necessary in the public interest so to do, has exempted the taxable service, specified in sub-clause (zoo) of clause (105) of section 65 of the said Finance Act, provided in relation to business exhibition of goods by the organiser of business exhibition to a manufacturer of goods falling under Chapters 57, 61, 62 and 63 of the Central Excise Tariff Act, 1985, from the whole of the service tax leviable thereon under section 66 of the said Finance Act, subject to the following conditions

RBI/2007-08/213
A. P. (DIR Series) Circular No.20

The equity instruments should be issued within 180 days of the receipt of the inward remittance. In case, the equity instruments are not issued within 180 days from the date of receipt of the inward remittance or date of debit to the NRE/FCNR (B) account, the amount of consideration so received should be refunded immediately to the non-resident investor by outward remittance through normal banking channels or by credit to the NRE/FCNR (B) account, as the case may be.

•Accordingly, amendments have been made in Foreign Exchange Management (Transfer or Issue of Security by A Person Resident Outside India) (Third Amendment) Regulations, 2007 vide Notification No. FEMA 170 /2007-RB Dated 13th November, 2007

CASE LAWS

Liability for advance tax

JCIT Vs. Arihant Industries Ltd. 19/01/2005 (2005)278 ITR (AT) 254 (Chandigarh)

Decision:

Held that since section 115JA came into operation from September 29, 1996, assessee was not liable to pay any interest for instalments due on June 15 and September 15.

Section 37

C.I.T. Vs. Relaxo Footwears Ltd. 25/04/2007 [2007] 293 ITR 231 (Delhi)

Decision:

Held by the Hon`ble Court that, the new unit was a part of the existing business moreover unity of control and inter-lacing of the units is also there. Therefore expenses incurred regarding setting up of the new unit which was part of the existing business is allowed as revenue expenditure

Business Loss

Coated Fabrics P. Ltd. Vs. J.C.I.T. 06/01/2006 (2006) 285 ITR 148 (Pune)

Decision:

Held by the Hon`ble Bench that section 71(2) allows an assessee to set off of business loss from income under any head including capital gains, further no sequence is prescribed for set off of losses, thus it is open to the assessee to set off the business loss against any head as is beneficial to him.

Penalty for Concealment of income u/s271C

New Sorathia engineering Co. Vs.

C.I.T. 25/01/2006

(2006) 282 ITR 642 (Gujarat)

Decision:

Held by the Hon'ble court that it is incumbent upon the Assessing Officer to state whether penalty was being levied for concealment of particulars of income by the assessee or whether any inaccurate particulars of income had been furnished by the assessee

DUE DATES

Due Date	Assessee Covered	Obligation / Event
PROVIDENT FUND AND ESI		
25th December	PF Applicable Units	EPF Monthly Return.
20th January	PF Applicable Units	EPF Deposit for December 2007
21st January	ESI Applicable Units	ESI Deposits for December 2007
INDIRECT TAX		
28th December	DVAT Assessee	Electronic return for those who have been prescribed to file monthly returns under DVAT
31 st December	DVAT Assessee	Last Extended date for submission of detail of C form received for the period from January 2007 to March 2007 in Dvat-51
5th January	Service Tax Assesses	In respect of payment received towards the value of taxable services in December for corporate assesses and September to December for other assesseees.
DIRECT TAX		
31 st December	Income Tax Assesses	Issue TDS certificate for tax deduction in previous month
7th January	Income Tax Assesses	Deposit of TDS/TCS deducted during the month of December 2007.
VENTURE CAPITALIST		
31 st December	Venture Capital Company	Statement of income distribution by venture capital company or venture capital fund in respect of income distributed during 2006-2007

BUSINESS GAGS

Man walking along a road in the countryside comes across a shepherd and a huge flock of sheep. Tells the shepherd, "I will bet you \$100 against one of your sheep that I can tell you the exact number in this flock." The shepherd thinks it over; it's a big flock so he takes the bet. "973," says the man. The shepherd is astonished, because that is exactly right. Says "OK, I'm a man of my word, take an animal." Man picks one up and begins to walk away.

"Wait," cries the shepherd, "Let me have a chance to get even. Double or nothing that I can guess your exact occupation." Man says sure. "You are a consultant with one of the Big 4 Consultancy Firm," says the shepherd. "Amazing!" responds the man, "You are exactly right! But tell me, how did you deduce that?"

Shepherd says, there are 3 reasons for the same:

- 1. You wanted to give me consultancy without me asking for the same.*
- 2. You told me something I already knew and your fees for the same was exorbitant.*
- 3. Even after analysis you still were not able to identify my business. "You picked up a Dog instead of the Sheep"*



Stay Hungry, Stay Foolish
Anonymous

Queries/Feedback/Suggestions on this newsletter may be addressed to:
Nayyar Maniar & Associates, Chartered Accountants, B-9, LGF, Green Park
(Main), New Delhi – 110016, India. Ph: + 91-11-46021550-52.

For past issues of NMA ConneKt, Kindly Visit our Website: www.nmaconsultants.com

Disclaimer: The materials contained in this newsletter have been compiled from various sources. This information is for guidance only and should not be regarded as a substitute for appropriate professional advice. Nayyar Maniar & Associates accepts no liability with regard to the information herein or any action that may be taken by readers of this newsletter without any professional advice.