

Connect.....to the

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)

November 2007

NEWS ROOM

SBI may absorb UCO, Dena bank

Banking consolidation in the public sector is set to deepen further with State Bank of India (SBI) seeking to expand its foothold beyond immediate associate banks by possibly absorbing UCO Bank and Dena Bank. The government has, of course, decided to maintain a hand-off approach to the development, but it is understood that informal consultations are already on among the banks.

Next Retail eyes Regional Buys to expand retail breadth

Next Retail India Pvt Ltd, owned by the Dhoot family of Videocon, is planning to acquire regional players to grow in the retail space. After bagging national retail chains such as the Raymond-promoted Plugin stores and the more recent Planet M, the music and entertainment retail arm of Bennett, Coleman & Co, Next is now eyeing smaller regional chains which are keen to be a part of its retail company.

PEs set to bring in \$ 48 b by 2010

India's private equity story is getting bigger even as the global credit crunch is squeezing the funds mop-up globally. It is believed that private equity funds are in the midst of raising a jaw-dropping \$48 billion for the Indian market by 2010.

DLF to buy ultra luxury Amanresorts for \$ 250 mn

DLF Ltd is acquiring the privately-held super luxury resorts and spa chain Singapore-based Amanresorts for around \$ 250 million. This will be the first overseas acquisition by India's largest real estate company, which recently went public. Sources close to the developments said at \$250 million, the deal is being concluded at an extremely conservative valuation. In addition to this payout, DLF will assume debt of approximately \$220 million as part of the deal. DLF, the country's largest realty firm by market capitalisation at over Rs 1,48,527 crore, had announced a month ago that it intends to raise \$750 million overseas for acquiring and developing properties abroad. Part of the proceeds would be used for funding the Amanresorts acquisition.

RIL eyes Arvind Mills' manufacturing facilities

The Mukesh Ambani-controlled Reliance Industries is learnt to be in talks to acquire some manufacturing facilities from Arvind Mills, mainly in the denim segment.

Cisco, Wipro forge JV, eye \$ 1 bn revenue in 3 years

Networking giant Cisco and Indian IT services major Wipro have cemented their relationship further by forging a new alliance to address the global markets. Both companies expect the new venture to generate revenue of \$1 billion in three years. Announcing this on 31st Oct, Cisco said, it would jointly develop IT solutions to meet the market requirements across the globe.

ONGC faces threat of delisting

The contentious issue of number of independent directors on board of public sector undertakings continues to haunt state-owned companies. With Petroleum Ministry's attempts to seek time from Securities and Exchange Board of India for appointment of independent directors on board of PSUs, including ONGC, failing which the exploration and production major has not only attracted penal provisions for non-compliance of corporate governance norms, but also faces the threat of delisting.

GTL acquires ADA Cellworks for \$ 25 mn

GTL has acquired 100 per cent stake in ADA Cellworks in all cash deal for \$25 million through its wholly owned international subsidiary GTL International. ADA Cellworks, network planning and optimisation player in Asia Pacific, has key presence in China, Indonesia, Taiwan and India. Its revenue for 2007-08 (Apr-Mar) is expected to be around \$31 million.

Italian Luggage company Roncato enters India

Italian luggage major Roncato made its India debut and will take on international brands like Samsonite and Delsey in the country. The 50 million Euro company is 50 years old and has its presence in Taiwan, Korea and China, apart from Italy. The brand is being licensed by Elite Brands in India, who is investing about Rs 15 crore in real estate and about a crore in brand building. Roncato produces hard (PP-polypropylene, ABS), soft (polyester, nylon) and leather luggage range of which 60% of the hard (PP) and the entire leather range is produced in Italy, 40% of the hard (ABS) in Taiwan and about 90% of the soft range in Vietnam, Taiwan, China and Korea.

VALUE CREATION

REGULATORY ASPECTS OF “SETTING UP IN INDIA”

In continuation of our previous month's topic of value creation, we bring forth an overview of the regulatory aspects of setting up as a foreign company in India.

An approval from Reserve Bank is required for undertaking Trading, Commercial and Industrial Activities in India by any non resident.

As per section 6 (6) of FEMA, 1999, a non-resident may establish in India, a branch office or other place of business for carrying on any permitted activity in accordance with the Regulations made by the Reserve Bank in this behalf.

We examine below, the regulatory aspects for a foreign Company operating through a project office, branch office or a liaison office

PROJECT OFFICE

A non-resident person who has secured from an Indian company a contract to execute a project in India is required to obtain Reserve Bank's permission for setting up a Project or Site Office in India.

The RBI shall give the permission only if the project is funded directly by inward remittance from abroad or by a bilateral/multilateral international funding Agency like World Bank, IMF or similar other body, or the project is cleared by an appropriate authority, or the company awarding the contract has been granted Term Loan by a Public Financial Institution/bank in India. The application for this purpose shall also be made in a specified form.

The Reserve Bank may grant permission subject to such terms as may be considered necessary.

Permitted Activities of a Project/Site Office

A project or site office shall be permitted to undertake activities relating and incidental to execution of the project in India.

BRANCH OFFICE

A branch office can be set up in India as a Foreign Company and is permitted to carry on certain specified activities. The permitted activities are specified below:

Permitted Activities of a Branch Office

- Export/Import of goods.
- Rendering professional or consultancy services.
- Carrying out research work, in which the parent company is engaged.
- Promoting technical or financial collaborations between Indian companies and parent or overseas group company (s).
- Representing the parent company in India and acting as buying/selling agent_in India.
- Rendering services in Information Technology and development of software in India.
- Rendering technical support to the products supplied by parent/group companies.
- Foreign airline/shipping company.
- Any other activity specifically permitted by the Reserve Bank.

A branch office is not allowed to carry out manufacturing activities on its own but is permitted to subcontract these to an Indian manufacturer. Such Branch Offices would be isolated and restricted to the Special Economic zone (SEZ) alone and no business activity/transaction will be allowed outside the SEZs in India, which include branches/subsidiaries of its parent office in India.

LIAISON OFFICE

The Reserve Bank has permitted to carry out certain specified activities for liaison office. The permitted activities are specified below:

- Representing in India the parent company/group companies.
- Promoting export import from/to India.
- Promoting technical/financial collaborations between parent/group companies and companies in India.

VALUE CREATION

REGULATORY ASPECTS OF “SETTING UP IN INDIA” (CONTD...)

- Acting as a communication channel between the parent company and Indian companies.
- Any other activity specifically permitted by the Reserve Bank.

The corporate tax rate for foreign companies is 40%. The net tax rate is far lower than this on account of various deductions and exemptions available under the tax laws. Tax holidays are available in Special Economic Zones set up to make industry globally competitive

Infrastructure Sector Projects enjoy special tax treatment/holidays.

Branch Offices established with the approval of RBI, may remit outside India profit of the branch, net of applicable Indian taxes and subject to RBI guidelines Permission for setting up branch offices is granted by the Reserve Bank of India (RBI).

Even though no income tax would be levied on the foreign Company's which do not generate income from India, Fringe Benefit Tax (FBT) would still be applicable . FBT would be payable in accordance with the provisions of the Income Tax Act, 1961.

All these Companies are required to submit a report each year certified by a Chartered Accountant registered in India certifying that the entities have not carried activities other than the permitted activities.

The same would also need to be submitted with the Registrar of companies with a set of the global financials of the parent Company.

CORPORATE WATCH

HDFC LIMITED

HDFC was incorporated in October 1977 with the primary objective of meeting a social need – that of promoting home ownership by providing long-term finance to households for their housing needs. HDFC's main goals are to develop close relationships with individual households; Maintain its position as the premier housing finance institution in the country; Transform ideas into viable and creative solutions; Provide consistently high returns to shareholders, and to grow through diversification by leveraging off the existing client base. HDFC was promoted with an initial share capital of Rs.100 million and issued further equity shares in November 1990 for Rs. 100 each at a premium of Rs. 85. HDFC has expanded its business not only into housing loan sector but has also forayed into other sectors through its subsidiaries and associate Companies. Other sectors mainly include, banking, insurance, mutual funds.

Chairman of the Company	Deepak S Parekh
Face Value of the Share	10.00
52 week High	2,899
52 week Low	1,241

Amount in Rs. (Crores)

Particulars	Mar 05	Mar 06	Mar 07
Operating Income	3,398.68	4,265.53	5,842.52
Other Income	9.48	12.85	20.76
Total Income	3,408.16	4,278.38	5,863.28
Total Expenses	175.18	211.26	244.17
Interest and financial charges	1,957.50	2,491.13	3,666.85
PBDT	1,275.47	1,575.99	1,952.26
Depreciation	18.69	18.69	17.46
PBT	1,256.78	1,557.30	1,967.78
Tax	220.20	300	397.40
Net Profit	1,036.58	1,257.30	1,570.38
Earnings Per Share	83.18	98.69	120.9
Equity	249.12	249.56	253
Face Value	10	10	10

CORPORATE WATCH

DETAILS AS ON 21st NOVEMBER 2007

Top 3 Shareholdings in the Company

Resident individuals	13.07
Total Institutions	7.50
Total Foreign	79.40

Top 3 Mutual Fund Holding

Scheme Name	Amount (Rs. Crores)
HDFC Mutual Fund	283.51
UTI Mutual Fund	30.02
Reliance Mutual Fund	27.83

Comparative Data of HDFC Limited with its Peer Companies

(in Rs. Crore)

Company Name	Last Traded Price	EPS (TTM)	PE Ratio	Face Value of Share	Market Capitalisation
LIC Housing Finance Ltd.	360	33.16	17.79	10	3,023
Ganesh Housing	612	45.77	43.90	10	936
GRUH Finance	176	8.55	20.40	10	606
HDFC Ltd.	2,638	60.74	43.34	10	73,256

NOTIFICATIONS AND PRONOUNCEMENTS

NOTIFICATIONS AND CIRCULARS

Valuation of Perquisites

The central Board of Direct Taxes (CBDT) has notified vide Notification No. **271/2007** dated 07/11/2007, amendment to Income Tax Rules, 1962 to be called as Income Tax (Fourteenth Amendment) Rules, 2007 – Amendment in Rule 3-Valuation of Perquisites.

http://law.incometaxindia.gov.in/DitTaxmann/Notifications/IncomeTaxAct/2007/Notif271_2007.htm

Valuation of Specified Security or Sweat Equity share being a share in the Company

The CBDT has notified vide Notification No. **264/2007** dated 23/10/2007, amendment to Income Tax Rules, 1962 to be called as Income Tax (Twelfth Amendment) Rules, 2007 – Fringe benefit Tax.

http://law.incometaxindia.gov.in/DitTaxmann/Notifications/IncomeTaxAct/2007/Notif264_2007.htm

Procedure for refund of tax deducted at source under Section 195 to the person deducting the tax – Section 239 of Income Tax Act, 1961-Refunds

The circular no. 7/2007 issued by CBDT aims at amending the existing Circular No. 790 dated 20th April, 2000 which lays down the procedure for refund of tax deducted under section 195, in certain situations to the person deducting the tax at source from the payment to the non-resident. The amended circular takes into account situations where genuine claim for refund arises to the person deducting the tax at source from payment to the non-resident and it does not fall in the purview of the existing Circular

http://law.incometaxindia.gov.in/dittaxmann/circular/cir7_2007.htm

CASE LAWS

Section 37

Sawhney Rubber Industries Vs. Commissioner of Income Tax 08/05/2007 [2007] 294 ITR 592 (Delhi)

Decision:

Held that increased commission paid only to those parties which were closely related to the assessee and therefore increase in commission paid by assessee only for one year is not allowable deduction u/s 37 of Income tax Act 1961

Section 68

Asst. Commissioner of Income Tax Vs. Rajeev Tandon 08/09/2007 [2007] 294 ITR 219 (Delhi)

Decision:

Held that, assessee must establish identity of donor, genuineness of gift and financial capacity of donor to make such gifts, as bank statement indicated the movement of funds but did not prove the creditworthiness of the donor. Therefore assessing officer justified in treating gifts as not genuine even the bank statement indicated the movement of funds.

Depreciation

C.I.T. Vs. Hind Woollen and Hosiery Mills 05/09/2006 [2007] 294 ITR 412 (P&H)

Decision:

Held that, extra shift allowance has to be calculated for the number of days on which concern worked as a whole and not on the basis of each part of machinery which worked extra shift.

Section 43 B

C.I.T. Vs. Ashok Layland Ltd. 26/02/2007 [2007] 294 ITR 380 (Mad)

Decision:

Held that, whole amount of custom and excise duty paid by the assessee in a particular year is allowable under section 43 B of the Income tax Act, 1961 as a deduction in respect of that year, irrespective of the amount included in closing stock as custom/ excise duty.

DUE DATES

Due Date	Assessee Covered	Obligation / Event
PROVIDENT FUND AND ESI		
25th November	PF Applicable Units	EPF Monthly Return.
20th December	PF Applicable Units	EPF Deposit for November 2007
21st December	ESI Applicable Units	ESI Deposits for November 2007
INDIRECT TAX		
28th November	DVAT Assessee	Electronic return for those who have been prescribed to file monthly returns under DVAT
5th December	Service Tax Assesses	In respect of payment received towards the value of taxable services in August for corporate assesses
DIRECT TAX		
30 th November	Income Tax Assesses	Issue TDS certificate for tax deduction in previous month
7th December	Income Tax Assesses	Deposit of TDS/TCS deducted during the month of November 2007.

BUSINESS GAGS

Accountant in Heaven

An accountant dies and goes to Heaven. He reaches the pearly gates and is amazed to see a happy crowd all waving banners and chanting his name.

After a few minutes St. Peter comes running across and says, "I'm sorry I wasn't here to greet you personally. God is looking forward to meeting such a remarkable man as yourself."

The accountant is perplexed. "I've tried to lead a good life, but I am overwhelmed by your welcome," he tells St. Peter.

"It's the least we can do for someone as special as you are. Imagine, living to the age of 123 and still looking so young," says St. Peter.

The man looks even more dumbfounded and replies, "123 years old? I don't know what you mean. I'm only 40."

St. Peter replies, "But that can't be right - we've seen your time sheets!"



If you don't want to work, you have to work to earn enough money so that you won't have to work"

Ogden Nash

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.