

ConneKt.....to the tracks of growth

NMA

NEWS ROOM
(MAJOR NEWS HIGHLIGHTS OF THE MONTH)

VALUE CREATION
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BUSINESS GAGS
(ON A LIGHTER NOTE)

September 2007

NEWS ROOM

Rupee remains high against Dollar

Raising concern among exporters and infotech (IT) companies, the rupee pierced through the psychological level of 40 and closed at a new nine-year high of 39.88 against the dollar. Though importers will benefit from the sharp appreciation of the rupee, it will bring down the earnings of exporters and IT companies, which get a major chunk of their revenue from the US market.

FDI inflows outpace portfolio investments

According to a report on the International Investment Position (IIP) of India released by the Reserve Bank of India (RBI), reversing the past trend, Foreign Direct Investment (FDI) inflows into the country outpaced portfolio investment by almost \$5.6 billion in 2006-07. FDI inflows during the fiscal worked out to be \$21.19 billion, while portfolio investments touched \$15.62 billion.

Godrej & Boyce plans Rs. 300 cr capex

Godrej & Boyce has set aside a capital expenditure of Rs 300 crore this financial year, with the appliances division expected to corner Rs 80 crore. The Company is looking very bullish on brand repositioning and also looking at inorganic growth to expand its business and consumer reach

Coffee day Group looks at business expansion

Consolidating its core business, Amalgamated Bean Coffee Trading Company Ltd (ABCTCL), which runs Coffee Day coffee bars, is expanding its business divisions including Cafe Coffee Day (CCD), Coffee Day Xpress and Coffee Day Take Away. One of the largest coffee conglomerates in the country, Coffee Day Group aims to capitalize on the growing popularity of coffee in India

Inflation eases to 3.32 %, due to fall in energy prices

For the 14th week in succession, the inflation rate fell further to 3.32 per cent for the week ended September 8 from the previous week's 3.52 per cent, primarily due to decline in prices of energy.

Carlyle, Citi eye 15% in Pyramid Saimira

Private equity majors Carlyle Group and Citigroup Venture Capital International (CVCI) are in the race to acquire a 15 per cent equity stake in Pyramid Saimira Theatre, a Chennai-based theatre chain company. Pyramid Saimira Theatre is offloading a 15 per cent stake to the private equity investors at around Rs 420 to Rs 445 a share, which is nearly 31.6 per cent premium to the current market price of Rs 338

Stanchart to acquire Amex Bank for \$860m

Standard Chartered Plc said that it has agreed to buy American Express Bank for around \$860 million in cash to boost its private banking and correspondent banking services. It would also give the British banking major additional branch licenses in India.

Standard Chartered said it would buy the bank from American Express Co. for its net asset value at the time of completion, plus \$300 million. At the end of June, that value stood at \$860 million, though American Express said separately it valued the transaction at \$1.1 billion.

DLF Assets to raise \$ 2bn in Singapore

Having completed the country's largest initial public offering of \$2 billion (about Rs 8,200 crore), DLF Chairman K P Singh is getting ready to raise a similar amount in Singapore. DLF Assets, a privately held company promoted by the Singh family, will be listed as a Real Estate Investment Trust (REIT) in Singapore next month. The company has a portfolio of special economic zones and infotech parks

Clinical research firms to tap market

A new class of companies from the clinical research sector, a part of \$52 billion global industry, will soon debut on the bourses. The Ahmedabad-based Lambda Therapeutic Research, one of the largest and oldest clinical research organizations (CROs) in the country, is expected to soon announce its initial public offer (IPO). According to industry sources, many other established CROs are likely to go public in the near future or will team up with private equity companies to expand and extend their presence in various geographies outside India

VALUE CREATION

BASICS OF “DEPOSITORY RECEIPTS”

We all must have heard of the depository receipts more specifically the ADRs and GDRs. Some of us are already well acquainted with the terms and can speak at length on the subject. If you are in that category, the following lines will refresh your memory in the subject. However, if you are in the other category of ones who look sides at the mention of depository receipts, *voila* here is a quick referencer which will update you with a basic understanding on the concept of “Depository Receipts” and more.

Before understanding more prevalent forms of Depository receipts we need to understand the very basic of “Depository Receipt”.

Depository receipt is a negotiable financial instrument issued by a bank to represent a foreign company's publicly traded securities/shares. Such depository receipts trade on a local stock exchange of the country/state of the issuing bank. The idea behind the issue of a depository receipt can be viewed from two angles, one from the investor point of view and other from the Company point. From investor point of view, the depository receipts provide an ease of trading in the foreign company's securities. From the Company's point of view, it provides the required access to foreign market fund without the shares leaving the home state. Further, it also helps to reduce administration and duty costs that would otherwise be levied on each transaction.

The most prevalent form of depository receipts is American Depository Receipts commonly known as ADR. However, before we ADRs in detail, lets us understand the other types of Depository Receipts first:

INTERNATIONAL DEPOSITORY RECEIPTS (IDR)

An IDR is the non-U.S. equivalent of an American Depository Receipt (ADR)

GLOBAL DEPOSITORY RECEIPTS (GDR)

These are the bank certificates issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares, but are offered for sale globally through the various bank branches in forms of such bank certificates.

This is the second most recognized form of the Depository receipts issued worldwide.

EUROPEAN DEPOSITORY RECEIPTS (EDR)

Depository receipts issued by European banks are known as EDRs.

CHINESE DEPOSITORY RECEIPTS (CDR)

Depository receipts traded on Chinese stock exchanges are known as CDRs. Foreign companies can use CDRs to allow both Chinese institutional and private investors to own their stock.

AMERICAN DEPOSITORY RECEIPTS (ADR)

Now let us move to a complete understanding of the ADRs, the most popular form of the depository receipts. Drawing an inference from the explanations of different forms of depository receipts, we can say that ADRs are deposit receipts which are traded on American bourses and are issued by American Banks. An ADR can represent a fraction of a share, a single share, or multiple shares of foreign stock. An owner of an ADR has the right to obtain the foreign stock it represents, but the investors usually find it more convenient simply to own the ADR. The price of an ADR is often close to the price of the foreign stock in its home market, adjusted for the ratio of ADRs to foreign company shares. There are various types of ADRs which a company can issue.

Un-sponsored ADR: An American depository receipt (ADR) that is issued without the involvement of the foreign company whose stock underlies the ADR. Shareholder benefits, voting rights and other attached rights may not be extended to the holders of these particular securities. These shares have no regulatory reporting requirements and are issued in accordance with market demand. The foreign company has no formal agreement with a custodian bank and shares are often issued by more than one depository. Each depository handles only the shares it has issued. These securities generally trade over-the-counter rather than on the Nasdaq or NYSE

Level 1 (Basic): Level 1 depository receipts are the lowest sponsored shares that can be issued. When a company issues sponsored shares, it has one designated depository acting as its transfer agent.

A majority of American depository receipt programs currently trading are issued through a Level 1 program. This is the most convenient way for a foreign company to have its shares trade in the United States.

VALUE CREATION

BASICS OF “DEPOSITORY RECEIPTS” (CONTD..)

Level 1 shares can only be traded on the OTC market and the company has minimal reporting requirements with the U.S. Securities and Exchange Commission (SEC). The company is not required to issue quarterly or annual reports. It may still do so, but at its own discretion. If a company chooses to issue reports, it is not required to follow US generally accepted accounting principles (GAAP) standards and the report may show money denominations in foreign currency.

Level II (Listed): Level 2 depository receipt programs are more complicated for a foreign company. When a foreign company wants to set up a Level 2 program, it must file a registration statement with the SEC and is under SEC regulation. In addition, the company is required to file necessary forms, same as a US Company or an equivalent prescribed. In their filings, the company is required to follow US GAAP standards.

The advantage that the company has by upgrading their program to Level 2 is that the shares can be listed on a U.S. stock exchange. These exchanges include the New York Stock Exchange (NYSE), NASDAQ, and the American Stock Exchange (AMEX).

While listed on these exchanges, the company must meet the exchange's listing requirements. If it fails to do so, it can be delisted and forced to downgrade its ADR program.

Level III (Offering): A Level 3 depository receipt program is the highest level a foreign company can have. The level comes with stricter rules similar to those followed by U.S. companies. Setting up a Level 3 program means that the foreign company is not only taking some of its shares from its home market and depositing them to be traded in the U.S.; it is actually issuing shares to raise capital. In accordance with this offering, the company is required to file an equivalent of prospectus for US Companies for the shares. Further, requirements like adherence to US GAAP standards and filing annual forms will also apply. In addition, any material information given to shareholders in the home market must be filed with the SEC in designated forms. Foreign companies with Level 3 programs will often issue materials that are more informative and are more accommodating to their U.S. shareholders because they rely on them for capital.

Restricted Programs: These are for the Foreign companies that want their stock to be limited to being traded by only certain individuals. Such Companies may set up a restricted program to restrict access.

Regulation S: Under this program, ADRs can be issued in terms of Securities and Exchange Commission Regulation S. The regulation provides for non registration of such shares with any US exchange. Further, no 'US person' as defined under the said regulation rules can hold or trade in such shares. Such programs are usually offered to the offshore non US residents.

Private Placement: Last but not the least; private placements are for the Companies wanting to issue shares only to Qualified Institutional Buyers and not to the general public.

CORPORATE WATCH

HERO HONDA MOTORS

The joint venture between India's Hero Group and Honda Motor Company, Japan has not only created the world's single largest two wheeler company but also one of the most successful joint ventures worldwide. During the 80s, Hero Honda became the first company in India to prove that it was possible to drive a vehicle without polluting the roads. The company introduced new generation motorcycles that set industry benchmarks for fuel thrift and low emission. Over 19 million Hero Honda two wheelers tread Indian roads today. These are almost as many as the number of people in Finland, Ireland and Sweden put together!

Hero Honda has consistently grown at double digits since inception; and today, every second motorcycle sold in the country is a Hero Honda.

Chairman of the Company	Brijmohan Lall Munjal
Face Value of the Share	2.00
52 week High	807.20
52 week Low	610.00

Amount in Rs. (Crores)

Particulars	Mar 05	Mar 06	Mar 07
Net Sales	7,418.59	8,711.26	9,894.52
Other Income	149.42	167.60	234.07
Total Income	7,582.96	8,893.83	10,131.79
Total Expenses	6,274.40	7,364.05	8,744.30
Operating profit	1,308.56	1,529.78	1,387.48
Interest	1.93	2.92	1.61
PBDT	1,306.63	1,526.86	1,385.88
Depreciation	89.38	114.62	139.78
PBT	1,217.25	1,412.24	1,246.10
Tax	406.78	440.90	388.21
Net Profit	810.47	971.34	857.89
Earnings Per Share	37.75	45.84	40.07
Equity	39.94	39.94	39.94
Face Value	2.00	2.00	2.00

CORPORATE WATCH

DETAILS AS ON 17TH SEPTEMBER 2007

Top 3 Shareholdings in the Company

Total Promoters	54.95
Total Foreign	26.50
Total Public and others	9.45

Top 3 Mutual Fund Holding

Scheme Name	No. of Shares
UTI Master Equity Plan Unit Scheme	300,000
Standard Chartered Enterprise Equity Fund (G)	126,491
Birla Sun Life 95 Fund (G)	105,100

Comparative Data of Hero Honda with its Peer Companies

(in Rs. Crore)

Company Name	Last Traded Price	EPS (TTM)	PE Ratio	Face Value of Share	Market Capitalisation
Hero Honda	667.70	40.56	16.37	2.00	13,261.08
Bajaj Auto	2381.40	121.81	19.75	10.00	24220.97
TVS Motor	70.35	2.00	34.55	1.00	1641.12
Maharashtra Scooters	358.70	9.19	38.51	10.00	404.51

NOTIFICATIONS AND PRONOUNCEMENTS

DOUBLE TAXATION AGREEMENT

TAXATION

AVOIDANCE

(c) the exporter claiming the exemption has actually paid the service tax on the specified services;

India Signs DTAA with Mexico

The Government of India, in order to avoid double taxation and for prevention of fiscal evasion with respect to taxes on income, signed a Double Taxation Avoidance Agreement (DTAA) with Mexico. The DTAA, which aimed at promoting economic co-operation between the two countries covered in the case of India, income-tax including any surcharge thereon and in the case of Mexico, the federal income-tax

(d) the exemption or refund of service tax paid on the specified services used for export of said goods shall not be claimed except under this notification

Notification 39/2007-service tax allows deposit of service tax by 6th of the month following the calendar month in which payments are received if such deposit is made electronically through internet banking.

NOTIFICATIONS

New Customs Valuation rules for import and export

Government of India acting through the Ministry of Finance, Department of revenue has notified Customs valuation (Determination of value of imported goods) Rules, 2007 in supercession of Customs Valuation (Determination of Price of Imported goods) Rules, 1988 vide Notification number 94/2007-Customs(N.T.)

Further, Customs Valuation (Determination of Value of Export Goods) Rules, 2007 have been notified vide notification no. 95/2007-Customs(N.T.)

Service Tax

Government of India acting through the Ministry of Finance, Department of revenue has notified vide Notification no. 40/2007-Service Tax in relation to exemption of taxable services specified services received by an exporter and used for export of goods from the whole of the service tax leviable thereon under section 66 of the said Finance Act, subject to the following conditions

(a) the exemption shall be claimed by the exporter of the goods for the specified services received and used by the exporter for export of the said goods;

(b) the exemption claimed by the exporter shall be provided by way of refund of service tax paid on the specified services used for export of the said goods;

CASE LAWS

ITAT Chennai Bench

Ontrack Systems Ltd. v. Assistant Commissioner of Income-tax, Company Circle-V(1)

Judgment Excerpt

The development work, i.e., **creation of a website**, is a highly specialized work which includes state-of-the-art programming, technical writing, imaging and animation skills having original ideas, artistic as well as intuitive. In view of the said technical aspects, the development work involved in the instant case in the creation of web portal was a highly creative and a challenging task and, in no circumstances, the same could be equated to the data entry jobs, where the prime focus is to digitize the given content from paper into a text/image format without introducing any changes to the content. Therefore, the creation of a website is designing within the definition of the word 'design' for the purpose of claiming **deduction under section 80-O**. Accordingly, the claim of the assessee was to be allowed and the orders of the lower authorities were to be set aside.

DUE DATES

Due Date	Assessee Covered	Obligation / Event
PROVIDENT FUND AND ESI		
25th September	PF Applicable Units	EPF Monthly Return.
20th October	PF Applicable Units	EPF Deposit for September 2007
21st October	ESI Applicable Units	ESI Deposits for September 2007
INDIRECT TAX		
25th October	Service Tax Assesses	Due date for submission of Service Tax return for the quarter ended September, 2007
28th September	DVAT Assessee	Electronic return for those who have been prescribed to file monthly returns under DVAT
28th October	DVAT Assessee	Due date for filing DVAT/CST returns for assesses having turnover between Rs. 50,00,001 to 5,00,00,000
5th October	Service Tax Assesses	In respect of payment received towards the value of taxable services in quarter/month ending September for all/corporate assesses
DIRECT TAX		
15th October	Income Tax Assesses	Due date of filing TDS/TCS returns for the quarter ended September, 2007
30th September	Income Tax Assesses	Issue TDS certificate for tax deduction in previous month
7th October	Income Tax Assesses	Deposit of TDS/TCS deducted during the month of September 2007.
COMPANIES ACT		
30th October	Companies which held their AGM on 30th September	Due date of filing Accounts with the Registrar of Companies

BUSINESS GAGS

THE BOSS TELLS SOME JOKES

The boss returned from lunch in a good mood and called the whole staff in to listen to a couple of jokes he had picked up. Everybody, but one girl laughed uproariously.

"What's the matter?" grumbled the boss. "Haven't you got a sense of humor?"

"I don't have to laugh," she replied. "I'm leaving Friday."

STOP BEING LATE TO WORK

Tom had this problem of getting up late in the morning and was always late for work. His boss was mad at him and threatened to fire him if he didn't do something about it. So Tom went to his doctor who gave him a pill and told him to take it before he went to bed. Tom slept well and in fact beat the alarm in the morning by almost two hours. He had a leisurely breakfast and drove cheerfully to work.

"Boss", he said, " The pill actually worked!"

"That's all fine" said the boss, " But where were you yesterday?"

THOSE WHO DON'T KNOW

The world is divided into two groups. There are those who know, and those who don't know. Those who know are no problem.

Those who don't know are also in two groups.

One is those who don't know and know they don't know. Well, they can learn!

But then, there are those who don't know, and don't know they don't know. And they become unit managers!



"A criminal is a person with predatory instincts who has not sufficient capital to form a corporation."

Howard Scott

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