

ConneKt..... To the winds of change

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

India-Iran DTAA stuck over PE

The proposed India-Iran Double Taxation Avoidance Agreement (DTAA), which the two countries included in their joint New Delhi declaration in 2003, has run into a hurdle over the knotty issue of what would constitute the definition of Indian companies' "permanent establishment" in Iran.

On the one hand, Iran has proposed that the location where the oil companies carry out exploration activities be treated as permanent establishment for taxation purposes. This basically means that oil exploration facilities of Indian companies will be treated as permanent establishment and thus liable to tax even if they do not have a branch, office or a factory there.

No Tax Relief for overseas services

The Union finance ministry will not exempt services rendered overseas for executing export orders from the purview of service tax. This is despite the commerce minister's announcement of the relief while unveiling the export import policy.

According to officials in the finance ministry, the 14.4% growth in exports in June 2007 did not justify sacrificing revenues by granting the exemptions. The June figure was lower than the 18% growth achieved in May 2007.

SEBI Caps VCs foreign investments at 10%

The Securities and Exchange Board of India (Sebi) on Thursday set a cap of 10 per cent on overseas investments by venture capital funds in India. This is part of the guidelines for venture capital funds, which the market watchdog announced on Thursday, would be allowed only into those foreign unlisted companies that have an Indian connection, such as companies which have back office operations in India.

Bharti plans to invest \$ 200 m in Sri Lanka

Bharti Airtel, which had earlier bagged the licence to become Sri Lanka's fifth GSM-based service provider, on Wednesday said it will launch second and third generation mobile services in the island nation by the end of the current fiscal and invest about \$200 million there in the next five years.

DLF to buy DCM Shriram mill land for Rs. 1,600 Crore

Real estate major DLF is set to close the Swatantra Bharat Mills (SBM) real estate deal with DCM Shriram Consolidated (DSCL) for over Rs 1,600 crore. The deal has been rated as biggest real estate deal in the country.

NTPC kicks off work on India's largest hydel project

NTPC is planning a big push to its renewable energy foray with a 4,000-MW hydel project billed as the country's largest, on the anvil. The company's proposed Etalin hydro project in Arunachal Pradesh, to be set up at an estimated cost of Rs 14,069 crore and would entail the construction of sixteen 250 MW generation units.

Reliance Money goes rural, eyes 10,000 outlets in 5,000 talukas

Reliance Money, the financial products distribution company of Anil Dhirubhai Ambani Group, today launched services in rural markets with an initial target of tapping 1,000 talukas across five states in the country. The broking and distribution arm of Reliance Capital also announced its tie-up with the Rural Relations, a rural consumer relations organisation, for identifying partners and locations for rolling 10,000 outlets in over 5,165 talukas across the country by the end of this fiscal.

Shareholders approve Bajaj Auto demerger

An overwhelming 95% shareholders voted in favour of Bajaj Auto's demerger proposal at a meeting convened as per high court directives. This paves the way for the creation of three companies: one for automotive manufacturing, a second one for financial services businesses, and a holding company. Close to 3%, believed to include the 1.8% belonging to the Shishir Bajaj faction, voted against the proposal along with some others.

PNB may bid for IFCI stake

Punjab National Bank may bid for a 26 per cent holding in institutional lender IFCI Ltd., the Economic Times reported on 21st August, 2007, quoting the bank's chairman and managing director. 'The bank's board will take a final call on the matter,' K.C. Chakraborty told the newspaper, adding the bank shared some common account holders with IFCI.

VALUE CREATION

FAQ ON SUB PRIME MORTGAGE FINANCIAL CRISIS

What with immense media coverage and hype around Subprime mortgage, markets today are abuzz with the fears of a major time global financial meltdown. And so it obviously raises mixed reactions among the masses and the question which comes to one's mind are;

What is in it that it can rock the financial stabilities of countries altogether?

Why is it being related to major economies of the world?

Is this insignificant, little known term strong enough to cave in the mammoths of commerce?

What the heck is it? How does it affect me?

For those who are familiar with the US Housing doom and earlier liquidity crisis which the world has faced, the term may not be new. However to make sure that we all understand the impact of this new-fangled fiend, we have designed this simple FAQ format

1. What is Sub prime mortgage?

Subprime lending encompasses a variety of credit instruments, including subprime mortgages, subprime car loans, and subprime credit cards, among others. The term "subprime" refers to the credit status of the borrower (being less than ideal), not the interest rate on the loan itself.

Subprime mortgage/lending, is a general term that refers to the practice of making loans to borrowers who do not qualify for market interest rates because of problems with their credit history or their inability to prove that they have enough income to support the monthly payment on the loan that they are applying for. Subprime loans or mortgages are risky for both creditors and debtors because of the combination of high interest rates, bad credit history, and murky financial situations which is often associated with subprime applicants. A subprime loan is offered at a rate higher than normal loans due to the increased risk.

2. Why are Subprime lending controversial even if they give better returns to the lenders?

The opponents allege that the subprime lending companies engage in predatory lending practices such as deliberately lending to borrowers who could never meet the terms of their loans, thus leading to default, seizure of collateral, and foreclosure. Proponents of the subprime lending maintain that the practice extends credit to people who would otherwise not have access to the credit market.

The controversy surrounding subprime lending has expanded as the result of an ongoing lending and credit crisis both in the subprime industry and in the greater financial markets which began in the United States.

This phenomenon has been described as a financial contagion i.e a phenomenon when one country's economy is negatively affected because of changes in the asset prices of another country's financial market. Such financial contagion has led to a restriction on the availability of credit in world financial markets. Hundreds of thousands of borrowers have been forced to default and several major subprime lenders have filed for bankruptcy.

3. What does Subprime mortgage financial crisis mean?

It refers to the sharp rise in foreclosures in the subprime mortgage market that began in the United States in 2006 and became a global financial crisis in July 2007. Rising interest rates increased newly-popular adjustable rate mortgage and property values suffered declines from the demise of the housing bubble, leaving home owners unable to meet financial commitments and lenders without a means to recoup their losses.

4. So what is the Actual crisis?

A housing bubble is characterized by rapid increases in the valuations of real property such as housing until unsustainable levels are reached relative to incomes, price-to-rent ratios, and other economic indicators of affordability. This in turn is followed by decreases in home prices that can result in many owners holding negative equity, a mortgage debt higher than the value of the property. This is where the vicious circle begins, when real estate prices decline, this puts banks "under water" -- that is, if they have to foreclose on a homeowner, and auction the homeowner's house, the value of the house will not be enough to cover the loan. As more and more homeowners default/ are foreclosed/ and have their houses auctioned off, the price of houses in the area collapses even faster. When this happens to banks, it causes bank failures. When it happens to the asset backed securities market, it causes something graver. All those institutional investors may lose money since the liquidity crisis has just been kicked off. Institutions that thought they had money in the bank in the form of asset backed securities may have nothing, which causes them to sell other assets to get their balance sheets in order.

5. Why is it referred to as a vicious circle?

A small crude example: due to negative change in the value of underlying assets, mortgages do not provide enough security to the lender in case of rampant foreclosures of Subprime mortgage and ultimately lead to huge financial losses to the lending organizations whereby the lenders tend to sell all that is available to make good the losses. Even the selling off of collaterals and own assets may not warrant that the investor's money in the lending organizations can be recovered.

VALUE CREATION

FAQ ON SUB PRIME MORTGAGE FINANCIAL CRISIS (CONTD...)

This in turn affects the stock prices of the lending organization. To cut losses, the investors start withdrawing from the high risk securities which gather momentum and leads to overall fall in the market since the investors who lost money in lending companies try to make good the loss from other holdings leading to a complete washout of the market. Everyone tries to be in cash and that is where the crisis is "Liquidity" erodes faster leading to a complete standstill.

6. So how am I affected if some big ticket organization/investor falls?

In periods of liquidity, there is plenty of trading, and big institutional buyers and sellers easily move into and out of stocks, bonds and other instruments.

But during a "liquidity crisis," the big banks get nervous about risk and become more cautious about doing deals and making trades. They're less likely to extend the easy credit that has fueled the economy in the past few years, and that makes it more difficult to match buyers with sellers. That is what happened to markets around the world on Thursday 16th August 2007 when the Indian market also fell above 600 points.

The fallout from a liquidity crunch causes a ripple effect. The most immediate impact is that loans could become harder to get. But troubles can spread to the wider economy, hurting peoples' investments and endangering their long-term financial plans. If banks are not lending and no one will extend credit to anyone else, markets seize up and economic growth disappears.

7. What are the measures being taken to avoid liquidity crunch?

Central banks across the world are injecting funds into their banking systems to add liquidity, fearing that many financial firms with subprime ties may become insolvent, the U.S. Federal Reserve transferred \$24 billion to temporary reserves, following the European Central Bank, which authorized a record €83.6 billion addition to its banks, its biggest cash infusion ever. The Federal Bank entered into a \$38 billion repurchase agreement of mortgage-backed securities, easing stockholder worries. Also, the Bank of Japan injected ¥1 trillion into Japan's financial system. In a repurchase agreement or "repo," the Federal Bank (read as prime bank of any country) arranges to buy securities from dealers, who then deposit the money the Federal Bank has paid them into commercial banks.

The cash infusion adds stability to the market, and fosters more buying and increased cash reserves. When the banks get this unexpected windfall of deposits, it increases their confidence that there is enough money to fund operations and make trades.

The current volatile stage began with Bear Stearns tumbling as a result from its complete loss of two major hedge funds worth more than \$1.5 billion. The hedge funds had been dangerously exposed to the massive sub-prime mortgage failure, and the company announced it was unable to return any money to investors.

Washington Mutual, and Countrywide Financial, both very large U.S. home loan lenders, saw shares fall. Countrywide Financial made a statement, saying they will be forced to retain a greater proportion of mortgage. American Home Mortgage Investment Corp, another large lender, recently filed for bankruptcy. The U.S. housing market has been declining for more than 2 years after the Federal Reserve raised interest rates 17 times. Now, lenders are in a quagmire from millions of people who are unable to repay loans after taking adjustable rate mortgages, teaser rates, interest-only mortgages, or piggyback rates.

8. It is basically problem for USA then how does it affect so many countries together?

The subprime mortgage mess might be a problem in the U.S., as risky borrowers default on their loans and banks become increasingly shy about offering credit. But, it impacts European and Asian players who invest heavily in bonds and other products made up of pools of mortgages.

European investors were said to be heavily involved in two hedge funds operated by Bear Stearns that are now bankrupt after bad subprime bets.

The announcement by BNP Paribas that it was blocking investors from taking their money out of some mortgage-exposed funds raised the specter of a widening impact of U.S. credit market problems. These high-yield investments have been attractive because they offered big returns, and that caught the interest of investors globally. Further as the international markets start grounding, the investors from those countries start squeezing investments from the international markets

So now the next time you read the term Subprime lending, you know what it refers to. We have consciously refrained from digging deep into the history and geography of the crisis because one can write a 1000 page book on it and still think that something is missing.

By the time you will be reading this, the crisis may have deepened or averted by influx of funds by the world banks. Whatever happens, all we can say is that situations have occurred in past but never has meek surrender been the order of day. World has always come out better equipped than before and so be it this time too.

CORPORATE WATCH

PUNJ LLOYD

The Group's principal activities are to provide engineering, designing, procurement, construction and project management services for energy industry and infrastructure sector projects. The Group provides engineering construction services for onshore and offshore pipelines, gas gathering systems, oil and gas tanks and terminals including cryogenic LNG and LPG storage terminals, process facilities in the oil and gas industry including refineries and for power plant projects. In addition, the Group provides engineering services for energy industry and infrastructure projects as well as plant and facility maintenance and management services. It operates in the regions of South Asia, Asia Pacific, Middle East, parts of Europe, Africa, China and the Caspian region.

Chairman of the Company	Atul Punj
Face Value of the Share	2.00
52 week High	303.00
52 week Low	140.00

Amount in Rs. (Crores)

Particulars	Mar 06	Sept 06	Mar 07
Sales Turnover	1368.21	790.70	2238.85
Other Income	34.82	26.06	66.63
Total Income	1403.03	816.76	2305.48
Total Expenses	1240.75	726.04	2054.45
Operating profit	127.46	64.66	184.40
Gross Profit	162.28	90.72	251.03
Interest	46.80	23.02	69.24
PBDT	115.48	67.70	181.79
Depreciation	59.19	36.58	84.46
PBT	56.29	31.12	97.33
Tax	21.15	11.74	35.74
Net Profit	35.14	19.38	61.59
Earnings Per Share	6.73	3.71	2.36
Equity	52.22	52.22	52.25
Face Value	10.00	10.00	2.00

CORPORATE WATCH

DETAILS AS ON 20TH AUGUST 2007

Top 3 Shareholdings in the Company

Total Promoters	54.65
Total Institutions	10.38
Total Foreign	22.61

Top 3 Mutual Fund Holding

Scheme Name	No. of Shares
HDFC Equity Fund (G)	5,575,000
Reliance Equity Fund (G)	10,095,594
HDFC Prudence Fund (G)	3,025,000

Comparative Data of Punj Lloyd with its Peer Companies

(in Rs. Crore)

Company Name	Last Traded Price	EPS (TTM)	PE Ratio	Face Value of Share	Market Capitalisation
Engineers Ind	456.40	26.12	17.79	10.00	2609.47
Larsen and Toubro	2308.05	49.44	47.90	2.00	67296.67
Sanghvi Movers	995.50	58.78	17.01	10.00	805.96

NOTIFICATIONS AND PRONOUNCEMENTS

Case Laws

Income Tax

Capital or Revenue receipts

Siddheshwar Sahakari Sakhar Kaarkhana Ltd. Vs. C.I.T

(2004) 270 ITR 1 (SC)

Case Fact: Whether compulsory deduction made by sugar cooperative societies on account of non-refundable and refundable deposits and other funds are revenue receipts liable to be taxed under the Income Tax Act.

Decision: The court held that the amount which the society deducts from the cane prices as per its bye laws towards refundable and non refundable deposits can not be treated as the income of the society. As the bye laws contains the provisions of transferability of deposit and refund of deposit to members at the time of cessation of membership or to legal heirs at the time of death.

Income from House Property

C.I.T. Vs. Hemraj Mahabir Prasad Ltd. 8/10/2005 (2005) 279 ITR 522 (Cal)

Case Fact: Whether A.O. is justified in adding interest on interest free loan given by lessee to the lessor as notional rent to compute the Income from House Property.

Decision: Held by hon"ble court that any profit or benefit arising from the interest free loan/advance given by lessee to the lessor would be taken into account in computing the income of the assessee under other heads. In the absence of any specific provision in sec. 22 or 23 A.O. cannot add such notional interest to the rental income of the assessee.

Capital Gains-Sale of entire undertaking

Asst.C.I.T. Vs. Raka Food Products 6/20/2005 (2005) 277 ITR 261 (Mad)

Case Fact: Whether in a sale of the entire undertaking (bakery) as a whole, if two separate documents with respect to movable and immovable (Land) assets are executed, the provision of section 50 of Income-tax Act, 1961, will be applicable?

Decision: Held by the Hon"ble court that once the immovable property forms part of the assets of the undertaking sold as a whole the sale consideration cannot be bifurcated even though transfer of immovable property could only be made through a registered sale deed, hence section 50 could not be applied as it is applicable when movable assets are alone transferred. The gain is to be assessed as long term capital gain and exemption u/s 54E be granted.

Excise

Deemed Manufacture

Shyam Oil Cake Ltd. Vs. CCEX (2004) 174 E.L.T 145 (SC)

Case Fact: Whether Refining / Processing of Edible Vegetable Oil be deemed as manufacture.

Decision: Held by the Court that neither the section note nor the chapter note nor the tariff item gave any indication that the process indicated would amount to manufacture. The product remained Edible Oil even after the refining / processing. As actual manufacture had not taken place so deeming provision can not overcome specific provisions.

CCEX. Vs. Superex Industries 2004(174)E.L.T.4(S.C)

Case Fact: Whether a SSI using brand name of another company on its invoice would be entitled to the benefit of exemption . (Notification No. 175/86 dated 01-03-1986)

Decision: It was held that merely because , in the invoices, the set was passed off as a Kriloskar generating sets, the benefit of the Notification would not be lost.

DUE DATES

Due Date	Assessee Covered	Obligation / Event
PROVIDENT FUND AND ESI		
25 th August	PF Applicable Units	EPF Monthly Return.
20 th September	PF Applicable Units	EPF Deposit for August 2007
21 st September	ESI Applicable Units	ESI Deposits for August 2007
INDIRECT TAX		
28 th August	DVAT Assessee	Electronic return for those who have been prescribed to file monthly returns under DVAT
5 th September	Service Tax Assessee	In respect of payment received towards the value of taxable services in August for corporate assesses
DIRECT TAX		
28 th August	Income Tax Assessee	Issue TDS certificate for tax deduction in previous month
7 th September	Income Tax Assessee	Deposit of TDS/TCS deducted during the month of August 2007.
COMPANIES ACT		
30 th September	Companies closing their books on 31 st of March, 2007	Due date of holding Annual General Meeting

BUSINESS GAGS

Graduate Accountant

A young graduate begins working in the office of a fusty manufacturing concern. After a few weeks he has an accounting problem he can't solve. He goes to the Chief Accountant and shows him the problem and asks for help. Later in the day through the open door, he watches as the Chief Accountant reads the report, opens his bottom desk drawer and stares down at something in the drawer and then writes the instructions. Years later, the young graduate becomes the Office Manager. Again he has a problem, writes it up, and takes it to the Chief Accountant. Again he watches through the open door as the Chief Accountant studies the problem. The drawer is opened, the long stare, then the writing of instructions.

The Office Manager puzzled over this for many nights. Years pass. The Chief Accountant is about to retire. The Office Manager comes into say good-bye but his curiosity gets the better of him. "All these years I've seen you stare into that bottom drawer. What's in there?"

The Chief Accountant says, "Since you will be my successor, I can show you what was left for me by my predecessor when I came here 20 years ago."

He opens the drawer. A note is pasted to the bottom of the drawer. It reads:

THE DEBITS ARE ON THE SIDE CLOSEST TO THE WINDOW!



“I like thinking big. If you're going to be thinking anything, you might as well think big ”

Donald Trump

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.

Website: www.nmaconsultants.com

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