Quick view

Iran in talks for $4.5-bn gas pipeline to Gujarat

Iran on Monday said negotiations are underway to lay a $4.5-billion undersea gas pipeline to Gujarat after India shunned an onland line passing through Pakistan. "Negotiations are under serious consideration" for a pipeline from Iranian coast via Oman Sea and Indian Ocean to Gujarat, National Iranian Gas Export Co managing director Alireza Kamali said at the World Energy Policy Summit here. The pipeline is planned to carry 31.5 million standard cubic meters gas per day and will be built in two years from the date of necessary approvals and a gas sale and purchase agreement being signed, he said.

NLC suffers ₹400-crore generation loss in Nov

Neyveli Lignite Corporation (NLC) on Monday said that the power PSU has suffered ₹400 crore in power generation losses in the month of November itself. NLC operates three mines and four thermal power stations at Neyveli. To feed the thermal power station of 2950 MW capacity, lignite to a tune of 28.6 million tonne per annum is being excavated. "During the month of November, there was loss of generation of power amounting to about ₹400 crore, besides loss to the mining equipment which are submerged in the rain water, which would add some more crores of rupees, which is yet to be assessed as the rains continue," NLC said in a statement.

International flight ops begin at Chennai airport

International flight operations from the Chennai airport resumed on Monday. The resumption of services comes five days after floods forced shutdown of the operations which put air travellers in a tight spot. The international flight operations have commenced at Chennai Airport from 6 am on Monday, according to an official release.

46 oil & gas blocks may go under hammer

Siddhartha P Saikia
New Delhi, Dec 7

With the overhaul of the policy framework, the NDA government is preparing grounds to auction nearly 46 oil and gas blocks. The petroleum ministry has already mooted a major reform in contracts from cost recovery model to revenue sharing model while bidding out these acreages. The new policy model, currently under discussions, is expected to be okayed by the Cabinet Committee on Economic Affairs (CCEA) shortly.

These auctions could see the unveiling of the open acreage licensing policy that would replace the NELP rounds. The auction of oil and gas blocks is crucial to see if foreign investors bet their funds and show confidence in the Modi government.

This comes at a time when crude oil prices have touched six-year low and explorers including Exxon Mobil, Shell, BP, Chevron have reportedly cut down their capital expenditure programmes. Moreover, ENI, BHP Billiton, Santos and BP have already surrendered nearly 57,000 sq km of oil and gas blocks in India in the recent years.

The 46 blocks being shortlisted for the next round of auction include 17 onland, 15 shallow water and 14 deep water, according to data from the Directorate General of Hydrocarbons (DGH). These areas are situated in 13 prospective sedimentary basins of India - Gujarat-Kutch, Gujarat-Saurashtra, Mumbai, Kerala-Konkan, Cauvery, Krishna Godavari, Mahanadi-NEC, Andaman, Bengal, Punjab plain, Rajasthan, Cambay and Deccan Syneclise.

In a bid to put in place a minimum government and maximum governance initiative, the Modi-led government has proposed to sugar coat future award of hydrocarbon blocks in the country. This is done at a time when India seeks investments in the domestic exploration and production (E&P) front to curb ballooning crude oil imports, which rose to 189.43 million tonnes in FY15 against 171.73 million tonnes in FY12.

SC agrees to hear Sasan UMPP's plea

Indu Bhan

New Delhi, Dec 7: The Supreme Court on Monday agreed to hear Reliance Power-owned Sasan Power Ltd's appeal challenging the Madhya Pradesh High Court's order that upheld arbitration agreement mandating the two Indian companies to take recourse to a foreign-seated arbitration with foreign substantive law.

The issue raised before a bench headed by Justice Ranjan Gogoi, is whether arbitration proceedings between two Indian entities can be seated in a foreign country. The bench has posted the matter for further hearing on January 18.

The HC on September 11 held that the two Indian parties may conduct arbitration in London and under English law, a stand opposed by Reliance Power-led Ultra Mega Power Project.

Senior counsel Fali Nariman and counsel Mahesh Agarwal, appearing for Sasan Power, argued that the arbitration Act "leaves no doubt that a domestic arbitration between two Indian parties can only be governed by Indian substantive laws".

Appointment of arbitrator for gas-pricing row to be delayed

New Delhi, Dec 7: The appointment of an umpire arbitrator to decide the gas-pricing row between the Reliance Industries Ltd and the government will be delayed further as Justice Ranjan Gogoi of the Supreme Court on Monday released all the arbitration matters pending before him due to the recent arbitration ordinance that has cast doubts over its authority to decide the issue.

Justice Gogoi said that in view of the arbitration ordinance some norms have been framed by the SC registry and all the pending and the fresh petitions seeking appointment of arbitrators shall be placed for hearing according to the norms. However, the copy of the norms was not available as yet.

Subsection (6) of Section 11 of the Arbitration and Conciliation Act provides that the parties can request the Chief Justice or any person or institution designated by him to appoint an arbitrator to resolve the dispute. However, the ordinance, which came into effect from October 24, 2015, says that the SC or the HC or any person or institution designated by such court can decide the issue and they shall confine only to the examination of the existence of an arbitration agreement. FE Bureau

Fitch retains India's lowest investment grade rating

FE Bureau

New Delhi, Dec 7: Fitch Ratings on Monday re-affirmed India's lowest investment grade rating 'BBB-' with stable outlook as the upside and downside risks to the ratings are balanced.

Another global rating agency Standard and Poor's had retained a similar rating assigned to India in October.

Fitch cautioned a negative impact on India's current rating if there is a deviation from the fiscal consolidation path or a greater-than-expected deterioration in the banking sector's asset quality that would prompt large-scale financial support from the sovereign.

"Fitch's affirmation of India's sovereign ratings and stable outlook balances a strong medium-term GDP growth outlook and favourable external finances, including a strong foreign reserves buffer, with a high government debt burden and weak structural features, including a difficult — but improving — business environment," Fitch said.

Call drops: Prasad warns operators of strict action

FE Bureau

New Delhi, Dec 7: Communications & IT minister Ravi Shankar Prasad on Monday once again warned mobile operators of strict action if they did not improve their services by checking call drops.

Responding to the matter raised by Naresh Agrawal of the Samajwadi party during Zero Hour in Rajya Sabha, Prasad said he is a "strong minister and will take more stern steps to improve the services".

Stating that he shared the concern of the member, Prasad assured the House that the government would initiate strict action against telcos if they failed to address the menace of call drops.

"I understand the concern raised by the member, on the issue and the Parliament's concern. I and my government have taken this issue very seriously. I am concerned over the issue and we are rectifying it. For last two-three years, the issue was not taken seriously. I want to assure you that the effective steps taken now by me have never been taken earlier," the minister told the Parliament.

The minister further contended that the heads of Vodafone and Bharti Airtel have admitted to the problems and said they will improve the services.

From the front page

India talks tough ahead of Nairobi WTO talks

On the question of developed countries' insistence that the mandate of the Nairobi ministerial be expanded to include new issues to reflect today's reality in trade, the minister said India is fine with discussions initiated on some of the issues such as e-commerce, but there won't be any "binding commitment on them" nor should such issues be a part of the draft ministerial declaration. Moreover, India would also like the negotiations on services (Mode 4), which relates to the free movement of professionals, to be discussed.

Subsequent to the Bali ministerial, India managed to get a permanent peace clause against its stock holding of commodities for the public distribution system as sort of quid pro quo for its support to the trade facilitation agreement (TFA), which the developed had pushed hard. A peace clause means no WTO member can drag India to the dispute panel for offering more product-specific support to farmers through procurement of grains than stipulated under the WTO until a permanent solution to the issue is found. According to the norms, the amount of subsidy should not exceed 10% of the value of production of a commodity and in India's case, this ceiling, some members alleged, was breached in rice. While the Bali declaration sought to finalise work plans on some of the Doha issues, members have still not agreed on issues on which the work plans would be concretised.

Without adjusting for inflation, the product-specific support for rice and wheat in 2010-11 was much higher than the WTO-mandated cap, at 26% and 17.9% of the total output value, respectively. Another irritant for India is that the WTO's appellate body had ruled in 2000 that product-specific price support could be determined assuming subsidy persists on the entire output. If this methodology is applied, then India's price support to rice sans inflation adjustment works out to be 76.5% of production value as in 2010-11 and that to wheat, 69.7%. However, sections of domestic analysts argued that the country's product-specific subsidy for rice stood at 4.87% and that for wheat at -20.22% of the respective production values in 2010-11 when calculated on a fully inflation-adjusted basis.

During the Doha round, a group of developing countries known as the G33 sought a policy instrument, similar to the provision of special safeguard duties (SSG) enjoyed by some developed nations, to control irrational import surges through what is known as special safeguard mechanism (SSM). In the general council division of the WTO, it was agreed that an SSM would be established, which was slightly amplified in the Hong Kong ministerial declaration. However, the flexibility of imposing volume-based SSM was subsequently constricted. Still, it could be an important policy instrument for developing countries to protect farm livelihoods from a surge in imports of agricultural products or dip in import prices, said analysts. As there is no consensus on reduction in domestic support by the developed countries, farmers in developing countries face a persistent risk of injury from cheap and subsidised imports from the developed countries.

Broader GST allows 12% rate, is politically feasible: CEA panel

Calling the panel's reasoning a "breakthrough", Satya Poddar, CEO & country managing partner, EY India, told FE: "Exemption doesn't mean zero tax. Exempt businesses like large private hospitals pay significant input taxes (which can't be offset against output taxes)... The beneficiaries of the exemptions are often the rich." As many as 300 indirect tax exemptions are currently available, causing the exchequer to lose an amount equivalent to 2.5% of GDP.

The Subramanian panel has virtually demolished the NIPFP's revenue-neutral rate (RNR) estimate of 27% and pegged it at 15%, assuming tax on precious metals increases. This preferred RNR is split into an actual rate of 17-18% for most goods, 12% for merit goods and 40% for demerit items like tobacco products, luxury cars, etc. The 40% rate, which doesn't imply any hike from the present rates, could remain in the 12% perfect GST scenario as well.

According to Poddar, the fact that tax exemptions don't mean nil tax and they benefit mostly the rich should be reason enough for a political consensus on removing them. The industries that are now proposed to be out of the GST like petroleum, alcohol and real estate won't feel the pinch either as tax on outputs will enable them to avail of input tax credits. A 12% tax, Poddar said, could lead to 10-15% increase in compliance which could be a sort of "gift of God" for the government as it won't feel any pressure to reduce the tax rate to below 12%.

At this rate of tax, Indian producers would increase their global competitiveness as well. A 12% GST rate will be competitive against many countries including China where the VAT is at 17%, Germany at 19% and UK and France at 20%. Indonesia and Australia levy VAT at 10%, while Canada (5%) and Singapore (7%) levy GST at lower rates. Also, if the GST rate is set at 12%, fears of services bearing a higher tax burden than the current 14.5% would be addressed.

However, some analysts warned that for the 12% rate to be feasible, petroleum products need to be taxed at a higher rate, say, 40%. R Muralidharan, senior director (indirect taxes) at Deloitte India, pointed out that petroleum products are currently taxed in the range of 40-45% (20-25% state taxes plus central excise).

In several industries including electronics, domestically produced goods are suffering from negative protection against imports. The Subramanian panel has proposed that this be corrected to encourage domestic manufacturing. As for area-based exemptions, the government could do away with them, said analysts, adding that the states concerned could instead give cash subsidies to the industries they want to encourage.

The panel examined the three approaches adopted by other agencies — macroeconomic data by the IMF, indirect tax turnover data by the NIPFP and the direct tax turnover data by the 13th Finance Commission task force. Of this, direct tax turnover data captured the largest tax base of Rs 58.2 lakh crore.

In the meantime, the draft GST Act, 2016, circulated by the Union government proposed a "not less than 1%" compounded tax rate without input tax credit for registered traders with less than Rs 50 lakh turnover. This scheme is not applicable for interstate sales. The draft law says that petroleum and petroleum products will not get input tax credit, indicating that these would be kept out of GST in the initial years, contrary to the demands of the Congress. The draft also proposes that tax officers can make summary assessment of the tax liability in certain cases to protect the government's revenue interest by following principles of natural justice.

Amit Kumar Sarkar, partner, Grant Thornton India, called the suggested three rate GST structure a pragmatic and reasonable one, which would go a long way to build more enthusiastic support for GST from the industry.

PSBs are the biggest losers in 2015

BOI has been the biggest wealth destroyer in the current calendar year as its scrip has slumped nearly 60%. BOI had reported a loss of Rs 1,126 crore in Q2 FY16 — highest among its peers — as its provisions at Rs 3,237 crore increased more than three times on an annualised basis. The OBC scrip lost 57.7% during the year while the IOB stock was reduced to nearly half during calendar 2015.

Debt-heavy companies like Unitech and Jaiprakash Associates also took a beating in the markets as their shares are trading at just about a quarter of their highest value in the last one year. The Unitech share has slumped since June 2015 over news the company had defaulted on its loan repayments.

Amid severe pressure on cash flows and non-payment on its non-convertible debentures, Jaiprakash Associates witnessed Rs 35,516 crore of long-and short-term debt instruments of three of its group companies being downgraded to "default" level by rating agency CARE. Despite the company carrying out an extensive asset sale exercise — it sold as many as nine assets in the last two years equalling enterprise value of Rs 27,611 crore — its debt to Ebitda ratio stood at 12 times in FY15, showed a Credit Suisse analysis. Not surprisingly, the stock has lost nearly half of its value in 2015 so far.

As global commodity prices fall to multi-year lows, the stock performance of leading metals producers also bore the brunt. Share prices of large-caps Vedanta and Hindalco have fallen by 57% and 49.6%, respectively, as the street reacted to waning profitability of these companies. The standalone earnings of both these companies have dropped by more than 40% in the first half of FY16, compared to same period last year.

The Hyderabad-based Kaveri Seeds is at the bottom of the list of worst performers of 2015, having lost 41% of its value. Unattractive cotton prices affected the sales of cotton seeds — largest constituent of its revenue. The cotton seed volume of Kaveri Seeds fell by 26% during FY16 also as it reported a net loss of Rs 46.16 crore in three months to September 2015.

Banks seek SDR for Transstroy, AMW

In FY14 (latest data available), the company reported a loss of Rs 193 crore on the back of Rs 840 crore in revenues. The finance costs stood at Rs 194 crore. The company's debt of Rs 890 crore was restructured under the corporate debt restructuring (CDR) mechanism in September 2013 after being referred to the CDR cell in March 2013.

"AMW's production fell to 30% of its capacity owing to a fall in demand. This resulted in cash flow problems and the company is finding it difficult to pay off its debt," a banker said, adding that the mining ban in Odisha, Karnataka and Goa has hit the company's sales.

Led by IDBI Bank, the consortium of nine lenders to AMW Motors include Indian Overseas Bank (IOB), UCO Bank, Central Bank of India, Punjab National Bank (PNB), Dena Bank and Oriental Bank of Commerce, among others.

AMW Motors is led by Anirudh Bhuwalka as its MD and CEO.

The SDR rules allow banks to convert a company's debt into shares at a price below the current market value or an average of closing prices in the 10 trading days before a decision is taken at the joint lenders' forum. They can own up to 51% of the equity of the company.

Dhoni to be highlight at IPL reverse auction

Sources in the BCCI say companies like Intex, Chennai-based cement companies Chettinad Group and ITW, Haldiram Foods International, RPG of Sanjiv Goenka Group, Dolt Sports promoted by Yes Bank chairman Rana Kapoor and family, DHFL, Videocon, and media entrepreneur Ronnie Screwvala's Unilazer have shown interest in the two new IPL teams for the next two years. The cities offered to two new IPL teams are Chennai, Cuttack, Dharamsala, Indore, Kanpur, Nagpur, Pune, Rajkot, Ranchi and Visakhapatnam.

Many in the BCCI feel that the potential to be associated with big brands like Dhoni is one reason for the buzz around the team auction. On December 15, the top 10 players from the two teams will go on sale at the Player Draft where CSK and India T20 skipper Dhoni is likely to be first choice of the franchise. A regular on the Forbes' list of highest-paid sportspersons, Dhoni has had a big role to play at India Cements, the company that owns CSK, becoming a popular brand around the country.

A top BCCI official says this is an opportunity to capture Dhoni. "No one would have imagined Dhoni would part ways with CSK. In the earlier regime, CSK owner and BCCI president N Srinivasan saw to it that a player's retention clause was inserted. Now suddenly, so many players are available."

Other players who the new franchise will have a chance to buy are R Ashwin, Ravinder Jadeja, Ajinkya Rahane, Brendon McCullum and Shane Watson. As per the tender, the first capped player will be paid Rs 12.5 crore while the remaining four capped players will get Rs 9.5 crore, Rs 7.5 crore, Rs 5.5 crore, and Rs 4 crore. This in effect means a franchise can get Dhoni for Rs 12.5 crore. For an uncapped player, it will be Rs 4 crore while the total salary cap for the team is about Rs 66 crore.

There also happens to be a clause in the tender document that doesn't allow the teams to use names of present or suspended franchises. "New franchises cannot use the name IPL, BCCI, Rajasthan Royals, Chennai Super Kings or any resembling name. This is done since the Super Kings and Rajasthan Royals aren't totally out of IPL, they will return after two years and we wanted to protect their brand," said a BCCI official.

The Indian cricket board will make money from the reverse auction because it won't have to share the broadcast revenues. It's also a beneficial situation for franchises, because not only will they get a big name like Dhoni but unlike other older franchises, they don't have to cough up too much money in terms of franchise fees.