MARKET WATCH

FPIs INFUSE ₹1.8 CR IN SEPT 1ST HALF

New Delhi: Foreign portfolio investors (FPIs) turned net buyers in the first half of September, according to available data, pumping in Rs 1,841 crore into the capital markets, after remaining sellers for the previous two months. **PTI**

$1.69 BN IN JULY 2019; $45 BN SINCE NDA CAME TO POWER IN MAY 2014

Resident Indians remitted out more money than ever in July under LRS

SANDEEP SINGH
NEW DELHI, SEPTEMBER 15

AMID THE government's efforts to attract foreign direct investors as well as foreign portfolio investors (FPIs), the country witnessed its highest ever monthly outflow of $1.69 billion under the liberalised remittance scheme (LRS) by resident Indians in the month of July.

With this, the outflow of money under the LRS scheme has hit $5.8 billion in the first four months of FY20 and aggregated to over $45 billion (Rs 3.15 lakh crore at exchange rate of 70 to a dollar) since the Narendra Modi-led NDA first came to power in May 2014.

By comparison, in the five year period of UPA II, between April 2009 and March 2014, the aggregate outward remittance under LRS amounted to $5.45 billion.

Under the Reserve Bank of India's (RBI) LRS, resident individuals are allowed to remit up to $250,000 in a financial year under various heads including current account transactions such as going overseas on employment, studies overseas, emigration, maintenance of close relatives, medical treatment among others.

The residents can also transfer money for capital account transactions under LRS including opening of foreign currency account overseas with a bank, purchase of property and making investments in units of mutual funds, venture capital funds among others.

RBI data shows that over the last five years, while outward remittance under LRS on account of travel amounted to over $14 billion, almost $10.5 billion was on account of maintenance of close relatives and $10 billion was sent for studies. Another $4.8 billion was remitted under the head of gifts and $1.9 billion for overseas investment in equity and debt.

By comparison, in the previous five-year period between FY10 and FY14, the amount remitted by Indians abroad on account of travel amounted to mere $129 million and that for maintenance of close relatives stood at $992 million. Similarly, for the purpose of gift, resident Indians remitted $1.17 billion in the five-year period.

The outflow of funds by resident Indians under LRS over the last five years has almost negated the inflow of funds by FPIs in the same period.

While FPI's have invested a net of Rs 176,212 crore into Indian equities since April 2014, they have invested a net of Rs 260,017 crore into the debt market in the same period.

Investment experts and those in the business of fund management say that the sharp rise in outflow of funds under LRS scheme over the last five years indicates the flight of capital and small- and mid-sized businessmen from India.

"Small businessmen and entrepreneurs who are relatively affluent are looking to shift their base out of the country," said the chief executive officer of an investment firm.

The head of a financial services company said that there is growing concern among people over social harmony and peace in the country, along with worries pertaining to harassment by tax officials, which is leading many individuals (who belong to relatively affluent class) to shift their base.

"It is a worrying trend. Had even 50 per cent of this money stayed back in India and got invested in businesses, it would have resulted into a big multiplier effect in terms of job creation and growth of the economy," the person said.

Another market expert said that the rise in tax rate from around 35 per cent to 43 per cent now (for those in the highest tax bracket) is also not helping the cause. "Many rich Indians feel that by paying such high rates of tax in a developed country, they can get a better quality of life," he said.

Some feel that the government must look to arrest this pace of outflow.

Sources say that while enquiries for permanent residency has almost doubled over the last one year, many affluent Indians are looking to shift their base to the US, Canada, the United Kingdom, Spain, Portugal and Dubai among others.

A source said that over the last six-eight months, there has been a rise in EB5 Visa Green Card applications for US (for US residency and citizenship), as the United States is set to increase the fee for such application by 80 per cent from $500,000 currently to $900,000 beginning November 2019.

However, another immigration advisor said that the EB5 market in India is small at the moment and the pace of activity has further slowed down over the last one-month, as the applications that come now would ultimately have to pay $900,000, since it takes around two months for all paper work and checks to complete.

EXPLAINED

Flight of capital could weaken investment activity

A SHARP rise in outward remittance under LRS indicates that India is witnessing flight of capital by residents amidst weak private investment climate and declining GDP growth rates.

If businesses shift their base, it not only hurts investment and job creation in India but also makes rupee volatile against dollar.

RISE IN OUTWARD REMITTANCE UNDER LRS

Year	Amount (USD Bn)
2014-15	1.325
2015-16	4.642
2016-17	8.17
2017-18	11.333
2018-19	13.787
2019-20*	5.871

Source: RBI; *till July

Will seek clarification from RBI on fixed-floating rate home-loans: SBI Chairman

PRESS TRUST OF INDIA
LEH, SEPTEMBER 15

THE COUNTRY'S largest lender State Bank of India (SBI) will be seeking clarifications from the Reserve Bank whether it can offer long-term home loans with fixed rates in the beginning and convert the same into floating rates later, chairman Rajnish Kumar has said.

The move comes after the Reserve Bank has mandated banks to shift all retail lending to floating rates that will be determined by external benchmarks like the repo rate.

Kumar said there is a lack of clarity on how it can go ahead with the fixed rate products, after the RBI's new regulations on floating rates.

Hinting at the volatility in the repo rate, he said some home buyers may want their loan rates to be fixed.

For such buyers, it can offer a 'fixed-floating' product, wherein the rates are locked in for an initial period of say five to ten years, and then turns floating.

The need for making the product floating in the latter part arises out of the bank's inability to project the liability movements in the future, he said, adding typically, home loans are for about 30 years.

It can be noted that the repo rate at which the central bank lends to the system is at a nine-year low of 5.40 per cent.

Speaking to reporters here over the weekend, Kumar said the central bank's recent guidelines on floating rate products for the retail segment has necessitated the need for the clarity.

Kumar has clarified that from an asset liability management perspective, it is difficult to have a fixed rate product for a long term like 30 years, the maximum tenor of a home loan now from the bank now. Some private sector peers offer up to 35 years of home loans depending on in the age of the borrower, though.

At present, SBI has a floating rate home loan product linked to its marginal cost of funds-based lending rate and it recently withdrew one linked to the repo rate. It does not have a fixed rate home loan product at present.

As of now, under the marginal cost of funds based lending, floating rate loans are re-set as when the interest rates fall or rise, but fixed rate loans are reset in 9-12 months.

But when the loans are linked to the repo rate, the rates can change sharply, depending on how the central bank acts on the rate front.

Many mortgage borrowers normally choose fixed rates, as that helps them better manage their finances because of the certainty about the EMI outgoes.

Kumar said the bank does not have adequate liabilities linked to the floating rate which makes such a floating product difficult.

Speaking on the RBI-mandated systemic shift to external benchmarked lending rates, he said SBI will have minimal issues with the same.

He said the industry leader was the first to move on to the repo-linked loans and deposits since May, and has many of its products aligned to the external benchmarks now.

However, he said such shifts make asset liability management "challenging" as there lack of floating rate liabilities now.

About the impact of the mega bank mergers on SBI, he said it will not impact the nation's largest bank as SBI has specified business model and target segments, and will continue with the same.

No more IPO plan for general insurance arm

Leh: SBI has dropped its plan to take its general insurance arm public as there is no need for additional capital now, chairman Rajnish Kumar has said.

Investor interest for its cards business is very high, and SBI Card listing will happen in the March quarter, he said.

The bank was earlier looking for an initial public offering (IPO) for SBI General Insurance in fiscal 2020-21. **PTI**

BRIEFLY

STC's financial health: 'Steps' being explored

New Delhi: The government is considering measures to improve the financial health of State Trading Corporation (STC), a public sector unit under the commerce ministry, according to sources. The measures, which are under consideration, include provision of adequate time for STC to repay bank loans and sale of immovable assets. "The steps have been discussed among commerce ministry, finance ministry and banks," the sources said. As per the proposal, STC could be given a five-year time for repayment of Rs 500 crore.

'MSI's PV market share falls in Apr-Aug'

New Delhi: Maruti Suzuki India (MSI) and Tata Motors' domestic passenger vehicle (PV) market share declined in April-August this year, while Hyundai and M&M witnessed gain in the same period, as per data compiled by industry body SIAM. MSI, India's largest carmaker, saw its market share dip by over 2 percentage points during the period under review and slip below 50 per cent in the domestic PV segment in April-August. The company sold 5,55,064 units this fiscal as compared with 7,57,289 units during April-August previous year. Its market share has come down from 52.16 per cent last year to 49.83 per cent in April-August this fiscal. **PTI**

737 MAX return in UAE unlikely this yr

Dubai: The head of the UAE's General Civil Aviation Authority said on Sunday that he was not optimistic that the Boeing 737 MAX would return to operations this year and that the first quarter of 2020 was more likely. Boeing's flagship 737 MAX has been grounded since March while Boeing updates flight control software at the centre of two fatal crashes in Indonesia and Ethiopia that together killed 346 people. **REUTERS**

'Discoms' outstanding dues to gencos up 57% in Jul'

The outstanding dues of distribution utilities from power producers have risen by more than 57 per cent to Rs 73,748 crore in July 2019 compared to the same month last year, according to data on the PRAAPTI portal

₹46,779 cr
Amount owed by distribution companies (discoms) to power generation companies (gencos) in July 2018

₹54,342 cr
Total overdue amount, which was not cleared even after 60 days of grace period offered by gencos, as of July this year; as against Rs 30,331 crore in July 2018.

60 days
Time given by gencos to discoms for paying bills for supply of electricity, after which, the outstanding becomes overdue and generators charge penal interest on that in most cases

₹69,905 cr
Total outstanding dues on discoms as of June 2019; revised from the provisional Rs 46,412 crore

₹51,748 cr
Total overdue amount as of June 2019; revised from the provisional Rs 30,552 crore

OVERDUES OF CENTRAL PUBLIC SECTOR GENCOS ON DISCOMS:

- NTPC: ₹7,778.38 crore
- NLC INDIA: ₹4,693.48 crore
- THDC INDIA: ₹1,954.24 crore
- NHPC: ₹1,613.84 crore
- Damodar Valley Corporation: ₹786.69 crore

STATES WITH LONGEST DURATION FOR DISCOMS TO MAKE PAYMENTS:

- Rajasthan and Bihar: 820 days
- Haryana: 818 days
- Andhra Pradesh: 818 days
- Madhya Pradesh: 805 days
- Telangana: 798 days
- Karnataka: 792 days
- Tamil Nadu: 791 days

23.57%
Share of overdues of independent power producers in total overdue of Rs 54,342 crore on discoms

Stake sale of 7 large CPSEs could help govt meet divestment target

PRASANTA SAHU
NEW DELHI, SEPTEMBER 15

WITH ITS tepid revenue growth resulting in higher reliance on non-tax revenue, the Centre has drawn up a plan to bring down its stakes in a clutch of large central public sector undertakings (CPSEs) to below 51 per cent in FY20. Stake sales in the Maharatna firms — namely IOC, NTPC, BPCL and GAIL — could happen either through the offer for sale (OFS) or exchange traded fund (ETF) route; strategic sale of at least one of them is also on the radar. In all these CPSEs, the government's stake is now below 55 per cent.

Other CPSEs in which the government might reduce stakes as per the policy laid out in the Budget FY20 are Engineers India (EIL), Container Corporation (ConCor) and NALCO.

The Centre's disinvestment target for the current fiscal is Rs 1.05 lakh crore. So far, it has raised only Rs 12,357 crore or 12 per cent of the annual target.

Faced with a lack of headroom to garner non-tax revenues from stake sales in listed CPSEs, the Centre announced in the Budget to bring down its direct holding in non-financial firms to below 51 per cent. In many of these firms, the Centre can still can retain a majority stake, inclusive of the stakes held by government-controlled institutions such as LIC in them and CPSE cross holdings.

The Centre mobilised a record Rs 1 lakh crore in FY18 and Rs 85,000 crore in FY19 from disinvestment of its stake in various companies, but some of its sheen was taken away by the fact that CPSE-CPSE deals (ONGC-HPCL and PFC-REC) and stake purchases by LIC played a major role in boosting the receipts.

It is estimated that if the government brings down its stake to 26 per cent in the aforementioned seven large CPSEs, it could garner about Rs 1.2 lakh crore at current market prices.

The options are not limited to strategic sales alone as other modes such as ETFs are also an effective tool for the government to dilute its stake in the firms. **FE**

4 OF 7 CPSEs ARE MAHARATNA FIRMS

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Saudi Arabia battles market jitters after oil plant attacks

AGENCE FRANCE-PRESSE
RIYADH, SEPTEMBER 15

SAUDI ENERGY giant Aramco is battling to reassure markets after devastating attacks on two oil plants, where a prolonged shutdown risks roiling investor confidence ahead of the firm's mega stock listing, analysts say.

A wave of drones struck Abqaiq — the world's largest oil processing facility — and the Khurais oil field in eastern Saudi Arabia, knocking out nearly half of the kingdom's crude production and exposing the vulnerability of its energy infrastructure.

While Tehran-backed Yemeni rebels claimed responsibility for the pre-dawn strike on Saturday, Washington blamed Iran for what it called an "unprecedented attack on the world's energy supply".

It is a major test for the kingdom's newly appointed energy minister Prince Abdulaziz bin Salman, a half-brother to the crown prince, as the attacks could dampen investor confidence in Aramco's upcoming two-stage stock market debut. The attacks have effectively turned off six per cent of the global oil supply, raising the possibility of a spike in prices when markets re-open on Monday — even as Aramco said it will tap into its reserve stockpiles to offset the disruption.

"The worst case scenario (for pushing oil prices higher) is an incident that takes a large amount of oil production offline in Saudi Arabia," said energy expert Robert Rapier. "If they can get production back online pretty quickly — or at least assure the markets they can — you might not see an enormous price spike," he wrote for *Forbes*.

But the full extent of the damage at the plants and how long it will take to repair is unclear, with analysts warning that an absence of information could fuel trader speculation. Saudi authorities, known for their penchant for secrecy, have not allowed reporters near the plants where security has been tightened since the attacks.

Seeking to soothe market jitters, Aramco CEO Amin Nasser has said "work is underway to regain the (lost) production quantities". *Bloomberg News* reported that Aramco expects to restart most operations "within days".

"Saudi Arabia has plenty of oil stored to fulfil customer demands and don't think Aramco will lose money over this," said Ellen Wald, author of the book "Saudi Inc.".

"This isn't a company that has to pump and sell to make payroll like a tiny fracking outfit."

Saudi Arabia is known to have vast underground storage facilities with a capacity of tens of millions of barrels of various refined petroleum products that can be tapped during times of crisis.

The strikes are unlikely to derail the much-touted initial public offering (IPO), but it could undermine investor confidence in the mammoth listing that the government hopes will raise up to $100 billion. It could also impact its valuation.

The IPO, earlier scheduled for 2018, has already been mired in delays as it reportedly struggled to reach a $2 trillion valuation desired by Saudi rulers.

'No immediate impact on supply, Aramco tells Indian refiner'

Riyadh: Saudi Aramco has told one Indian refinery there will be no immediate impact on oil supplies as it will deliver crude from other sources and had adequate inventory, a source with the refinery said on Sunday.

Aramco has lost half of its production capacity after attacks on its facilities Saturday and it remains unclear how long it will take the company to fix the damage. **REUTERS**

FIGHT TO STOP CLOSING OF OHIO & MICHIGAN PLANTS

UAW calls first nationwide strike against GM since 2007

NICK CAREY & BEN KLAYMAN
DETROIT, SEPTEMBER 15

THE UNITED Auto Workers (UAW) said on Sunday that its roughly 48,000 hourly workers at General Motors Co facilities would go on strike as of midnight Sunday after US labor contract talks reached an impasse, the first nationwide strike at GM in 12 years.

"We do not take this lightly," Terry Dittes, the UAW vice president in charge of the union's relationship with GM, said at a press conference in downtown Detroit. "This is our last resort."

GM said in a statement that its offer to the UAW during talks included more than $7 billion in new investments, 5,400 jobs - a majority of which would be new pay increases, improved benefits and a contract ratification bonus of $8,000.

"We have negotiated in good faith and with a sense of urgency," the automaker said.

A strike will very quickly shut down GM's operations across North America and could hurt the broader US economy. A prolonged industrial action would also cause hardship for GM hourly workers on greatly reduced strike pay.

GM's workers last went out on a brief two-day strike in 2007 during contract talks.

A more painful strike occurred in Flint, Michigan, in 1998, lasting 54 days and costing the number one automaker in the United States more than $2 billion.

The union has been fighting to stop GM from closing auto assembly plants in Ohio and Michigan and arguing workers deserve higher pay after years of record profits for GM in North America.

GM argues the plant shutdowns are necessary responses to market shifts, and that UAW wages and benefits are expensive compared with competing non-union auto plants in southern US states. In its statement, the automaker said its offer to the union included solutions for the Michigan and Ohio assembly plants currently lacking products.

A person familiar with GM's offer said that could include producing a future electric vehicle in Detroit.

It could also include turning a plant in Lordstown, Ohio, into an electric vehicle battery plant or going through with the proposed sale of the plant to a group affiliated with electric vehicle start-up Workhorse Group Inc. A new battery plant could give some UAW workers at Lordstown the chance to remain with GM. **REUTERS**

UAW vice president Terry Dittes (second from right) and National Bargaining Committee chair Ted Krumm (right) in Detroit, Michigan, US, on Saturday. *Reuters*

'Sebi plans new whistle-blower mechanism for auditors to report frauds'

PRESS TRUST OF INDIA
NEW DELHI, SEPTEMBER 15

WITH AN aim to unearth financial irregularities and other fraudulent transactions at listed companies, Sebi is planning to set up a new whistle-blower mechanism for auditors and other 'gate-keepers' to report such cases.

The proposed move assumes significance in the wake of several auditors in the recent past decided to exit from their audit mandate after certain listed companies failed to take remedial actions despite financial wrongdoings having been flagged in their auditors' observations.

Officials said most of these auditor exits have taken place at a much later stage, but a 'confidentiality mechanism' can help in cases of financial frauds being reported at an early stage by auditors, independent directors and others considered to be 'gate-keepers' or 'conscience keepers'.

Regulators and enforcement agencies have often stressed that auditors, independent directors, investment bankers, valuers and other such entities have a greater responsibility to ensure compliance to regulations and safeguard the interest by minority shareholders.