

|                       | Week's close | Week's change |
|-----------------------|--------------|---------------|
| Nifty 50              | 11890.60     | +306.70       |
| P/E Ratio (Sensex)    | 27.33        | +0.57         |
| US Dollar (in ₹)      | 70.81        | -0.09         |
| Gold Std 10 gm (in ₹) | 38700.00     | +130          |
| Silver 1 kg (in ₹)    | 46725.00     | -50           |

# THE HINDU BusinessLine

## PORTFOLIO

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**FOR CLOSER TIES**  
Increasing surface, air and maritime connectivity with ASEAN will boost growth and trade, says Prime Minister Narendra Modi **p11**



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### Inside

#### BIG STORY

##### Smoother road ahead?

The auto sector has had a bumpy ride so far this fiscal year. The weak scenario has rubbed off on auto and auto-component stocks, which have taken a sharp knock. What's in store for the sector? Given that the stocks are beaten down, is it a good time to accumulate auto and auto-component stocks? **p2**

#### TECHNICALLY

##### Index Outlook

The Sensex recorded a fresh life-time high of 40,392 last week. While festival sales, good rains and the corporate tax rate cut have buoyed investor sentiment, indices could remain in a trading band for a while. How should investors play the market? What are the key levels to watch for in the short- and medium-term? **p8**

#### Quickly

##### IPO MOVES

##### Aramco IPO gets Saudi Arabia nod

Dubai/Dhahran November 3 Saudi Arabia's state oil company kick-started its initial public offering (IPO) on Sunday, announcing its intention to list on the domestic bourse. Aramco did not give a time frame or say how much of the company it would sell, but sources have told Reuters it could offer 1-2 per cent of its shares on the local bourse, raising as much as \$20 billion-\$40 billion. **P11**

#### Trending

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##### TELECOM AGR CRISIS

Why Airtel and Vodafone Idea are starting at a payout of ₹40,000 crore each

##### BSNL VRS

BSNL is opening its VRS window today. How many will take the call?



##### TATAS' TAX WOE

Why the tax department cancelled Tata Trusts' registration

## PMO reviews Delhi air situation as it worsens to 'severe or beyond'



**Bravehearts** Tourists throng India Gate in New Delhi on Sunday despite the severe smog that has left the National Capital gasping **APF**

#### OUR BUREAU

New Delhi, November 3

The Prime Minister's Office (PMO) on Sunday intervened to review the deteriorating air quality situation in Delhi-NCR, with pollution levels peaking to a three-year high.

According to data shared by the Delhi Pollution Control Committee, the Air Quality Index across parts of Delhi worsened to severe or beyond. The index reported pollution levels as high as over 999 (the upper limit measurable) for PM2.5 and PM10 pollutants.

Officials in the know said the Principal Secretary to the PM reviewed the situation arising out of severe air pollution in NCR and other parts of North India on Sunday. Senior officials from Punjab, Haryana and Delhi joined the meeting through video conferencing. The Cabinet Secretary will monitor the situation with these States on a daily basis.

The Chief Secretaries of these States have been asked to monitor the situation across the districts.

To address the issue, about 300 teams are on the field here to bring down the pollution, and the machinery for this has been distributed across the States, the official said.

The main focus is on the seven Industrial Clusters and major

traffic corridors in the NCR, the official added.

#### Health advisory

On Sunday, the Delhi government issued a health advisory, suggesting that residents restrict outdoor movement and exercise. The public has also been asked to avoid places where there is excessive traffic. The State government once again urged people not to burst fire crackers.

The Delhi government further said schools in the Capital will remain closed on Monday and Tuesday in light of the air quality conditions. Schools in neighbouring Gurugram will also remain closed.

Pollution in the region has been attributed to stubble burning in the neighbouring States. The Punjab government said action has been initiated against around 3,000 people, and over 20,000 cases of stubble burning had been reported till last week.

#### Flights disrupted

The thick smog caused major disruptions at the Delhi airport today as 37 flights were diverted to other airports, officials said. While Air India said it diverted 12 flights since 9 am, Vistara diverted five flights after 10 am.

**Delhiites want to leave p15**

## Bank of India, Union Bank claims against Nirav Modi's American firms disallowed

Firestar Diamond's Chapter 11 Trustee says banks do not have direct claim against firm

#### RADHIKA MERWIN

BL Research Bureau

The Chapter 11 Trustee for Firestar Diamond Inc, A Jaffe Inc and Fantasy Inc — Nirav Modi's three American entities that had filed for bankruptcy protection in the US after the massive PNB fraud — recently filed objections to the claims of Union Bank of India (UK) and Bank of India (London branch).

Seeking to disallow the claims — \$3.2 million filed by the former and about \$0.4 million by the latter — the court-appointed Chapter 11 Trustee pointed out that the Indian banks failed to show they are eligible creditors of Firestar Diamond.

"The key problem for Union Bank of India and Bank of India is that while they may have engaged in credit transactions with Modi-controlled entities, the banks making the claims are not direct creditors of the US companies in Chapter 11," said Seth R Freeman, CIRA, CTP, a bankruptcy expert and Senior Managing Director of GlassRatner Advisory & Capital Group, LLC in San Francisco.

While the Indian banks may have claims against other companies within the Firestar corporate family, they cannot assert

their claims against Firestar Diamond in particular (which is under bankruptcy proceedings), according to the Chapter 11 Trustee, Richard Levin, an author of the 1978 US Bankruptcy Code, and one of the world's foremost bankruptcy lawyers.

As it appears, the global web of shadow entities domiciled in Dubai, Belgium and other countries that Nirav Modi used for perpetrating the \$4-billion fraud could make it a Herculean task for PNB and other Indian banks to recover anything from Chapter 11 proceedings in the US.

#### Massive fraud

The seven-year scam — from 2011 to 2018 — involved the fraudulent procurement of Letters of Undertaking (LoUs). LoUs allow an importer to obtain short-term credit from its bank in India, secured by invoices for the to-be imported goods. The multi-billion dollar fraud at PNB, that came to light last year, revealed that Nirav Modi artificially inflated the import volume of India-based companies — Diamonds R Us, Solar Export, and Stellar Diamond — with sham transactions to obtain more LoU funding.

The US bankruptcy court-appointed examiner last year had also confirmed the numerous shadow entities created to launder funds obtained fraudulently from PNB and other banks.

Ever since the Chapter 11 bankruptcy proceedings of Nirav Modi's US entities began last year, the million-dollar question has been whether Indian banks would be able to proceed against the assets of these companies. With the claims of Bank of India and Union Bank being disallowed, it appears that domestic lenders are in for a rough ride.

#### Not owed by Firestar

On April 26, 2018, Union Bank had filed a proof of claim for \$3,168,074, against Firestar Dia-



#### Union Bank's case

- On April 26, 2018, Union Bank filed a proof of claim for \$3,168,074, against Firestar Diamond Inc and A Jaffe Inc (under US bankruptcy laws)
- The bank's claim was based on amounts owed by Firestar Diamond to Firestar Diamond BVBA, Belgium
- BVBA's involvement in the PNB bank fraud was extensive
- But various documents suggest basis for claim by Union Bank against BVBA, not Firestar Diamond
- Hence the bank's claim was disallowed

mond Inc and Old AJ (A Jaffe, Inc). Its claim is based on amounts supposedly owed by Firestar Diamond to another company within the group — Firestar Diamond BVBA, Belgium (currently under insolvency proceedings in Belgium).

BVBA's involvement in the massive bank fraud was extensive. But while various documents suggest a basis for a claim by Union Bank against BVBA, there is nothing that indicates the bank's claim against Firestar Diamond, which is under Chapter 11.

Hence, the Chapter 11 Trustee had filed the objection to the

bank's claim under section 502 of the Bankruptcy Code, and Rule 3007 of the Federal Rules of Bankruptcy Procedure, seeking to disallow the claim in full.

Bank of India (London), too, had failed to show it is owed anything by Firestar Diamond — documents and agreements at best suggested a claim against Firestar Diamond FZE, Dubai.

In view of the Trustee's objection, the US Bankruptcy court has disallowed both the claims.

#### Cross-border expertise

"The Nirav Modi fraud is extraordinarily complex and was enabled by corrupt bank officers that allowed it to become large and exist over an extended period of time, giving it the appearance of legitimacy. It is almost a form of what we call 'affinity fraud' — the lenders with these related party transactions failed to perform independent due diligence and instead relied upon false confidence in PNB's relationship and credit management with Modi," says Freeman.

He adds that it may be instructive to observe the intricacies of the Firestar Diamond US Chapter 11 process. "It involves Indian creditors that lend to Indian importers and exporters with foreign subsidiaries that may end up in US bankruptcy proceedings. Developing cross-border expertise will become increasingly important."

## Interest, principal obligations on non-convertible debentures due on November 2 delayed: RCap

#### OUR BUREAU

Mumbai, November 3

Reliance Capital (RCap) has disclosed that interest/principal obligations on its non-convertible debentures (NCDs) carrying five different International Securities Identification Numbers (ISINs), due on November 2, have been delayed.

The non-banking finance company, which has operations spanning segments such as general insurance, life insurance, securities broking and distribution, asset reconstruction and commodity trading,

among others, did not disclose the amounts that were due.

The company, in a statement late Saturday, attributed the delay to CARE Ratings downgrading its entire outstanding debt to a default 'D' rating (even though there were no overdues on principal or interest payments to any lender), triggering acceleration of various facilities by certain lenders, and consequential demands for immediate payment of amounts.

It added that the amounts were otherwise due and payable in a phased manner over



Anil Ambani, Chairman, Reliance Capital

the next eight years, until March 2028, as per the original terms of lending.

CARE Ratings, in a statement on September 20, said it has revised the rating on various fa-

cilities/ instruments of Reliance Capital, taking into account "the recent instance of delay in servicing of coupon on several NCDs by the company". The coupon was subsequently serviced with a delay of one working day. "The liquidity profile of the group continues to be under stress on account of delay in raising funds from the asset monetisation plan and impending debt payments," it said.

On November 1, Reliance Capital, in a stock exchange filing, said the interest/principal obligations on an NCD series

due on October 31 had been delayed. A couple of days earlier, on October 29, the company had said that the interest/principal obligations on NCD series due on October 28 and 29 have been delayed.

Per the notes to accounts in its first-quarter results, the listed secured NCDs of the company, aggregating ₹14,874 crore as on June 30, 2019, are secured by way of first *pari-passu* mortgage/charge on the company's immovable property and on present and future book debts/business receivables of the company.

## Severe cyclone Maha likely to make a U-turn, head towards Gujarat coast

#### VINSON KURIAN

Thiruvananthapuram, November 3

As severe cyclone Maha prepares to make a U-turn from the East-Central Arabian Sea and head towards the Gujarat coast for landfall by Wednesday night, the Bay of Bengal is set for a fresh churn.

A preparatory cyclonic circulation hung over the North Andaman Sea (South-East Bay) and adjoining Myanmar coast, and could settle as a low-pressure area over the north Andaman Sea by Monday.

Under its influence, heavy

rainfall is forecast at isolated places over the Andaman & Nicobar Islands during the next two days and isolated heavy to very heavy rainfall is forecast for the subsequent three days.

The India Meteorological Department (IMD) sees it moving West-North-West and concentrating into a depression over the East-Central Bay during the subsequent two or three days.

Movement of a batch of East-bound western disturbances over North and Central India around this time would have a major say on where the devel-

oping storm would head for landfall.

In fact, the latest in the series of these disturbances will start affecting the plains of North-West India as also of Central India from Wednesday, just as the Bay storm gains traction.

These disturbances should bring scattered to fairly widespread precipitation over the hills of North-West India and adjoining plains on Friday (November 8).

**These disturbances and their entourage of westerly to north-westerly winds are expected to moderate the smog and pollution levels in and around Delhi-NCR.**

## Make domestic industry competitive before signing global trade deals: Bhalla

#### RICHA MISHRA

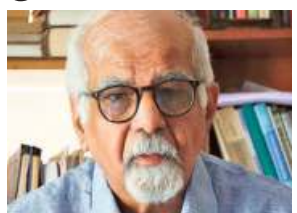
New Delhi, November 3

Economist Surjit Bhalla believes that while joining Regional Comprehensive Economic Partnership (RCEP), one should also ensure that domestic players are prepared for global competition — and the best way of ensuring that is letting them face internationally competitive conditions at home.

Bhalla, who headed the Committee on Trade and Policy — High Level Advisory Group (HLAG), feels that India should be prepared like China was before it joined the WTO in the 1990s.

#### Win-win outcome

India has been under pressure from the local industry to be cautious when accepting anything at RCEP. In fact,



Surjit Bhalla REUTERS

Prime Minister Narendra Modi has also been quoted as saying that India wants a win-win outcome from the RCEP negotiations.

The Prime Minister has also reiterated India's demand for equal importance to goods, services and investments.

Set to take office as Executive Director for India on the board of the IMF, Bhalla advocates opening up the agriculture sector and liberal-

ising financial services exports further.

On the state of the economy, he believes that the July-September quarter would represent the nadir. "I am also not in the camp who believes that there is a worldwide recession...," he said.

Bhalla agrees that the opening up of any sector has its shortfalls.

"If you were to open up the agriculture sector and allow farmers to produce and sell what they want and whom they want to, then may be there can be a case that distribution of farmers income will not be what is socially and politically desirable. But we now have technology that will ensure that farmers can be compensated — PM Kisan," he said.

**Interview: p11**

## Nine hours' work = a normal working day: Centre

Draft rules prescribe 6 criteria to fix minimum rate of wages, including calorie intake

#### SHISHIR SINHA

New Delhi, November 3

The Centre has proposed nine hours of work and a net intake of 2,700 calories in a preliminary draft of the Wages (Central) Rules. However, it has not proposed floor wages. The Labour Ministry has invited comments from stakeholders, including the public, which, can be submitted till December 1.

The draft rules prescribe six criteria for the fixation of minimum rate of wages.

They are: The standard working-class family, which includes a spouse and two children apart from the earning worker (an equivalent of three adult consumption units); a net intake of 2,700 calories per day per consump-

tion unit; 66 metres of cloth per year per standard working class family; housing rent expenditure to constitute 10 per cent of food and clothing expenditure; fuel, electricity and other miscellaneous items of expenditure to constitute 20 per cent of the minimum wage; and expenditure for children's education, medical requirement and recreation, and expenditure on contingencies, to constitute 25 per cent of the minimum wages.

#### Floor wage

The Centre will constitute a board for the fixation of basic rate of floor wage. The board will suggest minimum living standards taking into various factors. Its recommendations will be circulated among

#### The six criteria

- The standard working class family includes a spouse and two children apart from the earning worker — an equivalent of three adult consumption units
- A net intake of 2,700 calories per day per consumption unit
- 66 metres cloth per year per standard working class family
- Housing rent expenditure to constitute 10 per cent of food and clothing expenditure
- Fuel, electricity and other miscellaneous expenditure to constitute 20 per cent of minimum wage
- Expenditure for children's education, medical requirements and recreation, and expenditure on contingencies, to constitute 25 per cent of minimum wages

States and, based on their views, the basic floor wage will be fixed.

This basic rate may be revised once in five years. Once the rate of wages for a day is fixed, the amount will be divided by eight for arriving at the per-hour wage, and multiplied by 26 for fixing the per-

month rate. There is a proposal on the time interval for the revision of dearness allowance (DA).

#### Dearness allowance

Here, the draft says that an endeavour will be made such that the cost of living allowance and the cash value of the

concession in respect of essential commodities at concession rate are computed before April 1 and October 1 each year to revise the DA payable to employees on minimum wages.

The draft proposes the categorisation of geographical areas into metropolitan, non-metropolitan and rural areas. A technical committee will advise the Centre on categorising the occupation of the employees into four: Unskilled, semi-skilled, skilled and highly skilled. The draft has also given the list of occupations to be included in these four categories.

Further, the draft has proposed that nine hours be defined as a normal working day. 'Night shift' will refer to an employee working on a shift which extends beyond midnight; a week of night shift would be followed by a 'whole-day' holiday.