RBI raises investment cap for FPIs

ANUP ROY
Mumbai, 23 January

With foreign investors dumping Indian debt but keeping up their investment in equities, the Reserve Bank of India (RBI) on Thursday increased the short-term investment limit for them. It doubled the limit in case they voluntarily disclose their investment plan before hand.

In two separate notifications, the central bank said foreign portfolio investors (FPIs) can now invest 30 per cent of their portfolios in central and state government securities, including in treasury bills, from the 20 per cent earlier.

Similarly, in corporate bonds, too, short-term investments can now be 30 per cent of the portfolio from 20 per cent earlier.

The FPIs have long lobbied against raising short term limits. Getting locked in investments, maturing in three years, is detrimental to the interest of portfolio investors who chase high short-term yields. They expect the currency to remain stable during their investment period.

The investors not only take currency risk in the period, but also face the issue of rising yields.

Now that the RBI's rate cutting cycle is nearing an end, the yields are expected to rise. As yields rise, prices of bonds fall, causing losses to investors.

Besides, the central bank encouraged foreign investors to invest in debt instruments issued by asset reconstruction companies (ARC), and by an entity under the corporate insolvency resolution process.

These securities, from now, would be exempted from short-term investment limits. Earlier, only security receipts were exempted.

Meanwhile, the central bank doubled the investment cap under the voluntary retention route (VRR) to ₹1,50,000 crore from ₹75,000 crore earlier. "FPIs that have been allotted investment limits under VRR may, at their discretion, transfer investments made under the general investment limit to VRR," the central bank said in a statement.

FPIs will also be allowed to invest in exchange traded funds or ETFs that invest only in debt instruments, the RBI said.

However, bond dealers say increasing limits won't help retain investments immediately. This is because about 30 per cent of the total investment limits in government securities and nearly 45 per cent in corporate bonds remain unutilised by foreign investors. "These won't help much. A healthy set of budget numbers should work much more than these relaxations," said a senior bond market observer, requesting anonymity.

In January so far, FPIs have sold $1.6 billion of their investments in government debt papers, after selling a total of $1.2 billion in November and December.

Investors are seeking more clarity on budget numbers and want to see how much the RBI can support the yields, which have been rising even after persistent special open market operations (OMO).

On Thursday, one such OMO took place where the central bank managed to buy its planned ₹10,000 crore medium and long term bonds, but sold only ₹2,950 crore of short-term bonds against the planned ₹10,000 crore.

This is even when the central bank received bids of up to ₹35,375 crore against the bonds on offer. The RBI doesn't receive bids in which the market yields are not in its comfort zone.

MONEY MATTERS

- Short-term investment limit raised to 30% from 20% of the portfolio
- Investments under VRR doubled to ₹1.5 trn
- Debt papers issued by ARCs or firms under bankruptcy resolution exempted from short-term limits
- RBI sells less than ₹3,000 crore short-term bonds in special OMOs

In fourth OMO, RBI buys ₹10,000 cr of long-term securities

PRESS TRUST OF INDIA
Mumbai, 23 January

In the fourth special open market operation (OMO) auctions, the Reserve Bank of India (RBI) on Thursday bought ₹10,000 crore worth of long-term securities and sold ₹2,950 crore worth of short-term government bonds.

Last week, the RBI had said it would simultaneously purchase and sell government securities under open market operations (OMO) of ₹10,000 crore each.

In the OMO purchase auction, the RBI received bids worth ₹26,887 crore for two types of securities — 7.32 per cent-2024 and 6.45 per cent-2029 — but accepted only ₹10,000 crore of bids.

For 7.32 per cent-2024, it got 157 bids and accepted 40 bids. The RBI got 147 bids for 6.45 per cent-2029 bonds but accepted 105 bids.

The cut-off yield for 7.32 per cent-2024 was 6.408 per cent, while for 6.45 per cent-2029, it was 6.5780 per cent.

The RBI offered to sell two government securities — 7.80 per cent-2021 and 7.94 per cent-2021 — through the OMO. It received ₹35,375 crore of bids but accepted ₹2,950 crore of bids.

In terms of number of bids, the central bank received 85 bids for 7.80 per cent-2021 and 70 bids for 7.94 per cent-2021 but accepted three and seven bids, respectively.

The central bank has reduced repo rate by 135 basis points between February and October but there has been a delay in passing on the cut in the repo rate by lenders

The cut-off yield for 7.80 per cent-2021 was 5.6714 per cent and for 7.94 per cent-2021 was 5.7192 per cent.

These special OMO auctions are similar to the US Federal Reserves' Operation Twist aimed at faster transmission of policy rates, an analyst said.

The RBI has reduced repo rate by 135 basis points between February and October 2019 but there has been a delay in passing on the cut in the repo rate by lenders.

DLF to line up ₹13,000-crore investment for office spaces

DLF office space is spread across 32 mn sq ft in Delhi-NCR region, Chennai, Hyderabad, Kolkata, and Chandigarh

T E NARASIMHAN
Chennai, 23 January

Real estate company DLF is planning to develop nearly 20 million sq ft of office space in the country over the next six to seven years for an estimated ₹13,000-crore investment.

Tamil Nadu Chief Minister K Palaniswami unveiled the foundation stone for DLF Downtown, an intended information technology park at the suburb of Taramani. It is estimated to attract around ₹5,000 crore over six years. Mohit Gujral, chief executive at DLF, said of the proposed 20 million sq ft of projects, around 11 million will be at Gurugram and around 7 million in Chennai. These will attract ₹7,500-8,000 crore and ₹5,000 crore, respectively, it is estimated.

DLF office space is currently spread around 32 million sq ft (including those in special economic zones), in the Delhi region, Chennai, Hyderabad, Kolkata, and Chandigarh. With the Taramani project, Chennai will become the second largest market for DLF, after Gurugram.

The company had signed an agreement with the Tamil Nadu government nearly 10 years earlier but the project did not proceed for various reasons, till now. During phase-I, the company will invest ₹1,200-1,500 crore to develop 2.5 million sq ft. It aims to finish the other phases in less than six years, said Sriram Khattar, managing director, DLF Rental Business.

He said DLF Cyber City at the Manapakkam suburb was spread around 7 million sq ft and generated annual rental revenue of ₹550 crore. The firm invested ₹4,000 crore, excluding land, at Manapakkam. The facility has contributed a cumulative export revenue of ₹66,000 crore since inception 15 years before. Palaniswami gave numbers on the investment his government's efforts had fuelled and the expansion of infrastructure in this regard.

'For next 3 years, we will set aside ₹9,000-cr capex'

The country's second-largest cement producer, Shree Cement, which backed out of the race to acquire Emami Cement, wants to maintain their pace of organic growth. Not keen on taking competition head on, **HARI MOHAN BANGUR**, managing director of Shree Cement, reveals his plans and his take on the economic situation in the country in a conversation with **Avishek Rakshit**. Edited excerpts:

For the first time since listing decades ago, you raised capital via qualified institutional placement (QIP). How will you utilise the proceedings of ₹2,400 crore and will it be enough for your plans?

The funds raised via QIP will be used to fund capacity expansion over a period of six years; a part of it will also be from internal accruals. The amount we raised and our internal generation should suffice for the growth we have planned. There is zero debt and we don't expect any debt to be there.

What is your expansion strategy and the target in the coming few years?

The current installed capacity is 41.9 million tonnes per annum (mtpa) and we want to reach at least 55 mtpa by March 2023. It will go up to 75-80 mtpa in the next six years. More capacities are going to come up in the east, north and south India, where we have a strong presence and clinkerisation units. We are not going to central India, Gujarat or Northeast.

What is the capex to fund growth?

For the next three years, the capex will be ₹9,000 crore. But I can't give a capex projection for a six-year timeframe. A lot will depend on how the US dollar behaves, what will be the market position and others.

Will you opt for the usual route of greenfield and brownfield projects or are acquisitions under consideration?

We know organic growth takes time and so we plan and start early. Various projects are at different stages, some of which had started 10 years back. If acquisition comes at a very reasonable cost, we will look at it; otherwise we are geared up for this capacity by organic means. Organic will be the prime focus.

What kind of a valuation will you consider for acquisition?

It depends on the infrastructure in totality. We think $75-80 per tonne will be our cost of putting a new unit. If something comes at this rate or cheaper, then we can look at it.

Is that why you did not finally bid for Binani Cement or Emami Cement despite being interested initially?

We are not at all sorry for what we did because at the price with which they have gone or reportedly expected to go, we were far behind. There is no point in bidding.

UltraTech is penetrating deeper and you lost market leadership in north to them. How do you see the scenario?

Can a lightweight player take on a heavyweight boxer and compete? We are in the same business but we are not in competition. So, to say we are competing with them is itself wrong. They are doing things at their own speed and that speed doesn't challenge us. We will grow only at the speed at which we are comfortable with.

Slowdown has hit every sector of the economy. What has been the impact on cement?

We are talking about slowdown all the time; but world GDP growth will be less than 3 per cent, and even with revised estimates, India's GDP growth will be more than the global average. Have we got the birth-right to grow continuously at a far better rate than the global average?

TDS will be 20% if Aadhaar or PAN details are not furnished

SHRIMI CHOUDHARY
New Delhi, 23 January

Employers might soon start deducting 20 per cent from the salaries of their staff if they fail to provide their Permanent Account Number (PAN) or Aadhaar number to them. This is a new rule brought in by the Central Board of Direct Taxes (CBDT), which will be applicable to employees whose salary is above the threshold of ₹2.5 lakh a year.

This norm, which has come to effect on January 16, aims to monitor tax deduction at source (TDS) payments and keep a strict vigil on revenue earned from this segment, which constitutes 37 per cent of the total direct tax collection of the country during financial year 2018-19 (FY19).

In an 86-page circular on the matter, CBDT directed mandatory quoting of PAN or Aadhar number by employees under Section 206 AA of the Income Tax Act.

"Section 206AA in the Act makes furnishing of PAN or Aadhaar number, as the case may be, by the employee compulsory in case of receipt of any sum or income or amount, on which tax is deductible," said the circular.

If an employee fails to furnish the details, the employer has been made responsible to make deduction either at the tax rate attracted by the employee's salary or 20 per cent or more, the circular noted. If the income of the employee is below the taxable limit, no tax will be deducted.

If after various deductions the salary attracts up to 20 per cent tax, TDS at the rate of 20 per cent will apply. If it attracts 30 per cent tax rate, the employer will calculate the average tax rate, which is the employee's total tax liability divided by total annual income. In case average tax rate comes up to 20 per cent, the TDS will be 20 per cent. In other cases, higher TDS at the average tax rate will apply.

However, an employee will be exempted from paying health and education cess at the rate of 4 per cent if the deduction is made at a higher rate.

The CBDT said that as the requirement of filing TDS certificates along with the tax return has been done away with, the lack of PAN or Aadhaar number is creating difficulties in giving credit for the tax deducted. Therefore, tax deductors are advised to procure and quote correct PAN or Aadhaar number, details of all deductees in the TDS statements for salaries in Form 24Q (for tax deducted from salaries).

TDS CALCULATION BASED ON NEW GUIDELINES

Income	TDS
Income up to ₹2.5 lakh	Nil
₹2.5–10 lakh	20%
Exceeding ₹10 lakh	Depends on average tax rates, calculated by dividing total tax liability from the total income

- TDS of 20% will apply if avg tax is up to 20%, else higher avg tax will be applicable

Source: CBDT circular

Coffee Day to sell brokerage business to Shriram trust

Coffee Day Enterprises (CDEL) on Thursday said it had entered into a definitive agreement to sell its brokerage business 'Way2Wealth Securities' to Shriram Ownership Trust. Shriram Ownership Trust is the promoter of Shriram Capital, which is the holding company for its non-banking financial company (NBFC) and insurance businesses. "The transaction will help in further deleveraging the Coffee Day Group and ensure smooth operations while safeguarding the interests of all stakeholders," said the company in an exchange filing. Though the Bengaluru-headquartered firm didn't reveal the enterprise value of 'Way2Wealth Securities', sources in the know said that the deal could be somewhere around ₹200 crore. DEBASIS MOHAPATRA

ENGIE to divest stake in 12 solar projects to Edelweiss entities

French energy major ENGIE will sell a 74 per cent stake in each of 12 solar power projects in India to Edelweiss Infrastructure Yield Plus (EIYP) and the latter's portfolio company, Sekura Energy. ENGIE operates 1,500 Mw of renewable energy capacity in India. These 12 solar projects total 813 Mw. The deal wil help ENGIE reduce debt by 400 million. The deal is expected to close by the first half of 2020, it said. "This deal allows us to accelerate the implementation of our strategic model in renewables, and to free up capital to keep up investing in the very dynamic Indian solar market," said Paulo Almirante, executive vice-president. SHREYA JAI

Dip in study loans continues, big-ticket ones on rise

Education loans had started slowing down since demonetisation, and have not seen a pick-up since

ABHISHEK WAGHMARE
New Delhi, 23 January

Education loans given out by banks have been on a steady decline for three years now, shows the data by the Reserve Bank of India (RBI). The size of the education loan book of Indian commercial banks is nearly ₹65,000 crore — about 0.3 per cent of gross domestic product.

While education loans outstanding were growing at a rate of 6-8 per cent till the end of 2016, the rate of growth started declining after December 2016 — a month after the demonetisation exercise was carried out. The decline has continued unabated, and at the end of November 2019, the outstanding has contracted by 3.4 per cent.

However, what is worse is that the fall is only in the size of loans less than ₹10 lakh — labelled priority sector education loans. The high-value loans (non-priority sector) are actually rising, the data shows. Priority sector loans generally cater to the less privileged students.

Priority sector loans for education have been falling since the beginning of 2016 itself. The fall (year-on-year) is getting sharper now.

Experts feel that the higher supply of seats and a dearth of job opportunities for candidates taking courses such as engineering have resulted in fewer students taking finance-intensive courses.

According to the RBI data, the sum of outstanding education loans smaller than ₹10 lakh declined from ₹60,000 crore in March 2016 to ₹53,000 crore at the end of November 2019. In nearly the same period, big-ticket educational loans rose from ₹8,000 crore to ₹14,000 crore. The pace of growth in big-ticket loans, however, is falling.

Former chairman of the University Grants Commission and eminent economist, Sukhadeo Thorat, told *Business Standard* that the primary reason for this could be a decline in the number of students taking up engineering courses.

"In the past few years, there has been saturation in the engineering stream, and the enrolment is falling. This could be the reason students are not needing education loans with the same vigour," said Thorat.

The data on higher education enrolment supports this argument.

The enrolment in engineering courses in Indian colleges and universities declined from 4.25 million in 2014-15 to 3.77 million in 2018-19, losing nearly half a million students in a span of four years.

Other experts also alluded to the rising trend of education loans turning sour. Education loan non-performing assets (NPAs) are rising, according to the Indian Banks' Association, and the NPA ratio for engineering loans is as high as 10 per cent.

The Ministry of Human Resources and Development runs a scheme for students, wherein a 'trustee company' gives a guarantee on loans up to ₹7.5 lakh, to an extent of 75 per cent, from 2016-17.

The official data presented in Parliament shows that the number of students who took the benefit of this scheme rose till 2017-18, but declined sharply in 2018-19. In the current financial year, too, the beneficiaries' count looks to be dipping.

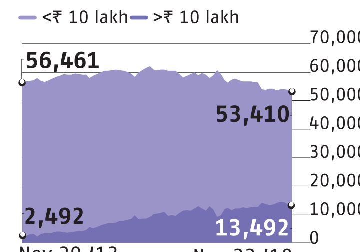
The amount guaranteed reduced too, from ₹3,400 crore to nearly ₹2,000 crore in 2018-19. In the first eight months of 2019-20, educational loans worth ₹600 crore have been covered.

Experts also mentioned that the data suggests that the poorer sections of society could be borrowing less due to their weak ability to service loans.

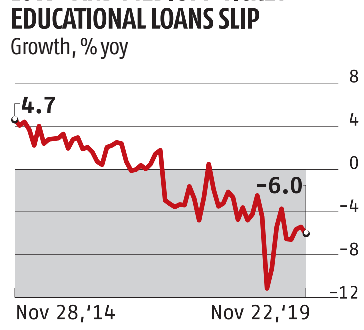
DOWNTURN IN EDUCATION?

Loans availed for higher education have been declining since 2016, and the trend is not reversing. Decline in preference for erstwhile popular courses such as engineering could be one reason

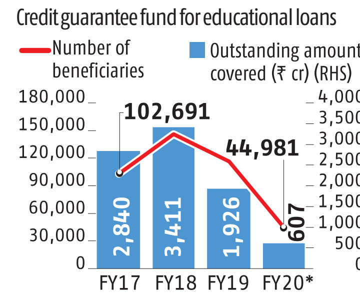
COSTLY EDUCATIONAL LOANS RISE, PRIORITY SECTOR LOANS FALL
Outstanding loans, ₹ crore



LOW- AND MEDIUM-TICKET EDUCATIONAL LOANS SLIP
Growth, % yoy

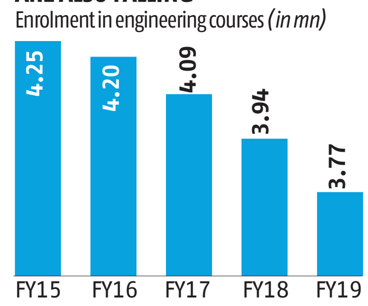


GOVERNMENT GUARANTEES TO EDUCATION LOANS ALSO RECEDE
Credit guarantee fund for educational loans



* As of November 18 Source: Lok Sabha

ENGINEERING COURSE TAKERS ARE ALSO FALLING
Enrolment in engineering courses *(in mn)*



Source: All India Survey of Higher Education