Brokers to meet Sebi on new norms

Worries over restrictions on intra-day margins in F&O segment a major bone of contention

JASH KRIPLANI
Mumbai, 3 January

Large brokerage houses are set for crunch talks with the Securities and Exchange Board of India (Sebi), seeking clarity on the new norms pertaining to margins that are set to take effect this year.

The implications of the same on the market ecosystem, going ahead, will also be a key talking point.

According to market sources, the Association of National Exchanges Members of India (Anmi) will meeting the market watchdog and exchange officials on January 8 to understand the new guidelines.

For now, brokerages are bracing for a dip in trading volumes, given that the curbs on leverage trades — effective from January — are likely to hurt transactions in the futures and options (F&O) segment, in which leveraged intra-day trades are common.

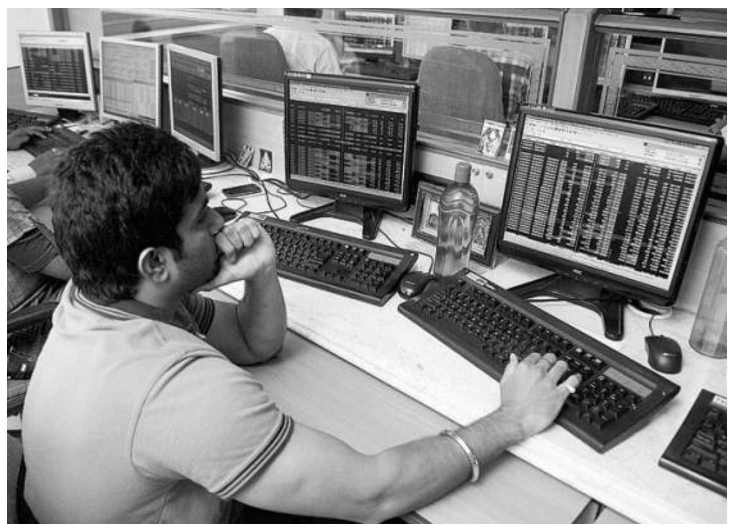
"Earlier, there was an ambiguity in the futures and options segment, where margin reporting needed to be done only at the end of the day. However, the new norms require margins to be taken upfront before any trade," said Nitin Kamath, chief executive officer of Zerodha.

"We could especially see the smaller traders in the futures segment get impacted," Kamath added.

Market sources added that while exchanges have already told brokerage houses that the upfront margins will get inspected on an intra-day basis, brokers will nevertheless discuss the subject with Sebi.

According to market participants, a large segment of industry used this grey area to attract investors in the F&O segment, especially the retail clients who lacked funds.

In a circular on New Year's eve, the NSE clarified that Sebi's norms on collecting upfront commission would not only be applicable to the cash segment, but also the F&O segment. "In the F&O segment, it is mandatory for trading members to collect initial margin, net buy premium, delivery margin and exposure margin from respective clients on an upfront basis," the NSE said in its circular.



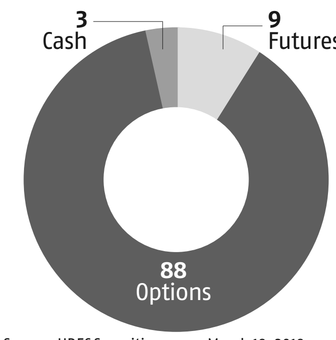
According to industry data, the futures segment accounts for 10-15 per cent of the market volume, while the options segment accounts for 80-85 per cent.

Most brokerages — both small and large — try to offer additional leverage to clients to facilitate their transactions in the F&O segment.

Market participants said that even though the mechanism for intra-day margin reporting is yet to be put in place, exchanges will work on the system to ensure there is proper reporting on this front.

In the last few months, Sebi has brought in several norms to tighten the practices in the broking industry. On handling of client securities, Sebi issued a circular stating that brokers were required to "unpledge" any client securities and sell them in the market if the dues were not cleared by the clients.

LION'S SHARE
Share in average daily turnover (%)



Source: HDFC Securities, as on March 19, 2019

THE COMPASS

P&G in a tough spot over surging costs

Correction would give good entry point to long-term investors

SHREEPAD S AUTE

The Procter & Gamble Hygiene and Healthcare (P&G) stock has sharply outperformed the Nifty FMCG (up 0.3 per cent), clocking a gain of 15 per cent over the past year.

The gain was largely on account of the tax cuts announced in September. On the operating front, however, the key metrics look weak both on the revenue and margin fronts.

P&G's continued focus on growth in the under-penetrated category (feminine hygiene segment) with distribution expansion, advertising spends, and price cuts, among others are expected to keep margins under pressure for now.

Analysts at Kotak Institutional Equities believe that operating in underpenetrated categories is the right strategy even if there is a short-term compromise on margins.

P&G had also undertaken price cuts to the tune of 10 per cent for its feminine hygiene segment last year.

Advertising spends as a percentage of sales continued to remain elevated at 10-11 per cent in FY19, compared to 8-9 per cent almost three years ago.

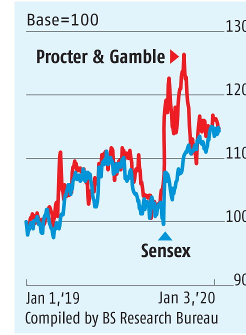
The feminine hygiene segment (Whisper) accounts for close to 70 per cent of P&G's sales. It follows a July-June accounting period.

The strategy to focus on growth is positive in the long term, given the lower penetration and rising awareness about sanitary napkins.

However, in light of the slowdown, pushing revenue growth at the cost of profitability would be challenging, says an analyst.

This is because consumers may shift to cheaper products and rival brands. Johnson & Johnson (Stayfree) is pushing its products aggressively, which could impact P&G's growth and market share.

After reporting a healthy 20 per cent growth in FY19, the company posted an 8 per cent rise in revenue for the September 2019 quarter. Further, it took a sharp 508-basis-point hit on Ebitda (earnings before interest, tax, depreciation and amortisation) margin to 21.8 per cent, year-on-year.



Compiled by BS Research Bureau

How the company balances the need for revenue growth while maintaining/improving margins, will be key.

Nevertheless, the long-term potential remains intact. This is driven by premiumisation of its product portfolio, which has given a fillip to both revenues and margins.

Given the near-term headwinds and expensive valuations, any correction would signal a good entry point for long-term investors.

The stock is currently trading at 56x its FY21 estimated earnings, which is higher than 40-45x in case of many other FMCG players.

DSP's gamble to go long on bonds pays off after RBI's Operation Twist

SUBHADIP SIRCAR & DIVYA PATIL
Mumbai, 3 January

An asset manager's decision to load up on long India sovereign bonds at a time when the government's record debt sales were scaring others, is turning prescient.

DSP Investment Managers, which manages about ₹77,600 crore ($10.8 billion), had been betting since August that longer yields would decline.

The strategy paid off when the Reserve Bank of India surprised investors by embracing a US Fed-style Operation Twist, buying long-end debt and selling short-end bonds.

"Recent measures by the RBI largely complement our view of demand-supply being addressed to bring down the yields," Saurabh Bhatia, head (fixed income) at DSP, said in an interview in Mumbai.

The RBI resorted to the unprecedented bond auctions after a series of rate cuts failed to stop a steepening in the yield curve. Bhatia was cued to the possibility that the central bank needed to do more as spreads between policy rates and other borrowing costs remained wide.

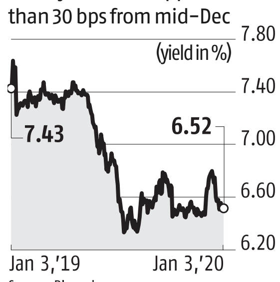
The 10-year bond yield has dropped more than 30 bps since mid-December as the RBI conducted two operations. It will buy another ₹10,000 crore worth of bonds — maturing between 2024 and 2029 — on January 6, while selling a similar amount of shorter-term debt, it said on Thursday.

DSP Government Securities Fund returned 12.8 per cent in the past year, among the top performers in the category, shows Value Research data.

Desperate banks

Bhatia's preference for longer bonds was also driven by the expectation that banks, flushed with liquidity, would have to buy more bonds to park their money, given the lackluster demand for loans.

GOING DOWNHILL
Bond yield has dropped more than 30 bps from mid-Dec



Source: Bloomberg

The proportion of deposits that lenders keep in government securities rose to 28.6 per cent by December — above the regulatory requirement of 18.5 per cent — as loan growth slowed, shows RBI data.

Meanwhile, DSP's decision to overlook rate cuts as a driver for yields was vindicated as the RBI held the policy rate steady since October.

Rising inflation has pushed back easing expectations to at least April. The fiscal worries in the Indian bond market that made DSP's positioning stand out still looms large.

By all indications, the government is set to miss its fiscal deficit target of 3.3 per cent of gross domestic product for the year ending March 31. Bhatia flags this risk but sees limited impact from a slight widening of the deficit gap.

The DSP Government Securities Fund has nearly 90 per cent of its investments in bonds maturing between 2029 and 2033, while DSP Strategic Bond Fund has about 82 per cent of its debt in similar maturity papers as of November 30, data provided by the company shows. BLOOMBERG

SBI plans to sell 5 mn shares in NSE; invites bid

State Bank of India on Friday said it was looking to sell 5 million shares, representing 1.01 per cent stake, in the NSE as part of its capital raising exercise. At present, it holds 5.19 per cent stake in the exchange.

"SBI is one of the shareholders of NSE and intends to divest up to 1.0101 per cent of its equity shareholding in NSEIL (National Stock Exchange of India) through a competitive bidding process," the lender said in a public notice. The bid should be submitted for a minimum lot of 1 million shares in the prescribed format and the last date for submission is January 15. In 2016, SBI had sold 5 per cent stake in the bourse to Mauritius-based Veracity Investments for ₹911 crore, valuing the exchange at over ₹18,200 crore.

Following this transaction, SBI's holding reduced to 5.19 per cent while its subsidiary, SBI Capital, holds 4.33 per cent stake in the exchange.

The recent exit of IFCI from the NSE valued the country's largest stock exchange at around ₹35,000 crore. Last month, IFCI sold its entire 2.44 per cent stake in the NSE for a consideration of ₹805.6 crore.

Besides the NSE stake dilution, the bank is looking to raise funds from initial the public offering of its subsidiaries UTI Mutual Fund and SBI Cards and Payment Services. PTI

FROM PAGE 1

Didn't abuse power as Trusts head: Tata

Yet the appellate tribunal order asked it to reinstate Cyrus Mistry, who had been removed as Tata Sons chairman in 2016, on the board.

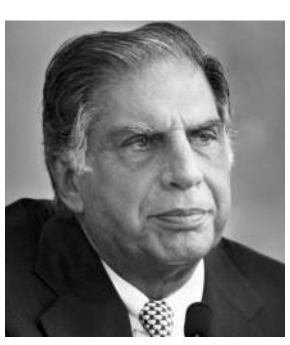
The company has been denied an opportunity to defend the "justified, legitimate and lawful removal of Mistry".

The petition filed by Tata Trusts also points out that Article 75 of Tata Sons' Articles of Association is not per se oppressive, and was not even challenged in the company petition as originally filed but was done so only subsequently. The NCLAT has wrongly declared the conversion of Tata Sons from a public entity into a private one illegal, without even discussing or appreciating the previous Supreme Court judgment in a previous case, the Trusts said.

The feud between Mistry and Tata started after the former was sacked by the Tata Sons board in October 2016, citing "incompetence". Subsequently, the Mistry family's investment companies, which hold an 18.5 per cent stake in Tata Sons, moved the NCLT, Mumbai, appealing his dismissal, but lost the case. Later, the Mistry companies moved the NCLAT, which on December 18 last year ordered Tata Sons to reinstate Mistry as executive chairman.

Tata Trusts owns 66 per cent in Tata Sons, the holding company of the Tata group. The rest of the stake is owned by an assortment of small investors, including Tata group companies.

Tata said the NCLAT judgment was based on the wrong premise that Tata Sons was owned by just two groups. "There has never been any relationship akin to a partnership between the



Mistry group and the Tatas. Cyrus Mistry was made the Executive Chairman of Tata Sons in a purely professional capacity and not as a representative of the SP Group," he said.

Tata said Mistry was reluctant to disassociate himself from the SP family business, which was a condition of his appointment as chairman of Tata Sons. Mistry had concentrated power and authority in his own hands, which alienated several senior leaders within the group and group companies, Tata said.

In the spat with DoCoMo and Tata, Mistry showed complete obstinacy and attempted to resist complying with legal obligations, Tata said. As Tata group chairman, Mistry was resisting paying arbitration money to DoCoMo after the Japanese telecom major asked Tata Sons to buy back its stake in the telecom company in accordance with a previous agreement signed during Tata's tenure.

After Mistry was removed, DoCoMo was paid its dues. "This is not what the Tata Sons brand stands for. Quite to the contrary, honouring its commitments is one of Tata Sons' highest virtues it takes great pride in. The spat with DoCoMo brought ill-repute and reputational losses to Tata Sons," Tata said.

SoftBank's India jewel accused of toxic culture...

SoftBank declined to comment. Ritesh Agarwal, Oyo's chief executive, acknowledged in a recent interview that some of his company's room listings included hotels that it no longer worked with.

He said Oyo left those listings up and marked them as "sold out" as it tried to woo the hotels back. Aditya Ghosh, Oyo's head of India operations, also said in an interview that many hotels lacked required licenses, leaving them vulnerable to the occasional government raid. He denied that Oyo gave free rooms to officials.

Ghosh dismissed what he called "noise" from hotels about extra fees and nonpayment of bills. "The disagreement is about the penalties we charge on customer service failure," he said.

He added that nearly 80 percent of Oyo's employees had been at the company for less than a year, so training has been a challenge. "We have just grown very, very fast," he said.

But as Oyo has grown, its losses have mushroomed. The company expects to lose money through at least 2021, according to recent government filings. Some efforts to expand in countries like Japan have flopped.

In December, SoftBank and Agarwal put another $1.5 billion into Oyo to accelerate its expansion. The funding, negotiated over the summer, valued the company at $8 billion.

At the same time, two other big investors, Sequoia Capital and Lightspeed Venture Partners, reduced their holdings. The two firms, which both hold board seats at Oyo, sold $1.5 billion of their stock — about half their stakes — to Agarwal. Lightspeed and Sequoia declined to comment.

The current and former workers said that Oyo was never an easy place to work but that pressure increased over the last year.

Mohammad Jahanzeb Gul, who joined the start-up in January 2019 and supervised 23 Oyo properties, said that during the nine months he was there, he sometimes spent all day and night in front of a computer to meet deadlines.

"The culture is really very toxic," he said. Mukhopadhyay, who began working at Oyo in August 2018, said employees were under so much pressure to add new rooms that they brought hotels online that lacked air-conditioning, water heaters or electricity. He and eight others said their managers had asked them to engage in a monthly shell game of briefly inserting these unavailable properties into Oyo's listings — complete with fake photographs — to help impress investors.

Ghosh, who left the India job this week and joined Oyo's board, said that some hotels open in stages and that "there is no padding."

Saurabh Sharma, who worked for Oyo from 2014 to 2018 as an operations manager, said the company sometimes deliberately withheld payments from hotel owners — a practice that half a dozen other current and former employees also described.

In some cases, they said, the start-up wanted to squeeze the hotel owners into renegotiating contracts that it deemed unprofitable. In others, Oyo wanted to save money and figured that most owners would not press for full payment.

"If 1,000 people shout, we will pay 200," Mr. Sharma said Oyo managers had told him.

In a police complaint filed in November, Betz Fernandez, owner of the Roxel Inn in Bangalore, said Oyo owed him $49,000 and acted with "intention to cheat and cause wrongful loss" by charging him for non-existent guests and refusing to pay the contracted minimum monthly payment. Oyo said the dispute was in arbitration. Oyo's oversight of its workers was also sometimes so lax that employees brazenly stole from it, said four people who were involved in the start-up's fraud-fighting efforts.

Because Oyo hotels are popular with unmarried couples looking for places for their trysts, one scheme involved workers at properties run directly by the start-up colluding to keep the guests checked in after they left. The workers then cleaned and resold the rooms for cash to other guests and pocketed the money, the people said.

Oyo has conducted surprise raids at some properties, seizing employee cellphones and checking rooms and records for evidence, they said.

An Oyo spokeswoman said it investigates all fraud accusations and had in some instances fired employees.

Executives have also asked employees to paper over troubling incidents, some workers said. Mukhopadhyay said that one night last June, a longterm guest at an Oyo-run property in Noida, near New Delhi, called him. She said three men had raped her in her room.

The next morning, Mukhopadhyay and another Oyo employee were summoned to the police station, where they pleaded with the guest not to register a formal complaint. Oyo's legal team also instructed them not to tell anyone about the incident because it could hurt the company's image, he said. The guest withdrew the complaint and moved out.

In a telephone interview, the guest confirmed Mukhopadhyay's account. Oyo disputed some details and said any decision to file a complaint was up to the guest.

To placate the authorities over unlicensed properties, Oyo managers also gave the police and other government officials free rooms on request, current and former employees said. They said the details were recorded in dedicated WhatsApp groups, one of which *The Times* reviewed.

Mr. Ghosh said, "We do not encourage or involve ourselves in any kind of bribery or graft."

Mukhopadhyay said Oyo's growth practices contributed to his decision to leave.

Family rift out in the open...

"In this lone battle for equal rights for women in the boardroom, I hope this will have some impact in making the journey easier for other women who are treated unfairly and not given the opportunities they deserve."

She said the group's interests were owned by the shareholding company of the group called Ambadi Investments, a private firm which has no women representative. Moreover, unlike women members of the family, Murugappa male heirs have always had an early induction into businesses, she said.

Arunachalam said she tried her best to ensure her father's wish that all asset distribution should be handled amicably was fulfilled. But two years later, she said, it appeared she was running out of all options that would have made him happy. Her father had supported the family, helped other family members in many ways, and was a pillar of support for everybody, but strangely none of that was being reciprocated after he passed away, she said.

Emails and messages to M V Subbiah and M A Alagappan were not answered. Murugappa Group executives declined to comment as the matter pertained to "family and the family investment company". Subbiah is the current patriarch of the group and a former executive chairman. Alagappan is the former executive chairman of the group, and stepped down in 2009.

Amit Tandon, managing director of Institutional Investor Advisory Services (IiAS), said for any large business house with multiple promoters involved, changing the management ethos in operation for a few generations was not easy. However, the family constitution ought to be reviewed periodically in order to factor in the changing dynamics and corporate shifts, he added. "The important thing is that it needs to be done by consensus," Tandon said. "One of the biggest changes in corporations and business houses in the last decade is that women have become far more hands-on than before."

Like many successful family business groups, Murugappa Group has separated its ownership role from its operational management to be future ready. This meant roping in professional managers as well as non-family directors on the board.

Although many of its firms are in low margin, old economy verticals, there has been continued focus on investing in new areas and expanding existing businesses. In 2018, the company announced that it would invest ₹2,000 crore in a gas plant in Russia.

IndiGo spat back on table

Gangwal felt the need for an EGM as that's the only forum where removal of clauses is possible from the Articles of Association, which were part of the shareholders agreement that expired in November. Gangwal believes the agreement restricted his control and prevented him from diluting his stake without Bhatia's permission. However, it will be difficult to pass the resolutions as changes would require support from 75 per cent shareholders.

"Without Rahul Bhatia's support, it's impossible for Gangwal to pass the resolutions," said Mohit Saraf, senior partner at law firm Luthra & Luthra. Any EGM resolution requires support of 75 per cent shareholders. When the AoA was being framed, Gangwal should have insisted that any change to the shareholders' agreement must automatically reflect in the AoA, Saraf pointed out. Sources said Bhatia would also start communication with institutional shareholders seeking their vote against the resolutions.

Gangwal didn't respond to multiple calls and text messages.

The shareholders' agreement between Gangwal and Bhatia, according to clauses in the agreement, was valid for four years after the IPO in 2015. A clause in the agreement conferred on the founders the right of first refusal for each other's shares in case one of them wanted to sell. The agreement also contains a 'tag-along' clause, which stipulates that the other promoter has the right to join any share-sale transaction and sell his stake along with the one who is exiting.

"The fourth anniversary of the IPO was on November 10. Therefore, the agreement has automatically expired. But as on date, the articles contain several provisions of the shareholders' agreement that were incorporated into the Articles. As these provisions have now expired, RG Group seeks an amendment to the Articles to remove those expired provisions," the Gangwal family said in the EGM notice.

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