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Do you own a car? Be ready to start paying more for your cooking gas

If you own a car, you might soon have to forgo the subsidy on your LPG cylinders.

By eliminating 36 million fake connections through Direct Benefit Transfer for LPG (DBTL), the government has saved nearly Rs 30,000 crore of cooking gas subsidy. Now, it is planning to strike car owners off the subsidy list.

Sources in the government said the idea was in its initial stage. The government had collected registration details of cars from regional transport offices (RTO) in a few districts. If it worked out, there could be huge savings on subsidy. A lot of people who have two or three cars were also taking subsidy at present.

The government had last year excluded those with an annual income of more than Rs 10 lakh from LPG subsidy.

For deciding on the income cap, the Ministry of Petroleum and Natural Gas had taken details of LPG customers from the income tax department. This included PAN, residential address, and mobile number.

However, industry experts believe getting details of vehicle registration will be tough, as these need to be counter checked with address.

The government has taken a series of steps, such as launching the "GiveItUp" campaign, rolling out DBTL in all districts, and linkage of LPG connection with Aadhaar, for better targeting of subsidy.

With all these efforts, the government was successful in detecting at least 75 million fake or duplicate connections, said sources.

As of November, India has around 251.1 million domestic LPG consumers — out of which 121.2 million are of IOC, 64 million are of BPCL, and another 65.9 million are of HPCL.

The Narendra Modi government was also successful in adding another 31.6 million Below Poverty Line customers through its flagship social sector scheme Pradhan Mantri Ujjwala Yojana (PMUY).

Under the DBTL, the subsidy amount is directly transferred to the accounts of the beneficiaries. This is considered the world's largest cash-transfer programme.

The figures given by the DBT website indicate that out of the total savings of Rs 57,029 crore in the past three financial years, Rs 29,769 crore came from the Pahal scheme only.

Of the remaining, Rs 14,000 crore came from food and public distribution and Rs 11,741 crore from the employment-guarantee scheme. At present, more than 80 different schemes from 17 ministries are covered under the DBT.

Though DBTL was initiated by the United Progressive Alliance government on a pilot basis, it was taken up on a larger scale as Pahal in November 2014, after Dharmendra Pradhan took charge as the petroleum minister. However, in a report last year, the Comptroller and Auditor General of India had stated that the savings estimate by the government on DBTL was "exaggerated" since most of it came from the drop in international prices.

With global prices going up over the past few months, overall LPG subsidy is expected to touch Rs 15,000 crore during the current financial year, against the expected Rs 13,000 crore.

"Within a month's time, the subsidy on LPG has increased from Rs 100 per cylinder to about Rs 200 per cylinder. Hence, it is necessary to have checks such as denying it to car owners if the government wants to bring down and target subsidy at citizens with the lowest incomes," said an industry expert.

Onus on rating agencies to reveal loan defaults

In a substantial dilution of its earlier stand that listed companies should make public any loan default within 24 hours of missing the repayment obligation, the Securities and Exchange Board of India (Sebi) is working on a new disclosure framework, which could put the onus on credit rating agencies to recognise payment defaults.

The move is meant to ease concerns raised by India Inc and banks about Sebi's earlier circular, which was withdrawn on October 2, just a day before it was to come into effect.

According to sources, Sebi recently met banks, the Reserve Bank of India (RBI), and rating agencies to finalise the disclosure framework. The revised notification is expected after Sebi's board meeting on December 29. Since rating agencies are expected to keep a close watch on company financials and are capable of conducting qualitative analysis of companies on various parameters, Sebi wants their involvement in the matter.

According to Sebi regulations, credit rating agencies recognise default based on "single day or single rupee" delay in debt servicing from the scheduled payment date. Such information is provided to the rating agency by banks or the borrower.

"Default (D) rating is assigned to borrowers in default or those that are likely to default soon. In certain cases, where the likelihood of a default is high in the near term, a rating of 'D' is assigned even prior to actual default," said Karthik Srinivasan, group head, financial sector ratings, ICRA.

"NPA recognition by banks is governed by the RBI's guidelines, whereby a borrower upon non-payment of dues for more than 90 days is classified as an NPA. Hence, in most of the cases, accounts that are declared NPAs by banks are already classified as defaults by the rating agencies much earlier than banks classifying them as NPAs," he added.

"However, the 'D' rating is assigned on the basis of information rating agencies receive from corporates and banks. Although banks or corporates have no such compulsion to divulge such information to rating agencies. In such cases, the agencies peg their rating on the information they are in possession of," said an executive with a rating agency.

Another point of contention is that Sebi's earlier proposal will affect the capital adequacy ratio of banks. "Once a company makes such a disclosure, credit rating agencies will have to downgrade the company's rating to default. Once credit rating agencies attribute the default rating, the risk attached to the loan goes up and it affects the capital adequacy ratio of the bank. In other words, banks will be forced to arrange more capital for day-to-day business," said a banker.

"The rationale behind collaboration with rating agencies is to have a clear status on the nature of the default, categories of loan (short medium or long term), and the basis on which the company delayed or defaulted on payments to banks," said Sandeep Parekh, founder, Finsec Law Advisor.

Banks allowed companies to pay interest after the due date, and there should be some provision to state if a default was technical, he added.

"The proposal for default disclosures to the market is indeed a great service to investors. Rating agencies are capable of advising Sebi at what point of time the disclosure should be made in the case of a default," said Prithvi Haldea, founder and chairman, Prime Database.

Besides, the market regulator also plans to give up to a month's time to companies for disclosing loan defaults and explain the nature of the default. Under the revised directives, Sebi may increase the "delta D" or date of default to 30 days and may give additional time to companies to make disclosures.

The default disclosure norm was hailed by many as a game-changing move that would have helped banks, which are saddled with bad loans of over Rs 10 lakh crore.

IT margins to remain under stress till 2020 as competition is high: Icra

Indian IT services firms will see margins reduced in the next two years as they face the challenge of increased competition for deals, growing automation and the limited number of newer opportunities. These firms will see margins drop to as low as 21.2 per cent by 2020, says a new report by Icra.

The industry's operating margins have moderated from 24-25 per cent to 23-24 per cent over the last few quarters and despite higher efficiency and automation margins will decline from 23.5 per cent in FY2017 to 21.2 per cent in FY2020 estimates said the report.

"While companies have increased spending on digital technologies and awarded new contracts, the overall IT budgets have moderated leading to lower incremental spends. The trend reflects the challenging operating environment characterised by pricing pressure on commoditised IT services, wage inflation, higher onsite costs necessitated by visa curbs as well as lower discretionary spend by corporate," said Gaurav Jain, VP, Icra.

The growth of Indian IT Services companies has been impacted by lower demand led by uncertain macro-economic environment, lower deal sizes in digital technologies, cloud adoption and high competitive intensity from local as well as international players, he added. Banking and Financial services have been the worst impacted with the exception of insurance sector.

The aggregate growth of Indian IT Services companies was at 3 per cent during Q2FY2018 (8.1 per cent in dollar terms) compared to CAGR of 17.1 per cent experienced over the FY2013-2017 period.

A 9.7 per cent growth was observed in last fiscal, FY2017. The lower growth was due to the rupee appreciating by approximately 4 per cent versus US dollar during the quarter said Icra.

While analysts agree that rupee appreciation had an impact on the margins, they still see strong growth indicators in favour of the domestic giants. The share of Indian players in Global IT Sourcing market stood at 67 per cent in CY2016 (60 per cent in CY2012), however incremental gains are expected to be at a slower pace.

Accodign to an ICRA note, Indian IT Services companies are expected to register compounded annual growth rate (CAGR) in mid-to-high single digits for the period FY2017-2020.

"Barring rupee appreciation, which cannot be predicted with certainty, we see enough scope for a healthy growth in this sector. We expect Indian IT sector to continue having a healthy share in the market despite pricing pressure," said Ravi Menon, Analyst, Elara Capital.

A Bloomberg report last week had noted that Indian giants like TCS and Infosys will have to be more aggressive with their digital service portfolio as these services still contribute less than 25 per cent of the revenues.

Jain also noted that these new services areas will start showing return in the medium term i.e. within three years.

"If you notice international IT giants like Accenture operating at 15 per cent EBIT margin compared to a TCS operating at 25 per cent EBIT margin, it is difficult to maintain the differential margin. Certainly, margins will trend lower," said Madhu Babu, Analyst, Prabhudas Lilladher.

Analysts noted that tighter hiring, larger digital spend and an overall slow growth of about 6 per cent in the sector will continue to drag the business but digital services will pick up in the long term.

Foreign Trade Policy: More incentives for exports, focus on ease of trading

Commerce Minister Suresh Prabhu on Tuesday unveiled more incentives to boost labour-intensive and employment-oriented merchandise and services exports while releasing the much-awaited mid-term review of the Foreign Trade Policy 2015-20. The annual incentive increased by 33.8 per cent or Rs 8,450 crore.

This financial year (FY18), it will be an additional incentive of Rs 2,816 crore.

This will benefit leather, handicraft, carpets, sports goods, agriculture, marine, electronic components, and project exports in merchandise, and legal, accounting, architecture, and education in services. Exporters demanded the incentives be extended to other products as well since they were facing challenging times because of demonetisation last year and the goods and services tax (GST) roll-out this year.

The policy, however, cautioned exporters that the current WTO rules as well as those under negotiation envisage the eventual phasing

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KCP Ltd

Background

○ KCP Ltd is a 75 years old diversified business group, with business interests in cement, heavy engineering, power, sugar and hospitality. It has manufacturing units at nine locations over various geographies in India and Vietnam.

KCP started as a small cooperative sugar plant in 1941 by its founder Sri. V. Ramakrishna. It has over the years expanded rapidly enthused by the leadership of its founder and inspired on the lines of the technological foresight into other areas like Heavy Engineering (1955), Cement (1958), Power (1998) and Hospitality (2016).

○ KCP has two cement manufacturing plants in Macherla & Muktyala in the state Andhra Pradesh with captive supply of high grade limestone and producing a combined annual capacity of 2.3 million tons.

Both cement plants are having captive power plants. KCP and Shreshtaa Cement brand are sold in Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Maharashtra, Madhya Pradesh, Chhattisgarh and Orissa.

○ KCP owns a 66.7% stake in its subsidiary KCP Vietnam Industries. It is a major player in the Vietnam sugar industry. KCP has been involved in developing the Sugar Industry in Vietnam since the early 1990's by supplying core equipment to various sugar factories and executing turnkey projects. High quality equipment, performance, after-sales-service and experience in growing sugarcane encouraged the Government of Vietnam to invite KCP to set up a sugar factory.

○ In order to unlock value from one of its several prime properties, KCP has constructed business grade four star hotel at Somajiguda, Hyderabad. It was inaugurated in April 2016. This hotel is being Operated by ACCOR Hotel Management under the brand name "Mercure", which has over 750 hotels worldwide.

Investment Rational

○ Cement (which contributed 60% to the top line) utilization is improving as can be seen by the Q1FY18 results where Standalone Profits have come at 23 cr against 32 cr for entire FY17. Cement utilization has increased as well as profitability has improved.

○ Sugar (which contributes 30% to the top line) business from Vietnam is only reported once every year i.e. towards end of the year. This business already had capacity increased from 7000 tcd to 9000 tcd in FY 17. The benefits of this will be seen this year. Additionally, company has stated 30MW co-generation plant from march 17 which will further help in improving margins.

○ Heavy Engineering, Power and Hospitality business contribute about 10% between them in the company. These businesses have mostly been making loses in FY17. They are expected to make lesser losses or turnaround in FY18 which will further enhance profitability.

○ Against EPS of 5.6 in FY 17, KCP is expected to show EPS of 9 to 10 in FY18. In terms of profitability, one can expect Net profit to be in the range of 100 to 120 cr this year against 77 cr last year.

At current price of 110, the stock is available at a PE of 11 against industry average of 20 and above for cement companies.

Additional Factors

○ Cement capacity is being expanded from current 2.6 MT to 4.3 MT by October 2018. KCP will surely benefit from the new capital Amravati coming up nearby its plant and this is one of the reason they have expanded capacity. That should be the main growth driver.

○ It is also expanding its Sugar capacity in Vietnam from 9000 TCD to 11000 TCD this year whose benefit will only accrue in FY 19

○ Hotel division should report operating profits with increased occupancy levels and break even. Management is considering of various options including demerging this business.

○ Management has guided that engineering division should break even this year on the back of orders from defence and railways.

○ Their debt to equity is 0.42 which is at good levels considering the expansion that is underway.

Conclusion

○ Overall KCP will do very well going ahead and should show consolidated net profit of 100 to 120 cr in Fy18 and around 150 to 180cr in FY19 as most expansion will contribute in FY19 onwards.

○ Stock is very attractively valued at current levels and is available at 11 times FY18 earnings which is very cheap

○ Additionally, downside from current levels is very limited. Risk reward for investors is very favourable.