Ahmedabad 28-10-2016 Friday

CHANAKYA
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HUL profit up 12%
A decline of 1% in volume growth was the lowest in seven years

Aided by an exceptional gain of Rs 18.6 crore, the country's largest consumer goods company Hindustan Unilever reported a nearly 12 per cent year-on-year increase in net profit to touch Rs 1095.6 crore for the quarter ended September. Net profit in the corresponding period last year was Rs 982.2 crore.

While net profit this quarter was marginally higher than the Bloomberg consensus estimate of Rs 1,054 crore revenue growth remained muted.

For the quarter, this was up 1.34 per cent only year-on-year, touching Rs 7,697.6 crore versus Rs 7,595.7 crore last year.
This was way below the Bloomberg consensus estimate of Rs 8,001.3 crore for the quarter under review.

Worse was volume growth, which declined one per cent for the quarter under review, its lowest in seven years. Price-led growth was three per cent.

Chief Financial Officer P B Balaji said the company's volume decline was an indication of a rebalancing of price and volume-led growth.

"The last time we saw a decline in volume growth was in the March 2009 quarter, when it was at minus four per cent. At that time there was a wild swing from deflation to inflation, which resulted in us having to take up prices and therefore a volume drop. This time, too, we had to respond to the inflationary cycle visible in crude and palm oil prices, which saw volume growth overall and specifically in soaps get affected," he said.

HUL is the largest soap maker in India. Soaps and detergents alone account for half its revenue, according to analyst estimates.

Ebitda (earnings before interest, tax, depreciation and amortisation) increased 5.1 per cent year-on-year to Rs 1,404.6 crore while margins expanded around 60 basis points to touch 18.2 per cent due to a fall in advertising & sales promotion expenditure (down 7.6 per cent year-on-year).

Abneesh Roy, senior vice-president, research, institutional equities, HUL maintained a hold rating on the stock.

"Revenue growth was slightly lower than our estimates. Ebitda and PAT growth, however, came in line. Management commentary of the worst behind the company gives comfort. Brands in the premium segment continue to do well," Roy said.

Besides soaps, where price hikes were "steep," Balaji said the company had also effected "marginal" price hikes in laundry (detergents). Neither he nor HUL's managing director Sanjiv Mehta specified how much these price hikes were though.

Personal care, which according to the new IND-AS classification includes soaps, oral care, skin care and hair care registered a 0.3 per cent de-growth year-on-year in terms of revenue, touching Rs 4,028 crore Rs 4,041.3 crore last year. Earnings before interest and tax (Ebit) margins, on the other hand, expanded 90 basis points to 22.9 per cent for the quarter.

The home care business (which includes laundry, fabric wash, household care and water) grew 3.2 per cent in terms of revenue to touch Rs 2,777 crore versus Rs 2,690.8 crore a year ago. Its margin jumped 170 basis points to touch 10.1 per cent.

Refreshments (beverages) grew 8.3 per cent to touch Rs 1,169.2 crore in terms of revenue (versus Rs 1,079 crore last year) and 114 basis points in terms of Ebit margins to touch 14.8 per cent for the quarter.

Foods grew 2.44 per cent only to touch Rs 277.9 crore in terms of revenue versus Rs 271.2 crore last year. While Ebit margins declined 110 basis points to touch 4.9 per cent for the quarter under review.

Axis Bank: After rise in NPAs, recovery hopes shift to FY18

Axis Bank was among the few corporate lenders that won investors' trust two quarters ago, when it first announced a 'watch list' (loans which could potentially turn bad) of Rs 22,628 crore.

But, in the past two quarters, it is the watch list that is creating issues for Axis Bank. In the first quarter (Q1) of FY17, when Rs 2,680 crore of loans turned bad, representing 12 per cent of the total watch list, it raised concerns on the bank's asset quality picture. In Q2, with loans turning into non-performing assets jumping to Rs 7,288 crore, concerns have increased significantly.

Further, the bank has forecast higher pain from the watch list against the previous projection of 60 per cent of assets under watch list turning bad. Adding to the earnings trouble, credit costs at 300 basis points (earlier 150 bps) could remain elevated for most of FY17.
And, the recovery in earnings and improvement in asset quality, earlier expected by the second half of FY17 has been deferred to FY18.

These developments explain why Axis Bank's stock tanked eight per cent on Wednesday's trade to Rs 485. This single-day fall has significantly reduced the year-to-date gain of the bank to 8.3 per cent.

Consequently, analysts are reducing their expectations from Axis Bank. JM Financial has sharply cut its FY17 earnings estimate by 40 per cent to build in the revised guidance. Jefferies expects the net interest margin at 3.5 per cent, with an expense ratio around 43 per cent, implying 8.9 per cent growth in FY16-19 earnings per share.

However, not all analysts are in a rush to downgrade their recommendation. Brokerages such as JP Morgan, Credit Suisse and Jefferies retain their 'buy' rating, as they say their expectation for FY18 remains largely unaffected for now.

The irrelevance of Security Council

India's surgical strikes on terror camps across the Line of Control occurred a few weeks after Ambassador Hardeep Singh Puri's book Perilous Interventions was published. Mr Puri's book is focused on similar military interventions in Iraq, Libya, Syria and Yemen, and opens a window to the secretive working of the United Nation Security Council (UNSC).

The surgical strikes were presented by the government as a bold and audacious move on India's part; in comparison Mr Puri's book is less explosive. But his analysis of events in hindsight and his experiences have convinced him that the UNSC has become irrelevant and is in the dire need of reforms. He has quoted many examples, some being the unauthorised military strikes in Iraq in 2003, Russia's unilateral decision to annex the Crimea from Ukraine, Saudi Arabia's military strikes in Yemen, the overstepping of the mandate on Libya and, most recently, the lack of consensus among member-states on Syria.

Mr Puri was chairman of the UNSC in August 2011 and had served the UN as India's permanent representative from 2009 to 2013. He has, through this book, poured his heart out against the unfettered self-interest of the both permanent and non-permanent members that have led to the arming of rebels, the rise of terrorism, destruction and unprecedented chaos in the world on the pretext of preventing mass atrocities in West Asia and Africa.

Mr Puri describes the geopolitical situation of the past 15 years in eight chapters, each one briefly dealing with a specific problem, its root cause and the UNSC position. In the first chapter the former ambassador details the rise of ISIS and failure of policymakers to learn from its mistakes. He calls ISIS an unwanted child of failed intervention of the West and categorically blames the US for spawning it. He had the Bush administration for neglecting its occupation of Iraq, where the terror groups reorganised and converted themselves into the world's most lethal terror organisation, ISIS.

His chapter on "Libya: The Unravelling of a Country" where he had first-hand experience in dealing with the crisis, provides succinct details about how France and the UK wanted to launch an offensive against Libyan dictator Mummar Gaddafi to topple the latter regime and prevent mass atrocities against civilian and repression of opposition forces. Mr Puri says the US was initially reluctant to join its two close allies the UK and France, but gave in later. These countries overstepped the UNSC mandate and their sole aim became to topple the Gaddafi's regime. Their arming of the rebels has now left the country devastated. Explaining India's position, the former ambassador said though India supported the UNSC resolution on Libya just like Russia and China, it didn't co-sponsor the military intervention.

In his report to New Delhi Mr Puri suggested that the resolution against Libya was entirely the result of media pressure. But he does not elaborate India's position vis-à-vis Libya (Indians constituted the second highest expat population after the Chinese). It would also have been more interesting had he provided some anecdotal evidence or rationale for French and British enthusiasm for military intervention in Libya.

His chapter on Syria, where civil war still rages, draws parallels with the situation in Libya and is cited as another UNSC failure. Mr Puri argues that the solution in Libya could not have been replicated in Syria. The chapter assumes significance because the writer shows clear division and mistrust between the two groups. One is led by Sunni-majority Saudi Arabia and its ally Qatar, plus the US, the UK and France on one side and Russia and Shia-dominated Iran on the other.

The book suggests that more than a concern for human rights violations the above mentioned countries acted more in their self-interest; Russia's double veto against military action in Syria stems from its geostrategic interests in the region.
Had the UNSC approved military strikes in Syria, it would have dealt Russia a massive blow. The biggest irony he highlights is that even as the US, UK, France and some Gulf countries continued arming the opposition forces fighting the Syrian President Bashar al- Assad, Russia allegedly bombed these opposition forces to strengthen the Assad regime.

In the next few chapters, Mr Puri continues to build his case on the ineffectiveness of the UNSC with example of Yemen. He accused both the US and Saudi Arabia for the current turmoil in this tiny country.

Citing various humanitarian and international laws, he concludes that the Saudi's use of weapons was a violation of the laws of war and has resulted in the killing of innocent civilians and children. "The UN is today playing the role a passive bystander as one country breaks international law and another falls prey to unimaginable man-made devastation," he writes. The former ambassador does not stop here and accused the Americans of changing their allies in Yemen as "if they were changing shirts".

Apart from providing a crash course in contemporary history, Mr Puri's views on the efficacy or otherwise of the UNSC are not novel; such assessments have been part of the public discourse for some years. But an insider's eye view certainly lends authority to an issue that is worthy of deeper study.

TVS Cap to float Rs 1,000-cr fund

TVS Capital Funds is planning to launch its third fund of Rs 800-1,000 crore. Prasad Gadkari, 39, who was with IDFC PE earlier will be heading the new fund.

"I thought this will be correct thing to do. Funds are of 10-year life cycle and we thought it will be appropriate to bring new young talent," said TVS Capital's founder, chairman and managing director, Gopal Srinivasan.

TVS Capital will look at the healthcare space also through the new fund. Gadkari was involved in three health care investments, including large corporates deals such as Manipal Hospitals. He has also been on the board of HealthCare Global and Medi Assist, which he would like to leverage upon.
Till now, the focus has been retail, education, agriculture, consumer goods, media & entertainment, and facilities management.

Srinivasan hopes to close the fund-raising activities fully by June 2018. He brings a mix of industry and financial-sector experience from institutions such as IDFC, GE, Larsen & Toubro where he has worked in the past two decades. TVS Capital's sponsors are TVS Group and Shriram Group.

TVS Growth Fund 1A has fully invested its Rs 585 crore, while the 1B final investment of Rs 30-35 crore, of its Rs 586 crore, is in the pipeline and will be completed by February 2017.

In Fund 1A, the fund exited from five portfolio companies with more than 2x of the capital invested. In Fund 1B, it has exited from one investment with more than 3x of the capital invested.

Existing funds are managed by both Srinivasan and D Sundaram, vice-chairman and managing director.

HDFC Q2 net increases 14%

Mortgage lender Housing Development Finance Corporation has posted 14 per cent rise in net profit at Rs 1,827 crore for the second quarter ended September 2016 (Q2 FY17) from Rs 1,605 crore in July-September 2015 (Q2 FY16). Its total income in the reporting quarter rose to Rs 8,103.15 crore from Rs 7,421.31 crore in Q2 FY16.

The growth in the total loan book after adding back loans sold was 21 per cent. Total assets under management (AUM) stood at Rs 3,11,264 crore, of which the loan book was Rs 2,75,406 crore and outstanding loans sold/assigned was Rs 35,858 crore.

The corporation, under the loan assignment route, sold loans worth Rs 1,939 crore in the quarter ended September 30, 2016, to HDFC Bank.

The spread on loans over the cost of borrowings for the half-year ended September 30 stood at 2.28 per cent against 2.26 per cent for the quarter ended June 30. The spread on the individual loan book was 1.95 per cent and on the non-individual book was 3.04 per cent.

Net interest margin for the half-year ended September 30 was 3.85 per cent. Gross non-performing loans on September 30 amounted to Rs 2,108 crore, (0.76 per cent of the loan portfolio). The non-performing loans of the individual portfolio stood at 0.61 per cent while that of the non-individual portfolio stood at 1.11 per cent. In line with norms for NPLs set by the National Housing Bank, the corporation is required to carry a total provision of Rs 2,106 crore of which Rs 1,435 crore is against standard assets.

The balance in the provision for contingencies account stood at Rs 3,119 crore, of which Rs 619 crore is on account of non-performing loans. This balance in the provision for contingencies is equivalent to 1.13 per cent of the portfolio.

Accept Rs 500, Rs 1,000 notes after careful scrutiny, warns RBI

Worried over circulation of fake currency notes of Rs 500 and Rs 1,000 denomination, the RBI on Wednesday asked the public to make it a habit to examine the notes before accepting them in the usual course of transactions.
The central bank has cautioned the public to subject notes that are accepted to "careful scrutiny". Detailed information on the security features on the banknotes are available on RBI website.

British Columbia eyes large-size masala bond in next round

The Canadian province of British Columbia, which recently became the first foreign government entity to invest in masala bonds, is bullish on the Indian economy and keen to help develop the overseas rupee bond market.

While staying on plans for issuing rupee-denominated bonds, it wants the Government of India to address taxation issues (withholding tax) to make interest payment more viable.

Masala bonds are rupee-denominated bonds issued to overseas buyers, aimed at investments into India's infrastructure needs. These are an important financing alternative for Indian corporates looking to access offshore investors.

Addressing the media, British Columbia's Finance Minister Michael de Jong said subsequent issues could be larger in size. He, however, declined to elaborate further.

Masala bonds, Jong said, offer British Columbia a means to participate in the internationalisation of the rupee and Indian economy.

Jong is leading a trade delegation on a five-day visit to the country to explore investment opportunities and further strengthen trade ties with India. The Canadian province's exports to India jumped from $201 million in 2011 to $623 million in 2015, making India its fifth-largest trading partner.

In September, British Columbia had raised Rs 500-crore rupee-denominated overseas bonds on the London Stock Exchange.

The bond raised $75 million (Rs 500 crore) with 6.62 per cent semi-annual yield, securing high-quality investor support from across Europe, Asia and America.

It is an 'AAA'-rated bond by the three major rating agencies and will mature on January 9, 2020. The proceeds of the bond were immediately reinvested in HDFC's second masala bond listing on the exchange.

India revises DTAA with S Korea; capital gains to be taxed at source

After Mauritius and Cyprus, India has revised double taxation avoidance agreement (DTAA) with South Korea, giving New Delhi the right to tax capital gains made from investment here subject to a threshold. Under the new treaty with South Korea, if the capital gains in India pertain to selling of shares up to five per cent of the paid-up capital, then it will be taxed in South Korea. If these are more than this level, the tax would be in India.

Amit Maheshwari, partner, Ashok Maheshwary & Associates, said this clause could set a standard for proposed revision of the India-Netherlands DTAA as well. Currently, the India-Netherlands DTAA talks of 10 per cent threshold for capital gains to be taxed in India.

Like Mauritius and Cyprus, capital gains provisions would also come into effect from April 1, 2017. While DTAA with Mauritius talks of only 50 per cent of capital gains tax of two years from April 1, 2017, and full tax afterwards, there is no such mention in India-South Korea DTAA as given in a statement by the Central Board of Direct Taxes. Like every new DTAA, the one with South Korea also inserted the limitation of benefits clause to ensure the benefits of the agreement are availed only by the genuine residents of both the countries.

Besides, article 9(2) is inserted in the revised DTAA to enable bilateral advance pricing agreements (APAs) between the two countries in transfer pricing. In bilateral APAs, the governments of both sides are involved along with companies concerned, while in unilateral agreement, it is only India and the company concerned.

The article would also enable both the countries to apply the mutual agreement procedure (MAP) in transfer pricing disputes. MAP is a mechanism laid down in tax treaties to ensure that taxation is in accordance with the tax treaty.

A memorandum of understanding (MoU) on suspension of collection of taxes during the pendency of MAP was already signed by India and South Korea in December 2015. The MoU provides for suspension of collection of outstanding taxes during the pendency of MAP proceedings for a period of two years, extendable for a maximum period of three years subject to providing on demand security and bank guarantee.

To promote cross-border flow of investments and technology, the revised DTAA provides for reduction in withholding tax rates from 15 per cent to 10 per cent on royalties or fees for technical services and from 15 per cent to 10 per cent on interest income. To facilitate the movement of goods through shipping between two countries and in accordance with international principle of taxation of shipping income, the revised DTAA provides for exclusive residence-based taxation