SMART TAKES

S&P affirms banks' rating

Global rating agency Standard & Poor's (S&P) on Thursday affirmed investment grade with 'stable' outlook to 10 Indian banks, including SBI, ICICI Bank, HDFC Bank and IDBI Bank.

Govt to award 23 port projects

Government on Thursday said it will award 23 port projects worth Rs 16,744 crore during the current financial year in an attempt to increase port capacity in the country by 237 mts per annum.

RBI cancels licence of BUC bank

The Reserve Bank of India said in a statement that it has cancelled the licence of Maharashtra-based Bharat Urban Co-operative Bank as the lender has become insolvent

Panel on coal procurement set up

The steel ministry has set up a committee to look into the need for rationalising the procedure followed by steel PSUs for procurement of coking coal, Parliament was informed on Thursday.

₹53,000 cr agribiz MoU inked

Amid protest by farmers against private investment in agriculture, Karnataka government signed MoUs with various companies envisaging investment of Rs 53,000 crore in farm and allied sectors.

Assocham for reforms in pricing

Industry chamber Assocham on Thursday called for introducing fundamental reforms in transfer pricing regulations with in-built mechanisms for smooth negotiation and conflict resolution.

Compiled from agencies

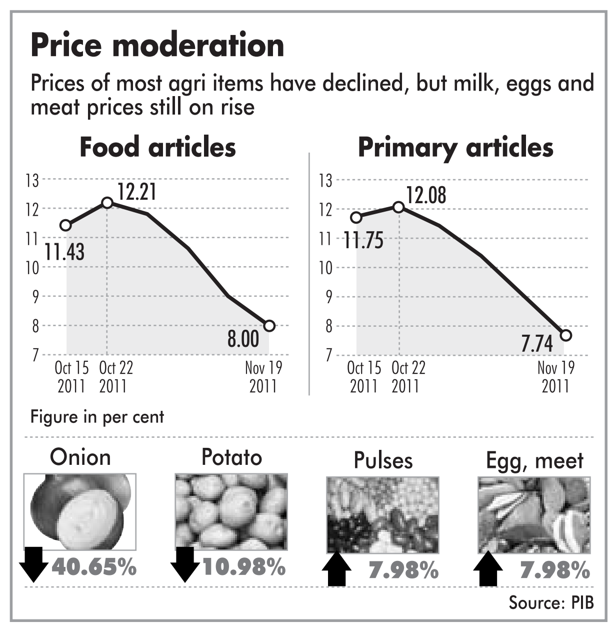
Food inflation drops to 8% on cheaper wheat, onion

Relief from price rise in sight as monetary tightening takes effect

C SHIVKUMAR
Bangalore

FOOD price inflation eased to 8 per cent for the week ended November 19 this year largely with the monetary tightening beginning to take effect.

For the previous week, food price inflation was 9.01 per cent. For the corresponding period of last year, the increase was 9.03 per cent. But the deceleration in the food price inflation was also on account of a drop in wheat prices in view of improved arrivals. Wheat price index showed a negative growth of 4.71 per cent. This fall pulled down the cereals price rise to just 1.97 per cent.



Pinaki Paul

The fall in wheat prices also partly offset the rise in pulses prices that grew 13.8 per cent. Pulses prices have maintained a double digit growth trajectory in view of the shortfall output. The department of agriculture has estimated that the pulses production will decline by 6.9 per cent this year.

Besides, onion prices have dropped by 41 per cent over the corresponding period of last year. Last year onion prices had increased sharply to over Rs 100 a kilo gramme or by 41 per cent. But milk and egg prices continued to maintain a double digit growth in view of the increased consumption. Milk prices rose 11.41 per cent, and egg/fish/meat prices rose 13.55 per cent in view increased demand. Commodities broker Kassa India's director Siddharth Shanker said, "Prices would move down except for some brief spurts."

> "BARRING last two rate hikes, monetary transmission has been quick"
>
> Manoranjan Sharma
> *Chief economist, Canara Bank*

However, Canara Bank's chief economist Manoranjan Sharma said, "The retreat in inflation is largely on account of the cumulative impact of monetary tightening." The Reserve Bank of India has effected 13 rate hikes since April 2010. Sharma said, "Barring the last two rate hikes, monetary transmission has been quick." He, however, added the effects of monetary tightening kicks in with a lag. "We are seeing that effect now."

Rate reductions though are not expected immediately. Barclays Capital economists Rahul Bajoria said, "High headline inflation readings would leave the RBI little room to consider lowering policy interest rates in the remaining months of financial year 2011-12."

But primary articles inflation was down to 7.74 per cent down from 9.08 per cent the previous week and 14.32 per cent for corresponding period of last year. This was partly monetary policy impact was most felt on some non-food articles like fibres where prices have fallen by 1.23 per cent. Non food articles inflation as a result decelerated to 2.14 per cent, although fuel and po-wer prices remained in double digits at 15.53 actually showing an accelerating trend since October this year.

However, inflation remained an underlying threat, in view of continuing high international energy prices. India's import parity prices continue to remain $110 a barrel and exchange rates have depreciated sharply since the beginning of this year, by as much as 14 per cent. Sharma said, "Given these dynamics the threat of resurgence in inflation remains."

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CDS trading introduced

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New begining

- CDS is similar to an insurance against default on a corporate bond
- Holder of corporate bond can trade credit risk and interest risk singly once CDS is in place
- CDS can enhance investment, borrowing opportunities and reduce transaction costs

THE Reserve Bank of India has allowed trading in credit default swaps (CDS) effective Thursday, directing market participants to report such trades within 30 minutes to the Clearing Corporation's online repository. Trading will be allowed in plain vanilla over-the-counter single name CDS for corporate bonds for resident entities.

A CDS is similar to an insurance against default on a corporate bond. CDS as a risk management product offers the participants the opportunity to have off credit risk and also to assume credit risk which otherwise may not be possible.

TS Srinivasan, general manager treasury at Indian Overseas Bank, said, "Now, a holder of corporate bond will be able to trade the credit risk and the interest risk separately once CDS is in place."

A banking analyst added, "In a weak market like now, the demand for CDS is always high." "Since CDS have benefits like enhancing investment and borrowing opportunities and reducing transaction costs while allowing risk-transfers, such products would increase investors' interest in corporate bonds and would be beneficial to the development of the corporate bond market in India," said the RBI in the notification.

The RBI guidelines state that banks that shouldn't sell CDS on corporate bonds on the issue date and these contracts can't be used as a bank guarantee.

According to the guidelines, commercial banks who intend to act as market-makers – entities allowed to both buy and sell CDS – need to have a minimum CRAR (capital to risk weighted assets ratio) of 11 per cent with core CRAR (Tier I) of at least 7 per cent. On the same lines, NBFCs that have minimum net owned funds of Rs 500 crore, minimum CRAR of 15 per cent would be allowed to be a market maker. The net NPAs of banks and NBFCs should be less than 3 per cent and they should submit their Board approved policy and the date of commencement of CDS trading to RBI.

According to Sebi data, over Rs 47,000 crore of transactions happened in the corporate bond market in November 2011.

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ADO to take on additives MNCs

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KOLKATA'S home-grown, fledgling ADO Additives seems well set to come up with new construction chemicals under the brand name ADO, to take on leading MNCs like SIKA, BASF, Fosroc with strong pan India presence. The company, which at present has two manufacturing facilities-one at Sahibabad (UP), near Delhi and Madhyamgram in West Bengal, is also looking at putting up its third unit on Bangalore-Mysore Highway, mostly to cater to the requirements of the upcoming Metro Railway projects in South India, Sanjib Parial, Managing Director, ADO Additives Manufacturing Pvt Ltd, told Financial Chronicle.

The company, which notched up a turnover of Rs 25 crore last fiscal, only working on projects and serving industry and infrastructure segment, is also set to tap the retail segment with its entire product range packed in various sizes by the beginning of the next year, said Parial, adding that they are coming up with environment-friendly construction chemicals in association with Jadavpur University and would roll them out across the country.

"Along with various promotional and brand building exercises, we will also reach out to retailers and end-users across the country creating awareness about safety and usage of these products," he said. "The organised sector construction chemical industry in the country is estimated to be Rs 10000 crore and is growing at 15-17 per cent annually. And more so with increasing infrastructure activities – expansion of Metro railways across the country, roads, bridges, flyovers and so on. We are keen on tapping this growing market," he said.

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Govt plans to up health budget to 2.5% of GDP

SHRUTI VERMA KHARE
New Delhi

THE government plans to increase spending on healthcare from 1.3 per cent to 2.5 per cent of GDP to improve the quality of service in the country during the 12th five year plan beginning in 2012-13, said Planning Commission deputy chairman Montek Singh Ahluwalia.

Ahluwalia also expressed concerns about shortage of manpower in the healthcare sector. He advocated for opening up of medical education sector for foreign investment to meet the demand-supply gap.

"I am not satisfied with the quality of health care services in both the private and the public sector. We plan to increase spending on healthcare from 1.3 per cent to 2.5 per cent of GDP in the 12th Plan," said Ahluwalia addressing a seminar organised by the Confederation of Indian Industry (CII).

More medical colleges and nurses training institutes need to be set up

"We need more qualified doctors and trained nurses. The issue of setting up more medical colleges and nurses training institutes need to be addressed. If the private sector is going to set up 10,000 beds over the next few years, then you have a chance that 30 medical schools could be created. My view is that opening up medical education to private sector is crucial. I have no problem with foreign investment," he added.

Naresh Trehan, chairman, Medanta Medicity said that the government should come up with a clear regulatory framework on the terms and conditions for setting up new medical colleges if it was to meet the existing manpower deficit. "While the government has extended several benefits to the industry for expanding in the under-served areas, a major area of concern was the lack of suitably trained manpower," he said.

Analjit Singh, chairman, Max India Ltd, said that concerns over the lack of adequate infrastructure were valid but growth in the healthcare industry was linked to increased awareness, incentives to the health insurance industry and suitable development of the PPP (public private partnership) model. Alhuwalia said, "Healthcare sector needs new PPP model. The existing models focus more on investments while the core issue of concern is supply-side constraints, including manpower shortage."

The government spent around Rs 4,142 crore during the four-year period 2007-08 to 2010-11.

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Moderating GDP may halt RBI rate hike

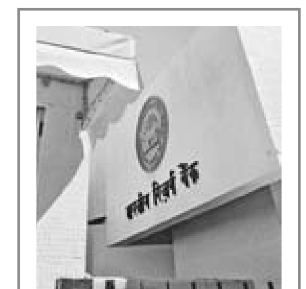
PRESS TRUST OF INDIA
New Delhi

MODERATING economic growth and easing inflation may prompt the Reserve Bank to halt interest rate hike in the upcoming mid-quarterly credit policy review later this month, according to analysts.

With actual growth coming in well below the potential, there are 'dis-inflationary' pressures in the economy, Goldman Sachs economist Tushar Poddar said.

"We therefore expect inflation to fall to 6 per cent by March 2012. We expect RBI to continue to ease liquidity, first through open market operations, and then by cutting the reserve requirements of banks," he said.

India's GDP registered just 6.9 per cent in the second quarter this fiscal against 8.4 per cent expansion in the same period last year due to poor performance of the manufacturing, agriculture and mining sectors. It is expected that RBI would cut interest rates by 100 basis points (1 per cent) in 2012, starting in April, Poddar said, adding that the slowdown in growth and the trajectory of inflation suggests that an earlier easing of policy rates may be appropriate, especially given the severe external headwinds.



Criss-crossing

- Analysts expect RBI to continue ease liquidity through open market operations
- India's GDP registered just 6.9% in second quarter this fiscal against 8.4% last year
- It is expected that RBI would cut interest rates by 100 basis points in 2012, starting in April

Bank of America Merrill Lynch India economist Indranil Sen Gupta said, "Given this backdrop of growth slowing and inflation peaking off, we are relieved that the RBI has finally begun Open Market Operations (Rs 1,00,000 crore by January) to cut the money market liquidity deficit and reduce undue pressure on interest rates."

With inflation likely to come off to 7.2 per cent by March, it expects RBI to cut rates by 100 basis points from April onwards.

RBI has hiked interest rates 13 times since March, 2010, to tame demand and curb inflation, which has been above the 9 per cent-mark since December last year. The government and the RBI have accepted that high interest rates may hurt the country's growth prospects, but the apex bank has underlined that bringing inflation under control is its major agenda. For food inflation, the rate of price rise moderated considerably to 8 per cent during third week of November.

Cabinet clears ₹2,050 cr credit subsidy for exporters

KR SUDHAMAN
New Delhi

GOVERNMENT on Thursday cleared additional Rs 2,050 crore funds for providing subsidised credit to exports several sectors including small and medium enterprises, handicrafts, handlooms and carpets.

An official statement after the cabinet committee economic affairs meeting said the funds for what commerce ministry calls interest subvention scheme, which will be in operation till March 31, 2012.

Till date, Rs 1,654 crore has been released to Reserve Bank of India for reimbursement of interest subvention claims whereas total requirement projected by RBI till March 2012 is Rs.3892 crore.

The interest subvention scheme was introduced in July 2007 to help exporters offset the losses on account of global recession.

Under the scheme, operated by the Reserve Bank of India, government provides interest subvention of 2 percentage points per annum to all scheduled commercial banks in respect of rupee export credit to the specified categories of exporters.

Agencies add: India's October exports rose an annual 10.8 per cent to $19.9 billion, while imports for the month rose 21.7 per cent to $39.5 billion, the government said in a statement on Thursday.

Trade deficit in October was at $19.6 billion, in which oil imports grew 21 per cent to $10.1 billion, the trade ministry said. Exports between April and October were at $179.8 billion. But financial turbulence in US and Europe, India's top export destinations, have weakened export growth recently, trade ministry officials had said.

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₹1,14,761 cr outlay for overseas energy assets

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HIT by very little new gas and oil finds, centre proposes to double outlay at Rs 1,14,761 crore for government-run oil companies for exploration and production activities in existing overseas assets and new acquisitions during the twelfth five year plan period (2012-13 till 2016-17). Government has also mooted a five-point strategy to acquire new assets overseas to meet increasing demand in the country.

"The plan (twelfth five year) outlay of oil and gas PSUs for E&P activities in existing overseas assets and new acquisitions has been set at Rs 114,761 crore," said an oil ministry official. The total investment of oil PSUs on overseas assets till eleventh plan was nearly Rs 60,309.87 crore.

OVL, OIL, IOC and Gail put together target to produce 66.88 million tonnes of oil and natural gas from overseas during twelfth plan period. BPRL anticipates oil and gas production to commence from its overseas acreages after 2017, the official added.

Oil ministry has suggested its companies to strategie for portfolio balancing with focus on purchasing discovered and producing oil and gas properties. This has to be coupled with few exploration acreages, which can provide organic growth opportunities.

India proposes to focus in farm-in opportunities in exploration acreages with companies who offer stake in their producing assets. Also, opportunities in unconventional energy resources such as heavy oil, oil sands and shale gas must be tapped. Companies may also look at swapping of energy assets. "Focus would be concentrated in mega-size projects in frontier areas such as the Arctic, West Siberia and ultra deep waters. Most of these assets are categorised high risk and require large capital outlay. This necessitates consortium approach for risk and capital sharing," the official added.

Enhancing investment

12th plan outlay of oil and gas firms for E&P activities in existing overseas assets

Company	2012-13	2013-14	2014-15	2015-16	2016-17	Total (per company)
OVL	20,461	21,331	18,011	16,861	16,194	92,860
BPRL	1,635	1,615	1,822	1,850	2,130	9,052
OIL	614	644	737	727	601	3,324
IOC	622	1,207	592	9	--	2,430
GAIL	938	877	749	725	725	4,014
HPCL	715	715	725	725	200	3,080
Total (per annum)	24,985	26,389	22,636	20,897	19,851	114,761

*Figures: In Rs crore

Oil ministry estimates reveals that demand for crude oil in India by 2031-32 would be in range of 350-486 million tonnes. On the other hand, natural gas demand would be between 100 and 197 million tonnes of oil equivalent. Assuming domestic output of 35 million tonnes of crude oil and 100 million tonnes of oil equivalent of natural gas by 2031-32, the country will need to import 90-93 per cent of crude oil requirement and about 49 per cent of natural gas requirement for GDP growth of around 8 per cent.

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