Watch list

The following are fundamentally strong companies identified by *Capital Market* analysts. The list is constantly reviewed and updated, adding scrips with upward potential and removing those that have, in our opinion, exhausted their run.

COMPANY	IND. NO.	PRICE (Rs) 17-10-2014	TTM YEAR	TTM EPS (Rs)	P/E
Ador Welding	41	220	201406	5.0	44.4
Andhra Sugars	109	135	201406	20.0	6.8
Apcotex Industri	106	327	201406	13.6	24.0
Astec Life	67	67	201406	4.9 *	13.6
Astral Poly	75	378	201406	7.2	52.6
Auto.Corp.of Goa	10	505	201406	29.6	17.1
B H E L	39	227	201406	13.0	17.4
Bajaj Auto	8	2374	201409	110.7	21.5
Bajaj Electric	36	277	201406	0.0	0.0
Bajaj Fin.	50	2557	201409	156.6	16.3
Banco Products	10	141	201406	12.0 *	11.7
BASF India	22	1234	201406	23.0	53.7
Bayer Crop Sci.	68	2262	201406	84.6	26.8
Benares Hotels	57	1501	201403	65.8	22.8
Bharat Forge	17	752	201406	19.0	39.6
Birla Ericsson	16	74	201406	7.8	9.5
Bosch	10	14282	201406	305.2	46.8
Britannia Inds.	54	1340	201406	34.1 *	39.3
Carborundum Uni.	1	188	201406	4.8 *	39.4
Castrol India	22	411	201406	9.2	44.8
Cipla	70	594	201406	15.0 *	39.7
Clariant Chemica	22	987	201406	21.8	45.4
Control Print	62	180	201406	15.8	11.4
Corporation Bank	11	323	201406	24.8	13.0
CRISIL	106	1823	201409	37.7 *	48.4
D B Corp	47	365	201409	17.3 *	21.0
DCM Shriram Inds	88	143	201406	21.4	6.7
Engineers India	45	233	201406	12.1	19.3
Esab India	41	619	201406	21.3	29.1
Essel Propack	62	111	201406	7.1 *	15.5
Exide Inds.	10	165	201406	6.0	27.3
Fag Bearings	13	2797	201406	88.2	31.7
Federal Bank	12	136	201409	11.3	12.0
Foseco India	22	915	201406	28.5	32.1
Garware-Wall	97	161	201406	13.8	11.7
Gateway Distr.	106	256	201406	13.1 *	19.5
GE Shipping Co	82	389	201406	36.3 *	10.7
Godrej Consumer	65	906	201406	22.5 *	40.3
Goodyear India	105	633	201406	45.4	14.0
Greaves Cotton	46	133	201406	4.5	29.5
H D F C	51	997	201406	51.7 *	19.3
HCL Technologies	27	1506	201409	90.9	16.6
HDFC Bank	12	885	201406	36.7	24.1
Hikal	71	683	201406	28.5	24.0
Hindustan Media	47	167	201409	16.6	10.1
Honeywell Auto	43	5248	201406	109.7	47.9
HSIL	21	393	201406	9.9	39.8
Huhtamaki PPL	62	178	201406	7.2 *	24.7
IL&FS Transport	45	169	201406	19.4 *	8.8
Indian Hume Pipe	20	288	201406	9.9	29.2
Infosys	27	3854	201409	206.5 *	18.7
ING Vysya Bank	12	637	201406	32.9	19.3

COMPANY	IND. NO.	PRICE (Rs) 17-10-2014	TTM YEAR	TTM EPS (Rs)	P/E
Ingersoll-Rand	25	683	201406	21.0	32.5
Intl. Travel Hse	104	248	201406	21.6	11.5
J & K Bank	12	133	201406	20.7	6.4
JMC Projects	31	132	201406	8.6	15.3
Kalpataru Power	102	132	201406	10.1	13.1
Kirl.Pneumatic	25	534	201406	19.9	26.8
KSB Pumps	78	514	201406	19.1	26.9
L G Balakrishnan	10	649	201406	37.1	17.5
Lak. Electrical	39	460	201406	33.5	13.8
Lak. Mach. Works	92	3970	201406	174.1	22.8
Larsen & Toubro	45	1452	201406	52.1 *	27.9
LIC Housing Fin.	51	333	201406	26.3	12.6
M & M	7	1254	201406	59.0	21.3
M M Forgings	17	478	201406	28.9	16.6
Manjushree Tech.	62	466	201406	22.3	20.9
Maruti Suzuki	6	2943	201406	85.5	34.4
Munjal Showa	10	180	201406	16.8	10.8
Navneet Educat.	77	95	201406	5.5	17.2
NBCC	31	733	201406	22.6 *	32.4
Poddar Pigments	22	131	201406	14.1	9.3
Power Grid Corpn	76	134	201406	8.8	15.2
PTC India Fin	50	43	201406	4.2	10.3
Rallis India	67	212	201409	8.3 *	25.7
Rane Brake Lin.	10	311	201406	23.2	13.4
S B T	11	435	201406	28.6	15.2
SKF India	13	1090	201406	37.5	29.0
South Ind.Bank	12	26	201406	3.6	7.2
St Bk of India	11	2522	201406	192.3 *	13.1
Sterling Tools	48	348	201406	25.3	13.7
Sukhjit Starch	106	282	201406	24.1	11.7
Sundaram Finance	50	1293	201406	39.9	32.4
Sundram Fasten.	48	154	201406	6.5	23.7
Superhouse Ltd	58	233	201406	31.7	7.4
Supreme Inds.	75	589	201409	20.7 *	28.4
Swaraj Engines	46	967	201406	54.0	17.9
T.V. Today Netw.	47	207	201406	13.8	15.0
Tata Elxsi	28	583	201406	27.0 *	21.6
TCS	27	2445	201409	107.2 *	22.8
Tech Mahindra	27	2271	201406	122.2 *	18.6
Thermax	44	849	201406	19.4	43.8
Tide Water Oil	22	14856	201406	798.9	18.6
Time Technoplast	75	46	201406	4.6 *	10.1
TVS Srichakra	105	1074	201406	75.4	14.3
Va Tech Wabag	44	1577	201406	43.9 *	35.9
Vesuvius India	81	695	201406	29.8	23.3
V-Guard Inds.	39	893	201406	25.0	35.7
WABCO India	10	3755	201406	58.8	63.9
Whirlpool India	36	421	201406	12.3	34.2
Wipro	27	566	201406	33.7 *	16.8
WPIL	78	532	201406	23.0	23.1
Yes Bank	12	598	201406	39.8	15.0
Z F Steering	10	709	201406	9.0	78.5

* indicates that EPS is consolidated. This issue Astec Life and Sukhjit Starch replace GMDC and Modison Metals. TTM: Trailing 12 months.

Sukhjit Starch & Chemicals

Sweet prospects

Capita Telefolio average return crosses 100%
see page 85

Well placed to capitalise on the increasing demand for starch products from varied sectors

One of the largest manufacturers of starch and starch derivatives in India, Sukhjit Starch & Chemicals's (SSCL) technical expertise gathered over more than 60 years ensures optimum adaptation to end-use. Apart from native starch, products comprise modified starch, dextrine, liquid glucose, maltro-dextrin, mono-hydrate dextrose, any-hydrose dextrose, sorbitol-70% solution, and various by-products catering to a wide spectrum of industries.

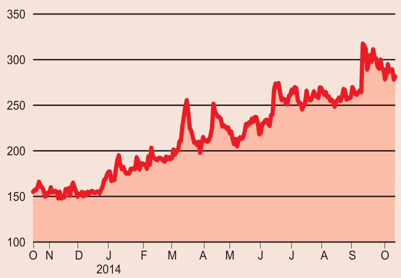
Industries using starch and its products include food and drink encompassing baked goods, confectionary and chocolate, frozen foods, ice cream and dairy, honey, baverages, preserved foods, and instant foods. Starch and its derivatives are used in paper and board to make wet end, size press, corugated board, and coating. Personal care and pharma consume starch products to produce tooth paste, shoe polish, injectable solutions, excipients, and bulk drug fermentation. Pet foods, cattle feed, poultry feed, and compound feeds, too, use starch derivatives. Industrial applications consuming starch include detergents, paints, glues and adhesives, steel castings, aluminium, textile, oil well drilling, and construction.

A double-pronged approach using state-of-the-art technology as well as exploiting indigenous potential has served SSCL well. Years of research and careful co-ordination of methodology have resulted in qualitatively superior products meeting stringent customer norms, manufactured by cost-effective production techniques.

Full-fledged manufacturing facilities are at four locations in major maize-producing regions of the country. This gives logistic advantage for raw-material procurement and supply of finished products at lower freight cost to regional customers. Multi-locational presence also helps to improve market visibility of products. In the last few years, there has been aggressive expansion its geographical markets in India. Client base includes many multinational companies and leading domestic companies in the user industries.

Double advantage

Sukhjit Starch & Chemicals should benefit from lower raw material prices and the recently completed Rs 100-crore capex to enhance capacity



In the last two years, over Rs 100-crore capex resulted in enhanced capacity to three times the original size, with an additional facility, with capacity of 50 tonnes per day to make key product dextrose monohydrate, at the Malda unit in West Bengal. The expanded of the Himachal Pradesh unit will also start delivering this fiscal.

The starch industry has shown above 15% compounded annual growth rate in the past five years. Yet, the size of the industry is small. Per capita consumption in India at just 3% of the US. The momentum of growth is expected to continue at the same pace in the next five to 10 years as the industry shifts to high-value products and per capita consumption improves. The consumption of starch by chance outpaces its gross domestic product growth in higher proportions. A similar replay is expected in India.

Key risks include availability and price fluctuation of maize, the basic raw material, from owing to natural vagaries. An invariable upward revision in the minimum support price by the government increases the cost disproportionately. However, the location of most plants in major maize-growing states of the country mitigates the raw-material risks to some extent and ensures raw material availability at competitive cost with adequate supplies during the kharif (April-September) and rabi (October-March) seasons. With well established credit worthiness and integrity among maize suppliers, SSCL has become the most preferred buyer in all the maize procurement areas.

Net sales spurted 15% to Rs 137.69 crore and the operating profit margin rose to 11.2% from 8.9%, taking operating profit up a good 45% to Rs 15.42 crore in the June 2014 quarter over a year ago. Profit after tax jumped 48% to Rs 6.33 crore. Due to procurement of most raw materials at lower costs because of locational advantage, better margin is expected to be sustained throughout the year.

Interest cost increased in Q1 of the fiscal ending March 2015 (FY 2015) due to higher working capital on raw material stock. But it will come down gradually as working capital requirement eases in the course of the year. Internationally, maize prices have fallen substantially. This should ensure that raw material prices remain under control in future as well. We expect SSCL to register EPS of Rs 32.7 in FY 2015. The stock trades at Rs 282. P/E works out to 8.6. ■

Sukhjit Starch & Chemicals: Financials

	1203(12)	1303(12)	1403(12)	1503(12P)
Net Sales	354.33	419.74	508.43	589.15
OPM %	12.8	12.1	10.1	11.4
OP	45.37	50.95	51.10	67.34
Other income	0.62	0.37	0.48	0.58
PBIDT	45.99	51.32	51.58	67.92
Interest	11.19	14.12	16.65	18.80
PBDT	34.80	37.20	34.93	49.12
Depreciation	7.13	8.85	12.27	14.90
PBT	27.67	28.35	22.66	34.21
Total Tax	5.56	6.77	6.62	10.11
PAT	22.11	21.58	16.04	24.10
EPS (Rs)*	30.0	29.2	21.7	32.7

* On current equity of Rs 7.38 crore. Face Value: Rs 10.
(P): Projections. Figures in Rs crore.
Source: Capitaline Databases

Mangalore Chem & Fert

A tame ending?

A status quo in ownership could result in a sharp drop in the stock price

The one-member committee of independent director of Mangalore Chemicals & Fertilizers (MCF) found the open offers by rival groups for acquiring MCF as per the law and fair and reasonable. Deepak Fertilisers and Petrochemicals Corporation had offered Rs 93.6, while the Zuari group Rs 81.6. Why the independent director did not endorse the price offered by Deepak Fertilizers is a puzzle.

Is there any strategic reason for independent director Pratap Narayan to take a neutral stand? This is unlikely. The open offer by the Zuari group is jointly with the United Breweries (UB) group belonging to Vijay Mallya, who is almost on the verge of bankruptcy and facing trouble from every nook and corner. The open offer from the Zuari group was to fend off the hostile bid from Deepak Fertilisers.

Interestingly, UB group is not going to finance the open offer. Owing to its financial troubles, the financing part of the open offer will be entirely taken care by the Zuari group. There is hardly any non-monetary consideration to say that both the offers are equal.

Independent directors are appointed by the promoters. Is this a case of conflict of interest? Is this the reason why the independent director has taken no stand on the open offer in his recommendation? Narayan, the lone independent director on the board of MCF, was appointed in January 2012.

Commenting on whether the open offer is fair and reasonable, the independent director noted that the competing offers were in line with the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 2011, and, to that extent, fair and reasonable.

In actual, this observation by the independent director hardly serves any purpose. It is the headache of the capital market regulator to confirm whether the open offers are in line with regulation. Comments of the independent directors are not needed on this topic.

The minority shareholders need opinion that will help them. The recommendation should be with, justification. It is given that the shareholders' action should not be exclusively influenced by the price. But if there are any non-monetary considerations, the independent directors should elaborate on them. Recommendation should not be a formality.

In a statement released on 26 September 2014, the independent director, as part of summary of reasons, said that the MCF stock had hit the upper circuit. Accordingly, shareholders should independently evaluate the competing open offers and take an informed decision. This is no recommendation at all.

The battle for MCF intensified with both the warring groups increasing their open offer prices. Deepak Fertilisers revised its offer to Rs 93.6 from Rs 63 a share. Zuari increased its price to Rs 81.6 from Rs 68.55. The offer by Deepak Fertilisers was significantly higher, i.e., up 14.7% compared with the rival group.

The UB group had equity of 21.97%, while Zuari Fertilisers and Chemicals held a stake of 16.43% in MCF end September 2014. Hostile suitor Deepak Fertilisers owns 25.31%, acquired from the open market in phases. Zuari Fertilisers is a wholly owned subsidiary of Zuari Agro Chemicals.

The battle for MCF continues to be titled towards the Zuari and the UB group as this combine controls 38.4% of the paid-up capital. Initially, Mallya had agreed to hand over MCF to Zuari when Deepak Fertilisers mounted a takeover bid. Subsequently, he backed out and decided to retain control of MCF.

The offers by both rivals, which closed on 20 October 2014, received a tepid response, primarily because MCF has reported a sharp rally. The stock closed at Rs 94.4 on 16 October 2014. The current price is higher compared with the price offered by Deepak Fertilisers, which is the highest.

MCF manufactures nitrogenous and phosphatic fertilizers. It commands a significant market share in Karnataka. Deepak Fertilisers produces industrial chemicals and fertilizers, while Zuari Agro makes complex fertilizers.

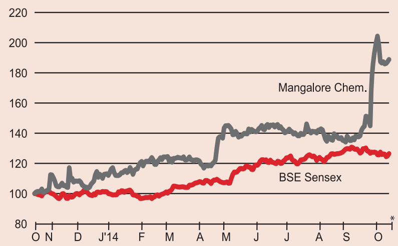
Investors should not assume that the fight between the Zuari and Deepak Fertilisers will intensify. Already, MCF is trading at a significant premium. At a price to earning (P/E) multiple of 15.3 and price to book value (P/BV) ratio of 2.03 the stock is way expensive compared with its suitors Zuari Agro (P/BV 1.02) and Deepak Fertilisers (P/E 5.5 and P/BV 0.93). In a situation of status quo, MCF will remain with the UB group. This could result in a sharp decline in the price of MCF.

— *S Khedekar*

A costly proposition

MCF is trading at P/E of 15.3 and P/BV of 2.03, while Zuari Agro is quoting at P/BV of 1.02 and Deepak Fertilisers at P/E of 5.5 and P/BV 0.93

Relative performance of Mangalore Chem v BSE Small cap Index



Base=100 as on 21 Oct 2013 * 20 Oct 2014
Face Value: Rs 10.

The line-up

The UB group controlled 21.97% and Zuari Fertilisers and Chemicals 16.43% in MCF end September 2014

COMPANY	DEEPAK FERTILIZERS	MCF	ZUARI AGRO CHEM
CMP (Rs)	157.6	95	195.6
M-cap (Rs cr)	1389.6	1125.9	822.7
52-WH (Rs)	185.1	104.7	245
52-WL (Rs)	99.8	48.2	90.6
Networth (Rs cr)	1491.1	555.7	805.6
Net Sales (Rs cr)	3817.6	3310.2	5175.9
ROCE (%)	17.7	10	5.52
RONW (%)	17.4	13.4	-6.24
Debt-Equity Ratio	0.74	2.6	3.45
Interest Cover Ratio	4.34	1.91	0.77
Debt (Rs cr)	961.6	1521.6	2613.7
P/E Ratio	5.5	15.3	0
P/BV	0.93	2.03	1.02

CMP (current market price) is closing as on 17 October 2014. Networth, net sales, ROCE and RONW is for the fiscal ended March 2014. P/E (price to earning) and P/BV (price to book value) as on 17 October 2014. EPS is for TTM ended 30 June 2014. Consolidated financials considered wherever available. ROCE: Return on capital employed. RONW: Return on net worth. Interest cover ratio is calculated as net profit + tax + interest/interest.
Source: Capitaline Database

Cement

Demand drivers

Prices in the southern and western regions saw the highest increase

Abandoning bitumen in favour of concrete

All-India cement production continued to improve in August 2014, signifying recovery in demand. Domestic cement production was up 10.3% to 20.57 million tonnes (mt) in August 2014 over a year ago. Cement production inclined 11% to 113.81 mt in April-August 2014. Production increased 3% to 255.54 mt in the fiscal ended March 2014 (FY 2014) compared with FY 2013.

The Cement & Lime Wholesale Price Index (WPI), with a weight of 1.39 in the WPI, stood at 167.7 in September 2014, up 1.9% over the year and 1.1% over the month. But it declined 2.4% in April-September 2014 over the year, in addition to 1% fall in the fiscal ended March 2014 (FY 2014) compared with FY 2013.

Meanwhile, the Grey Cement WPI, with a weight of 1.26 in the WPI, stood at 167.3 in September 2014, up 2% over the year and 1.1% over the month. But it dropped 2.7% in April- September 2014 over a year ago, after 1.3% fall in FY 2014 compared with FY 2013.

Cement prices exited Q1 of FY 2015 with an increasing trend, which continued till July 2014 due to delay in southwest monsoon. There was gradual moderation in August and September, before a price-hike announcement in the second half of September.

The all-India average cement prices stood at nearly Rs 307 per bag in the second quarter ended September 2014, up 1% over June 2014 quarter. Cement prices in the southern and western regions saw the highest increase of 9-15% on account of pick-up in demand and tight discipline. In contrast, cement prices in the eastern, central and northern regions continued to remain weak, witnessing a drop of around 1-8%, on pick-up in monsoon.

Imported coal prices (in rupees) have been on a decline over the last nine-10 months and are at multi-year low levels. This has eased off the operating cost pressure on cement companies using imported thermal coal from Indonesia, South Africa and pet coke from the US and Gulf region. Hence, the cement industry‘s profitability should continue to benefit from lower fuel cost over the next few quarters.

The government has planned to abandon bitumen, the popular raw material for road construction, in favour of cement for all new road projects, in line with a proposal by Union Transport Minister Nitin Gadkari. The ministry has also planned to change the model for assessing the project cost. The projects will now be evaluated on the basis of the lifecycle cost of the project, against the current model of using just the cost of construction. The government has decided to start using cement for all new projects that are in the pipeline as long as the cost of construction of a concrete road is not more than 20% higher than that of a road made using bitumen. Cement roads are more durable and cheaper to maintain than bitumen in the long run, even though they are more expensive.

Looking ahead

Imported coal prices have been on a decline over the last nine-10 months and are at multi-year low levels. This has eased off the operating cost pressure on cement companies

COMPANY	MCAP (Rs Cr)	CMP (Rs)	CHG IN TTM PAT (%)	TTM P/E	DEBT/ EQUITY	PROMOTOR HOLDING (%)	CHG IN MCAP (%) OVER 1 MONTH (%)	1 YEAR (%)
UltraTech Cem.	68079.42	2481.05	-17.74	32.46	0.30	61.70	-6.03	26.26
Ambuja Cem.	32347.31	208.85	6.26	22.92	0.00	50.39	-2.72	7.38
Shree Cement	28731.33	8246.65	-21.59	36.50	0.34	64.79	-5.54	88.65
ACC	26046.56	1387.30	-12.32	25.08	0.00	50.30	-9.44	23.14
The Ramco Cement	7369.67	309.65	-69.92	70.11	1.18	42.32	-8.62	66.30
JK Lakshmi Cem.	3967.50	337.20	-16.58	33.69	1.25	45.96	5.84	333.70
Prism Cement	3890.97	77.30	-82.64	-189.43	1.82	74.87	-0.64	177.06
Birla Corpn.	3812.00	495.00	-20.68	20.80	0.55	62.90	-5.61	132.07
J K Cements	3652.44	522.30	-46.72	35.06	1.32	66.93	3.09	165.40
India Cements	3332.90	108.50	-147.02	-59.91	0.74	28.23	-11.17	112.12
Orient Cement	2587.89	126.30	-30.28	26.25	0.40	37.50	3.52	211.08
Heidelberg Cem.	2104.17	92.85	-541.43	85.12	1.63	69.39	12.89	157.92
Others	7389.31		-99.75	9353.56	0.88	57.73	4.25	140.03
Total	193311.47		-20.76	32.80	0.45	54.85	2.45	54.98

Price as on 13 October 2014. TTM ended June 2014. Change in TTM PAT is over TTM ended June 2013

Outlook

The cement sector is expected to report a good set of numbers for the second quarter ended September 2014 on higher volumes, increased prices and delayed onset of monsoons. Cement demand has been registering a strong growth in this fiscal year till date. Demand is expected to improve further due to increased spending for rural and semi-urban housing and rise in orders for infrastructure projects

The industry is expected to witness positive growth in the coming years, with consumption demand set to gallop at a CAGR of more than 8% in FY 2014-16. Indian cement players are optimistic in the medium term and are guiding for a gradual recovery. The industry expects incrementally better volume offtake in FY 2015 and FY 2016, with long-term demand likely to record a CAGR of 6-8%, given the cyclical upturn in the economy and the expected policy-push to drive investment in the infrastructure sector by the new pro-development government at the Centre. ■

Tourism

Gets Centre's backing

Dollar inflows see a double-digit growth in the latest six months of CY 2014

The Central government has identified the tourism sector for its huge employment-generation potential. Tourism contributed a share of 6.88% (3.74% direct and 3.14% indirect) in the GDP and 12.3% (5.31% direct and 7.05% indirect) in employment in the fiscal ended March 2013 (FY 2013).

Prime Minister Narendra Modi has laid out his Five Ts — Tradition, Talent, Tourism, Trade and Technology – as the focus areas for building Brand India. All these elements have a direct correlation with the travel and tourism sector. In the Union Budget 2014-15, the government announced five tourist circuits around specific themes and allocated Rs 500 crore. Liberalising visa on arrival, electronic travel authorisation (ETA), and the Swachh Bharat programme are some of the other steps initiated by the Central government.

Noting certain differences between persons of Indian origin (PIO) and overseas citizens of India schemes, the prime minister announced that PIO cardholders will be granted visa for life and a new scheme will be announced soon, merging the two schemes. Further, there will be no need for long-stay visitors to India to visit police stations. Also, long-term tourist

367 million air passengers by CY 2034

visas for American citizens and visa on arrival for American tourists will be announced soon.

Hygiene and cleanliness will contribute in enticing the prospective inbound tourists. The government has cleared a massive program, Swachh Bharat Mission for Urban Areas, proposed to be implemented over five years, starting from 02 October 2014, in all 4,041 statutory towns. The total expected cost of the programme is Rs 62009 crore over five years. Central assistance will Rs 14623 crore. The government is also considering to launch a cleanliness index for major cities.

Necessary infrastructure will be put up in a phased manner to facilitate ETA, a visa-on-arrival scheme for tourists from 180 countries, at nine airports in India. The nine airports are Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bangalore, Kochi, Thiruvananthapuram and Goa. The countries to which the ETA facility would be extended would be identified in a phased manner.

Foreign tourist arrivals increased at an accelerated pace of 7% to 51.79 lakh in January-September 2014 compared with the 5.6% growth in calendar year (CY) 2013 and a 4.3% rise in CY 2012. Foreign exchange earning (FEE) in US dollars improved 5.8% to US$ 14.19 million in January-September 2014 with a strong double-digit growth in the latest six month of CY 2014. The FEE growth picked up from a moderate 3.4% increase in CY 2013.

In its first 20-year passenger growth forecast released on 16 October, the International Air Transport Association (IATA) has projected India to emerge as the third fastest-increasing market by additional air passengers per year. Currently the ninth largest market, India will see a total of 367 million passengers by CY 2034, adding 266 million passengers compared with 101 million passengers expected in CY 2014. IATA believes the Indian domestic market will grow at a 6.9% average annual growth, adding 159 million extra passengers, and improving the domestic air market to 215 million.

The number of domestic tourist visiting states and Union Territories (UTs) was 1,145 million in CY 2013, rising 9.6% over CY 2012. The top 10 states by number of domestic tourist visits (in million) in CY 2013 were Tamil Nadu (244.2), Uttar Pradesh (226.5), Andhra Pradesh (152.1), Karnataka (98.0), Maharashtra (82.7), Madhya Pradesh (63.1), Rajasthan (30.3), Gujarat (27.4), West Bengal (25.5) and Chhattisgarh (22.8). The contribution of the top 10 states was about 84.9% to the total number of domestic tourist visits in CY 2013.

Outlook

The tourism sector has been on the top of agenda of the new government. The reforms in the tourism sector are expected to boost tourist inflows. The government is also seeking international co-operation in developing tourism infrastructure. State governments, too, are focusing on identifying the potentials for growth in the tourism sector. India's demographic dividend of a younger population and higher disposable income is a boon for tourism services.

However, to exploit the opportunities in the tourism sector, the focus needs to be on strengthening of the tourism infrastructure, tourist safety and security, and effective advertising of India as a destination. ■

Opening the doors

Foreign tourist arrivals increased at an accelerated pace of 7% to 51.79 lakh in January-September 2014 compared with the 5.6% growth in CY 2013 and a 4.3% rise in CY 2012

COMPANY	MCAP (Rs Cr)	CMP (Rs)	CHG IN TTM PAT (%)	TTM P/E	DEBT/ EQUITY	PROMOTOR HOLDING (%)	CHG IN MCAP (%) OVER 1 MONTH (%)	CHG IN MCAP (%) OVER 1 YEAR (%)
Thomas Cook (I)	3701.10	145.60	-13.61	91.25	0.19	73.19	-2.28	124.69
Intl. Travel Hse	204.18	255.55	-0.16	11.19	0.00	61.69	-8.63	59.72
Mahasagar Travel	2.57	3.27	-47.37	3.67	0.70	30.22	5.14	-13.65
Cox & Kings	3982.29	291.70	22.93	36.40	0.67	59.51	-2.69	222.50
Total	7890.14				0.48	56.15	2.39	202.38

CMP: Current market price as on 13 October 2014. TTM ended June 2014. Change in TTM PAT is over TTM ended June 2013.

Tea

Rising use to cheer

A weak rupee to boost exports providing relief to falling prices

Local tea prices slipped further in September 2014 on rising output in Assam and West Bengal, which made up for the moderation in south Indian production. The all-India tea auction quotes fell near Rs 129 per kg, their lowest mark since early June 2014. Prices have been on downward trajectory after soaring in July, when worries over the monsoon firmed up the sentiments. Exports remain firm on good demand from buyers in UK and Pakistan.

India is the second largest global producer of tea after China and the largest global consumer of black tea. Tea productivity is around 1,700 kg per hectare in India. Assam, West Bengal, Tamil Nadu and Kerala account for 98% of the total output.

India's tea production surged to 162.09 million kg (mkg) in July 2014, up nearly 15% from a month earlier, primarily due to higher output from Assam and West Bengal. Tea output stood at 155.13 mkg in July 2013. This makes the output in July 2014 record a moderate rise of 4.50% on the corresponding period of last year.

Increase in output to bridge demand gap

India's largest producing state in July 2014 was Assam. Total output in Assam surged to 91.66 million (m) kg in July 2014, up around 30% from June 2014. However, the performance of the state remained depressing in annual terms with the output dropping 3.22% compared with July 2013. West Bengal's tea production stood at 43.15 mkg, up 8% over the year and 14% over the month.

Total north Indian production including that of Assam and West Bengal stood at 138.20 mkg in July 2014, witnessing a flat movement over July 2013. However, it marked an impressive surge of 24% compared to the previous month. Tea production in south India stood at 23.89 mkg, up 41% compared to July 2013 but down marginally on a month.

The Indian tea industry exported 35.13 mkg of tea in April-June 2014. The quantum of tea exported was 0.75 mkg lower than the volume of 35.88 mkg April-June 2013. The average realisation, at Rs 198.82 per kg, was lower as well in April-June 2014 compared with Rs 201.23 per kg in the same quarter a year ago. Thus, the total tea export value was also lower at Rs 698.44 crore in April-June 2014 compared with Rs 722.01 crore a year ago.

Tea exports have remained flat over the years due to increasing competition in the global market and declining quality of tea produced in India. Post 2011, the Tea Board has stopped providing monthly data on tea exports and releases only quarterly data. India's tea exports rose 6.7% to 94.53 mkg in January-June 2014 from a year earlier due to higher exports to the UK and Pakistan and lower exports to Iran, Egypt, and United Arab Emirates.

A weak brew

Tea exports were flat and so also realisation in the June 2014 quarter over a year ago due to increasing competition in the global market and declining quality of tea produced in India

COMPANY	MCAP (Rs Cr)	CMP (Rs)	CHG IN TTM PAT (%)	TTM P/E	DEBT/ EQUITY	PROMOTOR HOLDING (%)	CHG IN MCAP (%) OVER 1 MONTH (%)	1 YEAR (%)
Tata Global	9730.52	157.35	46.84	23.08	0.18	0.35	-7.06	-1.66
Mcleod Russel	2951.04	269.60	-35.56	19.69	0.12	0.46	-9.52	-2.05
Bombay Burmah	1705.39	244.50	-95.28	1874.05	0.72	0.66	0.56	129.79
Goodricke Group	364.93	168.95	51.12	10.61	0.04	0.74	-11.50	41.86
Jay Shree Tea	260.93	90.35	-136.80	-13.58	1.28	0.56	-8.88	3.43
Rossell India	256.35	69.85	-7.10	15.43	0.27	0.75	2.34	112.52
Warren Tea	228.25	191.00	-41.70	10.34	0.00	0.75	1.51	13.02
Duncans Inds.	142.94	25.75	167.97	-4.00	2.21	0.83	-15.85	50.58
Assam Company	139.72	4.51	-33.14	20.37	2.13	0.47	-15.38	4.88
Harr. Malayalam	127.47	69.05	-231.45	-14.05	0.34	0.50	3.45	72.63
Others	297.57		7.06	14.64	0.48	0.50	5.57	52.28
Total	16205.11		-12.11	26.62	0.38	0.60	5.48	22.84

CMP: Current market price as on 13 October 2014. TTM ended June 2014. Change in TTM PAT is over TTM ended June 2013.

Outlook

The upward tick in local output could keep supplies steady in the domestic market in the near term. The seasonal trend also supports estimates that production is likely to stay elevated in September-October.

This might help plug some deficit due to shortfall in tea output this summer. However, demand remains strong. Given the feeble undertone of the Indian rupee, exports could witness an uptick after gaining nearly 7% in the first six months of 2014. Global black tea production increased about 7% in calendar year 2013, followed by record crops in major producing countries like India, Kenya and Sri Lanka and higher production in most producing countries.

Global demand is likely to grow around 3%, ensuring that Indian exports maintain their current momentum in the next few months as well. The Indian tea industry exported 225.76 mkg in FY 2014 as against the target of 230 mkg. However, it marked a steady rise of 4.50% compared with the quantum of exports in FY2013.

Taxation

Second thoughts

Though the notice for reassessment can result in unsettling a settled position, it is required to ensure the levy of rightful taxes

When the assessing officer (AO) has reason to believe that income chargeable to tax has escaped assessment for any assessment year (AY), he may assess, reassess, or recompute loss [(subject to Sections 148 to 153 of the Income Tax (IT) Act, 1961)] for that AY including any other income that he may discover during the course. However, the AO cannot assess or reassess income involving subject matters of appeal or revision.

The AO can issue requisite notice for the relevant AY within the prescribed statutory period for undertaking reassessment after filing or deemed filing of return. Notice can be issued after four years from the end of the AY only if the income having escaped assessment is not less than Rs 1 lakh for that AY. In any case, no notice can be issued after six years from the end of the AY. Income from foreign assets can be, however, reassessed till 16 years from end of AY.

If the earlier assessment has been under Section 143(3) or 147 of the IT Act, then the action by the AO after four years from the end of AY is possible only if the escapement is on account of failure of the assesssee to file return of income in response to notice or to disclose all material facts fully and truly. Mere production of books of account may not necessarily be disclosure so as to disable the AO's action.

When the AO changes his opinion

If the earlier assessment is framed under Section 143(3) or 147 and if the AO is an IT officer (ITO), then approval of the Joint Commissioner IT (JCIT) is required if the reopening is within four years and CIT is or or Chief CIT is required if it is beyond four years from the end of the relevant AY. If the earlier assessment is not under Section 143(3) or 147, then no approval is necessary till four years from the end of the AY. But approval of the JCIT or Additional CIT is necessary beyond four years.

The reassessment can be initiated only when the AO has reason to believe that income chargeable to tax has escaped assessment in the relevant AY. The basis of the belief should be discernible from the material on record, which was available with the AO when he recorded reason. Based on the information that comes to his notice subsequent to the earlier assessment, the AO can issue notice for reassessment. Details available in file with the ITO does not by its mere presence become an item of information. It is transmuted into an item of information only if and when its existence is realised and its implications are recognised. A change of opinion, in the absence of any material newly discovered or brought, will not be construed as "reason to believe". Thus, it will fail the judicial test. When copies of statement of income, trading account, profit and loss account, or audit report are appended to the return filed by the assesssee, then taking resort to Section 147 or 148 is unwarranted as the material acted upon had been made available along with the return of income.

The reasons leading to satisfaction under Section 147 must be duly recorded in the file and the order sheet by the AO bringing out clearly the link of reasoning with the belief of escapement and also indicating the estimate of escapement.

When a notice under Section 148 is issued, the proper course of action for the noticee is to file return and seek reasons for issuing the notices. On receipt of reasons, the noticee is entitled to file objections to the issuance of the notice and the AO is bound to dispose it of by passing a speaking order.

Thus, the notice for reassessment can result in unsettling a settled position after a lapse of time. It would cause inconvenience and harassment to the assessee. However, it is required so to ensure the levy of rightful taxes, which have been missed to be collected due to oversight or negligence.

— Tushar Doctor

Investment Strategy

Valuation v governance

Consolidated numbers of many real estate companies consist of unaudited figures of subsidiaries

Fainted-hearted investors should stay away from the auditors' report of real estate and construction companies. The statutory auditors have ruthlessly poured red ink all over their reports. Very few companies are exception to this trend.

Pick 10 annual reports of real estate companies on a random basis. In case of six to seven companies, auditors have raised alarm over various issues. This is true across categories, be it market capitalization, turnover or net worth.

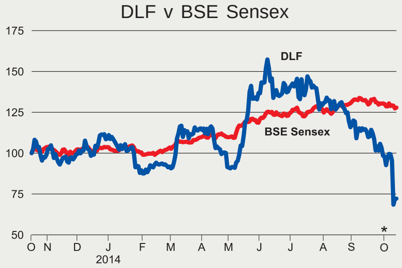
Auditors' reports reveal bluntly the disturbing and disappointing state of affairs of the real estate industry. It is essential to read their observations before evaluating real estate and construction companies for investment. These documents provide ample hints about the poor corporate governance standards followed by these companies. Also, the reports highlight the fact that real estate companies are stretching it too far almost on all the fronts: funding and financing, acquisition of land, project execution, dealing with customers, accounting, transparency, and liquidity.

The auditors of one of the leading north-based real estate companies, **DLF**, have drawn attention to the penalty imposed by the Competition Commission of India (CCI). On a complaint led by the Belaire/Park Place Owners' Associations, the competition regulator had imposed a penalty of Rs 630 crore in August 2011. Further, the CCI restrained the developer from formulating and imposing allegedly unfair conditions on buyers in Gurgaon and ordered to suitably modify these conditions.

As per the order

The Supreme Court has directed DLF to deposit Rs 630 crore in an interest-bearing fixed deposit within three months

Relative performance of DLF v BSE Sensex



Base=100 as on 17 October 2013 *17 October 2014
Face value: Rs 2.

The CCI orders were challenged by DLF on several grounds by filing appeals with the Competition Appellate Tribunal (Compat). In May 2014, Compat held DLF a dominant player in Gurgaon and considered certain actions by it to be violative of the Competition Act, 2002. Compat upheld the penalty imposed by the CCI.

DLF approached the Supreme Court (SC) against the Compat order. The SC in August 2014 admitted the appeal. The SC directed DLF to deposit Rs 630 crore in an interest-bearing fixed deposit with the court within three months. The entire deposit is subject to the final decision of the SC. The company is taking steps to comply with the directions of the SC.

The auditors of DLF have put forth a few more observations. However, the opinion of the auditors is not qualified on these matters. The financial statements of DLF Homes Panchkula, have been certified by the management. The subsidiary had total assets of Rs 645.9 crore and reported total revenue of Rs 173 crore in the fiscal ended March 2014 (FY 2014).

Further, financial results of Silverlink Resorts has been included based on the management's accounts on a line-by-line basis in the consolidated financial statements. From 7 February 2014, it ceased to be a subsidiary of DLF and reported revenue of Rs 445.7 crore in FY 2014.

The auditors of **Unitech** have expressed qualified opinion on the recoverability of certain outstanding amounts. An amount of Rs 771.9 crore was outstanding comprising advances for purchase of land, projects pending commencement, advances paid to joint ventures (JV) entities, and collaborators on 31 March 2014 (Rs 924.8 crore in FY 2013). According to the company, these advances were given in the normal course of business to land-owning companies, collaborators, projects and for purchase of land.

As per the information made available to the auditors, Rs 152.9 crore were recovered and/or adjusted in FY 2014. Based on internal assessments and evaluations, Unitech is of the opinion that these advances are recoverable and/or adjustable and, thus, no provision was made.

As per Unitech, constructive and sincere efforts are being put in the recovery of these advances. It is confident of recovery in the foreseeable future. However, the auditors are unable to ascertain whether all the remaining outstanding advances are fully recoverable or the advances are outstanding or have remained unadjusted for a long period of time. The auditors have further stated that neither the amount recovered nor the rate of recovery in FY 2014 indicated that all of the remaining outstanding amounts are fully recoverable. The outstanding advances are significant considering Unitech's net worth of Rs 9869.8 crore and market capitalization of Rs 4539.3 crore.

Further, the auditors of Unitech have drawn attention to a few other matters as well without any qualification. First, no adjustments were considered necessary for recoverability of the balance of short-term loans aggregating to Rs 429.6 crore (Rs 367.4 crore in FY 2013) and investments aggregating to Rs 27.5 crore (27.4 crore in FY 2013) as the matters are sub-judice. This financial exposure was to subsidiary Unitech Vizag Projects and the project for development of amusement-cum-theme park at Chandigarh. Both these projects are in a limbo. The company is fighting a legal battle with the state government authorities of Andhra Pradesh and Chandigarh.

Second, the auditors have not audited the financial statements of the Singapore branch of Unitech, with total assets of Rs 5 lakh. The finncial statements are in the process of being audited by other auditors. The annexure to the auditors' report reveal further issues. The mandatory investments of public deposits were not made as per the Companies (Acceptance of Deposit) Rules, 1975, in FY 2014. Further, the company has delayed repayment of matured fixed deposits.

Unitech has received notice of default for term loans and non-convertible debentures. The firm had outstanding delays as on balancesheet date including interest to banks and financial institutions. It had outstanding delays on 31 March 2014 including interest to debenture holders aggregating to Rs 260.2 crore and delays ranging from one to 336 days.

Prestige Estates Projects's trade receivables are outstanding for more than six months from the date they were due including Rs 110.7 crore relating to dues from certain parties. These receivables have been considered good and recoverable based on the continuing business relationships and arrangements that the company has with these parties. This has been put as 'emphasis of matter' by the auditors and opinion is not qualified in this respect. As per the annexure, the auditors have noticed delays in depositing Employers' Provident Fund (EPF), service tax and tax deducted at source (TDS).

The auditors of **Parsvnath Developers** have noticed 94 instances of delays in repayment of dues to banks ranging from one day to 109 days for amounts varying from Rs 1.2 lakh to Rs 12.5 crore. Further, 72 instances of delays were noted ranging from one day to 365 days for amounts varying from Rs 5.4 crore to Rs 5 crore in repayment of dues to financial institutions and 21 instances of delays were noted ranging from 1 day to 207 days for amounts varying from Rs 20.3 lakh to Rs 31.2 crore in repayment of dues to debenture holders.

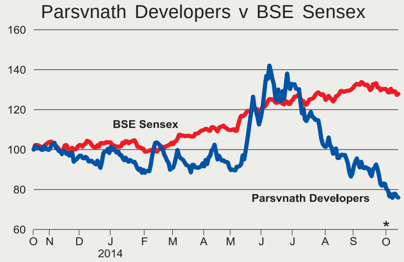
Besides, the auditors of Parsvnath noticed delays in deposit of statutory dues such as EPF, employees' state insurance, income tax, TDS, sales tax and service tax in FY 2014. The undisputed income tax of Rs 105.7 crore for FY 2012, Rs 61.3 crore for FY 2013 and advance income tax of Rs 7.1 crore for FY 2014 were outstanding on 31 March 2014 for more than six months from the date they became payable.

The real estate industry is passing through recession due to slowdown in demand. There is lack of adequate sources to fund real estate projects, resulting in delayed realisations from customers and lower availability of funds to discharge the liabilities,

Delayed dues

The auditors of Parsvnath Developers have noticed 94 instances of delays in repayment of dues to banks for amounts varying from Rs 1.2 lakh to Rs 12.5 crore

Relative performance of Parsvnath Developers v BSE Sensex



Base=100 as on 17 October 2013 *17 October 2014
Face value: Re 5.

Wrong target

The minority shareholders of DLF are bearing the burnt of the action by the promoters

Stock market regulator Securities and Exchange Board of India (Sebi) has barred DLF, a real estate giant struggling to retain its market share, from assessing the capital market for three years. Also, Sebi has banned the promoters including its founder-promoter and patrich KP Singh from assessing the market in its order issued in October 2014. The company is likely to approach the Securities Appellate Tribunal against the Sebi order.

The penal action is in response to the non-disclosure of crucial information such as legal cases against DLF and disclosures pertaining to subsidiaries in the initial public offering document in 2008.

The real estate company is reeling under massive debt (Rs 22945 on 30 June 2014) and focussing on trimming it since the last few years without any major success. This exercise of cutting debt would become increasingly difficult with the ban on assessing the financial markets.

Indeed, the ban comes at the worst of times when the stock market is showing sign of revival and offloading assets has become relatively easier. Moreover, DLF will not be in a position to float real estate investment trust (REIT), which could have enabled it to reduce debt. The real estate industry continues to struggle with lower demand, which means difficulty in serving debt.

Ideally, the Sebi order should have been against the promoters who are at default rather than the company. The non-disclosures or inadequate disclosures are by the promoters and not by the company. The minority shareholders of DLF had to bear the burnt of the action by the promoters. Reacting to the Sebi order, the stock plunged 28.5% on 14 October 2014.

The Sebi order highlights the corporate governance issues in the real estate industry. Moreover, the industry is marred with questionable and sharp practices. No wonder, real estate stocks are facing investors' apathy.

according to Parsvnath. Thus, it has witnessed delays in payment of principal and interest on its borrowings and discharge of statutory liabilities and income tax. The developer is exploring alternative sources of finance including sale of non-core assets to overcome the temporary liquidity crunch.

The auditors of **Peninsula Land** have drawn attention to the fact that the company has taken the balancesheet route instead of the profit and loss (P&L) account. The company has given effect to the amalgamation and merger of four entities with it. The restated and recorded values of work-in-progress and the resultant adjustment in goodwill and merger-scheme expenses were adjusted directly against general reserve, capital reserve and accumulated profit. This is not in conformity with the relevant provisions of Accounting Standard (AS)-14 on accounting for amalgamations and AS-5 on net profit or loss for the period, prior period items and changes in accounting policies. Had the company adopted AS-14 and AS-5, profit after tax would have been lower by Rs 293.1 crore.

Peninsula's employee benefit expenses included Rs 9.5 crore paid as contracted remuneration to three executive directors in whole-time employment. Of this, Rs 3.2 crore was in excess of the limits specified in the Section 309 of the Companies Act, 1956. This was the result of lower profit reported in FY 2014. It has applied to the Central government for approval for excess remuneration, which is pending. The company will be recovering the excess remuneration if the Central government declines its application.

Peninsula has recognised expenses and income for ongoing projects based on estimated costs and overall profitability of a project, as per its judgment. The auditors have relied on the judgment as the matter is technical.

The minimum alternate tax (Mat) credit entitlement of Rs 60.4 crore (Rs 50 crore in FY 2013) is based on future performance as projected by Peninsula. The auditors have relied on the judgment of the management. Lastly, the auditors have noted several delays in depositing TDS, service tax, EPF, value-added tax (Vat), and works contract tax.

The auditors of **Godrej Properties** (GPL) have relied on the management's estimates of the percentage of completion costs to completion and projections of revenue expected from projects owing to the technical nature of estimates for projects under long-term contracts.

GPL is following the percentage of completion method of accounting. Accordingly, the revenue from sale of properties is recognised in the P&L account in proportion to the actual cost incurred as against the total estimated cost of projects under execution on transfer of significant risk and rewards to the buyer. Revenue was recognised up to 31 March 2012 only if the actual project cost incurred was 20% or more of the total estimated project cost.

Oberoi Realty's consolidated financial statement included results of two JVs that are unaudited management accounts. The total assets of these two JVs accounted for Rs 255.7 crore on 31 March 2014.

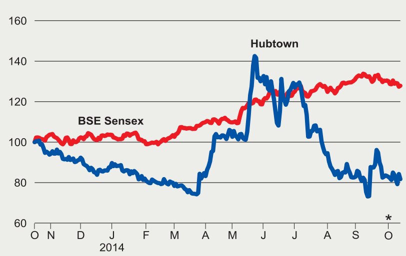
Puravankara Projects incorporated its share of loss of Rs 1.7 crore from an associate company for FY 2014. The financial statements of this particular associate have not been audited. Further, the auditors have noticed delays in payment of undisputed statutory dues in FY 2014.

Housing Development and Infrastructure (HDIL) has delayed repayment of dues to debenture holders, financial institutions and banks. An amount of Rs 252 crore towards principal and Rs 46.3 crore towards interest to non-cumulative debenture holders, Rs 10.2 crore towards interest on term loans from financial institutions, and Rs 28.7 crore towards principal and Rs 24.2 crore towards interest on term loans from banks were due on 31 March 2014.

Need for a nod

Hubtown has declared dividend of Re 1 per equity share on face value of Rs 10. The concurrence of the secured debenture holders is required

Relative performance of Hubtown v BSE Sensex



Base=100 as on 17 October 2013 *17 October 2014
Face value: Rs 10.

HDIL's undisputed statutory dues outstanding on 31 March 2014 for more than six months from the date they became payable included service tax (Rs 40.7 lakh), Vat (3.2 crore), TDS on works contract (Rs 4.9 crore), and income tax deducted at source (Rs 2.8 crore).

DS Kulkarni Developers (DSK) has delayed payment of advance tax of approximately Rs 4.3 crore for a period of more than six months. As per the annexure, the company has continued the guarantee of Rs 100-crore loan taken by erstwhile DSK Global Education & Research Pvt Ltd from Central Bank of India. The terms and conditions of the guarantee are not prejudicial to the interests of DSK.

The board of directors of **Hubtown** has declared dividend of Re 1 per equity share, or 10%, on face value of Rs 10. The concurrence of the secured debenture holders is required in accordance with the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, and the debenture trust deeds.

Hubtown's recognition of expense and income for ongoing projects is based on the estimated costs, as per the judgement of the management. As the matter is technical, the auditors have relied by the estimates provided by it.

Hubtown has not provided for interest and allied costs or accounted for liabilities on funds received from the debenture holders. It is in the process of negotiating with the debenture holders. The impact on the financials after the conclusion of the negotiations is not expected to be material.

The auditors of Hubtown have drawn attention to the non-creation of investments of 15% of the value of the redeemable debentures, which are required to be created, as per the requirement of the general circular issued in February 2013, issued by the Ministry of Corporate Affairs. The company needs to invest Rs 28.2 crore in specified liquid funds.

The projects are under various stages of development and are expected to have net realisable value greater than cost. Being a technical matter, the auditors have relied on the opinion of the management.

Hubtown has issued guarantees and provided securities aggregating to Rs 642.7 crore to banks and financial institutions on behalf of various entities including JVs. These ex-

Red flags

The audit report of DB Realty is one the most qualified among real estate companies

DB Realty is available at 56% discount to its book value of Rs 138.74. The stock reported as all-time high of Rs 540 in March 2010 and is currently hovering at Rs 61.15. However, this should not be mistaken for value buy. A glance at its audit report will reveal this fact. The audit report is one the most decorated among real estate and construction companies.

DB Realty's investment in preference shares of Marine Drive Hospitality & Realty Pvt Ltd (MDH) did not generate any return in the fiscal ended March 2014 (FY 2014). The company has invested Rs 1427.7 crore in MDH. Even though there is a huge investment in these preference shares, there is no control or significant influence on MDH. The company considers the investment as strategic and long term in nature. It believes the current market values and future prospects of this investment are in excess of its investment.

DB Reality's security deposits include Rs 357.5 crore given to various related parties for acquisition of development rights. It is in the process of obtaining necessary approvals for the concerned properties. These properties have current market values significantly in excess of carrying values and are expected to achieve adequate profitability on substantial completion of projects. Therefore, no provision has been made.

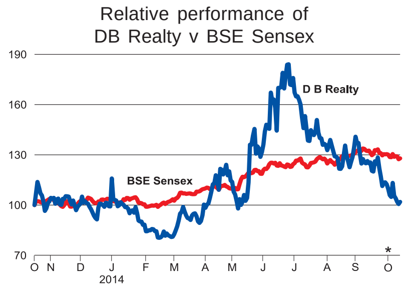
The auditors have commented on the non-availability of contract documents of project advances of Rs 78.2 crore provided to two associate companies. This amount forms part of long-term loans and advances. As per DB Realty, the required documents are under execution.

The project work in progress, valued at cost or net realisable value, whichever is lower, stood at Rs 226.2 crore. The auditors have relied on the company for realisable value of the cost incurred as this is a technical matter.

The financial results include share of losses from investment in two partnership firms and limited liability partnership aggregating to Rs 1.1 crore and investments in these firms aggregating to Rs 145.5 crore. The financial statements of these firms have been audited by other auditors and relied on by the auditors of DB Realty.

Question marks

DB Realty needs to strengthen internal controls. Funds of Rs 232.2 crore have been raised on short-term basis for long-term investment



Base=100 as on 17 October 2013 *17 October 2014
Face value: Rs 10.

A share of loss of Rs 15.2 lakh from one partnership firm is based on the accounts as approved by the company in its capacity as one of the partners. These financial statements have not yet been approved by the other two partners.

The auditors have drawn attention to the guarantees issued and securities of Rs 2897.3 crore provided by DB Realty to banks and financial institutions on behalf of various entities. These are significant in relation to the net worth. As per the company, these are not expected to result in any financial liability. It had a net worth of Rs 3375 crore on 31 March 2014 and market value of Rs 1487.5 crore on 17 October 2014.

DB Realty is a partner in a firm called Dynamix Realty. The auditors have drawn attention to various disclosures of Dynamix. First, the firm had granted unsecured loan to Nihar Construction Pvt Ltd without interest and repayable on demand with no other terms for which the partners had given their consent. The outstanding amount was Rs 8.7 crore in FY 2014 (Rs 24.4 crore in FY 2013), which is considered as good for recovery.

Second, Dynamix had granted unsecured loan with interest of Rs 209.2 crore to Kusegaon Realty Pvt Ltd. It recovered the principal amount in FY 2011. The outstanding amount of Rs 9.1 crore represents interest receivable and is considered good for recovery. The Central Bureau of Investigation (CBI) has made several allegations against Kusegaon in relation to the second generation (2G) telecommunication scam. CBI has alleged that, of these loans, Rs 200 crore was paid as illegal gratification to Kalaignar TV Pvt Ltd. This matter is sub-judice and the impact cannot be ascertained at this stage.

As per the attachment order issued by the adjudicating authority under the Prevention of Money Laundering Act, 2002, the company's assets amounting to Rs 52.1 crore were attached in August 2011. Of these assets, the adjudication authority has taken over the bank balance of Rs 68.9 lakh. This matter is sub-judice. The attachment is in relation to the investigation of the 2G spectrum case.

The auditors of DB Realty have drawn attention to various matters that are sub-judice. The company is confident of recovering loans and advances aggregating to Rs 165.8 crore and investments of Rs 31.2 crore involved in these matters.

DB Realty has recognised the minimum alternative tax (Mat) credit entitlement of Rs 3.75 crore, which is based on the judgment of the management.

The auditors have noted DB Realty's investments aggregating to Rs 40.8 crore and loans and advances aggregating Rs 262.5 crore to certain subsidiaries, jointly controlled entities and associates, which have incurred losses and also have negative net worth. Investments in these entities are considered strategic and long term in nature by the company. It says the entities are in early stage of real estate development. No provision was considered necessary.

As per the annexure on project inventory, DB Realty needs to strengthen internal controls for tenancy payments and project contracting including proper documentation for comparative quotations. Undisputed statutory dues including Employees' Provident Fund, investor education and protection fund, employees' state insurance, income tax, sales tax, service tax, and cess have not been regularly deposited with the appropriate authorities. The company incurred cash losses in FY 2014. Further, as per the annexure, it has defaulted on payment of interest of Rs 1.72 lakh. Funds of Rs 232.2 crore have been raised on short-term basis for long-term investment.

posures are significant in relation to the profit for the year and the net worth of the company. As per the management, these are not expected to result in any financial liability.

Contingent liabilities including corporate guarantees have been identified by Hubtown and relied on by the auditors. Further, the P&L account included share of net loss from investments in JVs aggregating to Rs 29 lakh and investments in these firms aggregating to Rs 8 crore. The current-account balance are based on the financial statements prepared by the management.

Hubtown's investments aggregated to Rs 8.6 crore and loans and advances aggregated to Rs 1049.8 crore in certain subsidiaries, jointly-controlled entities, and associates, which have incurred losses and have negative net worth. These investments are considered strategic and long term in nature. The underlying projects of the concerned entities are at an early stage of development. As per Hubtown, the current market values of certain properties is significantly in excess of their carrying values and are expected to achieve adequate profitability on substantial completion.

Hubtown has delayed repayment of dues to banks, financial institutions and debentures holders. End FY 2014, IT deducted at source of Rs 12 crore, Maharashtra Vat and works contract tax of Rs 1.5 crore, and service tax of Rs 1.9 crore remained outstanding for a period exceeding six months.

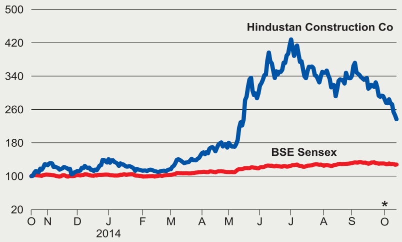
The auditors of **Landmark Property Development Company** have drawn attention to the business-transfer agreement and consideration receivable by the company. A business-transfer agreement was signed in April 2012 between Ansal Landmark Townships Pvt Ltd (ALTPL), Ansal Landmark (Karnal) Township Pvt Ltd (ALKTPL), and Ansal Properties & Infrastructure. Pursuant to the agreement, advances including interest of Rs 49.9 crore given by Landmark Property to ALTPL stood transferred to a new entity set up to run the Karnal project, i.e, ALKTPL.

Following this new arrangement, Landmark Property is entitled to allotment of plots, flats in group housing-cum-commercial properties in the ongoing residential township developed by ALTPL at Ghaziabad in Uttar Pradesh and ALKTPL at Karnal in Haryana. After adjusting Rs 14.4 crore as against the allotment of flats and plots, the remaining amount outstanding was Rs 35.4 crore on 31 March 2014.

No buffer

HCC has an aggregate exposure of Rs 1709.1 crore to subsidiaries. No provision has been made for the diminution in the value of investments and advances

Relative performance of Hindustan Construction Co v BSE Sensex



Base=100 as on 17 October 2013 *17 October 2014
Face value: Re 1.

Hindustan Construction Company (HCC) has an aggregate exposure of Rs 1709.1 crore to subsidiaries HCC Real Estate and HCC Infrastructure in the nature of long-term investments and loans and advances. There is diminution in the value of investments and advances. No provision has been made as, according to the company, the diminution is temporary in nature.

HCC's claims of Rs 518.3 crore outstanding for more than five years under, 'Uncompleted contracts and value of work done', amounting to Rs 445.5 crore; 'Long-term trade receivables', amounting to Rs 34.3 crore; and 'Short-term loans and advances', amounting to Rs 38.5 crore. The company is reasonably confident about recovering this amount considering the contractual tenability, progress of negotiation with clients and based on its past experience.

The 'Long-term trade receivables' of Rs 1056.5 crore and 'Uncompleted contracts and value of work done' of Rs 243.1 crore represent favourable arbitration awards. However, these awards have been challenged by the clients in courts. Of these, awards amounting to Rs 105.4 crore have been set aside by the district and high courts (HCs) against which it has preferred appeals with HCs and the SC. HCC has been legally advised that it has a good case on merit. The recoverability of the sums is dependent on the final outcome of the appeals.

'Trade receivables' of Rs 20.9 crore and 'Uncompleted contracts and value of work done' of Rs 48.1 crore have been outstanding for projects where work has been suspended by clients or have been handed over

Towers in air

Real estate companies are stretching it too far almost on all the fronts: funding and financing, acquisition of land, project execution, dealing with customers, accounting, transparency, and liquidity

COMPANY	NETWORTH (Rs cr)	MCAP (Rs cr)	DEBT/ EQUITY	INTEREST COVERAGE	P/BV	AUDITORS CONCERNS	COMMENTS
Ansal Properties	1633.10	452.50	0.46	1.72	0.28	167.30	Project inventory
DS Kulkarni	501.40	248.50	0.90	4.68	0.54	100.00	Corporate guarantee
DLF	16643.50	19663.60	0.95	1.54	0.72	630.00	Penalty imposed by CCI
HCC	1263.40	1798.60	3.89	1.15	2.98	1709.10	Exposure to subsidiaries
Hubtown	1692.20	836.50	0.85	1.06	0.49	642.70	Guarantees and securities
Mahindra Lifespace	1137.30	2180.20	0.47	2.54	1.73	100.00	Project advances
Parsvnath	2681.30	872.50	0.55	1.35	0.31	174.10	Outstanding income tax and advance tax
Prestige Estates	2971.10	8377.50	0.59	4.87	2.33	110.70	Outstanding trade receivables
Unitech	9869.80	4539.30	0.38	1.46	0.37	771.90	Advances towards projects
Unity Infraprojects	843.00	164.90	1.87	1.01	0.19	315.70	Claims under arbitration

Year ended March 2014. Market capitalization is as on 16 October 2014. Networth is as per standalone books. Auditors concerns refer to comments and qualification and amounts involved. Only select comments and qualifications considered for the table. Book value and debt-to-equity as on 31 March 2014. Interest coverage is calculated as net profit + tax + interest / interest and is as on 31 March 2014.
Source: Capitaline Databases

to clients. HCC is confident about recovering this amount based on the continuous dialogue with the clients.

The managerial remuneration paid to the chairman and managing director of HCC was in excess by Rs 10.1 crore per annum in FY 2013 and in FY 2014. The company has made an application to the Central government, which is pending.

As per the annexure to the audit report of HCC, the internal controls over accounting of consumption, wastages and material reconciliation need further strengthening. The scope of internal audit system needs to be enlarged to cover project related cost-to-complete workings and certain areas of head-office accounting.

Ajmera Realty & Infra has consolidated the unaudited financial statements of foreign subsidiary based on the figures authenticated by the management. The foreign subsidiary had total assets of Rs 151.6 crore on 31 March 2014.

Marathon Nextgen Realty invested Rs 125 crore in Parmeka Pvt Ltd (PPL) in FY 2012. In the terms of memorandum of understanding between Marathon and PPL, Marathon will be entitled to receive 25% of the profit of PPL. The profit would be accounted for when PPL generates profit from its activities.

The auditors have drawn attention to the development agreement by Marathon in February 2007 for development of a property in Bangalore with the owner of the land. The agreement is still in force. However, the relevant confirmation is yet to be obtained from the party. The development work is to commence once the regulatory compliances are received. The firm paid an advance towards the JV on the basis of the agreement signed. The advance paid is adequately secured by collateral in the form of unencumbered land based on an agreement between Marathon and the power of attorney holders in the form of registered document.

The auditors of **Omaxe** have reported delays in certain cases in payment of undisputed statutory dues. Further, the consolidated financial statements include management certified accounts of one of the wholly owned subsidiary, Rohtas Holdings (Gulf), which had total assets of Rs 24.7 crore on 31 March 2014.

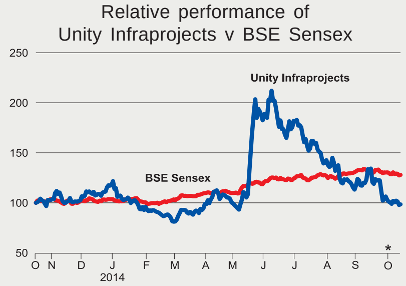
Ansal Properties & Infrastructure claimed exemption of Rs 34.5 crore up to 31 March 2013 under Section 80 IA of the Income Tax Act, 1961, being tax on profit arising out of the sale of industrial park units. However, the notification by the Central Board of Direct Taxes (CBDT) is pending. The CBDT rejected the initial application. In response, the company filed a review petition. The firm has taken the opinion of a senior counsel. According to the senior counsel, the review petition satisfies all the conditions specified in the relevant scheme. No exemption was claimed in FY 2014 as there were no sales of industrial park units.

Ansal Properties is carrying project inventory of Rs 167.3 crore for one of its group housing projects. It has applied to the authority for developing the project on the basis of the revised scheme announced by the concerned authority. Its application has been approved, envisaging developing the project on a smaller piece of land equivalent to the amount paid and surrendering the balanced project land. Pending final decision of the authority and fulfilment of conditions precedent, the company believes there is no impairment in the value of the project.

Discrepancies were noticed during physical verification of fixed assets. These have been recorded and accounted in the books of accounts. Ansal Properties had not maintained liquid assets of Rs 12.7 crore for fixed deposits accepted from the public as stipulated by regulation. The amount was maintained after the stipulated time. Income tax amounting to Rs 6.6 crore was deposited with delay. Ansal Properties has delayed repayment of dues including interest to banks and financial institutions.

Billing dispute

Due to price escalations and other factors, the cost of a project of Unity Infraprojects increased. The clients have disputed the additional claims



Base=100 as on 17 October 2013 *17 October 2014
Face value: Rs 2.

Unity Infraprojects executed a project on the basis of work orders received from the clients. However, due to price escalations and other factors, the cost of the project increased, leading to additional claims. The clients have disputed the additional claims. The firm has opted for arbitration proceedings. The additional claims amounting to Rs 315.7 crore are under arbitration. The company has accounted these amounts as 'Revenue'.

Unity defaulted in repayment of dues to banks and financial institutions in FY 2014, which were honoured subsequently, except the amount of default aggregating to Rs 99.4 crore, which remained outstanding on 31 March 2014.

Nitesh Estates advanced Rs 15.7 crore on 31 March 2014 to various parties for purchase and joint development of land and properties. Considering the timeline of these advances, these should have been converted into acquired land or joint development agreements. Else, these amounts should have been recovered. The company continues to believe that joint development agreements or acquisition of land will be consummated. In the event the agreements are not consummated, these advances can be recovered. In the absence of sufficient documentation to justify the timing around when these advances are capable of being converted into joint development agreements or result in acquisition of land and considering that they are not secured, the auditors are not able to comment on the recoverability.

Mahindra Lifespace Developers's other loans and advances included project advances of Rs 100 crore pending for over two years relating to a project whose commencement has been delayed due to non-performance by vendors. The company has initiated action against the vendors to protect its interest and for resolving the dispute to enable commencement of the project.

Mahindra Lifespace has invested Rs 18 crore in equity shares of wholly owned subsidiary Mahindra Infrastructure Developers (MIDL). MIDL has further invested Rs 15 crore in the equity shares of New Tirpur Area Development Corporation (NTADCL). Due to adverse business conditions, NTADCL is incurring losses and its net worth is eroded. The company expects a turnaround of NTADCL in future considering the various steps contemplated by the stakeholders such as infusion of equity capital, debt restructuring, increase in tariff rates of water and various other concessions from the government of Tamil Nadu. It believes there is no permanent diminution in the value of the investments in NTADCL and MIDL as well. Considering the long-term and strategic nature of the investment, no provision was considered necessary.

SRS Real Infrastructure needs to strengthen the internal control system for purchases of inventory. It has an internal audit system, the scope and coverage of which requires to be further enhanced to commensurate with the size and nature of the business and activities. Besides, the auditors have reported slight delay in payment of undisputed statutory dues.

The auditors of **MVL** have reported non-availability of confirmations of some of the debit and/or credit balances of trade receivables, trade payable, loans, advances, bank accounts and deposits. In the absence of confirmations, it was not possible to determine any provision. The undisputed statutory dues outstanding for a period of more than six months stood at Rs 2 crore on 31 March 2014. MVL has overdues amounting to Rs 41.6 crore towards banks. These defaults have occurred on different dates starting from July 2012. It has applied for restructuring of these loans. The proposals are under consideration of the banks.

Ansal Housing and Construction deposited service tax, sales tax and advance tax in FY 2014 with delay. **Ansal Buildwell** defaulted in repayment of dues amounting to Rs 3.2 crore to a bank. These dues were not paid till the date of the annual report. Similarly, the auditors of **Anant Raj** have reported few instances of slight delay in payment of undisputed statutory dues. **Emami Infrastructure** incurred cash losses in FY 2014.

Conclusion

Several real estate and construction companies are available at a significant discount to their book values (BVs). Moreover, many companies have managed to reduce their debt to seemingly manageable levels. However, investors should exercise extreme caution while evaluating these companies.

First, the debt level could have moderated. But these moderate levels could be an unbearable burden as the industry is struggling. The operating and net profit levels are not robust enough to service the debt. This is clearly evident from the fact that several companies have delayed and/or defaulted on repayment of loans and in depositing undisputed statutory dues such as EPF and income tax. In short, the liquidity situation continues to be grim.

Second, and more importantly, the valuation in terms of price to BV could be alluring. The issue, however, is about poor corporate governance and transparency. For instance, when it comes to consolidation of books of accounts, the unaudited accounts certified by the management have been taken into account by many companies. There is clear conflict of interest. How can minority shareholders rely on such books of accounts that are not audited but certified by the management?

Further, there are several cases of advances and investments where there is no clarity on recovery. These issues are hanging fire for many years. These exposures are significant and can wipe out an entire or significant portion of the net worth.

Investors should focus on the quality of stocks or corporate governance issues rather than valuation when it comes to assessing real estate and construction companies for investment. ■

Investment Strategy

The coming paper flood

Due to their capital-intensive nature, focus on sources of funds and the strength of the balance sheets of PSUs

Public sector undertakings (PSUs) discussing big investments but having little to show, and that also after inordinate time lag, is a common scene. Lately, the market is not taking the mega plans of PSUs seriously. This is because, year after year, it is the same old story of PSUs making big-bang announcements but achieving little on the ground. Indeed, PSUs are notorious for significant delays, cost overruns and even abandoning projects altogether.

Can this change with the new government? Since the National Domestic Alliance (NDA) government assumed office end May 2014, the level of optimism about a change in the fortunes of PSUs has gone up. Moreover, Prime Minister Narendra Modi is known for turning around financially sick state government-owned companies in the capacity of chief minister of Gujarat.

The new government has pursued certain crucial policies of the previous government such as deregulation of petroleum prices. Prices of politically-sensitive petrol, diesel and cooking gas are no longer capped. Now these products are more or less market-driven. This was unbelievable a few years ago.

PSUs involved in exploration and production (E&P) of oil have mega investment plans in place. The downstream oil refining and marketing companies have their own large-scale plans to consolidate their position in the market through expansion. Oil refiners and marketers are looking aggressively at diversifying into other activities in the energy value chain such as E&P.

The Union government has already decided to close a few non-viable PSUs and selected some for revival. This is good news as there is no point in putting good money after bad. This time, therefore, there seems to be greater chances of PSUs delivering on their mega capex plans. With a clear majority, the NDA government is better placed to drive growth of PSUs. Already, it has taken initiatives to fast-track environmental and forest clearances.

Capital Market glanced through the annual reports, chairmen's speeches, and presentations to get a sense of PSUs' investment plans. PSUs have better chances to excel if they manage to execute their capex plans on time and without any cost overrun. Indeed, investments by PSUs are necessary for their growth and survival. It is essential that NMDC and Coal India (CIL) ramp up their production. Both are cash-rich. What these companies need is the political will to excel.

Mostly, PSUs follow the Five-Year Plan for capital investment and execution. The new government has scrapped the Planning Commission. However, the current 12th Five-Year Plan is expected to continue.

Country's most valuable PSU and among the worlds leading E&P company **Oil & Natural Gas Corporation** (ONGC) has drawn an ambitious 'Perspective Plan 2030' to transform itself into an integrated energy major. The PSU is targeting to double production to over 130 million tonnes of oil equivalent (mtoe) by calendar year (CY) 2030, with 50% contribution coming from overseas. The firm intends to invest Rs 11 trillion over the fiscal ending March 2013) (FY 2013) to FY 2030 as against Rs 2.65 trillion under the 12th Five-Year Plan (FY 2013-17). It is aiming for around six-fold increase in production from overseas subsidiary ONGC Videsh (OVL) to 60 mtoe by FY 2030.

Also, ONGC aims to strengthen downstream linkages in alternate energy, LNG and petrochemicals. It is targeting 30% of the revenue from non-E&P verticals. The PSUs needs to grow at 4% against its historic figure of 2% to achieve these targets.

ONGC reported production of 59.2 mtoe in FY 2014. This included its own output, share in joint ventures (JVs) and production of OVL (8.35 mtoe). The PSU has reported decline in domestic production over the last five years. On the contrary, OVL has recorded a reasonably robust growth in production. The company needs to put greater focus on enhancing output through consistent and massive investment.

Subsidiary of ONGC **Mangalore Refinery and Petrochemicals** (MRPL) has signed a memorandum of understanding with the government of Karnataka for setting up a linear alkyl benzene (LAB) plant and to expand its refining capacity over the next three to six years, subject to techno-economic viability and availability of required infrastructure at Mangalore in Karnataka, with an estimated capital investment of Rs 8500 crore. LAB is used for producing raw materials to manufacture detergents.

Country's largest oil refiner **Indian Oil Corporation** (IOC) has set capex target of Rs 56200 crore for various projects in the 12th Five-Year Plan as against Rs 48655 crore in the previous Five-Year Plan. It has chalked out investment plans worth Rs 12000 crore for the current fiscal. The PSU had invested Rs 9400 crore in FY 2013 and Rs 16700 crore in FY 2014,.

IOC will be shortly commissioning its 15-million tonne per annum (mtpa) refinery project at Paradip in Odisha. This will improve competitiveness at the marketplace and also provide operational flexibility. At present, its pipelines division is implementing 13 projects at a cost of around Rs 6800 crore to further expand the network of crude oil and product pipelines. The ongoing expansion will result in additional throughput capacity of 15.5 mtpa and a pipeline length of over 3,200 km. Also, several LPG pipeline projects are planned.

At present, IOC owns and manages the country's largest pipeline network of over 11,000 km to transport crude oil, product and gas. The pipeline throughput stood at 73.1 million tonnes in FY 2014.

Oil India (OIL) has developed a capital expenditure plan to accelerate its exploration and development activities in its existing acreages. The company plans to incur capex of around Rs 19000 crore in the 12th Five-Year Plan. Lately, the PSU is focussing on non-conventional and renewable energy resources like wind power projects, solar power projects and shale oil and gas.

In July 2014, OIL acquired 50% equity stake in WorldAce Investments, a Cyprus-based wholly owned subsidiary of Petroneft Resources, which owns licence 61 in the Tomsk region in Russia. This marks its entry into Russia and a significant ramp-up of the overseas E&P portfolio.

To bridge the gap between sales and its refining capacity, **Hindustan Petroleum Corporation** (HPCL) is modernising its Visakh refinery project to increase the refinery capacity to 15 mtpa from 8.3 mtpa. Additionally, it will be undertaking expansion of its Mumbai refinery to increase existing capacity to 10 mtpa from 6.5 mtpa. The company reported combined refining throughput of 15.51 mtpa, with capacity utilisation of 105%, in FY 2014.

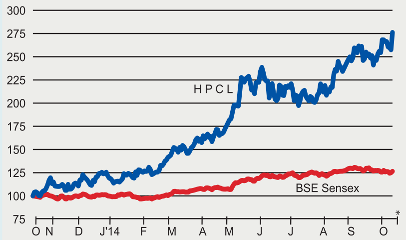
HPCL has formed a JV, HPCL Rajasthan Refinery, with the government of Rajasthan as an equity stakeholder. The JV will be setting up a nine-mtpa refinery-cum-petrochemical complex in Rajasthan at a capital cost of Rs 37000 crore. This refinery will be processing the indigenous Mangala crude oil produced from local Cairn India oil fields.

Lastly, HPCL as an anchor tenant has finalised a grass root 15-mtpa petrochemical-cum-petroleum refinery at Visakhapatnam. It has plans for implementation of this project in collaboration with domestic and international oil and petrochemical companies after conducting the feasibility study and financial assessment.

More output

HPCL is modernising its Visakh refinery to increase the capacity to 15 mtpa and the Mumbai refinery capacity to 10 mtpa

Relative performance of HPCL v BSE Sensex



Base=100 as on 21 October 2013 * 20 October 2014
Face value: Rs 10.

HPCL acquired 11.25% and 9.75% participating interest in two E&P blocks in Australia in FY 2014. This is a significant step in creating a balanced portfolio of upstream asset.

Bharat Petroleum Corporation (BPCL) had worked out investment plans worth Rs 40000 crore on upcoming and ongoing projects over FY 2012 to FY 2016. It incurred capex of Rs 5560 crore in FY 2014 as against Rs 3544 crore in FY 2013.

In a mega investment plan, BPCL will be enhancing the capacity at the Kochi refinery to 15.5 mtpa from 9.5 mtpa. Further, it will be carrying out modernisation of the existing facilities to produce superior quality fuels. This project involves capital outlay of Rs 16504 crore and is expected to be completed in May 2016. It is almost half way through.

At the Mumbai refinery, BPCL will be installing integrated crude and vacuum distillation unit of six mtpa capacity to improve mechanical integrity of the existing old standalone crude and vacuum units at a cost of Rs 1419 crore. Further, the company will be expanding the marketing network and infrastructure as well. Also, the PSU is working on multiple oil and gas pipeline projects.

Gail India has developed a strategy for FY 2011-FY 2020. By FY 2020, it wants to emerge as an integrated hydrocarbon player with significant upstream, midstream and downstream interests. The company owns approximately 11,000-km network of pipeline in the country, which it wants to take it to 15,000 km.

Gail plans to set up LNG terminals and regasification units to handle increased LNG volumes. Also, it has executed a regasification agreement with Petronet LNG for regasifying 2.5 mtpa of LNG in the planned expansion at the Dahej unit in Gujarat.

In the downstream segment, Gail aspires to be among the top petrochemical players by expanding existing capacities, setting up new plants, and acquiring equity stakes in upcoming projects. At present, it is doubling the existing petrochemical capacity at Pata, Uttar Pradesh. Also, it is setting a new petrochemical plant in Assam through subsidiary Brahmaputra Cracker & Polymer. Another petrochemical plant at Dahej is being set up through a JV.

Gail is participating in 20 E&P blocks: 18 in India and two in Myanmar. Production has already started in four blocks. The PSU is evaluating the acquisition of overseas assets, primarily those with hydrocarbon discoveries that are under production or likely to start production in near future.

In the coming years, Gail is targeting additional 40-50 cities or geographical areas through its subsidiary and JVs for city gas distribution business.

NTPC intends to increase its capacity by almost three times to 1,28,000 MW by FY 2032. The incremental capacities are at various stages of development: under construction (22,414 MW), bids invited from vendors (6,800 MW), feasibility report approved (17,900), and under-feasibility study (37,758 MW). In the intermediate period of FY 2013 to FY 2017, the PSU intends to add 14,228 MW. It added 6,005 MW to its existing capacities in FY 2012 to FY 2014.

At present, with an installed capacity of 43,128 MW, NTPC contributes around one-fourth to the power generation of the country and accounts for 18% of the total thermal installed capacity.

Also, NTPC is looking at acquiring distress power assets. As per estimates, power capacities of around 49,700 MW are in a limbo owing to lack of fuel and under recovery of costs. It has already invited expression of interest for coal-based thermal power projects in the country and abroad for stranded projects.

World's largest coal-mining company **CIL** has 148 on-going projects, with capacity of 484 mt and a sanctioned capital outlay of Rs 39821.5 crore, under various stages of implementation. In FY 2014, 74 ongoing projects contributed 239.9 mt. The envisaged contribution from 134 ongoing projects is 335.93 mt by FY 2017.

Of these 148 ongoing projects, 95 have both forestry and environmental clearances. Environmental clearances are awaited for four projects, forestry clearances for 27 projects, and both forestry and environmental nods for the remaining 22 projects.

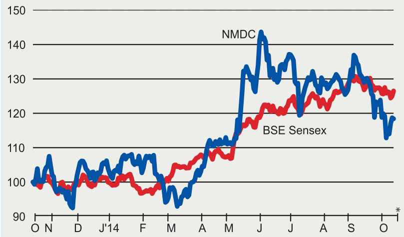
Further, CIL has identified 126 projects, with an estimated capacity of 440.99 mt, which will be taken up in the current 12th Five-Year Plan ending FY 2017. Of these, 60 projects can contribute around 88 mt by FY 2017. Till date, 11 projects with potential capacity of 80.52 mt, with an investment of Rs 11800 crore, have received approval. CIL reported production of 462.42 mt and offtake 471.58 mt in FY 2014.

NMDC is in the process of setting up a three-mtpa steel plant at Nagarnar in Chhattisgarh. Construction is going on in full swing. It is in possession of about 2,120 acres of land for the steel plant, township and other facilities. The PSU will be incurring capital cost of Rs 15525 crore towards this project. This project has received the necessary statutory clearances including environmental clearance from the Ministry of Environment and Forests and the government of Chhattisgarh.

Greenfield expansion

NMDC is setting up a three-mtpa steel plant at Nagarnar in Chhattisgarh, with necessary environmental clearance, at a capital cost of Rs 15525 crore

Relative performance of NMDC v BSE Sensex



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Face value: Re 1.

Additionally, NMDC has taken several projects such as the Bailadila project to enhance production at capital outlay of Rs 607 crore, augmenting production capacity at the Donimalai project (Rs 898.5 crore) and a 1.2-mtpa pellet plant at Donimalai (Rs 572 crore)

NMDC reported the highest-ever production of 300.25 lakh tonnes of iron ore in FY 2014 (271.84 lakh tonnes in FY 2013). The company incurred capital expenditure of Rs 2518 crore, the highest- ever since its inception in FY 2014.

Petronet LNG is in the process of expanding capacity of its Dahej LNG terminal to 15 mtpa from 10 mtpa. The expansion involves construction of two additional storage tanks, additional regasification facilities of five-mtpa capacity, and four LNG truck loading bays. It has obtained all the statutory clearances for the expansion project. The project is expected to be completed by FY 2016.

Further, Petronet has proposed setting up a third regasification terminal at Gangavaram in Andhra Pradesh. It has signed a binding term sheet with Gangavaram Port.

At present, **Steel Authority of India** (Sail) is executing growth plan to enhance its hot metal production to 23.5 mtpa from the current level of 14.4 mtpa in FY 2014. This modernisation and expansion plan is undertaken at its five steel plants at Bhilai, Bokaro, Rourkela, Durgapur and Burnpur in Bihar. The PSU incurred capex of of Rs 9890 crore in FY 2014 and has budgeted capex of Rs 9000 crore for the current fiscal.

In the next phase of expansion, Sail has drawn a long-term Strategic Plan 2025. It wants to achieve production of 50 mtpa of hot metal. If successfully implemented, the company will emerge among the top steel companies in the world. The good part about its expansion plan is the fact that the possesses land bank, iron ore reserves for captive use and other necessary ingredients for expanding capacities.

Indraprastha Gas (IGL) will be consolidating in the existing areas of operation and in new geographies as well. For consolidating its presence in Delhi and the National Capital Region, it will be investing Rs 240 crore in FY 2015. It has aggressive plans to expand the pipeline infrastructure to increase the coverage and penetration of its network.

Recently, IGL acquired 50% equity in Central UP Gas, which distributers in Kanpur and Bareilly in Uttar Pradesh. The PSU has taken 50% stake in Maharashtra Natural Gas, a city gas distribution company operating in Pune, Maharashtra. The company will be bidding for gas distribution network in new cities. Incorporated in 1998, IGL, is a JV between Gail and BPCL, in which the government of Delhi also control 5%.

Neyveli Lignite Corporation has installed capacity of 2,740 MW. The company is implementing several projects, which will take its total power generating capacity to 4,701 MW. These projects include

Sense of purpose

PSUs follow the Five-Year Plan for capital investment and execution. Though the Planning Commission has been scrapped, the current 12th Five- Year Plan is expected to continue

COMPANY	TOTAL DEBT (Rs cr)	DIVIDEND (%)	NETWORTH (Rs cr)	MARKET CAP (Rs cr)	CAPEX (Rs cr)	COMMENTS
BPCL	33152.3	170	19440	48201	40000	Upcoming & ongoing project over the period of FY 2012 to 2016
Coal India	177.8	290	42404	220346	39822	148 ongoing projects
HPCL	47993.8	155	14000	16791	37000	9-million-tonne refinery-cum-petro-chemical complex in Rajasthan
IOC	94915.9	92	67913	87588	56200	Various projects between FY 2013 and FY 2017
MRPL	9792.7	0	7069	10419	8500	Various projects over the next three to six years
NMDC	0.0	850	29947	62543	15525	3-million-tonne steel plant at Nagarnar in Chhattisgarh
ONGC	49112.8	190	172151	339653	1100000	Various projects over FY 2013 and FY 2030
Oil India	10146.4	215	20482	34114	19000	Exploration and development activities in FY 2013-17
SAIL	26089.6	20.2	43307	31537	9000	Expansion plan in FY 2015

Market capitalisation as on 16 October 2014. Debt, dividend and net worth for the fiscal ended March 2014, Consolidated financials
Source: Capitaline Database

Capita Telefolio subscription options

Option No.	Subscription@ (Rs)	1 Year	2 Year	3 Year
1	F'day Telefolio	7,500 (52 recs @ Rs 144 each)	11,500 (104 recs @ Rs 112 each)	14,500 (156 recs @ Rs 93 each)
2	W'day Telefolio	7,500 (52 recs @ Rs 144 each)	11,500 (104 recs @ Rs 112 each)	14,500 (156 recs @ Rs 93 each)
3	F'day Telefolio Plus	10,000 (52 recs @ Rs 192 each)	16,000 (104 recs @ Rs 157 each)	20,500 (156 recs @ Rs 131 each)
4	W'day Telefolio Plus	10,000 (52 recs @ Rs 192 each)	16,000 (104 recs @ Rs 157 each)	20,500 (156 recs @ Rs 131 each)
5	F'day Telefolio + W'day Telefolio	13,000 (104 recs @ Rs 125 each)	21,000 (208 recs @ Rs 101 each)	26,000 (312 recs @ Rs 83 each)
6	F'day Telefolio Plus + W'day Telefolio Plus	18,000 (104 recs @ Rs 173 each)	29,500 (208 recs @ Rs 142 each)	36,500 (312 recs @ Rs 117 each)

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a 500-MW lignite-based expansion project, a 1,000-MW Neyveli new thermal power station at Neyveli, a 51-MW wind-power project at Kazhuneerkulam, Tamilnadu, a 10-MW solar power project at Neyveli, and a 1000-MW coal-based power project at Tuticorin through a JV subsidiary company.

Further, Neyveli is considering implementing power projects of 6,505-MW capacity over the next eight years. The capacity of lignite mining is proposed to be increased to 36.25 mtpa from the current 30.6 mtpa. Also, coal blocks of Pachwara South and Jilga-Barpali are expected to be commissioned in future.

Chennai Petroleum Corporation is upgrading its Manali refinery in Tamil Nadu at a capital outlay of Rs 3110 crore. The upgradation is aimed at increasing the distillate yield by processing increased percentage of high sulphur crude. This project comprises installation of a delayed coker unit (2.2 mmtpa) and revamp of the existing hydro cracker unit to 2.25 mtpa from 1.85 mtpa. The construction work has commenced at the site and the project is scheduled for completion by December 2015.

Power Grid Corporation of India (PGCIL) capitalised assets worth Rs 15904 crore in FY 2014 and added 6,604 circuit kilometre (ckm) of transmission lines, 17 sub-stations, and about 41,160 mega volt ampere (MVA) transformation capacities into the transmission system. It made capital investments of Rs 23158 crore in FY 2014, 15.6% higher compared with FY 2013, for implementation of projects in accordance with the commitments made in the 12th Five-Year Plan. The company has approved 19 new projects, with an estimated cost of Rs 8548 crore, for implementation in FY 2014.

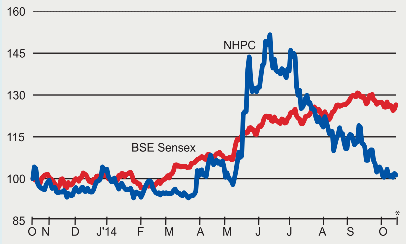
PGCIL has presented an integrated plan for desert power development for harnessing the huge renewable energy potential of about 300-GW solar and wind energy at desert and cold desert waste land in the Kutch, Thar, Lahaul & Spiti, and Ladakh areas by FY 2050. The plan includes establishment and grid integration of renewables, at an estimated cost of Rs 43.75 lakh crore, through hybrid transmission corridors. This plan has been presented to the Union government.

NHPC is in the process of constructing four hydroelectric projects, with an installed capacity of 3,290 MW. As part of future expansion plan, five projects, with an installed capacity of 5,115 MW, are under various stages of approval. Besides, three projects in Jammu & Kashmir (2,120 MW) and one project in Manipur (66 MW) are envisaged to be executed through JVs. At present, the hydro electricity generator has total installed capacity of 6,507 MW spread over 18 power stations.

Looking ahead

NHPC is constructing four hydroelectric projects, with a capacity of 3,290 MW. Five projects, with capacity of 5,115 MW, are under various stages of approval

Relative performance of NHPC v BSE Sensex



Base=100 as on 21 October 2013 * 20 October 2014
Face value: Rs 10.

BEML plans to diversify into new products such as continuous miner and mine cruiser in the mining and construction business, light rail vehicles and electric buses in the rail and metro segment and aggregates for the aerospace sector. These will be new revenue streams in the defence vertical. The company makes earthmoving and other heavy industrial equipment for the mining and civil engineering industries.

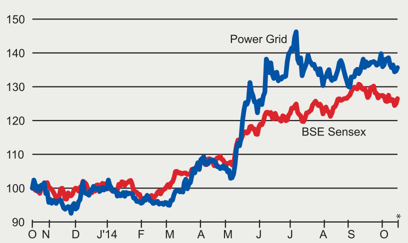
Conclusion

The government should ensure the ongoing capital projects of PSUs are executed on time. This in itself will provide a big boost to these PSUs. Policy makers have accorded greater operational freedom to certain category of PSUs such as *maharatnas*. This should be extended to other PSUs as well.

Higher outlay

Power Grid Corporation of India's capex of Rs 23158 crore in FY 2014 was 15.6% more than in FY 2013 for commitments made in the 12th Five-Year Plan

Relative performance of NHPC v BSE Sensex



Base=100 as on 21 October 2013 * 20 October 2014
Face value: Rs 10.

On his visit to the US, the prime minister said the government has no business to be in business. The picture is contradictory when it comes to running PSUs. CIL is an appropriate example. On the other side, the defence sector has been liberalized. In August 2014, the government notified increased foreign direct investment in defence to 49% from the earlier 26%.

Over the last two decades since liberalisation, there have been several cases of corruption, scams and wrong-doing in the private sector. The government should keep this in mind while pursuing mindless privatisaion.

Co-ordination and co-operation between the Centre and state governments is essential. In this context, one-man-driven approach at the Centre could be counterproductive. The country is large and diverse. An autocratic approach could spoil the environment and hurt growth over the long term.

The stuck pipeline project of Gail India is an opt example. Petronet LNG has commissioned a five-mtpa greenfield LNG import and re-gasification plant at Kochi in Kerala. The Central government had given permission to Gail to lay pipelines to connect the Kochi terminal to the consumers in Mangalore and Bengaluru. The pipeline to Bengaluru passes through Tamil Nadu, where Gail is facing problems in acquiring land. The matter is under litigation. Also, the Mangalore section is awaiting approval from the state government. This has resulted in lower offtake and dismal capacity utilisation.

Largely, PSUs operate in capital-intensive industries. Investors have to focus on sources of funds and the strength of their balance sheets before exploring these stocks for investment.

In October 2014, the Securities and Exchange Board of India notified rules for minimum 25% public shareholding in listed PSUs by August 2017. Invariably, this means several PSUs will come out with public offers. This could put pressure on their share prices. Disinvestment could be a good opportunity to enter PSU counters if investors believe that the government means business, at least this time around. ■

Money Matters

How to shuffle MIP portfolio to avoid tax?

I had invested in a monthly income plan (MIP) two years ago. I am withdrawing a fixed amount every month from the fund. The withdrawal this year is subject to short-term capital gain tax as my holding period is lower than three years. How should I restructure my portfolio so that the taxation is reduced?

— subash_19@

The best option is to stop withdrawal from your MIPs till you complete three years. After three years, you will enjoy indexation like you did before. But the option to pay tax at 10% without indexation is not available anymore. If you depend on withdrawal from MIP for your day-to-day needs, then invest in a fund enjoying the benefit of equity taxation and has a similar risk-profile as any other MIP. By replacing the debt portion of the fund with arbitrage investing, the fund ensures lower volatility compared with diversified equity funds.

You can also redeem the MIP and invest the amount in a combination of an arbitrage fund and an equity fund. Go for a regular dividend option as there is no dividend distribution tax.

You can pay short-term capital tax till the time you complete three years and pay long-term capital gain tax once your investment is three years old.

FMP: Pain of short-term capital gain

I had invested in a fixed maturity plan (FMP) in February 2013. When I ivested, the indexation benefit was available for all investments of more than one year in FMPs. The FMP matured in September 2014. The asset management company did not offer any rollover option due to which I had to redeem the units. Do I need to pay short-term capital gain tax?

— mohana_01@

As per the Union Budget 2014-15, any gain from debt mutual fund held for less than three years and sold after 10 July 2014 will be classified as short-term capital gain. Thus, you will have to pay tax as per your tax slab on the gain from the FMP.

I have a Public Provident Fund (PPF) account, which matured last year. I had extended the account for five years along with Form H, which allows me to contribute regularly to my PPF account. Now I need to withdraw some amount from the account.

— akpatel_99@

You can withdraw a maximum 60% of the amount available at maturity any time in the subsequent five years. There is only one withdrawal allowed every year. For example, if the balance in your PPF account at maturity is Rs 10 lakh, you can withdraw a maximum of Rs 6 lakh in five years. You may go for lumpsum withdrawal of Rs 6 lakh or spread over five years subject to one withdrawal every year. But once the 60% cap is reached, you cannot withdraw any more. The next withdrawal is allowed only on second renewal for the next five years.

SREI Infrastructure Finance has come up with a non-convertible debenture (NCD) issue. How does it fare on the risk-return parameters? Are there any better NCDs lined up going ahead?

— gopinath_73@

The NCD issue of SREI Infrastructure Finance is open till 31 October 2014. The debentures are secured and the return ranges from 10.75-11.75% depending on the category of investors. Investors can subscribe across tenures of two-five years. Shareholders, senior citizens and existing bond holders will enjoy 0.25% additional rate of interest across all tenures. The issue has received a rating of AA- by Care and AA from Bricks Works Rating. The company is paying dividend every year since fiscal ended March 2003.

SREI Infrastructure finances infrastructure projects. The infrastructure sector had performed poorly in the last three-four years. This is reflected in the financial performance of the company. Going forward, the outlook for the infrastructure sector looks promising. This should help SREI Infrastructure. The quarter ended June 2014 was particularly good for the company, both sequentially as well as over the year.

There are a very few options available in the market offering rates as high as 12% per annum. Most of them are fixed deposits (FDs) of companies, whose ratings are lower than that of SREI. Also, FDs are unsecured borrowings and riskier than secured NCDs. Given the return, SREI Infrastructure NCD is a good investment option. It also enjoys decent liquidity as it will be listed on the Bombay Stock Exchange. Being a listed security, there will be no tax deduction at source on the interest portion, irrespective of the interest amount.

Looking at the decent rating, positive outlook for the infrastructure sector, good last quarter results and the rate offered, the issue looks attractive compared with some other options available offering similar return. There are a few NCDs lined up going ahead. But this issue is a good investment proposition.

— Rahul Mantri

Three options

Stop withdrawal from MIPs, redeem units to invest in equity-arbitrage fund, or continue paying applicable taxes

SCHEME NAME	LATEST CORPUS (Rs cr)	NAV (Rs)	EXPENSE RATIO (%)	1-YEAR RETURN (%)
HDFC Monthly Income Plan - LTP (G)	3558.32	32.29	1.93	23.53
Reliance Monthly Income Plan (G)	2228.13	30.53	1.95	19.58
ICICI Pru MIP 25 (G)	742.02	27.89	2.44	19.16
UTI-MIS Advantage Plan (G)	471.23	28.45	2.29	19.49
DSP BR MIP Fund (G)	360.10	26.99	2.48	14.74

Return is absolute. List not exhaustive. NAV as on 17 October 2014.

The queries have been answered keeping in mind that the investors understand the risks involved in various investment options discussed in the column. *Capital Market* or the writer cannot be held responsible for any loss arising due to the investment descision taken by investors based on the solutions given. Readers may e-mail their queries to: *money-matters@capitalmarket.com*

Tax Matters

How are online returns filed for derivatives trading?

By T K Doctor & Zankhana P Mehta

I trade in the derivatives segment of the NSE. I trade in options on intra-day basis. I take positions only as an options buyer. I never sell them. The trades never exceed the time frame of one month. I am not employed anywhere and trading is my sole profession. I recently received a Rs 10-lakh gift from my mother. This should be tax-free, as per my knowledge. She files her income tax (IT) return regularly. I have started using the money, which I have received from her, for my options trade. In this scenario, please guide me how I should file my IT return online. I never did that in the past. I was a salaried individual when I was working in Mumbai.

— Rahul Patwardhan, e-mail

Income earned from trading in derivatives is taxed as business income. From assessment year 2006-07 (financial year 2005-06) ,derivatives transactions are not considered as 'speculative transactions' if they satisfy the conditions prescribed in Section 43(5) of the IT Act, 1961, Transactions should have been carried out on a recognised stock exchange. The securities transaction tax should have been paid. Transactions should be supported by contract notes. If all the conditions of the section are satisfied, then such transactions are considered as non-speculative transactions. Otherwise, they would be regarded speculative transactions.

Considering the transactions in derivatives are non-speculative business transactions, you need to file return in IT Return (ITR)-4. As per Section 56(2)(vii) of the IT Act, gift received from relative is not taxable in the hands of the recipient. Mother is defined as 'relative'. Hence, Rs 10 lakh received as gift from your mother is not taxable.

One can also make use of various e-filing software available in the market. There is no need to attach anything with the ITR. But keep all the documents ready for assessment if demanded by the assessing officer.

Take the help of professionals like chartered accountant (CA) as you are filing re-

CAS can be initiated against audit firms

turn for the first time. It could be troublesome if you feed wrong data.

For the purpose of ITR-4 and also applicability of Section 44AA of the IT Act, you are required to maintain proper books of accounts including balance sheet, profit and loss, and other general books and statements. Also, if your turnover or gross receipt exceeds Rs 1 crore from April 2013 to March 2014, it would attract Section 44AB of the IT Act, i.e., tax audit. In that case, you are required to get the accounts audited by a practicing CA.

The Companies Act, 2013, became effective from 1 April 2014. A lot many changes have taken place. Can you briefly mention eight-nine changes affecting auditors?

— Rakesh Maripi, e-mail

Companies Act, 2013, has provided for extensive changes for audit and auditors to enhance the effectiveness of the audit and accountability of auditors.

The numbers of audits under the new Companies Act, 2013, has been restricted to 20. The auditor will now be appointed for five years. However, at each AGM, members will have the option to rotate the audit partner or the audit team and the joint auditor. For listed companies, mandatory rotation of an audit firm is after 10 years and of individual auditor every five years. The cooling period is five years. During the cooling period, the auditor cannot provide services to the holding company and subsidiary.

Auditors' indebtedness to the client company will warrant disqualification when the amount exceeds Rs 1 lakh. The auditor is restricted from providing certain non-audit services to audit clients either directly or indirectly.

A class-action suit (CAS) can be filed against the auditor or the audit firm for improper or misleading statement of particulars made in the audit report or for any fraudulent, unlawful or wrongful act or conduct. CAS has to be filed with the National Company Law Board Tribunal. The threshold for initiating CAS is 100 or 10% of the total number of members, whichever is less.

If the National Financial Reporting Authority proves misconduct on part of the auditor, the audit firm can be debarred for 10 years. These changes undoubtedly, have a considerable impact on the audit profession.

I work for a private limited company. In April 2013, we agreed to sell a property for Rs 55 lakh at a future date. The agreement of sale may be executed in March 2014 or in the next financial year. The property value, as per the balance sheet, is Rs 386544. The original value is Rs 1327708. If the market value of the property is more than the sales agreement value, are there any income tax repercussions for the buyer or seller? What is the tax liability on the transaction? If we buy another property for our factory within the stipulated period, what are the tax benefits or exemptions that can be claimed? Is there any certifying authority who can certify the value of the premises, considering the number of years the building exists, and give us a certified copy? In this case, is the value considered by the certifying authority treated as

Gift received from relative is not taxable in the hands of the recipient. Mother is defined as 'relative'. Hence, gift received from mother is not taxable

market value? Is the certificate valid for income tax?

— Kunjal Bandi

If the difference between the stamp duty valuation and actual consideration exceeds Rs 50000 tax will be payable on such notional amount by the seller as well as purchaser. If the seller holds the immovable property as stock-in-trade as business income under the new Section 43CA of the Income (IT) Act, 1961, effective 1 April 2013.

Tax is applicable if the seller is holding the property as capital asset and if the individual or the Hindu undivided family purchaser, under amended Section 56(2)(vii)(b) of the IT Act from 1 April 2013, shows it as income from other sources. The tax liability is assuming you are holding the property as capital asset, which means property of any kind held by an assessee, whether or not connected with his business or profession.

If the depreciable asset (other than an asset used by power generating unit eligible for depreciation on a straightline basis) is transferred, capital gain is taken as short-term capital gain, irrespective of period of holding.

Computation of capital gain or loss can be made on the transfer of a depreciable asset, for which depreciation has been allowed in the past, only if the writtendown value of the block of assets is zero on the last day of the previous year or when the block of assets is empty on the last day of the previous year.

If the consideration received or accrued as a result of the transfer of land and /or building is less than the value adopted or assessed for payment of stamp duty, the value so assessed is to be the full value of the consideration received as a result of such transfer for computing capital gain. Short-term gain will be sale consideration less cost.

Capital gain is taxable unless exempted under Sections 54,54B,54EC,54F,54G, and 54GA of the IT Act. Being a company, you are not eligible for claiming exemption by buying another property within the stipulated period. However, you may avail exemption under Section 54EC of IT Act.

Section 54EC provides that capital gain cannot be charged if the gain is invested in certain bonds subject to certain conditions. One of the conditions is that the asset transferred should be a long-term capital asset. If the transfer of depreciable asset, Section 50 is applicable. By virtue of Section 50 (for the purpose of Sections 48 and 49 of the IT Act), capital gain on transfer of a depreciable asset is treated as capital gain on transfer of short-term capital asset.

> Capital gain cannot be charged if the gain is invested in certain bonds subject to certain conditions. For example, the asset transferred should be a long-term capital asset

Nowhere does Section 50 says that, for the purpose of Section 54EC, a depreciable asset is a short-term capital asset. Section 54EC is an independent section. Section 50 does not have an overriding effect over Section 54EC, which has an application if the long-term capital asset is transferred. Therefore, capital gain received by an assessee on the transfer of a depreciable asset (if conditions necessary under Section 54EC are complied with the assessee) is eligible for the benefit under Section 54EC.

You may adopt the market value as per the certifying authority. However, the concerned assessing officer (AO) may refer the valuation of the capital asset to a valuation officer appointed by the IT department if the value of the asset is in accordance with the estimate made by a registered valuer (who works in a private capacity under a license issued by the Central Board of Direct Taxes and his valuation is not binding on the AO) but the AO feels the value so claimed is less than its fair market value applicable up to 30 June 2012 or at variance with its fair market value (applicable from July 1, 2012).

The AO may also refer the valuation to a valuation officer of the IT department if the AO is of the opinion that the fair market value of the asset exceeds the value of the asset by more than Rs 25000 or 15% of the value claimed by the assessee, whichever is less, and if the AO is of the opinion that it is necessary to make a reference to the valuation officer.

I got placement in a UAE company. I am posted in Dubai. I fly to India once every five months. My salary is approximately Rs 98000 per month. I need to open a bank account to deposit my salary. But I am confused. Which type of account should I open? Non-resident Indian (NRI), non-resident external (NRE), or non-resident ordinary (NRO) account? The account should ensure that my salary is not taxable in India.

— Ranjan Kumar e-mail

In case of non-resident Indians, foreign income is not taxable in India. Only Indian income is taxable in India. Salary income is taxable in the hands of the non-resident if it is received or deemed to be received in India or accrued or deemed to be accrued in India.

Income of a non-resident by way of, 'Salaries', is deemed to accrue or arise in India if the income is payable for services rendered in India, if the rest period or leave period is preceded and succeeded by services rendered in India and forms part of the service contract of employment, and if the salary is payable by government of India to a citizen of India for services rendered in India.

Normally, the place of accrual of salary is the place where the services are rendered. So, for a non resident, only salary earned in India is taxable in India.

Salary received in the NRE account will be taxable outside India. Salary of a non-resident accruing outside India is not taxable under the Income Tax (IT) Act, 1961. As such, it is not included in total income even if it is received in India later as salary payable is taxable at the place where it accrues. The only exception is salary received in advance, which is taxable at the place where it is received.

Both NRO and NRE accounts are maintained in Indian currency and can accept remittances in foreign currency. However, for NRE account, there is no restriction on transfer of money back to the foreign account. So NRE is preferable. The NRO account should be used for income received India such as rent, dividend and interest. Banks are not allowed to credit such incomes earned in India into the NRE account.

Hence, you can open an NRE account and get your salary deposited in the account. Salary deposited in this account is non-taxable in India because your salary accrues outside India, i.e., in Dubai. This holds assuming your residential status under the IT Act is 'non-resident'.

The replies are only in the nature of guidelines. The tax counsellors and the publication are not responsible for any decision taken by readers on the basis of the same. Readers may e-mail their queries on direct taxation to: *tax-matters@capitalmarket.com*

Astec LifeSciences

Will sustain good growth

Supplying a diversified range of intermediates on long-term contracts to users across markets to shield from seasonal swings

Established in 1994, Astec LifeSciences makes a wide range of agrochemical active ingredients and pharmaceutical intermediates. The experience in the development and production of intermediates and active ingredients makes it an ideal partner, resulting in relationships with large and small companies all over the world.

Multipurpose production facilities at Dombivli (50 km from Mumbai) and tow plants at Mahad (180 km from Mumbai) meet global standards. These are based on 3,000 litres to 20,000 litres of glasslined and stainless steel reactors. A typcial reactor size is 10,000 liters.

Active ingredients are sold to crop-protection formulators and intermediates to technical-grade product manufacturers. Formulations are sold in bulk to companies engaged in retail marketing. Hexaconazole, tebuconazole, metalaxyl and propiconazole are some of the key products used in crop-protection. Dicap, one of the key pharmaceutical intermediate, is used to manufacture antifungal agents.

Besides enjoying a good share of the domestic market, Astec has successfully ventured into international markets as well, exporting products to South Africa, Europe, the US, West Asia, East Asia, Japan and South America by entering into long-term supply contracts with the buyers in these countries to scale up exports.

A strong R&D focus has enabled the introduction of a number of unique products. Operations are integrated vertical and horizontal, resulting in efficiency and low cost. Contract manufacturing and research will be a platform for future growth. India is well positioned to capitalize on this opportunity as multinationals are moving manufacturing from high-cost western countries to emerging economies.

India has a strong pool of scientific manpower and a well developed eco-system for the production of fine chemicals. Last year commercial production commenced at a new state-of-the-art facility at MIDC Mahad, Maharashtra. The facility incorporates the proprietary process technology developed by a major multinational customer. The project will have a substantial impact on the agrochemical business in the coming years.

Right chemistry

Astec LifeScience has identified contract manufacturing as a platform for growth. The strategy is to consolidate presence through a few key products

Share price on BSE in Rs

Astec LifeSciences: Consolidated financials

	1103(12)	1203(12)	1303(12)	1403(12)	1503(12P)
Net Sales	110.44	113.17	174.73	207.34	228.25
OPM (%)	15.1%	14.0%	16.2%	17.2%	19.6%
OP	16.64	15.82	28.30	35.73	44.69
Other income	0.23	0.29	1.06	0.00	0.00
PBIDT	16.87	16.11	29.36	35.73	44.69
Interest	4.06	5.66	8.79	9.25	11.94
PBDT	12.81	10.45	20.57	26.48	32.75
Depreciation	5.83	8.64	11.87	14.76	15.97
PBT	6.98	1.81	8.70	11.72	16.78
Total Tax	2.08	0.54	2.79	2.50	3.71
PAT	4.90	1.27	5.91	9.22	13.07
EO (Net of Tax)	0.00	0.00	0.00	0.57	0.21
MI	0.00	-0.09	-0.05	-0.02	0.03
PAT after MI	4.90	1.36	5.96	8.67	12.83
EPS (Rs)*	2.6	0.7	3.2	5.0	7.0

*Annualised on current equity of Rs 18.53 crore: Face value of Rs 10 each.
EO: Extraordinary items. EPS is adjusted for EO and relevant tax.
(P): Projections MI: Minority interest. Figures in crore.
Source: Capitaline Databases

A manufacturing contract has been bagged from Sumitomo. Partial sales were booked in the fiscal ended March 2014 (FY 2014). The order is expected to be fully operational in FY 2015. For the current contracts, no further capex is required. But if more orders are snagged, then new capex will be undretaken.

Currently, contract research and manufacturing forms about 20-25% of total sales. Exports constitute around 35-40% of total sales. Exports will grow more than 20% in FY 2015. Q4 and Q3 are the best quarters for exports for the company.

The strategy is to consolidate presence through a few key products and access customers across the globe to ensure sustained growth every quarter in an otherwise seasonal industry. Export volumes complement domestic sales and insulate against vagaries and shifts in market behavior, which is not an uncommon experience in the agrochemical business.

Though sales were almost flat at around Rs 66 crore, the operating profit margin (OPM) rose to 23.2% from 16.1%, leading to a 42% jump in operating profit (OP) to Rs 15.22 crore in the quarter ended September 2014 over a year ago. Net profit was up 77% to Rs 6.13 crore.

Consolidated sales increased 8% to Rs 117.56 crore and the OPM jumped to 20.6% from 16.8%, leading to a 32% growth in OP in the half year ended September 2014 over a year ago. Consolidated net profit surged 67% to Rs 7.94 crore. We expect Astec to report consolidated sales of Rs 228.25 crore and net profit Rs 12.83 crore, giving an EPS of Rs 7 for FY 2015. The current price of Rs 67 discounts this around 9.6 times. ■