

# Indbankonline

MARKETS FOR YOU

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September 2015

Issue - 100

## From the President's Desk

I am happy to write on the occasion of **100th** issue of this monthly news bulletin.

India and other emerging markets across the globe have fallen down in the last few days. The global rout in equities emerged from an uncertain Chinese economy and a near-onset of currency war in emerging markets. The devaluation of the Chinese yuan in August sparked a global selloff in equities, commodities and currencies. However, data suggests that India has shown remarkable resilience amid global turmoil. Indian market is almost bullet proof as described by the Central Bank Governor. India still remains in a sweet spot and the bull market is still intact because of stable macro fundamentals. This should be the right opportunity for the investors to create wealth with a long term horizon. India's current account deficit, which peaked at 4.7% of Gross Domestic Product in FY13, narrowed to 1.3% of GDP in FY15. Inflation as measured by the Consumer Price Index (CPI), which was running at an average of more than 9%, slowed to 3.8% in July. Foreign exchange reserves are at a record high of \$354.4 billion.



**Mr. BANABIHARI PANDA**  
President & Whole time Director  
Indbank Merchant Banking Services Ltd

Looking at Nifty even at around 7800-7900 level we must acknowledge the fact that we are still up 50%-60% in last two years. This is just a correction stage which is expected in the Bull Run. The macroeconomic fundamentals today are a lot better due to strong regulatory measures over a period of time. Despite the market rout, the Indian Oil Corporation offer-for-sale sailed through, which was subscribed 1.18 times by close of normal trading hours. While the institutional portion was subscribed 1.43 times, the retail portion was subscribed 0.18 times. Power Mech Projects Ltd, Navkar Corporation Ltd, Pennar Engineered Building Systems Ltd and Shree Pushkar Chemicals & Fertilizers Ltd went public and all the issues were oversubscribed in all the category.

As always suggested, for wealth creation, investors do not need a portfolio of 100 stocks. Along with the macroeconomic conditions it is also necessary for an investor to look into the fundamentals of the company. The need of good quality stocks which have good management, stable growth history, strong profitability measured through consistent RoC, low price volatility measured through beta, and, consistent dividend-paying record should also be looked into to have a strong portfolio.

There is lot of value in India markets, and the right investment strategy should be focused towards picking quality companies with stable growth rate. There are quite a few stocks out there in the market which have strong growth prospects, which have good corporate governance and after this correction, they are offering excellent, attractive opportunities to get in. You should have a reasonable time horizon, maybe anywhere between 12 to 18 months to ripe the fruit out of your investment.

*-Happy Investing*

**Banabihari Panda**

*President and Whole Time Director  
Indbank Merchant Banking Services Ltd*



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# Markets for You

## Important Happenings

- Finance Ministry is all set to start budget consultations for the FY 2016-17 with different ministries and government departments beginning with Commerce, Textile and External Affairs Ministries on September 4, 2015. The consultations with different government departments would conclude on September 28, 2015. The Budget division of the Finance Ministry has also issued the detailed guidelines for firming up the expenditure proposals for the next fiscal. The consultations would focus on expenditure proposals for 2016-17 and revised estimates for 2015-16.
- Based on the recommendations of Foreign Investment Promotion Board (FIPB) government has approved 16 proposals of Foreign Direct Investment amounting to Rs 1,152.53 crore approximately including that of Edelweiss Tokio Life Insurance, Encore Asset Reconstruction Company and News Laundry Media Pvt Ltd.
- Urban Development declared nominations of 98 cities for NDA government's flagship program Smart Cities Mission. Two other cities will be announced later. Centre has earmarked Rs 48,000 crore for development of 100 smart cities. Each smart city would get a Central assistance of Rs 100 crore per year for five years. The cities were selected through intra-city competition evaluated on parameters such as service levels, financial and institutional capacity, past track record and reforms.
- India will auction about 20 major iron ore mines this year in its first such sale ever. The government hopes auctions will help curb wrongdoing. While it is unlikely to lead to an immediate boost in iron ore output at a time when there is a global glut, mine sales will bring India closer to its target of tripling its steel capacity to 300 million tonnes by 2025 and relying less on ore imports.
- The Reserve Bank of India (RBI) remains focused on bringing down consumer inflation to its target of 4 percent by March 2018, supporting an economy growing below potential, and ensuring banks pass on rate cuts, according to its annual report out on 27.08.2015. After cutting its repo rate by 75 basis points this year, the RBI kept its repo rate on hold at its policy review in August, saying it wanted to monitor inflation and wait for lenders to further lower their lending rates. The RBI has projected consumer inflation will hit 6 percent by January 2016 before gradually easing to 4 percent two years later.
- "Banking payment systems will not work on the 2nd & 4th Saturdays of the month, but would operate for the full day on working Saturdays. All scheduled and non-scheduled banks, public, private, foreign, cooperative, regional rural and local area banks, will have a holiday on second and fourth Saturdays from September onwards and hence the payment systems that like Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), ECS suite Electronic Clearing Service (ECS), Cheque Clearing including the grid based Cheque Truncation System (CTS), Regional Electronic Clearing Service (RECS) and National Electronic Clearing Service (NECS) will not operate on the 2nd & 4th Saturdays of the month."
- The Central Government approved bid for importing 1000 tonnes of onion at Rs. 45 per kg the shipment will reach Indian ports by September 10, 2015. The government has also decided to import more to boost domestic supply. This fresh supply is likely to improve availability and moderate the prices further. The imported onions would be supplied to state governments once they place their requirements. The states can then sell the onions through fair price shops or can take special initiatives to supply them to consumers.

## Snap Shots

Inflation (%) (WPI)	-4.05% (Jul 2015)	-2.40% (Jun 2015)	-2.36% (May 2015)	-2.65% (Apr 2015)
Inflation (%) (CPI)	3.78% (Jul 2015)	5.40% (Jun 2015)	5.01% (May 2015)	4.87% (Apr 2015)
Particulars	7th Aug 2015	14th Aug 2015	21st Aug 2015	28th Aug 2015
91-Day Cut-off (%)	7.4353	7.2689	7.4353	7.4353
10-yr G-Sec yield (%)	7.9482	7.8743	7.912	7.902
USD/INR(Rs)	63.8061	65.1225	65.8298	66.0808
USD 6m LIBOR	0.5091	0.5186	0.5328	0.535
10 Y US Treasury	2.16	2.2	2.04	2.18
USD/Euro Spot	0.9166	0.898	0.8961	0.8853

## Global Indices

Indices	Country	Index as on 31 <sup>st</sup> Jul 2015	Index as on 28 <sup>th</sup> Aug 2015	Variation (%) (Inc/ Dec)
NASDAQ	United States	5,128.79	4,828.32	-5.86%
DJIA	United States	17,745.98	16,643.01	-6.22%
S&P 500	United States	2,103.84	1,988.87	-5.46%
Hang Seng	Hong Kong	24,636.28	21,612.39	-12.27%
Nikkei 225	Japan	20,585.24	19,136.32	-7.04%
Shanghai Composite	China	3,663.73	3,232.35	-11.77%
Straits Times	Singapore	3,202.50	2,955.94	-7.70%
FTSE 100	United Kingdom	6,696.28	6,247.90	-6.70%
CAC 40	France	5,082.61	4,675.13	-8.02%
DAX	Germany	11,308.99	10,298.53	-8.94%
SENSEX	India	28,114.56	26,392.38	-6.13%
NIFTY	India	8,532.85	8,001.95	-6.22%

## Institutional Investments

Category	Debt / Equity	Gross Purchases (Rs Crores)	Gross Sales (Rs Crores)	Net Investment (Rs Crores)
FII Investments (in August up to 27.08.2015)	Equity	92,800.87	1,09,492.54	-16,691.67
	Debt	13,126.31	13,827.93	-701.62
Mutual Fund (in August up to 27.08.2015)	Equity	25,935.80	16,446.20	9,489.60
	Debt	1,02,278.80	82,093.90	20,184.90
FII Derivative Trades (in Aug upto 27.08.15) (Rs Crores)	INDEX FUTURES	INDEX OPTIONS	STOCK FUTURES	STOCK OPTIONS
- Buy	53,115.27	3,55,565.70	1,04,449.84	48,177.47
- Sell	58,512.70	3,45,431.69	99,980.70	48,923.10

## Editorial Team

**Banabihari Panda**  
President and Whole-time Director

**Sujay K S**  
Head-Merchant Banking

# IPO and NFO Review

## IPO NEWS

- Matrimoy.com, a match-making portal has filed for an Initial Public Offer (IPO) on the BSE seeking to raise up to Rs 350 crore of capital and provide exit for venture capital investor Bessemer Venture Partners, which will sell an additional 1.66 million shares as part of the issue. Matrimony.com generated Rs 2.32 billion in revenue from 647,000 paying subscribers last year.
- Drug maker Alkem Laboratories has filed draft papers with capital markets regulator SEBI to raise an estimated Rs 1,500-3,500 crore through an Initial Public Offer. This is one of the biggest offerings in the pharma space in a long time. The IPO will consist of 1.28 crore shares or 10.75% of the total post-issue shares in the company. This means the company will attract a valuation of at least INR13,953 crore.
- Navkar Corporation which went IPO in August was oversubscribed by 2.75 times. The IPO received bids for 7.85 crore shares as compared to 2.86 crore equity scrips on offer, translating into a subscription of 2.75 times. The price band for the issue has been fixed at Rs 147-155 per share. The company had allotted 1.16 crore equity shares to 15 anchor investors - Morgan Stanley, Nomura, HDFC MF, SBI MF, Reliance MF, Franklin, IDFC, Sundaram MF, L&T MF, Kotak MF, Prime India, Amundi, Ashbunon India, Abudhabi Investment Authority.
- The Bengaluru based Healthcare Global Enterprises Ltd (HCG), the largest cancer care network operator, has filed draft papers with capital markets regulator SEBI to float an Initial Public Offer (IPO). According to Draft Red Herring Prospectus (DRHP) filed with SEBI, HCG's issue consists of a public offer of up to 3.11 crore equity shares - a fresh issue of up to 1.16 crore shares and an offer for sale of up to 1.95 crore scrips by existing stakeholders. The offer constitutes 36.83 percent of the company's post offer paid-up equity share capital. The proceeds of the issue would be used for purchase of medical equipment, investment in IT software, services and hardware, payment of debt and for general corporate purposes. With this the total number of companies approaching Securities and Exchange Board of India (SEBI) since the beginning of 2015 has reached 24.

## Forth Coming Corporate Actions

Company	Symbol	Purpose	Div %age	Ex-Date / Split Date / Record
Rural Electrification Company	RECLTD	Final Div	27	09.09.2015
Rupa and Company	RUPA	Final Div	275	07.09.2015
OCL India	OCL	Final Div	200	09.09.2015
TVS Srichakra	TVSSRICHA	Final Div	338	10.09.2015
AIA Engineering	AIAENG	Final Div	400	10.09.2015
Amrutanjan Health Care	AMRUTANJAN	Final Div	240	10.09.2015
Aban Offshore	ABAN	Final Div	180	14.09.2015
HSIL	HSIL	Final Div	175	14.09.2015
Ratnamani Metal	RATNAMANI	Final Div	275	15.09.2015
Jagran Prakashan	JAGRAN	Final Div	175	16.09.2015
Rico Auto Industries	RICOAUTO	Final Div	200	21.09.2015
Godfrey Phillips India	GODFRYPHLP	Final Div	400	21.09.2015

## NEW FUND OFFERS

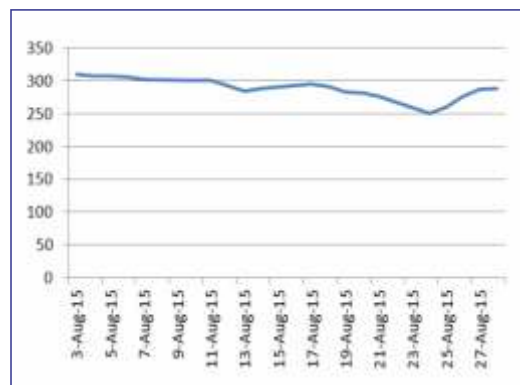
Fund Name	Open Date	Close Date	Min Inv Amount	Type
Reliance Fixed Horizon - XXIX - Sr.6	04/09/2015	09/09/2015	5000	Close - Ended
ICICI Pru FMP - Series 77 - 1144 Days Plan T-Reg	01/09/2015	07/09/2015	5000	Close - Ended
Reliance Fixed Horizon - XXIX - Sr.5	31/09/2015	07/09/2015	5000	Close - Ended
ICICI Pru India Recovery Fund - Series 1	09/03/2015	23/09/2015	5000	Close - Ended

## Huhtamaki PPL Ltd.

Established in the year 1935, Huhtamaki PPL (then Paper Products Ltd.) (HPPL), is a flexible packaging company based in India. The company became a part of the Huhtamaki Packaging Worldwide in 1999. PPL offers a wide portfolio of packaging solutions that include flexible packaging, labelling technologies and specialized cartons. HPPL has four state of the art, fully integrated manufacturing facilities at Thane, Silvassa, Rudrapur and Hyderabad.

Consolidated net revenue of Huhtamaki PPL was reported at Rs. 1,225.3 Crore in CY14, showing an increase of 12.9% as compared to the last year. EBITDA increased by 3.9% during the same period and stood at Rs. 119.1 Crore in CY14. The bottom-line grew by 18.6% in CY14 to Rs. 66.6 Crore. The factors which led to the increase in the net profit were an increase in the other income by 89%, fall in the interest expenses by 17.3% and decrease in the tax rate of the company by 660 bps in CY14.

1 Month closing price August 2015



NSE Code: PAPERPROD

BSE Code: 509820

CMP\*: 290 as on 28/08/2015

Mkt Cap\*: 656.60 Cr. as on 28/08/2015

Face Value: Rs.2.00

52W High : Rs. 331.95 (13.07.2015)

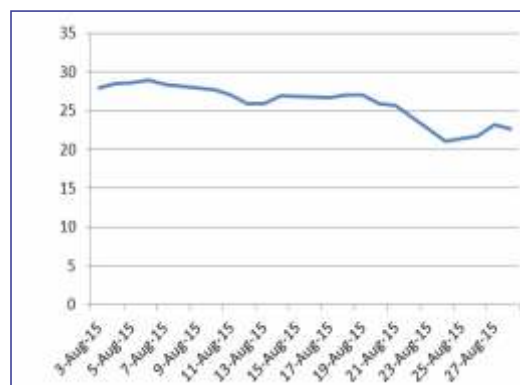
52W Low : Rs. 159.50 (27.08.2014)

## Adani Power Ltd

Incorporated in 1996, Adani Power Limited (APL) is an India based thermal power generating company headquartered in Ahmedabad, Gujarat. It is engaged in the generation, transmission and distribution of electricity. The company is involved in two segments viz. - Power and Shipping. Power segment includes generation and distribution of electricity, while the shipping segment deals with chartering and owning of ships, barges and boats with crew. The company currently has a consolidated installed & commissioned capacity of 10,440 MW. Its' coal based power plant at Mundra in Gujarat has an installed capacity of 4,620 MW and it accounts for over half of Adani Power's capacity. It has coal mining rights in three countries - India, Australia and Indonesia.

Net revenue of Adani Power was reported at Rs. 18,823.7 Crore in FY15, up by 21.7% as compared to the last year. The company reported a net generation of 50.7 billion units in FY15 as compared to 40.1 billion units in FY14. Also, operational capacity has enhanced to 8,891 MW from 7,182MW in the previous year, an increase of 23.8%. EBITDA stood at Rs. 5,159.4 Crore in FY15, showing a growth of 12.3% from FY14. However, the EBITDA margin decreased by 230 bps in FY15. Net loss was reported at Rs. 815.6 Crore in FY15 showing an increase of 180.7% from the last year. This was on account of factors like an increase in the finance cost of the company by 16.9% and extraordinary items (such as loss from discontinuing operations of Rs. 65.9 Crore, liquidated damages amounting to Rs. 16.8 Crore payable on account of delay in Commercial Operations Date (COD) at Tiroda plant).

1 Month closing price August 2015



NSE Code: ADANIPOWER

BSE Code: 533096

CMP\*: 22.80 as on 28/08/2015

Mkt Cap\*: 1997.86 Cr. as on 28/08/2015

Face Value: Rs.10.00

52W High : Rs. 60.15 (05/03/2015)

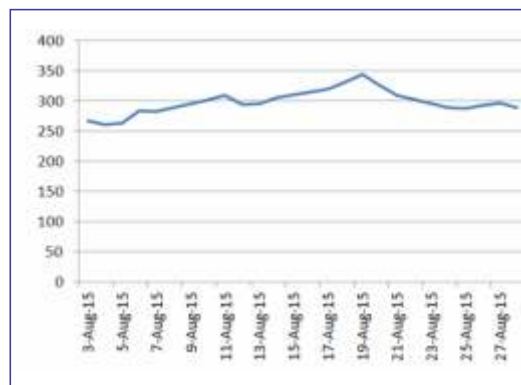
52W Low : Rs. 19.60 (25/08/2015)

## Godrej Properties Ltd

Established in the year 1990, Godrej Properties Ltd. (GPL) is a real estate entity of the Godrej Group (subsidiary of Godrej Industries Ltd). The company is engaged in the construction of residential and commercial spaces along with managing other construction projects as a development manager. GPL's present project portfolio stands at 95 million square feet (msf) spanning across 12 Indian cities including Chandigarh, Gurgaon, Ahmedabad, Kolkata, Nagpur, Mumbai, Pune, Hyderabad, Mangalore, Bengaluru, Chennai and Kochi.

Godrej Properties reported a growth of 56.3% in net revenue to Rs. 1,843.1 Crores in FY15 from Rs. 1,179.2 Crores in FY14. This was due to an increase in the booking area from 2.9 msf in FY14 to 3.88 msf in FY15. While, the booking (pre-sales) value rose by 10% to Rs. 2,681.2 Crores because of higher bookings in Godrej Aria (Gurgaon), Godrej City (Panvel), Godrej Prana (Pune), Godrej Central (Chembur) and Godrej United (Bengaluru) totaling to Rs. 1,941.3 Crores. The company delivered 3.5 msf in FY15, which includes 2.7 msf of residential and 0.8 msf of commercial space across five cities. During FY15, it added 5 new projects to its development portfolio with a total saleable area of 7.9 msf. On the EBITDA front, GPL reported de-growth of 9.0%. EBITDA margin declined from 24% in FY14 to 14% in FY15. This was due to increasing costs because of two new project launches. However PAT increased by 19.7% to Rs. 190.9 Crores due to higher other income and lower tax outgo. PAT margin stood at 19.7% in FY15 as compared to 15.2% in FY14.

1 Month closing price August 2015



**NSE Code: GODREJPROP**

**BSE Code: 533150**

CMP\*: 288.75 as on 28/08/2015  
Mkt Cap\*: 1451.47 Cr. as on 28/08/2015

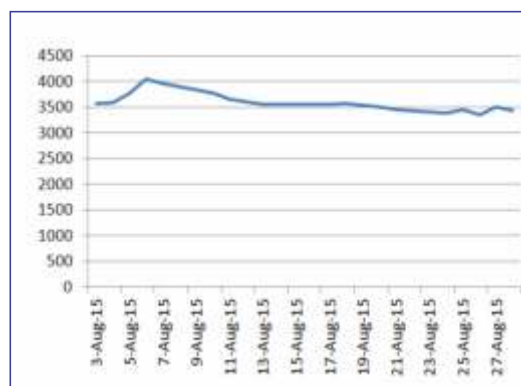
Face Value: Rs.5.00  
52W High : Rs. 358.50 (20/08/2015)  
52W Low : Rs. 220.00 (17/10/2014)

## Lakshmi Machine Works Ltd

Incorporated in the year 1962, Lakshmi Machine Works Ltd. (LMW) is one of the major textile machinery manufacturers prevalent in India. The company is mainly involved in the manufacture of machine tools. LMW has 60% market share in the domestic textile spinning machinery industry. It manufactures spindles, rings, top rollers, flyers, cots & aprons and gears. The company caters to both domestic and international markets.

LMW reported a top-line of Rs. 2,488.2 Crores in FY15, a marginal increase of 6% over previous year. LMW's order book was Rs. 3,050.0 Crores at end of FY15. Machine tool divisions' order backlog in this is Rs. 85 Crores, while the rest being orders for Textile machinery. EBITDA was reported at Rs. 301.2 Crores in FY15, a rise of 14.5% from the previous year. EBITDA margin increased to 12.1% during the year from 11.2% in FY14 due to better control of expenses. PAT grew 16.1% to Rs. 219.6 Crores on lower interest, depreciation and tax in FY15. Tax was lower on account of deferred tax asset creation. PAT margin was reported at 9% during the year as against 8% in FY14.

1 Month closing price August 2015



**NSE Code: LAXMIMACH**

**BSE Code: 500252**

CMP\*: 3420.00 as on 28/08/2015  
Mkt Cap\*: 2570.06 Cr. as on 28/08/2015

Face Value: Rs.10.00  
52W High : Rs. 4503.95 (19/11/2015)  
52W Low : Rs. 3290.00 (25/08/2015)

\* CMP and Mkt cap as on 28.08.2015 on NSE

# Mutual Fund Corner

## Scheme for the Month:

Axis Long Term Equity Fund – Regular Plan

**LEVEL OF RISK:** Low

**FUND MANAGER:** Mr. Jinesh Gopani

The scheme aims to generate regular long term capital growth from a diversified portfolio of equity and equity related securities. The Scheme Will invest in companies with strong growth & a sustainable business model.

Investment Details	
Minimum Investment Amount (Rs)	500
Additional Investment (Rs)	500
SIP(Rs)	500
Minimum Cheque	6
Options	Growth/Dividend
Expense Ratio (%)	2.46% as on 31.03.2015
Exit Load (%)	2.46% as on 31.03.2015


## Trailing Returns

As on 31 <sup>st</sup> Jul 2015	Fund Return	S&P BSE Healthcare	Category Return
Year to Date	7.57	-1.40	2.63
1-Month	-0.23	-3.55	-2.96
3-Month	1.37	-3.07	-0.73
1-Year	22.70	4.53	14.41
3-Year	32.60	16.38	22.35
5-Year	21.04	7.91	11.69
<b>Return Since Launch 22.01%</b>			

Note: Return up to 1 year are absolute and over 1 year are annualized.

Asset Allocation	
As on 31/07/2015	% Net Assets
Equity	97.77
Debt	3.35
Cash & Cash Equivalent	-1.12

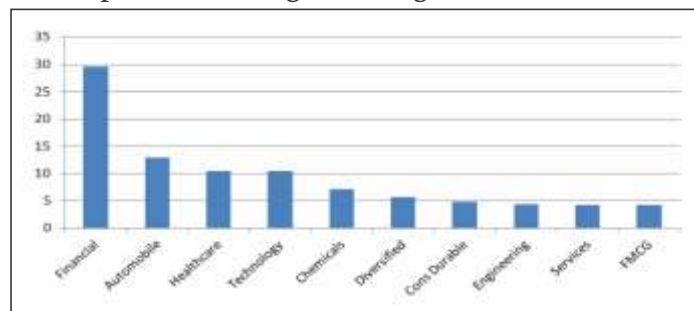
Current Statistics & Profile	
Latest NAV	Rs. 30.8624 (Growth) Rs. 22.5743 (Dividend) as on 28/08/2015
Fund Category	Equity: Tax Planning
Type	Open Ended
Launch Date	29/12/2009
Net Assets (Cr)	Rs.5,879 crores as on 31/07/2015
Benchmark	S&P BSE 200

Fund Style	Concentration & Valuation	
<b>Investment Style</b> Growth Blend Value 	No. of Stocks	36
	Top 10 Stocks (%)	52.18
	Top 5 Stocks (%)	32.25
	Top 3 Sectors (%)	53.04
	Portfolio P/B Ratio	6.37
	Portfolio P/E Ratio	35.96

## PORTFOLIO – Top 10 Holdings as on 31/07/2015

Sl. No.	Name of Holding	Instrument	% Net Assets
1)	HDFC Bank	Financial	8.36
2)	Tata Consultancy Services	Technology	6.58
3)	Kotak Mahindra Bank	Financial	6.32
4)	Larsen & Toubro	Diversified	5.70
5)	HDFC	Financial	5.29
6)	Sun Pharmaceutical Inds	Healthcare	5.09
7)	Maruti Suzuki India	Automobile	3.94
8)	Tech Mahindra	Technology	3.92
9)	Pidilite Industries	Chemicals	3.50
10)	TTK Prestige	Cons Durable	3.48

## Top 10 Sector Weights in %age as on 30.06.2015



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**Participatory Notes** which are commonly known as **P-Notes or PNs** is an instruments issued by registered Foreign Institutional Investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India (SEBI). However Foreign Institutional Investors has to register with SEBI to participate in the Indian stock market.

**How PNs work?** Participatory Notes are instruments used for making investments in the stock markets. However, they are not used within the country. They are used outside India for making investments in shares listed in the Indian stock market. That is why they are also called Offshore Derivative Instruments (ODI), which have Indian stocks and derivatives as their underlying securities. In the Indian context, Foreign Institutional Investors (FIIs) and their sub-accounts mostly use these instruments for facilitating the participation of their overseas clients, who are not interested in participating directly in the Indian stock market. For example, Indian-based SEBI registered FIIs buy India-based securities and then issue participatory notes to foreign investors on the strength of these securities. Any dividends or capital gains collected from the underlying securities are distributed by the FIIs to the overseas investors who own the P Notes.

### What is the need of PNs?

1. **Anonymity:** Any entity investing in participatory notes is not required to register with SEBI, whereas all FIIs have to compulsorily get registered. It enables large hedge funds to carry out their operations without disclosing their identity.
2. **Ease of Trading:** Trading through PN is easy because PNs are like contract notes transferable by endorsement and delivery.
3. **Tax Saving:** Some of the entities route their investment through PNs to take advantage of the tax laws of certain preferred countries.
4. **Money Laundering:** PNs are becoming a favorite with a host of Indian money launderers who use them to first take funds out of country through hawala and then get it back using PNs.

### Who uses the PN route?

The first category is the regular funds whose only objective is returns and more returns on a daily basis. They are interested in India since the India story is very good and returns are attractive compared to developed markets. The second category is prodigal money returning. It is widely believed that a large number of politicians/bureaucrats/business-persons have accumulated wealth abroad. This has been accumulated by under-invoicing/over-invoicing, by corruption in contracts and gifts from abroad; and by not bringing in legitimate receipts. The third category is those foreign governments/entities who would like to acquire/control Indian entities by taking them over. The fourth category is the terror financiers who could find this route attractive and simple.

The first category does not have any reason to use the “anonymous” route since the aim is to earn returns /repatriate and benefit out of interest rate and currency value arbitrage. They enter and exit as per these calculations and are not shy about the greed for maximum returns. They pay the applicable taxes and laugh all the way to the bank with bonus/incentives.

### Regulatory guidelines and measures

India allowed FIIs to invest in Indian capital market since 1992. Investment through P Notes was legitimized by SEBI in 2002. In 2007 SEBI proposed to curb participatory notes which accounted for roughly 50% of FII investment in 2007. SEBI was not happy with P-Notes because it is not possible to know who owns the underlying securities and hedge funds acting through PNs might therefore cause volatility in the Indian markets. However the proposal of SEBI was not clear and this led to a knee-jerk crash when the markets opened October 17, 2007. Within a minute of opening trade, the Sensex crashed by 1744 points or about 9% of its value - the biggest intra-day fall in Indian stock-markets in absolute terms which led to automatic suspension of trade for 1 hour. Finance Minister P.Chidambaram issued clarifications, in the meantime, that the government was not against FIIs and was not immediately banning PNs.

In the year 2012 Special Investigation Team (SIT) which was headed by Chairman of Central Board of Direct Taxation (CBDT) formulated by Supreme Court of India, submitted a report on “Measures to tackle Black Money in India and Abroad” which observed that, “PNs are traded overseas outside the direct purview of SEBI's surveillance thereby raising many apprehensions about the beneficial ownership and the nature of funds invested in these instruments. Concerns have been raised that some of the money coming into the market via PNs could be the unaccounted wealth camouflaged under the guise of FII investment. Even though SEBI has been taking measures to ensure that PNs are not used as conduits for black money or terrorist funding. As per SEBI regulations, PNs can be issued to only those entities that are regulated by an appropriate regulator in the countries of their incorporation and are subject to compliance of “Know Your Client” norms. FIIs are also required to declare that these PNs have not been issued to Indian residents or non-resident Indians.

As per SEBI (Foreign Portfolio Investor) Regulations, 2014, Foreign Portfolio Investors (FPIs) can issue ODIs to only those entities that are regulated by an appropriate foreign regulatory authority subject to compliance with 'Know Your Client' norms. SEBI has listed set of criteria for the subscribers of P Notes or Offshore Derivative Instruments (ODIs). SEBI has since

segregated the FIIs into several categories. Under this new regime, the beneficial ownership or the end user of P Notes is reported on a monthly basis to SEBI but FPIs know them on daily basis. But there is no daily monitoring of the beneficial ownership by SEBI.

As per SEBI's information, outstanding value of Offshore Derivative Instruments (ODIs) at the end of February 2015 stood at Rs. 2.715 lakh crores. SEBI also has informed that the top five locations of end Beneficial owner of ODIs were Cayman Islands, USA, UK, Mauritius and Bermuda contributing to 31.31%, 14.20%, 13.49%, 9.91% and 9.10% respectively of total ODIs outstanding.

SIT in its 3rd report submitted in June 2015 made an observation that the major chunk of outstanding ODIs invested in India are from Cayman Islands i.e. 31.31%. This translates to roughly Rs. 85,006 Crores. The Cayman Islands had a population of 54,397 in 2010 according to Wikipedia. It does not seem conceivable that a jurisdiction with a population of less than 55,000 could invest Rs. 85,000 crores in one country. The main point in the elaboration is just that it does not appear possible for the final beneficial owner of ODIs originating from Cayman Islands to be from that jurisdiction.

The following recommendations have been made in this regard by SIT in its report which states as follows:

- While some P Notes may be genuine; some could be associated with illegal funds. Hence, it is clear that obtaining information on "beneficial ownership" of P notes is of crucial importance to prevent their misuse. SEBI needs to examine the issue raised above and come up with regulations where the "final beneficial owner" of P notes/ODIs are known.
- The information of "beneficial owner" with SEBI should be in form of individual whose KYC information is known to SEBI. In no case should the KYC information end with name of a company. In case a company is the holder of P notes/ODIs, SEBI should have information of its promoters/directors who exercise effective control over the company. In case of Companies/Trusts represented by service providers like lawyers/accountants SEBI should have information on the real owners/effective controllers of those Companies/Trusts not end with name.
- P notes are transferable in nature. This makes tracing the "true beneficial owner" of P notes even more difficult since layering of transactions can be made so complex so as to make it impossible to track the "true beneficial owner". SEBI needs to examine if this provision of allowing transferring of P notes is in any way beneficial for easing foreign investment. Any investor wanting to invest through P notes can always invest afresh through a Foreign Portfolio Investor (FPI) instead of buying from a P note holder.

Government is in consultation with the FIIs before firming up its view, while it would examine how to improve the Know Your Client (KYC) requirement for P-Notes. Finance Minister Mr. Arun Jaitley has informed that the government is mindful of the impact on foreign investment in case of any action against P-Notes. However, SEBI has put in place strong checks and balances to avoid misuse of this route, and P-Notes can be issued only after strong KYC requirements are followed and they cannot be issued to high-risk investors.

*-Happy Investing*

**IBMBS - Terminals**

S.NO	Branch / Terminal	Phone numbers	S.NO	Branch / Terminal	Phone numbers
1	Chennai Nandanam	9445797112	24	Mumbai	9322290461
2	Harbour	9445797113	25	Matunga	9987609901
3	Anna Nagar	9445797168	26	Ashram Road	9925113060
4	CMDA	9445797114	27	Tirunelveli	9445797135
5	Adyar	9445797116	28	Sivakasi	9445797137
6	Vellore	9445797161	29	Tuticorin	9445797156
7	Nanganallur	9445797106	30	Rajapalayam	9445797166
8	Mylapore	9445797118	31	Madurai	9445797143
9	Ashok Nagar	9445797153	32	Puducherry	9445797167
10	Purasawalkam	9445797145	33	Erode	9445797149
11	Bangalore	9663373587	34	Trichy	9445797154
12	Hyderabad	7382620474	35	Pune	9665875069
13	Secunderabad	9390613060	36	Mangalore	9483506528
14	Srinagar Colony	7382620476	37	Thanjavur	9445797162
15	Guntur	7382620472	38	Visakhapatnam	7382620477
16	Coimbatore	9445797121	39	Calicut	9495605777
17	Salem	9445797159	40	Vijayawada	7382620470
18	Ernakulam	8089877417	41	K K Nagar-Madurai	9445797141
19	Tiruppur	9445797123	42	Srirangam-Trichy	9445797144
20	R S Puram	9445797125	43	Kumbakonam	9445797163
21	Udumalpet	9445797130	44	Thrissur	9495563300
22	Delhi	9871700661	45	Kolkata	9433140916
23	Shantiniketan	9871700663	46	Chandigarh	9892330762

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