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# NEWS CHRONICLE

JULY 2019

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# CONTENT



**Editor:** (Knowledge Management Team)

July 2019 witnessed many critical policy announcements by the Government of India:

## 1. A critical change in policy was introduced:

- **Foreign Currency denominated bonds**:
  For the first time, the GOI announced that India will issue foreign currency denominated bonds in the global market to reduce financing costs. Often, governments will choose to denominate bonds in more stable, marketable currencies. It's typically easier to sell debt this way, as investors no longer fear that currency devaluation will erode their earnings. While it may for some time lower the costs of borrowing for the government and our industry, our view is that it is double edged. Global experience (Argentina, Venezuela, Ecuador) has proved that if the fundamentals of an economy are not resilient and its currency fluctuates against a basket of global tenders, it is very likely that sovereign default may occur. Borrowing in a foreign currency also exposes us to exchange rate risk. If their local currency drops in value, paying international debt becomes considerably more expensive leading to possible sovereign default. Economists refer to these inherent challenges as "original sin." When investors worry about inflation and demand high interest rates, countries might want to issue debt in a foreign currency. India's fundamentals are still strong, but do we willfully let ourselves move towards a situation of potential sovereign default? Do we let our next generations bear the burden of FCBs? The advantages and disadvantages of issuing FCBs need to be studied.

## 2. To narrow our fiscal deficit:

- **The Government announced divestment in Public Sector Enterprises of `3.25 lakh crores:**
  The GOI plans to raise `3.25 lakh crores by disinvesting its stakes for up to 40% from various PSEs – ONGC and GAIL in Petroleum & Gas, NTPC and NHPC in power generation and other large PSEs viz., Coal India, NMDC and BHEL. This move of encouraging privatization is targeted towards narrowing fiscal deficit and bring in liquidity to the exchequer.

## 3. To ease liquidity in the capital market:

- **FALLCR eased:**
  RBI will provide additional liquidity to Banks, NBFCs and HFCs of `1.34 lakh crores under the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR). This in our view is a right step to encourage financial institutions to restart provide funds for business growth.

## POLICY UPDATES

### ➢ Flat owners who pay maintenance charges in a month exceeding `7,500 to attract 18% GST

Apartment owners who pay maintenance charges of over `7,500 per month will now have to pay 18% GST. Prior to 25 January 2018, the exemption was available to apartment owners who paid up to `5,000 of maintenance charges per month. The increased ceiling of `7,500 per month will be dealt with separately for house owners having two or more apartments.

### ➢ GST exemption to RWAs having annual turnover less than `20 lakhs

RWAs having turnover of less than `20 lakhs per annum will not be required to obtain registration under the GST Act and pay GST even if the monthly maintenance charges exceed `7,500.

### ➢ Government to raise `3.25 lakh crores through disinvestment in next 5 years

The Government is planning to raise `3.25 lakhs by reducing its stake from various PSEs. The Government's stake may be reduced to 40% in various PSEs. In the initial process, PSEs such as ONGC, GAIL, power producers like NTPC, NHPC, miners like Coal India and NMDC and BHEL have been targeted for disinvestment.

i. The government may sell off up to 5% of its stake in ONGC and Coal India in FY 2019 – 20.

ii. Further, the government may also hive – off the pipeline business of GAIL to strategic investors as part of its divestment scheme.

This move to privatize PSEs is targeted towards bridging the growing fiscal deficit.

### ➢ RBI opens banks' liquidity tap for NBFCs, HFCs

The RBI announced provision of additional liquidity to Banks, NBFCs and HFCs of around `1,34,000 crores under the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR). The FALLCR falls under the mandatory requirement of Statutory Liquidity Ratio (SLR).

The lending institutions will be permitted to consider this increase in FALLCR of 1% of their net liabilities for computing Liquidity Coverage Requirement (LCR). This will enable lending institutions to free-up their resources for meeting incremental loan demands.

Further this additional liquidity can be utilized by lending institutions for purchasing NBFC loan pools over and above their regular lending to NBFCs, including Housing Finance Companies.

## OTHER UPDATES

### ➢ Real estate companies challenge inclusion of home buyers as financial creditors

Recent amendment in section 5(8)(f) of the IBC classifies home buyers as financial creditors to the builders. Many real estate giants have together to challenge this amendment. The real estate companies have asserted that home buyers must file their claims through RERA or consumer forums.

However, the Centre has clarified that this amendment is in best interest of the home buyers as there have been innumerable instances of them being duped of their money by builders. The amendment is aimed at discouraging the number of real estate developers who default in payment of financial debt owed to financial creditors which includes home buyers and other financial creditors.

## M&A UPDATES

### M&A deals declined in first half of 2019

The overall M&A deals in India declined significantly by 51.5% in H1 2019 from H1 2018. The overall value of M&As from January to June 2019 was worth $41.6 bn.

Inbound M&As i.e. foreign corporates merging or acquiring stake in Indian companies reduced to $14.3 bn, falling by 64.5% whereas the value of outbound M&As was about $1.7 bn only.

The US market seemed to be the top preference for Indian corporates as it recorded the highest numbers and value of M&A transactions from India.

The domestic M&As also witnessed a decline by 42.1%, with transaction value of about $24 bn.

### Reliance Brands acquire Hamleys

In May 2019, Reliance Brands, a subsidiary of RIL had signed an agreement with C. Banner International Limited (owners of Hamleys) to acquire 100% stake in toy retailer - Hamleys. Reliance Brands completed the acquisition in July 2019 in an all – cash deal of about `620 crores.

# GLOSSARY

| | | | |
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| **BHEL** | Bharat Heavy Electricals Limited | **NBFC** | Non - Banking Financial Company |
| **FALLCR** | Facility to Avail Liquidity for Liquidity Coverage Ratio | **NHPC** | National Hydroelectric Power Corporation |
| **FCB** | Foreign Commercial Borrowings | **NMDC** | National Mineral Development Corporation |
| **FMCG** | Fast Moving Consumer Goods | **NTPC** | National Thermal Power Corporation Limited |
| **FY** | Financial Year | **ONGC** | Oil & Natural Gas Corporation Limited |
| **GAIL** | Gas Authority of India Limited | **PSE** | Public Sector Enterprise |
| **GOI** | Government of India | **RBI** | Reserve Bank of India |
| **GST** | Goods & Services Tax | **RERA** | Real Estate Regulatory Authority |
| **HFC** | Housing Finance Companies | **RIL** | Reliance Industries Limited |
| **IBC** | Insolvency and Bankruptcy Code | **RWA** | Resident Welfare Association |
| **LCR** | Liquidity Coverage Requirement | **SEBI** | Securities Exchange Board of India |
| **M&A** | Mergers and Acquisitions | **SLR** | Statutory Liquidity Ratio |

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- Information Security Management Services
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- Creative Training Solution


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