SMARTTAKES

No GoM on coal sector issues

The government has decided not to reconstitute the group of ministers (GoM) which was formed to evolve a consensus on opening up of coal sector for commercial mining.

₹995 cr loan for Teesta III project

Rural Electrification Corporation will extend an additional loan of Rs 995 crore to the 1,200 mw Teesta III hydro project in Sikkim whose overall cost has escalated to more than Rs 8,500 crore.

Engineering exports down 16%

Engineering exports declined by nearly 16 per cent to $4.5 billion in June, due to weak demand in western markets like the United States of America and Europe

Railways not to launch e-ticketing site

After months of trials, the railways has decided against creating a new e-ticketing website and will instead revamp the existing IRCTC website portal with more user-friendly applications.

SBI hopes to hold treasury gains

State Bank of India (SBI) is hopeful of maintaining its performance on the treasury income front in the second quarter as well, a top bank official said.

₹870 cr allocated for coir sector

The centre has allocated Rs 870 crore for coir in the 12th plan for strengthening the sector, minister for MSME and overseas indian affairs Vayalar Ravi today said.

Compiled from agencies

PM to fix cotton export quota for next crop year

Singh will meet ministers concerned shortly to work out strategy

YOGIMA SETH SHARMA & KR SUDHAMAN
New Delhi

Bloomberg

SETTING NORMS: Indian cotton prices were usually 18-20 cents a pound lower than international prices, but they have now surpassed global prices and that too at a time when rupee has depreciated 20 per cent

WITH surplus cotton available for exports expected to drop sharply to around 30 lakh bales after 125 lakh bales exported this year, prime minister Manmohan Singh will shortly convene a meeting of concerned ministers to work out the strategy to ensure that domestic textile industry is not deprived of its requirements in the next cotton year beginning October.

The meeting will take place later this month, as export quota has to be finalised by August 31, well ahead of the new crop arrival. Finance, agriculture and commerce ministers would attend the meeting among others.

"As domestic production is anticipated to be lower, textile mills may face severe shortage of cotton in case we continue with unrestricted exports. Hence, it is necessary to have an estimate of exportable surplus in place so that there is no scarcity in the coming season," a senior government official told *Financial Chronicle*.

As it is, domestic cotton prices are ruling high as of today and have already breached the global prices from middle of July onwards forcing textile industry, which is the second largest employer with 125 million workforce, to look at import of cotton. Even in the ongoing crop season ending next month, Indian mills are expected to import up to two million bales.

Indian cotton prices were usually 18-20 cents a pound lower than international prices but has now surpassed global prices and that too at a time when rupee has depreciated by 20 per cent in the last one year.

Due to lower arrivals and higher demand, there has been 17 per cent increase in domestic prices in the last two months from Rs 32,800 per candy (355.6 kg) in June to Rs 38,600 per candy now.

This is a cause of concern for policy makers as yarn prices have been increasing in the domestic market since January. From Rs 214.63 per kg in January, the prices went up to Rs 224.63 per kg in April and to Rs 231.63 per kg in August.

Average cotton production in India is around 330 lakh bales out of which the domestic consumption is nearly stable at around 260 lakh bales. However, this year it was anticipated that the cotton production would touch 352 lakh bales but so far the arrivals have been only 337 lakh bales.

There was a surge in Indian cotton exports in 2010 when China imported huge quantity due to 15 per cent fall in global production. As a result, India exported 6.5 million bales, forcing government at one stage to ban exports in April 2010. The situation was somewhat similar this year when export was banned after the exportable surplus of 84 lakh bales was surpassed in June. However, the ban was lifted a week later under tremendous political pressure from agriculture minister Sharad Pawar and so far 125 lakh bales have already been shipped out of the country.

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Coal India board to clear changes in fuel pact today

PRESS TRUST OF INDIA
New Delhi

COAL India's board is likely to approve on Monday the model fuel supply agreement (FSA) to be signed with power firms, with significant changes in the penalty clause for failing to supply to them a minimum 80 per cent quantity of the total fuel contract.

State-owned CIL has agreed to paying penalty of 1.5-40 per cent on failing to supply the committed quantity of fuel to power firms.

"CIL board will meet on August 13 and may approve the model fuel supply pacts with changes like penalty," a source in CIL said.

The board of the coal PSU on August 7 had decided that if CIL's coal supplies are below 50 per cent of the contracted quantity, the fine would be 40 per cent. The penalty is on 40 per cent of the value of fuel not supplied. If supply is between 65 and 80 per cent, then the penalty will be 1.5 per cent.

For supply between 60-65 per cent of the contract, CIL would attract a penalty of 5 per cent, while it will be 10-20 per cent for providing coal between 50-60 per cent of the assured quantity.

There will be no penalty if Coal India supplies 80 per cent or above the committed quantity of the fuel.

CIL has reached a consensus on supplying a minimum of 80 per cent of the contracted quantity to power firms.

The issue of penalty has been a bone of contention as power firms, led by NTPC, had been opposing the "meagre" penalty clause in the earlier FSA of only 0.01 per cent, that too applicable after three years of shortfall. They refused to ink to fuel supply agreement.

Of the committed 80 per cent of the assured supply, CIL would meet 15 per cent through imports and 65 per cent through domestic production. It is estimated that CIL would need to import 20 million tonne of coal this year to meet the demand of power companies.

To offset the impact of high import costs, planning commission had said that CIL should adopt a pooling formula on prices by combining rates of imported and domestic coal.

The company said the board in-principle approved pooling of prices. "We have no objection to implement pooling of price if it is acceptable to stakeholders," CIL chairman and managing director S Narsing Rao had said. He had further said basic decision of board is over, while the rest is operational detail, which the Central Electricity Authority will work out. So far, only 29 power companies, including Lanco, Reliance Power (Rosa plant) and Adani have signed FSAs with CIL.

Banks ask RBI not to tighten provisions

From P1

Bloomberg

STATUS QUO: Banks also want status quo on time limit prescribed for companies that go into the CDR scheme. It is now seven years for non-infrastructure accounts and 10 years for infrastructure accounts

FC had reported on June 14 that RBI might make it tough for banks to restructure corporate loans unless there were valid reasons pointing to factors beyond the control of company managements. RBI was of the view that banks must not provide additional facilities to companies with clear case of board-level mismanagement, as per recommendations of an internal committee under its executive director B Mahapatra.

Banks regularly restructure stressed assets so that they do not have to classify them as NPAs (non-performing assets) and make higher provisioning. RBI allows all accounts, except commercial real estate loans, to be classified standard if it is being restructured once. But once restructured, they are classified NPAs if they come up for restructuring a second time. Restructuring means making a change in the terms and conditions like extending the tenure of the loan or it could also mean change in interest rate.

Banks have also asked RBI not to tighten the provision, asking for the current norms to continue. The working group suggested the provisioning on restructured accounts be increased from the present two per cent to five per cent of the total loan outstanding for all-fresh restructuring. For all older restructuring cases, the provision should gradually be increased to 3.5 per cent of the total loan outstanding in the first year of adoption of the recommendation, and five per cent by the second year.

The chairman of a large public sector bank told Financial Chronicle that the present recommendations were too stiff and nowhere in the world do banks have such high provisioning. "We have asked RBI to let the existing requirement prevail," which means a provisioning of two per cent of loan outstanding, once an account is restructured." He did not want to be named.

The committee has also recommended stiffer guidelines on the net present value of a loan once it is restructured and more clarity on existing guidelines. Banks are of the view that the calculation of the net present value of a loan should be less stringent.

Banks also want status quo on time limit prescribed for companies that go into the CDR scheme. The time limit for companies to be in the CDR cell was seven years for non-infrastructure accounts and 10 years for infrastructure accounts, but the committee was of the view that this time limit was too long, and recommended five years and eight years, respectively.

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Indonesia lures Indian rubber manufacturers

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INDIAN rubber industry, which faces a supply deficit at home, is being lured by Indonesia, the second largest rubber producer in the world, to invest in the country and make use of the free trade regime between the two nations. Meeting the members of the industry body, All India Rubber Industries Association (AIRIA), Dickey Fabrian, consul general of the Republic of Indonesia in India has conveyed Indonesia's eagerness to increase bilateral trade in rubber goods.

Fabrian invited Indian rubber industry to start their rubber manufacturing units in Indonesia due to availability of natural rubber, inexpensive labour and power and friendly government policies, said Niraj Thakkar, senior vice president of AIRIA. Indonesia has also invited investment in rubber plantation through lease of land.

Offer from east

- 3,445,000 hectares are under rubber cultivation in Indonesia, which produces 3.1 mt of natural rubber
- India Rubber Expo will be held in Mumbai in January to further tighten ties between two nations

Indonesia has 3,445,000 hectares of land under rubber cultivation and produces 3.1 million tonnes of natural rubber. On the other hand, India produced 8.99 lakh tonnes of natural rubber and consumed 9.66 lakh tonnes in 2011-12.

"A high-level Indonesian delegation is likely to participate in India Rubber Expo to be held in Mumbai in January to further strengthen ties between rubber goods manufacturers of two countries," said Thakkar.

"It's a win-win situation for both the countries. India has gained immense expertise in production of rubber components and other rubber/latex products. The growth is limited only by the paucity natural rubber. Indonesia has a vibrant natural rubber sector and would wish to develop manufacturing of rubber products for which cooperation with Indian industry has been sought, he said.

As such several automotive tyre and rubber goods manufacturing units are looking at Asean nations to take advantage of the free trade regime, added Thakkar.

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SIT trying to find cause of violence

From P1

Probes by a special investigation team (SIT) are still on to find the exact cause of the violence at the factory even as over 100 workers, including 10 union leaders, are in police custody. "The quantum of salary hikes would be higher for Manesar factory workers compared with the hikes given to workers at company's diesel engine manufacturing unit, Suzuki Powertrain India," a person close to the development said. Other worker demands in the letter to the management included parity in wages of casual and permanent workers, medical benefits and longer on-duty breaks. The Manesar factory makes Swift and Dzire and the company is in a hurry to resume production to arrest falling market share.

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Bond prices bounce back as risk aversion continues

BONDMART
C SHIVKUMAR

WITH risk aversion remaining the dominant sentiment, bond prices bounced back during the week.

The 10-year benchmark security, the 8.15 per cent coupon, falling due 2022, rose slightly to Rs 99.93 (face value Rs 100) last weekend. The price translated to a yield of 8.17 per cent. Previous week the security was priced at Rs 99.40 (8.24 per cent).

Soft yields were also supported by easy cash conditions. In the interbank collateralised borrowing and lending obligation markets, rates were 8 per cent on a weighted average basis on last Friday. Most of last week though, the rates remained below the Reserve Bank of India's (RBI) repurchase rate (the rate at which RBI lends overnight funds against a collateral of government securities) of 8 per cent.

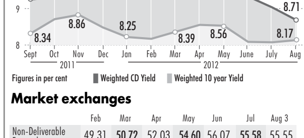
The soft cash conditions were also apparent from the low level of overnight borrowings from the RBI at just one per cent of the aggregate deposits or Rs 64,250 crore.

Traders said that the conditions were mostly "risk off". This implied that few lenders were prepared to push up credit. The reason is that there are fears that increase in credit in rapidly slowing economy could lead to bank capital stress. Banks' capital comes under stress if there is a buildup of non-performing loans. Emkay Global Financial Services economist and director Dhananjay Sinha said, "Overall growth scenario looks very tepid with stress emerging in all three sectors, agriculture, manufacture and services."

The situation consequently favoured sovereign bonds, as a safe haven for bank funds. Traders said, although there was upside pressure from increased bond supplies, the outlook remained positive. Till September, the government borrowings are expected to be Rs 76,000 crore. This year, so far, the government has borrowed Rs 2.79 lakh crore through dated securities or 49 per cent of the borrowing target.

Money matrix

Most of last week, the rates remained below the Reserve Bank of India's repurchase rate of eight per cent



Market exchanges

	Feb	Mar	Apr	May	Jun	Jul	Aug 3
Non-Deliverable Forward	49.31	50.72	52.03	54.60	56.07	55.58	55.55
One mth Prm (%)	8.51	10.12	8.42	7.80	7.33	7.59	7.73
Three mth Prm (%)	7.85	8.39	7.62	7.10	6.85	7.15	7.30
Six mth Prm (%)	6.76	7.03	6.89	6.24	5.88	6.46	6.78

Source :CCIL/Banks

Pinaki Paul

Yet sovereign bonds remained in focus for banks, primary dealers and non-banks. At last week's government borrowing auctions bids were 2.3 times the offered amount an indication of the healthy interest in sovereign bonds. In the case of treasury bills, where non- banks, especial public sector companies were opting to park funds, bids last week were 6 times the offered amount. Corporate bids were 2 times the offered amount in treasury bills and the entire lot was fully accepted by the RBI.

As a result, yields are likely to be driven down, below the RBI's repurchase rate at the middle end. Yet, few expect the situation to translate into quick policy rate reductions by the RBI. BNP Paribas Asia Economist, Mole Hau said, "We continue to target just a further back ended loaded 50 basis points of policy rate ease this financial year. And given the clear risk of further weakness in the rupee and a speedy return to double digit inflation, the RBI may deliver even less."

The pressures on the rupee though appeared to have eased slightly. This was despite firm international oil prices. Oil import basket prices are presently $110 a barrel or higher than the May average. This was because payment obligations and are more towards the month end. But refiners hedged their crude prices leading to a firming of one-month forward rates and slightly higher than the non-deliverable forward market (offshore trading in rupees with settlement in dollars). Domestic one month forward rate was Rs 55.70 or more expensive than the NDF markets an indication that the rupee would see a slight correction with an upside bias.

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