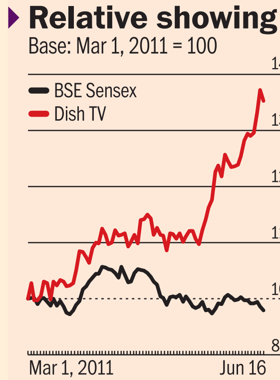
INSIGHT

Top show

In complete disregard to the weakness in the markets, Dish TV has been touching new highs. The stock has already outperformed the benchmark indices by nearly 30%.

Broking and fund houses which have been meeting the company of late have come back confident on its visibility. Subscriber addition has been steady despite the cricket World Cup euphoria subsiding. Management expects the company to add 10-12 million subscribers during the year, same as it did in the previous year.

Dish TV's HD (high definition) strategy has paid off well. This is important as the average rate per user (Arpu) in the HD's is around four times higher than the normal subscription. However, acquisition cost is higher by ₹600 per user. The HD user growth is around 600-700 per day as compared to 1000 per day at the time of the Cricket World Cup.



On the content front the company has only one renegotiation during the year, Sony, which should not add much pressure on its margin, especially since the company is now in a better bargaining position given its increased number of subscribers. The company will also benefit from the Supreme Court judgment of April 2011, which says that the DTH operators need to pay content cost at 42% of the wholesale (rate paid by cable operators) to broadcaster against 50% earlier. The order also says that the existing agreements will prevail.

There are two other issues that when implemented will have a major impact on the company. First is the implementation of mandatory digitisation of analog cable users. This move, which will be implemented by December 2014 in four phases, will be beneficial to Dish TV as it can see major shift towards its subscriber base.

Second is the introduction of GST which will rationalise the the highly taxed DTH sector. Currently, the sector is subjected to service tax (10.3%), licence fee (10% of revenue), entertainment tax (state subject), import duty (5% on set top box) and income tax or MAT as the case maybe.

With such kind of visibility, there is little doubt that the stock is touching new highs.

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Wrong info can deny you insurance

It is important to give all information, especially details of the insurance policies that one already has

Harshvardhan Roongta

My cousin Amit's insurance agent has been chasing him for a long time, trying to convince him that it is very important for him to buy a life insurance cover so that his family can have a financially secured future in case of his untimely death. The insurance agents' enthusiasm would sometimes make one think that they are more interested in the security of your family than you are. Especially when the agent happens to be a friend.

Nevertheless, on the positive side, owing to constant follow up from the agent's end, he proceeded in the matter. The thought that this insurance will help his family sail through in his absence, at least financially, conquered everything else.

Here he was…amidst a wad of forms. The real horror was providing the information asked for in the form — a lengthy proposal form asking for educational qualifications, health status, habits, employment, income and existing insurance and what not. Quite a dampener!

Having been coaxed into buying this insurance, this lengthy list of requirements proved another turn off for Amit. Not wanting to lose the sale at this stage, the agent assured him that it is not very important to give all the information especially details of the insurance policies that he already have. Just a mention of one or two of policies was enough, the agent said.

Amit thought that finally he made it — but he made one of the biggest mistakes one would do. And his policy was declined. This is why he had come to me as he wished to know the reason why his policy was declined.

More on Amit later…before that I would like you to know the role of underwriting process in issuing insurance policies. So what actually is underwriting and why it is important. So every proposal that comes to the insurer is evaluated by a team of experts on two grounds — medical and financial.

— Sudhir Shetty

> Insurance is not a mechanism from which you can make profit, as once it is established that it is more beneficial if you die than when you live, it can be misused for purposes other than what it was purchased for

Medical underwriting is the process where your current health status is evaluated and a medical test is conducted to ensure that you fit into the risk bracket and can be insured.

Financial underwriting is the process where the insurance company looks at your income and accordingly agrees to give you a cover which is a multiple of the same, say 15 or 20 times your annual income.

Why is financial underwriting?

Amit is a 32 year-old working professional with an annual income of ₹3 lakh. He already has five insurance policies with different companies for a total sum insured of ₹25 lakh. This time he had applied for a term insurance, for a sum insured of ₹1 crore.

The insurance company declined the proposal saying that the maximum cover that he is eligible for is another ₹50 lakh only. Amit is confused and thinks that when he does not mind paying for ₹1 crore cover, then why is the company denying him? Aren't they happy that he wants a bigger cover? Don't they like a fat premium income for the company? So, why I am being denied ₹1 crore additional life cover?

"Hold your breath Amit," I quipped. Let us now start afresh. If Amit were to live till his working life (till 58 years), he would have earned a total of ₹75 lakh i.e. ₹3 lakh x 25 years. This is an approximation as next year his income will rise but the number of years will reduce and so on.

Amit already has an insurance cover of ₹25 lakh and with this new ₹1 crore cover his total insurance would be ₹1.25 crore. Amit's value is more when dead, rather than when he is alive! In simple words, if Amit dies, his beneficiaries would get more than what they would get if he lived. Going by the same logic, the insurance company denied him the requested cover.

Insurance is not a mechanism from which you can make profit, as once it is established that it is more beneficial if you die than when you live, it can be misused for purposes other than what it was purchased for. Insurance-related crimes are a known fact world over.

If you do not disclose any of your existing policies or disclose only a few of them, the insurance company is entitled to reject the claim on your death. The purpose of taking this new policy is completely defeated as your dependents will not get the money as planned for.

So next time, when your insurance advisor insists upon you to provide "all" the policy details, please do not threaten your agent that you will withdraw your application. He may happily process your application without this information, but it is your family that will suffer and not his.

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NRIs are not eligible to file Form 15G/15H

Sandeep Shanbhag

NRI QUERIES

Can a non resident Indian (NRI) give Form 15G/H to a bank so that bank does not deduct tax on interest on his deposits. And if the bank deducts tax then what will be the best option for an NRI?
—Rahul

Form 15G is meant for non-senior citizens whereas Form 15H is meant to be used by senior citizens. If this form is submitted by the deposit holder in respect of his deposit, the bank does not deduct tax while paying interest. There are some conditions which, if the deposit holder complies with, these forms can be submitted. However, both the concept of a senior citizen as well as submission of these forms are not applicable in case of NRIs. In other words, NRIs, irrespective of their age, are not eligible to file Form 15G or 15H as the case may be.

Consequently, it happens so often that the bank withholds tax (applies TDS) even if the overall income of the NRI depositor is less than the basic exemption limit for taxation i.e. ₹160,000. In this situation the best course of action would be to file the tax return and claim a refund of the extra amount of tax deducted.

I have invested ₹4 lakh in a debt fund in 2005. This year the value of the investment stood at ₹7 lakh. What is my tax implication? I presume that the fund house has deducted the dividend distribution tax but the same has not clearly been mentioned. They say over phone that as per the Sebi rules they have deducted the same. Do I have to pay capital gains tax? *— Shetty*

The amount invested by you in 2005 has grown by ₹3 lakh. This is over and above the dividends that you would have received, assuming you have chosen the dividend option. Dividend distribution tax is deducted before paying the investor the amount of dividend. Now since the investment is in a debt fund, this profit of ₹3 lakh would indeed be subject to long-term capital gains tax. The rate is either 10% without indexation of cost or 20% after cost indexation. You can save this capital gain by investing it in capital gains tax saving bonds. The other way of saving this tax is by investing the net sale proceeds in a residential property. However, the size of the funds is too small for the latter option — the best course of action would be to buy the bonds.

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Is a tied-agency model good for mutual fund investors?

Dedicated agents for selling products would increase costs for MFs, hurt smaller fund houses, result in sub-optimal advice and restriction of choice for investors

Suresh Sadagopan

Recently it was reported in the media that the Securities and Exchange Board of India (Sebi) is contemplating introducing a tied-agency model for mutual funds.

Is this good news for investors?

For that we need to understand the tied-agency concept which is currently at work in the insurance industry. In this model, an agent can sell the products of any one company only. Even if the agent finds that there are products from other companies that are far more suited, he would not recommend them as he is not empanelled with other companies and cannot sell their products.

As it is evident, this model ensures that the agent is just a salesperson of that one company and always needs to look at all client needs through the limited vision afforded by his company. This model is a fertile breeding ground for sub-optimal advice. The biggest loser in this model is the investor. The asset management company may find this worthwhile. For them, the agency channel is an extended sales force of the company, which is not on the payroll. The company needs to pay a commission only if they sell a product. It's like having the cake and eating it, too.

In MFs, currently a distributor can empanel with any number of fund houses. This allows a distributor to pick and choose and create a portfolio of good funds, suitable for his client. Now, if this were to be straitjacketed into the tied-agency model, investors will start experiencing unwanted sales push with a skew to a particular company's product only.

It is felt that it will help MF industry which is reeling under the impact of various regulations that have come up in the past 2-3 years. MFs may get a temporary reprieve through this. But this is a retrograde step and will result in aggressive selling by distributors of the company products they are aligned with. This will result in a flood of complaints, sooner than later, from the investors. If investors find that it is not working for them, they will stay away from the MF schemes, further adding to the pressure that the MFs are facing.

If distributors are allowed to empanel only with one fund house, only the top few fund houses will be able to empanel distributors. The smaller and unfancied ones will not be able to attract any distributors. These MFs will have to start wooing the distributors with various attractions like a sign-on bonus, regular salary-like payments, special incentives, trips, etc. It is obvious that the cost of doing business will go up for most AMCs.

National-level distributors and banks would find that they are hugely in demand due to their distribution muscle. They will be able to extract their pound of flesh with the AMC they are aligned with. In this, those fund houses which either have a bank in the group like ICICI Bank and HDFC Bank or have a strong distribution set-up like Motilal Oswal, Birla Sun Life will find that they are able to come out of this relatively unscathed and even increase their stranglehold.

The outcome of all this is that it will increase the concentration of MF assets with a few fund houses only and concentrate power in the hands of a few MFs. The diversity in fund houses and schemes, which are seen now, will be a thing of the past.

The smaller fund houses will have to sell more through the direct and internet platform. To sell through these channels, marketing efforts would be required. If such efforts are to be fronted by their own staff, it will tremendously add to their fixed cost. Distributor channel is a low-cost channel for MFs, which are only paid for the sales they put through. Hence, their costs will go up if they have to migrate most of their sales to direct or internet platforms. Again, this is not great news for the AMCs, as their revenue stream is limited to the expense they are permitted to charge.

In a nutshell, if tied-agency model were to be introduced it will be a losing proposition for the investor and for most of the AMCs. The distributors will also find it difficult to suggest a bouquet of MF schemes which are suitable to the client and will find resistance from the client, who may want good schemes from across the board. This could mean that at least some of the clients would desert the distributors and go the direct route in search of a diversified portfolio. This will be useful to a few big AMCs and distributors only.

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RBI's war wages on, but global...

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"Overall, even as there is deceleration in some important sectors, notably interest-sensitive ones such as automobiles, there is no evidence of any sharp or broad-based slowdown," the RBI said.

Corporate earnings growth and profit margins in the fourth quarter of 2010-11 were broadly in line with the performance of the past three quarters, the RBI said, adding that demand is steady.

"We will now have to wait and watch how growth and inflation behave before RBI decides its next course of action," said Nilesh Shah, president - corporate banking, Axis Bank.

Although the central bank remained more concerned about inflation and less about growth, it appeared less hawkish than what it was in May.

"The tone of policy statement is a tad less hawkish than May policy review," said Siddhartha Sanyal, chief India economist, Barclays Capital.

"In May policy review, they were completely focusing on inflation. Even now, they are focused on inflation but they have also shown growth concerns," he said.

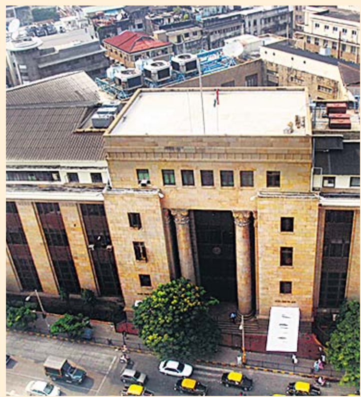
In its note on the policy review, The Royal Bank of Scotland also noted that RBI's hawkish stance had come down a few notches compared with the May policy.

"The RBI emphasised that while it will continue with its anti-inflationary stance, recent global developments could also potentially weigh on India's growth trajectory," said RBS Asia Strategist Sanjay Mathur.

"This acknowledgement suggests that growth management is becoming a policy issue, even if not exclusively so," he said.

The main concern which may have prompted the central bank to soften its tone could be the health of the global economy.

The RBI said developments like the sovereign debt problem in euro area



and Japan's natural disaster had increased the downside risk to global growth prospects and its likely impact on India.

"…the extent of policy action needs to balance the adverse movements in inflation with recent global developments and their likely impact on the domestic growth trajectory," it said.

The central bank noted some moderation in international commodity prices but said it was too early to downgrade the risks emanating from this segment.

Analysts said while RBI may not be striking a balance between growth and inflation just yet, it is beginning to realise that growth cannot be penalised beyond a limit.

Economists said the softening of the tone today may not mean the RBI will stop raising interest rates.

More rate hikes are definitely in store till inflation starts to come off but the jury is now out on the quantum.

"There is one more rate hike on the cards and after that they will pause," said ICICI Securities Primary Dealership vice-president A Prasanna.

Prasanna expects another 25 bps rate hike in July.

Concurs Mathur at RBS: "Our view is that the RBI will conclude the tightening cycle by raising the Repo Rate by another 25 bps for the last time.

Growth indicators, including credit, auto sales and the rising cost of capital, are pointing to a slowdown."

Analysts said while inflation may stay around 9%, the likely slowdown in credit off-take means it may no longer be a monetary phenomenon.

Prime Minister's Economic Advisory Council chairman C Rangarajan said the RBI will continue to raise rates till inflation remains high.

"I believe that the RBI will continue to follow the policy of tightening, so long as inflation remains at very high level. Probably, they have to keep their ammunition still in store for further action against inflation if it becomes necessary," he said.

Taimur Baig, chief economist (India), Deutsche Bank, believes the RBI will raise repo rate by 25 bps each in the next two policy meetings, while HSBC chief economist for India and Asean Leif Eskesen expects another 75 bps hike by March.

"The fact that RBI sees upward pressure in commodity prices indicates that pent-up commodity price pressures are not being passed to customers.

This is an indication that diesel prices will have to (be) de-regulated, which could lead to further inflationary pressures," Eskesen said.

The central bank also noted that the headline inflation number was understating the pressures because domestic fuel prices were not yet reflecting the global trend.

In its May policy, the RBI had shocked many with a hawkish tone along with a 50 bps rate hike.

On Thursday, when most expected the central bank to retain that bite in the text with a 25 bps rate hike, it gave a glimmer of hope by tempering.

Now that the governor has seen the amber light, he will soon heed the red one. NewsWire18

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St bets on one more hike

In view of this, a few economists see rates being raised by more than 25 bps during the remainder of this fiscal. Leif Lybecker Eskesen, chief economist for India & Asean, and Prithviraj Srinivas, economics associate, HSBC see "an additional 75 bps over the next nine months, with the next hike to be delivered during the third quarter."

"The hawkish statement emphasised the upside risks to inflation from global commodity prices and demand-led price pressures, but also downside risks to global growth, suggesting that they will continue to tighten but resume the gradualist approach for now."

Turbines land early...

The order comprising six gas turbines, three steam turbines and generators for the power project is supported by long-term project recourse finance from the US Exim Bank.

GE is also responsible for maintenance of the power project throughout its operating life, along with guaranteed availability, output and efficiency. The order is the largest order for GE in India and one of the largest for it globally.

The Samalkot project was also recently lauded by the US president Obama for helping create about 1,600 jobs in US backed by the order placed on GE.

Has Maruti...

In fact, Maruti has already signed a contract agreement with Adani-led Mundra Port for exporting 33,000 cars through the port, they said, adding, it could be a pressure tactic used by the company to convince the Gujarat government to allocate land near the port.

Chharodi, near Sanand, which houses Tata Motor's Nano plant, was said to be another location the company was considering.

A Maruti Suzuki spokesperson said no decision has been taken on the expansion plans. "During the media interaction, last month, senior management of Maruti Suzuki had indicated that a decision about our future manufacturing facilities would be taken in the next 3-4 months. There is no change in this situation since then," the spokesperson said.

Maruti Suzuki accounts for more than half of the total cars sold in the country. The company has a capacity of producing 12 lakh cars a year, which is likely to go up to 17 lakh units in two years with the completion of its plant in Manesar, Haryana.

Tata Steel exits Riversdale

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All global steel makers are conscious of the fact that they need to secure raw material security," a senior official affiliated to a rival steel maker said.

"It will infuse overall liquidity in the company's balance sheet," said an analyst with a domestic brokerage, who did not wished to be named since he's not authorised to speak to the media.

The Tata Steel share shed 1.44% of its value to ₹553.15 apiece, more than the benchmark Sensex, which fell 0.81% to 17,985.88.

"Tata Steel has decided that it would not want to hold its equity investment in Riversdale Mining, which is proposed to be delisted, without any joint venture agreement with the majority shareholder," the company said.

It's like having the cake and eating it too, analysts said, because Tata Steel also has an offtake agreement from one of Riversdale's most prolific coal mines in Mozambique, called the Benga project.

Tata Steel will also continue to hold 35% in Riversdale Energy (Mauritius) Ltd, a subsidiary of Riversdale Mining, which owns coal assets in Mozambique.

Tata Steel expects Rio Tinto to honour the commitments made by Riversdale Mining. "That project continues. It is a joint venture, a pact, a signed document," a Tata Steel official said.

Tata Steel said it will work with Rio Tinto and discuss in good faith ways to enhance participation in Benga, where it has a 40% offtake agreement.

The Benga project is among the two biggest that Riversdale has in Mozambique, the other being the Zambeze project.

According to Tata Steel, the Benga project has coal reserves of 502 million tonne, "one of the most significant coal deposits outside of Australia".

The two projects together have 13 billion tonnes of coking and thermal coal resources.

According to Tata Steel's annual report for last fiscal, the joint venture is currently developing Stage 1 of the Benga project, which entails production of 1.7 million tonnes of coking coal and 0.3 million tonnes of thermal coal.

In a note earlier this year, Pinakin Parekh and Neha Manpuria, analysts with JP Morgan, alluded to rich gains to be made by Tata Steel.

"As of now, Tata's 24% (now 26.27%) stake in Riversdale and 35% stake in Benga project mean it is well positioned to benefit from any increase in value of Riversdale," they said.

The carrying value (or the cost of acquisition) in Tata Steel's balance sheet is $232 million for a 21% stake, Parekh and Manpuria said. The company subsequently bought 5.2% more shares.

The two analysts had estimated the value of Tata's holding in Riversdale at $840 million. Later, the Indian steel maker in a series of deft move, increased its stake by 5%, in a bid to make its position stronger as Rio Tinto muscled in by buying the rest of the stakeholders. As many as five extensions were made by Rio Tinto to its public offer.

It is a case of déjà vu for India's largest conglomerate.

In the past, the Tata Group's beverages firm Tata Global Beverages (Then Tata Tea) had decided to accept a generous offer from Coca-Cola Co, for its minority investment in Glaceau, the specialty water maker. Tata Tea profited by $523 million from the deal.

However, the circumstances are different in this case, as one of the main motives behind investing in Riversdale was to get control of captive mines to feed its manufacturing units Europe.