

Beneficial ownership cap under FEMA may be kept open-ended

Issue deferred as ministries fail to reach consensus over threshold

SHRIMI CHOUDHARY
New Delhi, 13 October

The definition of "beneficial ownership" for Chinese foreign direct investment (FDI) in India might be kept open-ended in view of no consensus on this. Policymakers are of the opinion that placing a threshold on investment would leave the field open for overseas investors, particularly from China, to alter their investment structures, short-circuiting the FDI approval process.

"Several rounds of discussion and deliberation have been done. The ministries, including the Ministries of Finance and Commerce, have failed to reach a consensus on setting a cap on investment from seven neighbouring nations, including China. It is also being argued that giving a definition could be misused by overseas investors to escape scrutiny," said a source in the government, privy to the discussion. Sources say the ministries and departments con-

cerned are at odds on keeping the threshold lower at 10 per cent, in line with the rules on significant beneficial ownership under the Companies Act, 2013. Some of them have been pitching for keeping it at 25 per cent for companies and 15 per cent for investment coming through partnerships (as defined under the Prevention of Money Laundering Act). Hence, the matter was deferred again, a source said.

During the discussion between the ministries held two weeks ago, various trends in capital raising by Chinese players and the role of venture capital (VC) and private equity funds came up. "There are lots of instances where deals have taken place through VC. The large number of VC deals makes it difficult for India to determine what constitutes beneficial interest," said the source cited above.

On April 18, India tightened its FDI policy for countries with which it shares land borders, by putting investment from them on the approval route.



Policymakers say placing a threshold limit on investment will allow overseas investors to alter their investment structure

On April 22, the Centre had issued notice under the Foreign Exchange Management Act, stating that investment from the seven nations must seek approval from the government.

Under it, a Chinese investor holding one share in the investing entity is a beneficial owner. Industry has made several representations on this since May, seeking clarity on beneficial ownership, but to little avail owing to border tensions.

Experts say deferment would result in delay in busi-

ness plans of overseas entities. Rajesh Gandhi, partner, Deloitte India, said, "If the threshold for beneficial ownership is specified, investors will get clarity and portfolio investors will be able to continue investing smoothly. Otherwise, there would be uncertainties and that would delay business plans." The government, however, has started looking at Chinese investors proposing to buy less than 10 per cent in companies in non-sensitive sectors.

"The government's approach in keeping the definition of beneficial ownership vague is an indication of its apprehension that investors will take advantage of creative structures to escape the ambit of the new provisions. Unfortunately, in the absence of clear directives as to what constitutes beneficial ownership, overseas entities (including listed companies and funds) based out of countries not sharing a land border with India but having a minuscule shareholding/interest from China-based entities are also being covered under this," said Atul Pandey, partner, Khaitan & Co.

He further said foreign investors/funds had been adversely affected and a number of investment proposals which would otherwise have concluded months ago were stuck.

"Considering that the government has come out with beneficial ownership norms for other enactments (most recently, in respect of restrictions on public procurement), I do not see any reason for the government to hold back clarification on beneficial ownership," added Pandey.

India set to slip below Bangladesh in 2020 per capita GDP: IMF

KRISHNA KANT
Mumbai, 13 October

Bangladesh is set to beat India in terms of per capita gross domestic product (GDP) this calendar year, thanks to a sharp contraction in the Indian economy due to Covid-19 and the economic lockdown.

According to International Monetary Fund (IMF)-World Economic Outlook (WEO), Bangladesh's per capita GDP in dollar terms is expected to grow 4 per cent in 2020 to \$1,888. India's per capita GDP, on the other hand, is expected to decline 10.5 per cent to \$1,877 - the lowest in the last four years. The GDP figure for both countries is at current prices. This makes India the third poorest country in South Asia, with only Pakistan and Nepal reporting lower per capita GDP, while Bangladesh, Bhutan, Sri Lanka, and Maldives would be ahead of India.

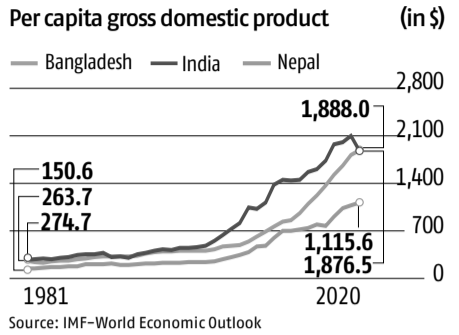
The WEO database suggests that the Indian economy will be the worst hit from the pandemic in South Asia after Sri Lanka, whose per capita GDP is expected to shrink 4 per cent in the current calendar year.

In comparison, Nepal and Bhutan are expected to grow their economies this year, while the IMF has not divulged Pakistan's data for 2020 and beyond.

IMF predicts a sharp economic recovery in India next year, which is likely to push per capita GDP ahead of Bangladesh in 2021 by a small margin.

India's per capita GDP in dollar terms is expected to grow 8.2 per cent in 2021, against an expected 5.4 per cent growth for Bangladesh. This will grow India's per capita GDP to \$2,030 next year, against Bangladesh's \$1,990. Till five years ago, India's per capita GDP was

THE PROJECTION



Source: IMF-World Economic Outlook

nearly 40 per cent higher than Bangladesh's. In the last five years, Bangladesh's per capita GDP has grown at a compound annual growth rate of 9.1 per cent, against 3.2 per cent growth reported by India during the period. This has allowed Bangladesh to close the economy gap with its giant neighbour. According to economists, Bangladesh's economic growth has been underpinned by its fast-growing export sector and a steady rise in rate of savings and investment in the country. In contrast, India's exports have stagnated in recent years, while savings and investment have declined.

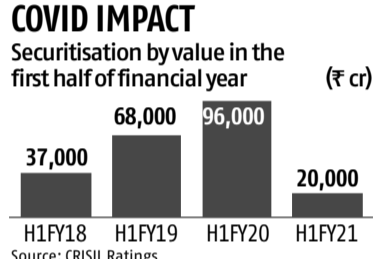
According to the WEO database, India's economic contraction in 2020 will be its worst since the 1990-91 economic crisis when the per capita GDP had contracted 17.5 per cent in 1991. India's GDP per capita in dollar terms had last contracted 1 per cent year-on-year in 2012 due to currency depreciation. In all, India's per capita GDP in dollar terms contracted on eight occasions in 40 years, five of which occurred prior to 2000.

Securitisation deals dip 80% in 1st half of FY21: CRISIL

SUBRATA PANDA
Mumbai, 13 October

The Covid-19 pandemic and the moratorium granted on repayment by the Reserve Bank of India (RBI) have led to 80 per cent drop in securitisation transactions by value, rating agency CRISIL said on Tuesday.

In the first half of the current financial year, securitisation transactions plunged to ₹20,000 crore, against ₹96,000 crore in the same period a year ago. During the first half of FY19, securitisation transactions were ₹68,000



Source: CRISIL Ratings

crore. However, there are signs of recovery, as September saw a rebound in securitisation transactions to ₹10,000

crore. "Overall volume continues to be well below the levels seen in the past few years, when securitisation had become one of the preferred fundraising tool for non-banking financial corporations (NBFCs)," said the rating agency.

According to Krishnan Sitaraman, senior director of CRISIL Ratings, the reduced disbursements by NBFCs in the first of this financial year led to a decline in the need to access the securitisation market to churn assets.

"Investors also preferred to wait on the sidelines, assessing the impact of

moratorium on collection efficiency and credit behaviour, and awaiting clarity on improvement in borrower cash flows and economic activity," he said.

More importantly, to tide over liquidity concerns, non-banks took recourse in funds made available by the RBI through long-term repo operations and government's partial credit guarantee scheme.

Asset-backed securities made up for 70 per cent of the overall securitised volumes in H1FY21, up 1,000 basis points, against the same period last financial year.

Covid insurance can be renewed with portability

With the rise in the number of Covid cases and no end in sight for a cure, the Insurance Regulatory and Development Authority of India (Irdai) has modified its earlier guidelines for Covid-specific products and allowed renewal, migration as well as portability of such products.

Initially, the insurance regulator had said, lifelong renewability, migration, and portability are not applicable to such products. However, it has now tweaked the

guidelines and allowed Corona Kavach and Corona Rakshak policies of any tenure to be renewed for further terms of three and a half months, six and a half months or nine and half months, according to the option exercised by the policyholder. However, the renewal shall be subject to the underwriting policy of the insurer.

Also, the renewal has to be done before the expiry of the existing policy contract. Hence, these policies have been allowed by Irdai to be renewed till March 31, 2021. SUBRATA PANDA

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Chinese lending apps face Indian resistance over high rates, threats
ANUP ROY
Mumbai, 13 October
As the pandemic pushed people towards economic desperation, shady lending applications mushroomed, trapping hapless borrowers with astronomically high interest rates and threats of bodily harm if the money is not repaid.



EXIT OFFER PUBLIC ANNOUNCEMENT PURSUANT TO SECURITIES AND EXCHANGE BOARD OF INDIA ("SEBI") CIRCULAR NO. SEBI/HO/MRD/DSA/CIR/P/2016/110 DATED OCTOBER 10, 2016 ("EXIT CIRCULAR") FOR THE ATTENTION OF THE PUBLIC SHAREHOLDERS OF
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Notice for DCM Shriram Ltd.
Pursuant to the Regulation 29 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Notice is hereby given that a meeting of the Board of Directors of the Company will be held on Tuesday, 20th October, 2020, inter alia, to consider the Unaudited Financial Results (both Standalone and Consolidated) for the quarter and half year ended 30.9.2020.

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Notice is hereby given pursuant to Regulation 29, read with Regulation 47 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a meeting of the Board of Directors of the Company has been scheduled to be held on Tuesday, 20th day of October, 2020, inter-alia, to consider and approve the Un-audited Financial Results for the Quarter/Half Year ended 30th September, 2020.

THE CHALLENGE
Fintech lenders are forming an industry body to check risky lending
FACE to be an association of more than 100 fintech lenders
Primary objective is to become industry voice, but also to educate borrowers
Fintech lending growing at 3-4 times every year, attracting even unregulated foreign lenders
The association aims to fight unscrupulous lenders that act as loan sharks

These lenders resort to criminal means of recovery, and since these are not regulated properly, they can wreak havoc to the borrower's life, often leading to suicides. On the contrary, regulated fintech lenders follow strict rules of the RBI, and are in the process of bringing more people into the credit market by creating their credit profile. Fintech lenders mostly target people in tier-II or lower cities, or in urban unbanked areas, who are hungry for credit but have no access. Madhusudan estimates that 400-500 million people are still not served by formal credit. "Every year, we are bringing two million new credit customers to credit scores," he said. Therefore, the industry can only expand at a rapid pace, for which self-regulation is needed.

