

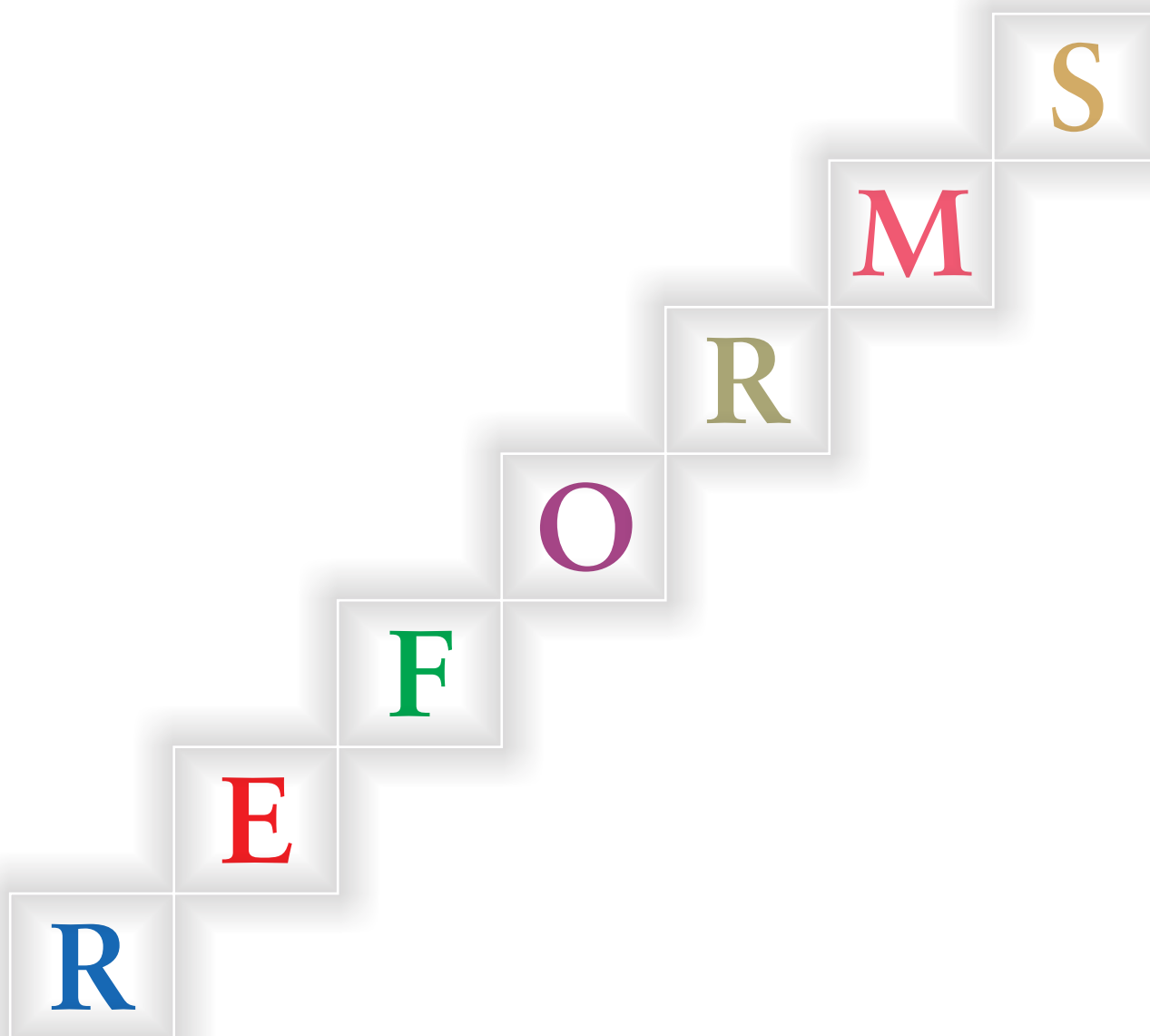


INTELLECT

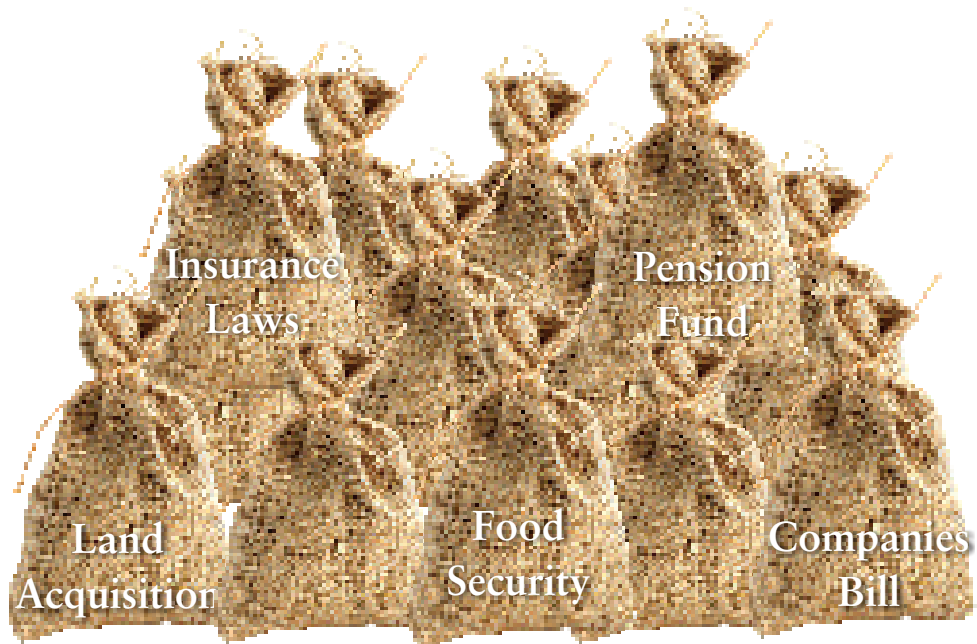
For internal circulation only

VOLUME 40: July, 2011

The “Reforms” Pipeline



The “Reforms” Pipeline



With the Indian economy growing at a healthy 8-8.5% yoy, what would help the economy most would be the easing of the stubborn inflation and the rising crude oil. India Inc corporate results posted so far show a healthy topline growth of 22% and a bottom-line growth of 16% yoy (inspite of high commodity prices) this only helps the Government take on reforms head-strong. The Government needs to table bills which have been in the pipe-line for some time now.

The journey for a Bill to become an Act is a long one. It begins when the ministry concerned sending a draft to the Law ministry for approval and legal compliance, it then comes back to the ministry concerned, which makes the changes sought and places it before the Union Cabinet. After the Cabinet approves the Bill, it has to be cleared by both the Houses of the Parliament. If the Bill is tabled in the Lok Sabha and sits there, it runs the risk of dying with the term of the house, but in the Rajya Sabha it can be carried forward. Once introduced in either House, a bill is usually referred to a parliamentary committee for examination. The committee can take anywhere between 3 months to 2 years or even more. At this stage, the Government can decide to incorporate changes in the bill based on the recommendation of the parliamentary committee. It is then put to vote in both the houses.

On the economic front, the Government has so far tabled the Direct tax code Bill, Pension

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Dear Readers,

The cover story of this edition of Intellect covers the various bills pending in parliament. If these are passed, it could be a big boost to the economy. Also, covered in this edition is an article on the future of training. With massive transformations taking place in the way we communicate and filter information, it is imperative that the way we approach training also changes. The article on Japan takes a close look at the Japanese economy and the impact it has on the world at large. We hope you find these articles interesting. We look forward to your feedback.

- Hitungshu Debnath

and Insurance Bill in Parliament and announced moves on the disinvestment plans in the Budget. Through disinvestments they managed to garner around Rs. 230 bn.

The Women's Reservation Bill and the Right to Education Bill are the other two to have gone through.

Some of the Key Pending Bills that need immediate attention are:

- **Insurance Laws (Amendment) Bill, 2008:** The policy is aimed at opening the insurance sector to foreign players by increasing the foreign direct investment (FDI) cap from 26% to 49%

Impact : Raising the cap should attract substantial amount of fresh investments into the sector. A likely fallout of greater foreign participation and increased competition could be the introduction of many innovative products, affordable pricing mechanisms and improved sales and distribution network, which would benefit policyholders and also help generate employment.

Status: Was introduced in the Rajya Sabha in September 2009. A parliamentary committee is currently examining the bill.

- **Pension Fund Regulatory and Development Authority (PFRDA) Bill, 2011:** This bill will provide a stronger legal foundation to the PFRDA for the implementation of New Pension Scheme (NPS) and as a regulator for pension funds. The NPS will introduce a number of changes in the current government's pension policy as it establishes a defined contribution regime (where a person's

pension is based on his/her contribution and the returns earned) as opposed to the defined benefit regime (where the government paid a person a pre-decided sum for life) that has been in place so far.

Impact: The shift from defined benefit to defined contribution should positively impact the fiscal situation in the long term. PFRDA can direct funds towards investment avenues that have high gestation periods such as power, telecom, and infrastructure sector projects, by coming up with innovative and efficient funds. Equity markets are also likely to benefit from the fund flow. It will also provide new business to asset management companies as well as banks (collecting and channeling funds)

Status: Introduced in March 2005, panel report in July 2005, but the bill collapsed with the Lok Sabha in 2009. The government has stated its intent to re-introduce it.

- **Land Acquisition (Amendment) Bill, 2007:** The lack of a comprehensive land acquisition regulation has hamstrung virtually all infra sectors such as roads, power, ports, SEZs, etc. The amended Bill puts the onus on the corporate entity to acquire 70% land for commercial projects, while the state would help to acquire the remainder. The Bill will also ease the land acquisition process for developers by allowing them to deal directly with landowners. This will ensure adequate and timely compensation to the existing landowner and thus speed up the process which is now routed through the Government, resulting in bureaucratic delays. The Bill further mandates that company's share 80% of the capital gains with



previous owners if they sell the acquired land later. It also gives preference for jobs for at least one person from each of the affected family. Further, it also proposes to give houses to all dislocated families, including the landless ones.

Impact: This Bill could bring much needed clarity for all the parties involved - the corporate sector, farmers and states. It redefines the definition of 'public purpose'. Power, real estate, metals & mining and transport services (highways, rail projects, airports and ports) are sectors that would benefit the most as bottlenecks would be cleared for smooth transition of growth & development.

Status: The Bill was passed by the Lok Sabha in February 2009 but was held up in the Rajya Sabha when key UPA ally, Mamata Banerjee, opposed it. Likely to be revisited this monsoon session with additions & alterations.

- **The Food Security Bill:** It aims at making food availability a right for every citizen of India, with the Government having to define its coverage in terms of the target population and quantum of food grains. Given the current massive misuse of the public distribution system (PDS), the bill also calls for broader PDS reforms. This Bill would most effectively target food subsidies once the UID project is fully implemented by 2013-14.

Impact: 68% of India's population may get legal right to subsidized food thereby leaving more money in their pockets for further consumption of other necessities.

Status: The Food ministry has prepared a draft bill, likely to be placed before the empowered group of ministers (EGoM) on food in June 2011.

- **The Companies Bill, 2009:** This Bill has fewer provisions (400) vs/ the existing Bill of 1956 (600), and is easier to comprehend. Some of the changes include detailed disclosures, greater responsibility for independent directors, and revision of the framework for regulation of insolvency, liquidation and winding up. Further, there are provisions for tightening trading regulations.

Impact: Companies will face fewer bureaucratic hassles while forming and running business. Shareholder and creditors shall benefit from greater transparency.

Status: It was introduced in October 2008, but it lapsed. Its 2009 version was introduced in August 2009. Its parliamentary committee has cleared it and it is waiting for a vote.

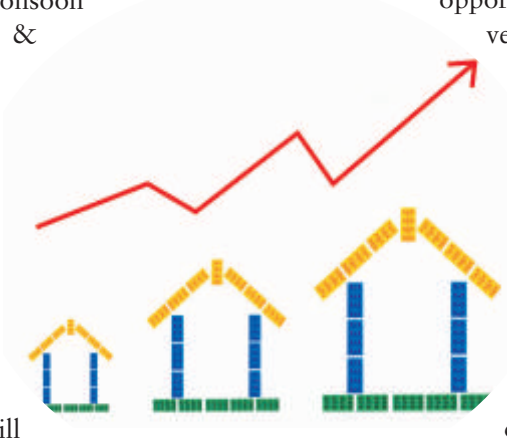
Markets which appear to be range-bound due to high and rising oil prices, uncertain developed markets, tight domestic liquidity, inflation and rising rates would look forward to reforms giving further impetus to investments and growth. India enjoys a considerable PE premium of 37% over other emerging markets due to its high ROE and long term earnings visibility, the Government should therefore seize the opportunity by way of reforms else this very premium would be under threat.

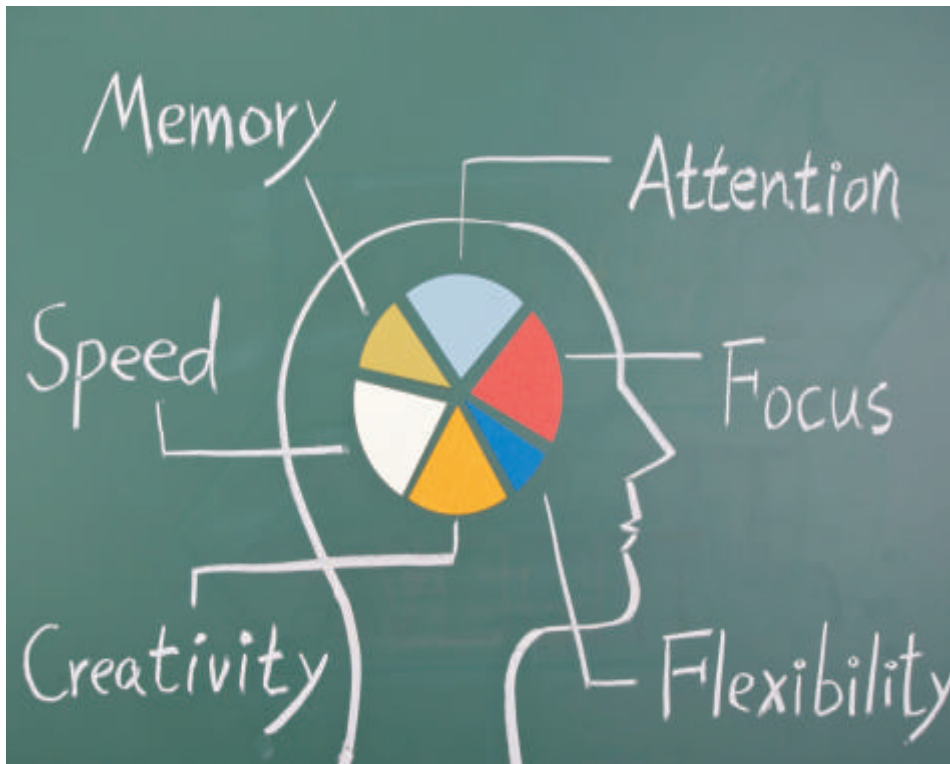
Hence to sustain market levels, continuous announcements are important.

In the near term, the reforms would most benefit companies that have negative cash flow, highly indebted and in need of equity financing at a reasonable cost. Most infrastructure, construction, real estate and metal companies fall into this category.

The fund flow factor has been the most important driver for India's growth. Global risk appetite, policy clarity and growth expectation have been the primary drivers of such capital inflow and outflow which, in turn, have been one of the most important drivers of economic growth. In order to keep growing at the pace witnessed in 2006-07, Indian corporates need new equity capital every quarter in the foreseeable future. If the Government keeps investors excited with more positive announcements coming in every legislative session, it could cause the market to sustain reasonable valuations for a long time.

Even if reforms are delivered in small doses, it would work wonders for the market as investors would decide whether they can keep looking for positive announcements to keep the momentum going.





The Future of Training

Whenever you talk to employees, all seem to be in a mood to go for a training program? They want to go to IIM and ISB or to a five star hotel hosting a program. How come everyone wants to get trained? What is it that has made people so hungry for knowledge? Is it for “real” or is it just a “mirage”? Those who are eager for training, were they so eager to go to school in their childhood? Why this change of behaviour when it comes to a training program? Are they really interested in training or is it the program bit that has caught their fancy? To a large extent, training programs elicit very favourable reactions mainly because they appear to people as a break from their regular work or sometimes perhaps another certificate and feather in the cap.

Against this background it is vital to clearly comprehend the purpose of a training program. One has to differentiate whether the training program is “training” or “program”? While the former is same as “learning” the latter is more about “affinity”. So if one wants to feel rewarded or wants to entertain business stakeholders the focus may be on the program. However if education / knowledge / understanding / comprehending / value adding are the words that are the drivers then we should clearly focus on the “training” and not on the “program”.

If learning is the objective then the responsibility of getting trained belongs to the trainee more than the trainer. Hence the approach has to change. “Training” has to prevail over “program”.

A revolution in the making

Training needs to be re-shaped using technology as a tool.

1. “YouTube” has a wealth of training videos to offer. The best in class speakers/trainers are just a “wish” away. Lectures from the best universities of the world are available at one's beck and call. In the “online” world we are swimming in a sea of opportunities. Just make a wish and invaluable treasure just bubble up.
2. Likewise iTunesU in a virtual university of world famous universities. This is a powerhouse of knowledge from the best universities of the world.
3. Ted.com is another treasure house of insights, creativity and knowledge. It opens the flood gates into a world of profound insights and experiences.

America's most popular teacher doesn't work at Harvard University or a fancy prep school. In fact, he



doesn't work in a school at all, but his lessons have been viewed more than 56 million times. Salman Khan, a former hedge fund manager, is the founder of Khan Academy, a free online learning platform with a library of more than 2,300 videos covering everything from basic algebra and differential equations to the Vietnam War. Salman Khan in a single stroke has re-defined training. The world needs to recognize and adapt to the new technology platform which is endowed with infinite “scale-up” opportunities.

Magic of Technology

1. Making content come alive: It becomes feasible to appropriately invest in content creation using animation, music and even celebrities as technology makes it feasible to reach the content across geographies. Thus high quality content is made possible due to technology.
2. Customisation Technology enables each trainee to learn at his own pace in keeping with his or her capacity to absorb knowledge. It also makes it possible to access answers to questions even though they happen to be beyond the scope of the program. Hence one trainee's inquisitiveness does not hamper another's time thereby delivering true customization.

3. From the desk of the expert: In technology based training the trainee gets the opportunity to post queries for experts while in conventional training the trainers' abilities draws the limiting line.
4. Real time monitoring and MIS: Technology makes it possible to monitor the usage patterns of people getting trained and judge their grasp by running online tests and generating multiple MIS for more accurate assessment.
5. Instant gratification: In conventional style of learning the grades are awarded after final evaluation after a specified period of time. Such a process opens the doors to fraud leading to marks getting altered. Technology works in real time and its instant energy drives away any prospect of warping of the truth.

Hurdles to traditional approach

1. Standardization of delivery: When training is done in the traditional way, it appears passive and formal. Moreover its success hinges on the trainer's talent in communicating the modules. Also the scale-up is based on usage of multiple trainers which makes it difficult from the point of view of standardization. Thus scaling up programs with standardized content becomes a hurdle.
2. Lack of flexibility for trainees: It is also time dependant and every trainee in the training room is expected to be very attentive and soak in the knowledge being imparted through the program. This seldom happens. The trainer progressively loses touch with the audience as the program gains momentum. Everyone is only physically glued to their seats but mentally very few stay connected. This is perhaps the biggest bane of the traditional approach to training.
3. Limitations to interactivity: There are limitations in the level of interactivity as well. If a trainee wants to know something which is beyond the scope of the training, the trainer asks the trainee to discuss off-line.

The Road Ahead and the accompanying challenges

In comparison to the excitement that the wealth of information locked in the web provides, the standard



conventional approach would invariably numb people. Technology is transforming training into a process that actively engages trainees by using new tools and devices -- replacing a teacher-centred model with a student-centred one.

So why can't we expose people to these technology backed training programs? Why can't we create our own videos using domain experts to reach out to people and engage with them? How many organizations are putting their intranet to meaningful use and exploiting its full potential?

The challenge is to do with aptitudes and abilities of trainers to adapt to technology based training designs. So clearly the trainee is never the hurdle. It is the trainers' mind-set that needs to buy in. First and foremost they must understand their new role is that of facilitators

rather than teachers. They must realize that they have to put the responsibility for learning on the trainees. The prerequisite for someone who wants to get trained is his yearning for knowledge. Wisdom can never be forcibly infused. This is the cardinal truth in training.

Again the measure of success should not simply be test scores, but instead, increased attendance, increased attention and participation. Once the trainees are engaged and excited about learning, the trainers will find it easy to make the transition from actor to enabler.

In order to train employees to be life-long learners and successful contributors to the business, trainers have to change the way they teach and the way knowledge is gathered and Technology is the only superhighway over which knowledge will flow in the future.

■ Dharmendra Satapathy

Tremors of Japan

Will the Tremors of Japan hit the World Economy?

Will the 8.9 magnitude earthquake, and the 30 foot tsunami it triggered in the world's third largest economy leave the world economy unchanged? We need to understand the Japanese economic realities, to appreciate the likely impact.



Japanese Economy

75% of the Japanese GDP comes from services (banking, insurance, telecom, retailing, transportation), 23% from industry (automobiles, electronics) and a negligible 2% from agriculture (hardly surprising, given the mountainous nature of large parts of the land).

Being not so well-endowed in natural resources, it has to import a large part of its requirements of food, fuel and raw materials. Industry imports the raw materials and exports finished goods. Overall, the Japanese have a positive trade balance i.e. exports are more than imports. The exports in the last few years have not been so robust. China has replaced Japan as a large exporter.

Over the years, the country has accumulated large surpluses, which are invested in US Treasury Bills. Japan held USD886bn of US T -Bills as on January 2011 - the second largest holder in the world, after China.

The Japanese population at about 125million is

shrinking. Worse, the population is aging. The number of people above 65 (who generally do not contribute much to the GDP) is set to touch a quarter of its total population. The 0 – 15 years (who will join the workforce in future) category is less than 15%.

An aging population has a low tolerance for inflation. It also spends less and saves more. In the last two years, Japanese economy has been contracting in terms of real GDP, while inflation is negative. This means that a person is better off buying the same goods tomorrow, instead of today. This is a good recipe for postponement of purchases and higher savings; hardly a scenario where companies would like to invest inside Japan.

In the normal course, immigration of labour force into Japan would be a way to boost the productive workforce and domestic consumption. But Japan does have its language barriers for people to integrate in the country. It is also not viewed as an attractive destination for people to migrate, unlike the US and Europe.

Since the 1990s, the Japanese fiscal situation has been deteriorating. Budget deficit and debt are mounting. Government debt is nearly twice the GDP. The Japanese Government Bonds (JGBs) are largely held by the aging risk-averse local population and Japanese institutions. Interest payments on the debt are adding to the Government's deficit problem; welfare expenses related to an aging population are compounding the problem.

The Japanese Yen, at about 82 to the dollar is almost at its strongest. Since mid-2007, when it was at 123, it has been following a direction of strength. Strong currency means the exports of the country are less competitive.

Consumption Expenditure + Investment Expenditure + Net Exports is equal to GDP.

Each of the elements that go into Japan's GDP has been weak –

- Consumption expenditure is low on account of aging population;
- The already high and growing budget deficit is a dampener for the Government to engage in large investment expenditure;
- Currency strength is hitting the net exports;
- Lack of export competitiveness coupled with weak consumption expenditure makes it less interesting for companies too to invest inside Japan.

This is the story of Japan's economic contraction [See

accompanying table – Japan's Vicious Circle of Economic Problems].

For long, global economists were of the view that Japan needs to kick start its economy with active governance and programs. But unstable governments have only allowed a steady deterioration of the situation.

The Tremors from the Quake

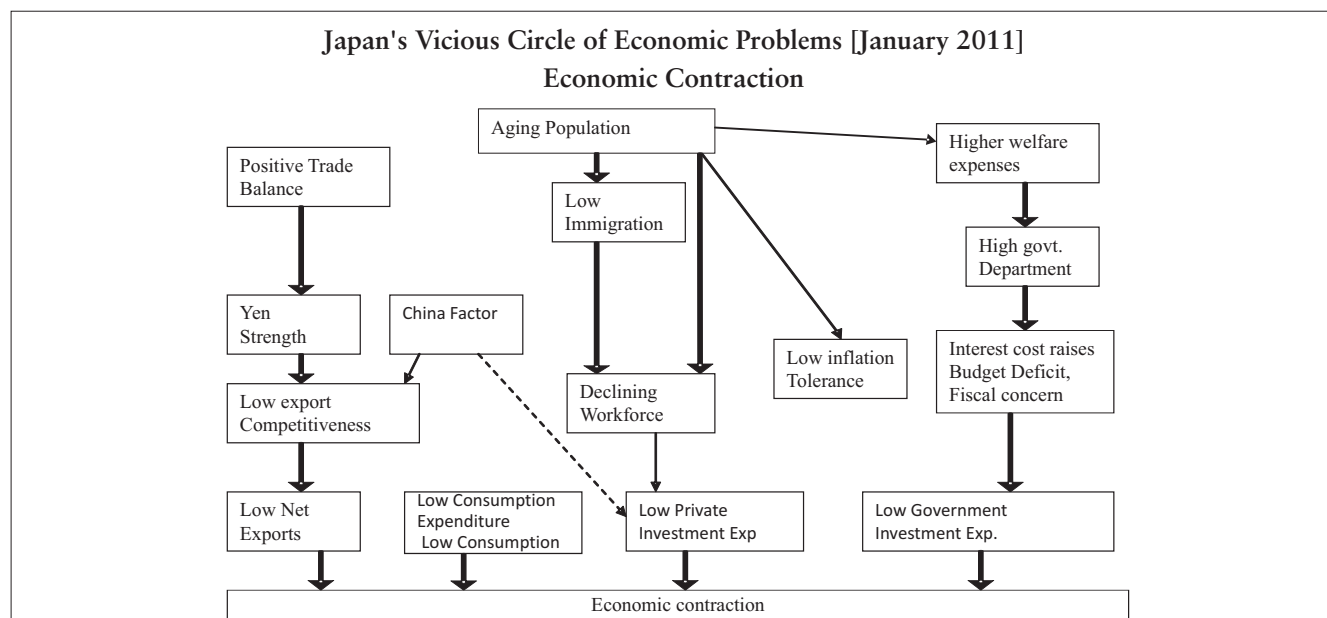
On March 11, 2011, the quake and tsunami happened. Damages are estimated to be USD200-300bn. No more than 15% of this is likely to be covered by insurance.

Let us first look at the supply side of the equation, within Japan.

- Production capacity of the economy is obviously disrupted. The impact would have been much greater if the role of industry in the economy had been higher. The gaps in production capacity for consumption would need to be met by imports. In some cases therefore, import of raw material might have to be replaced by import of finished goods.
- Banking and construction can quickly recover and meet the likely increase in demand for these services.

What is the impact on markets outside?

- It is expected that moneys for Japan's redevelopment will have to flow back to Japan, from abroad. The demand for Yen would increase. In anticipation, Yen has been strengthening. EU is helping Japan prevent the Yen from appreciating.



- “Yen carry trade” positions are being unwound. People who borrowed Yen to invest in other currencies – especially Australian Dollar and Brazilian Real are now getting out of these positions. This has added to the demand for Yen and its strength.
- In automobiles and electronics, Japan is a significant part of the global supply chain. The affected production capacity will disrupt the global production of some of these items. Prices of computers and mobiles, for instance, might get firm. Some brands might face supply shortages.
- Japanese steel mills contribute significantly to the global supply. Impact on Japanese production capacity will push up steel prices.
- Demand for construction material for the re-development will increase. Zinc, copper and aluminium might see an increase.
- The disruption in nuclear power in Japan, and likely lethargy across the world towards this form of energy could increase the demand for alternate sources like oil and gas, pushing up those prices.

The Japanese government will now be forced to increase spending – something that global economists have been suggesting for long. There seems to be a consensus on this between the Government and the opposition too. Thus, as regards the policy environment, the quake is a blessing in disguise!

Financing the Spend

The impact on the economy depends on how the spending will be funded.

- Insurance moneys will fund part of the damages. Since most large policies are likely to have been re-insured abroad, part of the claims-money would flow in from abroad. This has been the reason for the recent Yen strength.
- Unwinding of “Yen carry trade” by Japanese residents will increase their Yen-holding. JGBs can be issued to tap into these funds. This would increase the already high Government debt, but is likely to cause the least disruption to the economy. Unfortunately, this avenue will not be adequate, given the magnitude of damage.

- The Government can print notes. This high inflation approach, which also lightens the load of repayment of Government debt, is adopted by developing countries. But, as mentioned earlier, the aging population is wary of inflation. The Bank of Japan itself operates on a mission of “ensuring price stability and financial system stability”. Thus, one can expect less recourse to this form of money.
- Japan's large holding of US T-Bills is an obvious option. The investments have been made to take care of such calamities. The implications of Japan selling US T-Bills can be immense. A large sale will pull down security prices and push up the USD yields. This will make a mockery of the US Government's policy of keeping interest rates low to kick start its local economy. Further, the approach can cause serious depreciation of the value of the dollar (and appreciation of the yen), and create ripple effects the world over.

The US can prevent such a scenario by giving grants to the Japanese. It would be interesting to watch the Obama administration sell this approach to the US public, who are deeply worried about their own economic ills.

The alternate would be to nudge US Corporations to step in. Indeed, some of them might find it a good business opportunity to engage in the re-building of Japan.

- If something can be an opportunity for US Corporations, then why not for the Chinese? After all, they are the second-largest economy in the world; they have the financial and non-financial resources; and most important, they are Japan's neighbor. China is in a unique position to get involved in the re-development without disturbing the Dollar-Yen currency markets. Will Japan get over its suspicious approach towards China, to welcome the dragon?

The story of Japan's second re-building will unfold over the next two years. Whatever happens, the earthquake will change the global order for the good.

■ Parvathy Ramalingam
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Understanding the concept of “Contra” fund

– By Prof. Simply Simple™

Contra fund has its genesis in the popular saying, “when others zig you zag”.

It basically takes contrasting positions and consciously does not flow with the tide at all times

Let me tell you a story.

There was a boy Raju travelling with his family. They met with an accident in which he lost all his family members. He became orphaned. His relatives turned away from him.

Raman a friend of Raju's father who knew the family was very fond of Raju. He liked him because he was cultured, well mannered, very studious and always a topper in his class. He knew Raju had the talent to become a very successful person

He therefore without any hesitation took Raju under his shelter. He nurtured and educated him sparing no effort. As expected Raju grew up into a very smart, intelligent and successful person

When Raman started aging and becoming weak it was Raju who stood by him as his shield. He ensured that Raman had all the comforts that he needed.

From a “contra” perspective one can say that the bet Raman took on Raju was a contra bet. He backed him at a time when others were avoiding him. He did it because he had a clearer understanding of the intrinsic qualities of the boy. He always knew it would be worth his while to help Raju in the long term

Similarly a “Contra” fund manager looks for bad news and searches for opportunities within the bad news. He identifies companies being shunned by investors due to overall mood and picks them into his “contra” basket

And as we saw in the case of Raju, such companies also may take some time to bounce back. Therefore as an investor one needs to have patience when investing in a contra theme.

The tale of Raju pictorially is



Helpless Raju after the accident



Successful Raju once grown up

This was the story of “Contra” investment. Remember it takes patience for the investment to play out

Hope you now understand the “contra” theme



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The scheme is not offering any assured / guarantee returns to investors.

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