

CIGARETTE MANUFACTURING FDI BAN BECOMES OFFICIAL

The government on Monday formally banned foreign direct investment (FDI) in cigarette manufacturing, closing the door on many foreign companies such as Japan Tobacco, BAT and the Altria Group.

"... It has been decided to prohibit FDI in manufacturing of 'cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes'," said press note No 2 (2010) issued by the commerce ministry. The Indian cigarette market is now wide open for Indian manufacturers such as ITC, which has about three-fourths market share. The Cabinet Committee on Economic Affairs (CCEA) had decided on April 8 this year to ban FDI in cigarette manufacturing. The notification shifts cigarette manufacturing to the prohibited list of FDI. Technically, foreign investment can come into other segments of tobacco such as beedis or gutkha.

The move to ban foreign investments in cigarette manufacturing came up soon after Japan Tobacco announced its intention to raise stake its the Indian arm to 74% from 50%. There has been no instance of FDI being allowed in cigarette manufacturing during the recent past.



ASSESS CAPITAL NEEDS BASED ON INTERNAL RAT- ING: RBI TO BANKS

RBI has told banks to be ready with advanced internal rating based (AIRB) approach – a new methodology to assess a bank's capital requirement. As of now, banks are following the standardised approach, wherein banks assign risk to the asset based on the rating given by external rating agencies. All banks are required to have a minimum 9% capital adequacy ratio and therefore, the model followed by banks to access the capital is significant. Most banks prefer to hold at least 12% CAR at all points of time because a lower CAR increases their cost of resource. The advanced internal rating based approach takes banks a step close to becoming a Basel-II compliant institution. However, only those institutions which comply with supervisory standards prescribed in the Basel-II accord can implement AIRB, which places more importance on the bank's internal rating mechanism.

STRONGER PSU LINEUP TO FILL SELLOFF GAP

The finance ministry has asked key administrative ministries to line up some big ticket public offers to boost its chances of meeting the ambitious Rs 40,000 crore divestment target for the current fiscal year. The department of disinvestment is pushing for stake sale in about 10 more public sector units. Coal India and Steel Authority of India are the only big issues that are expected to hit the market this year. These issues could fetch the government Rs 14,000 crore and Rs 8,000 crore, respectively.

The government is worried that if it approached the market frequently with small offers the appetite for shares of state-owned companies could fall. The recently concluded public offer of Satluj Jal Vidyut Nigam Ltd raised just Rs 1,000 crore and the proposed follow-on offer in Engineers India Ltd is also expected to fetch a little more than Rs 1,000 crore.