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THE GREEN DIGEST

PAGES 23 | JANUARY 2021 | 88 MINUTES

MORNING!

LET'S LEARN FROM THE PAST

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Recap 2020 – The need to learn from past decade and think about future

It's a new year. The five-second task of scrapping the old calendars and replacing them with a new one, itself is a refreshing task. Writing date will have a fascination attached to it for the next few days. Finally, the year 2020 is done and dusted. We have a brand new year and a new decade to begin with. New resolutions, new plans and new hopes – you don't need a public speaker to motivate you, it's inbuilt in our human system. However, does that mean we are free from hauntings of our past events? Will merely switching to a new calendar and date pattern erase the wrongdoings of the past? Not.

"A decade of misinformation" – that's what the history books would recognise the past ten years 2011-2020 we lived as, the repercussions of which still reverb in our actions. Unless we learn from the past events, think about the future and inculcate the same in our current actions, 2020 isn't going anywhere, we are merely switching to a new date. And thus, a new year must begin with looking into the past, diving into the future and then living the present accordingly. Here, we present you a recap of the past year and decade, how the world has shaped from then.

News and print media

Almost all industries come across a point where they have to decide between manufacturing inhouse or buying from outside. However, the print and news media doesn't have that option and yet many news houses made a choice – "Why search for news when you can manufacture them?" and thus, began the Great Indian News Drama, something that we had never imagined a decade ago that the news and print media would touch such lows. Earlier opinions were labelled as opinions, distinguishing them from facts, however, now opinions are sold as fact to the point that it's impossible to distinguish between real facts and fabricated ones. And what if you own or pay a news media house itself? Well, you can change the entire narrative surrounding you – just look back into the past ten years!

Journalism is a difficult job, collecting news, identifying the facts, verifying them and then reporting them in a manner that would grab people's attention while also ensuring that a right message is reached to the public. All this happens in real-time and there's a 24-hour live news cycle running. Besides, broadcasting or printing charges are fixed.

Thus, the job of a news channel or newspaper is much difficult than other entertainment channels or magazines. And yet we get newspapers or news channels at penny prices or almost free of cost. How is this even possible? Well, because the audience is no more the client – the advertisers are. We are all an asset for the news houses, machinery installed to earn revenue from advertisers. As long as news channels are run by advertisers and for-profits, well, the news would never be trustworthy, because you don't know who is paying (read as controlling) the news and the narratives.

Social media

A decade ago, we would have never thought social media would be such a big thing. Facebook, a website for fun, became such a huge thing that it's now one of the largest companies in the world. Online dating was an option of last resort, now the mainstream form for the newest generations. Uploading videos on Youtube was for fun, however, now it's a recognised profession – Youtuber, in fact, for that matter, Tiktoker as well.

Social media was for connecting, however, now our connections are a source of earning – more the connection, better the advertising price you receive. Modelling was once on a thing that happened on fashion shows and ramps, however, now enthusiasts can conduct photoshoot, upload photos, tag brands and earn money. All corporates are on social media – trying to build their space and connecting with customers, replying to their complaints and displaying how much they care about their consumers. Everyone is on social media – right from the celebrities to politicians, trying to leave a mark on their target audience. Even the Enforcement Directorate (ED), CBIC, CBDT, Income Tax Department, Customs and all others are on social media – they run campaigns of their own. Surely, a decade ago, nobody would have imagined that the police officers would be replying through funny tweets, trying to build a brand image on the social media – Mumbai Police, Delhi Police, Bangalore Police, etc. the trend is rapidly on the rise, not sure how much it has helped in maintaining law and order. A post, tweet or a story has become a powerful tool – a source of income as well as subject matter Supreme Court cases. News leaks faster on social media than the news channels. The news channels now present tweets as a piece of news. No doubt, like the news media, social media is full of paid trends and advertisers.

While Facebook and Twitter boast of their increasing userbase, it's not hidden from the public that there are lakhs and crores of ghost profiles on them who run campaigns and trends controlled by companies who provide the same as a service – to politicians, celebrities and corporates. This is a new era of marketing. It's amusing, however, not surprising that we have reached a stage where a sect has started demanding to link Aadhar to our social media profile, not something we would have imagined a decade ago. Social media is no more a platform for connecting with friends and family, it's a business and a platform for advertisements.

Entertainment and Technology

A decade ago buying music album was a thing, or downloading them from websites who illegally uploaded them without copyrights. However, now we stream them on various music apps. Watching movies in theatre now has a better option of streaming the same at home, with smart devices like firestick and smart televisions. Netflix, Amazon Prime, Hotstar and many others have emerged not merely as content streaming apps, but also producing content and publishing them first hand on streaming apps directly, not the theatres. Their subscriptions have become common, thanks to bundled packages by telecom providers. And the pandemic came as a blessing as the online entertainment industry has received a huge boost. News channels can now be bought individually, thanks to the TRAI's new regulations. However, whether this has resulted in lower costs is still unsure. With the end of 2020, cable television has also come to an end, within a mere lifetime of 25 years.

The times have changed – the preference for entertainment directly from the comfort at home, at choice, on-demand has increased, especially with audio and video devices on the rise. Smartphones, itself was a big thing in 2010. Data is no longer on our devices or in storage medias, people prefer clouds and so do corporate busineses. Now, we have smart homes and smartphone ecosystem where mobiles, television, audio devices, cameras, video devices, watches, fitness devices, smart lighting, smart lock systems, etc are all linked to each other, along with the software inside the devices, forcing consumers to buy more products from the same company for a hassle-free experience. Cameras are fastly becoming outdated with smartphones embedding higher resolution cameras and with the power of software even competing with digital cameras. There's an ongoing war between who is a better smartphone assistant, speaks for itself how technology has improved drastically. Meanwhile, Elon Musk is working on breakthrough projects like tourism to Moon and brain-to-machine interface with computer chip installed on brains. Usage of artificial intelligence, machine learning and adaptive technologies is on the rise even tax authorities using the same for identifying tax evaders. This is one segment where the future is unpredictable, however, there's a surety that what's trending today, would be outdated by the end of the decade – so buy your products wisely.

Financial Industry and the Economy

The finance industry is no different from other industries and has suffered huge setbacks in the past decade. Fall of old and mighty banks became a common thing – the trust over co-operative banks has decreased substantially. While Government strived to add more and more people to the banking system, demonetisation has been the highlight of the decade which till date has been debatable about its need and impact. Surprisingly, INR 2,000 notes were issued after demonetisation and strangely within five years there is a short circulation of the same, it is almost disappearing.

Fall of Laxmivilas Bank, PMC Bank, Yes Bank, NBFCs like IL&FS, DHFL collapsed, public sector banks were merged, etc. it all happened in the past year. Insurance sector experienced a boom with National Stock Exchange recognising the same with the addition of HDFC Life into Nifty 50. On the other hand, UPI would probably be the biggest success story of the decade, with Reserve Bank of India (RBI) already taking every effort to avoid its monopoly and dominance by few. Cheque systems have improved and NEFT and RTGS are now a common thing for businesses, with the same gradually becoming available 24x7.

The economy is closely aligned with the performance of the financial industry. While other sectors are capable of boosting the economy or slowing it down, the financial industry can make overnight changes in the economy with some good or bad moves. India aimed at becoming one of the largest economies in the world, however, with pandemic the already far-fetched dream now seems nearly impossible. The negative GDP has been the biggest highlight of the decade, probably in the past century. On the hand, bitcoin became the representative of the cryptocurrency world and ending the decade with a boom similar to its earlier rising. The cryptocurrencies are a rebellion of the financial system in their own way – yes, we have them too, not something we would have imagined, especially with no person to take credits for the development.

Telecom Industry

The industry that witnessed the biggest shift in dynamics has been the telecom industry. With Reliance entering into telecom market with Jio and quashing all existing competitors with low pricing, we witnessed how a powerful corporate house can overtake an entire market. Thankfully, Airtel competed, Vodafone Idea merged and survived and BSNL, well, it still exists. There's no other competition and probably there won't be unless another major corporate house decides to enter the industry. With the rising preference of streaming online or let's be truthful, with the rising forced addiction of streaming online through cheaper internet data packages and free voice calls, and a bunch of other free subscriptions, we have been lured by one or the other company and gradually, each of them would try to make the most of their consumer-base. In the end, we must be thankful that telecom is at least oligopolistic market, else at one point, it seemed Reliance Jio would emerge as the monopoly. Meanwhile, the saga of two Ambani brothers – the rise of one and the fall of the other, is a story worth telling the future generation.

E-commerce and Education

The rise of e-commerce hasn't been surprising and with pandemic adding further to its growth trend, the e-commerce industry has sustained its growth of which we had seen a glimpse in 2010. Now, we have everything available online – clothes, medicines, food, electronic appliances, household products, grocery, baby products, footwear, cosmetics etc. Inside the e-commerce industry, there's another set of sub-industries which depict challenges and growth patterns different from the physical world. Now we have sales online, almost every month of the year, with a different name. Discounts and offers are available all the time with banks and other financial apps contributing through cashback, no-cost EMIs, discounts, etc. At the beginning of the decade, we had physical stores going online, and by the end of the

the decade, we are now witnessing giant e-commerce platforms heading towards physical stores as expansion. The way we shop has changed over the past 10 years.

Towards the end of 2020, what came as a huge surprise was the rise of educational apps – it almost felt that the pandemic was perfect factor for their business growth. All they needed for a reason and boom! The educational platforms like BYJUs, Udemy, Unacademy, Vedantu, Toppr, etc. have received an unprecedented response from the new age parents. India is now a leading country when it comes to successful educational startups around the world. However, how effective they are going to be in long run, is still a question mark as traditional education in classrooms shall resume with pandemic subsidising.

Government Policies

We witnessed a government in a completely different mode – service provider! Unlike the previous governments who focussed more infrastructure development, the current government has been acting like a service provider to its citizen and has revived certain aspects instead of developing new. While economists haven't been much happy with government moves, we have seen some unprecedented moves over the past few years – Demonetisation, Article 370 Amendment, Citizenship Amendment Act, New Farm Laws and of course, the most talked about, Goods and Services Tax. However, none of them has been free of controversies or rather full of protests and endless debates everywhere, which people gradually disremembered once the news media stopped reporting about it - our memories have become so fickle!

We finally have a New Education Policy in place. Aadhar cards and linking aadhar to literally everything has been a highlight. Property cards are being talked about and various other moves have been game-changer – well, at least that's what the media said. The increase in foreign collaboration and the rise in the ongoing tussle with China on the military and economic front kept the news channels busy, with social media adding more fuel to it.

Taxation and Litigations

We have never seen judiciary been so active and in breaking news before – whether it's Ram mandir, freedom of speech, the Vodafone case, Triple talaq, and many other cases – there were PILs, Writ Petitions, Suo-moto cases picked by courts, Courts running overtime and even Chief Justice of India crying over the plight of judges. The courts have been everywhere – religions, political, crime, sports, entertainment, geographical, constitutional etc. we have seen it all in the past decade and courts have never been in such limelight before. On the other hand, taxation laws saw a major change. Under late Arun Jaitley, the Government tried to minimise and simplify the taxation laws, however, Nirmala Sitharaman had ulterior motives. We now have faceless assessments, however, at the same time, Goods and Services Tax law provides for the suspension of registration without the opportunity of being heard – in short, the Government wants quicker resolutions of things, however, will justice survive alongside is doubtful.

(This article was contributed by the editorial team.)

Chefs who cook books – How creative accounting is leading to mistrust on valuations

By Amit Chandak, Associate Director, Greenvissage

In 2003, a 19-year-old Elizabeth Holmes founded Theranos, a health tech startup that claimed it had devised blood tests that required a very small amount of blood and its tests could be performed rapidly. Elizabeth's Theranos quickly gained hype in the market. She raised USD 700 million from venture capitalists and private investors in no time, even before making any substantial profits, merely based on valuations which increased in leaps and bounds, based on the hype surrounding the technology alone.

12 years later, in 2015, medical research professors and investigative journalists raised some uncomfortable questions on Theranos' technology. This raised the curiosity of the Securities Exchange Commission (SEC) which started investigating the company.

The company faced a string of legal and commercial challenges from medical authorities, investors, Centers for Medicare and Medicaid Services (CMS), state attorneys general, former business partners, patients, and others. By June 2016, Holmes's personal net worth had dropped from USD 4.5 billion to virtually nothing. In July 2016, Theranos received sanctions from the CMS, including the revocation of its CLIA certificate and prohibition of Holmes and other company officials from owning or operating a laboratory for two years.

The company was near bankruptcy until it received, in 2017, a USD 100 million loan from Fortress Investment Group secured by its patents. In March 2018, Holmes and former company president Ramesh Balwani were charged with massive fraud by SEC. It turned out that the entire story built around Theranos's new technology was, after all, a story – pure fiction! In September 2018, the company ceased operations. Holmes and Balwani have been indicted in charges of wire fraud and conspiracy with trials ongoing till date.

Death of accounting

The last two decades have seen a tectonic shift in the way businesses are valued. An unlisted company's value is calculated by extrapolating profits in the past into future years to find future cash flows and such cash flows are discounted to find their present value – Discounted Cash Flow (DCF) valuation.

The value of a business has shifted from tangible to intangible assets. While tangible assets have a value and fixed useful life which restricts the valuer to limit the estimates to the installed capacity of the assets, the intangible assets have no upper limits and the same can be replicated, licensed or exploited any number of times, to any number of people or users. There's a huge difference between the book values which are usually based on historical cost, the present value based on future cash flows and the actual value of the entity. This is where the death of accounting began. Figures in accounting, no longer reflect any version of the reality.

Intellectual property rights which are valued heavily during valuations can turn worthless overnight when alternatives are discovered or government regulations change. Most of the intangibles such as copyrights, brand values, trademarks, etc. recorded in the books of account are of similar nature which has huge values assigned to them in books of account, however, in reality, may not realise the same. There's usually no real perceived value as these assets do not return any real cash flows on its own. Thus, the value assigned in books remains questionable.

Why is valuation a matter of concern?

Over the last decade, various startups without any assets in their books have managed to earn astronomical valuations, based on their argument that their ideas are worth millions and will fetch cashflows in future. You can try this exercise yourself – pick up a few financials of so-called 'New age tech startups' and compare them to the same of shell companies, and you will find a striking resemblance amongst them – no assets, no business activity, and no revenue. All they have is an idea and some geeky founders in T-shirts who fetch millions and billions in valuations. Investors relying on the valuations of these startups pump money into it, who are also mesmerised by the idea. However, these businesses keep making losses and yet their valuations curiously are higher than before. The inclusion of the value of intangible assets into valuation has made accounting subjective and thus, it no longer gives a true picture.

It's worthy to mention here that the investors include angel investors, venture capitalists, asset management companies, fund houses and other types of investors who are not necessarily investing on their behalf, instead of borrowing money from the mainstream financial system or the public at large. Thus, all is not well, if the valuations are not reliable.

How do fraudsters exploit the ecosystem?

A bunch of teens pitching an idea to you – excited as always, the teens who believe their idea is best and want you to invest in it. While over the past decade, India and the world as well have seen such teens turning small ideas to a multi-million business venture, however, the count of such startups is fewer. Technology-driven startups are volatile – a new technology by bigger corporate, an alternative technology, a new platform, or a change in regulation can erode the entire idea and technology overnight. Zebpay and Coinmark had their all-time high valuations before Reserve Bank of India (RBI) banned trading cryptocurrencies in India and thus, overnight the startups lost their value.

One day the valuations are deep and sound, the other day the valuations are worthless – there's a very thin line of difference between the sheep and the wolves here. You can't differentiate whether the startup was valuable earlier and doesn't have a value now, or did it never have a valuation at all and merely a show well put up. Thus, there is a breeding ground for the fraudsters to exploit.

There's forensic auditor to find out what happened and how a healthy living startup collapsed to death in a short time, however, there's very little to achieve here as the line between genuine failure and fraud is hard to decipher. Besides, fraudulent founders don't need to siphon money, they just need to pay themselves a hefty salary from the funds received from investors.

New methods of valuations

Many new methods are of valuation in vogue now which use complicated formula and multiple benchmarks to calculate the value of a startup. In theory, valuation is the total of future benefits expected from the enterprise and thus, the profits are at the centre of the entire discussion. However, the new-age startups barely make profits, there are only revenue and heavy revenue expenditure which makes it impossible to value based on profits. Such startups are valued based on other benchmarks such as revenue. Thus, to drive the valuation higher, you need to drive the revenue higher. Now, revenue is usually difficult to increase, however, if one forgets about earning – it usually becomes a cakewalk. That's exactly what happens – deep discounts, selling below cost and foregoing all profits, extravagant marketing expenditures, etc. just to ensure that the revenue goes higher. Almost all benchmarks suffer a similar shortfall. The founders burn the investors' money and in no time, the startup is left with no money in pockets and still the same original idea!

Conclusion

Valuations are estimates of the future benefits, by nature they have a probability attached to it. When the methods and benchmarks of valuations become creative, the valuations become unreliable, especially with the intangibles. Thus, investors must learn from the past cases and ensure due diligence and background checks of the startups and their founders before investing, instead of inclining decisions on valuations alone. Besides, valuations based on multiple benchmarks and through multiple methods must all be considered before considering a valuation, as different methods can highlight the prospects from different perspectives. However, in the end, equity investing is a risky affair. In a bid to earn higher profits, one must be open to higher risks.

90% Failure rate of startups in India

India's rank on Global Innovation Index 66th

77% Startups fail due to lack of innovation

Failure rate of venture-backed startup 75%

Government Policies

- In an ambitious move to make scientific knowledge and data available to all, the government has proposed an open data policy that will make information generated by all publicly funded research, including its results, freely accessible to everyone. More significantly, the government has also proposed to buy bulk subscriptions of all the important scientific journals across the world, and provide everyone in India free access to them. The proposals have been made in the draft Science, Technology and Innovation Policy which includes the 'One Nation, One Subscription' policy, was released to the public on New Year's Day for comments and suggestions.

- Covaxin, the coronavirus vaccine from Hyderabad-based Bharat Biotech, has been recommended for "restricted use in an emergency in the public interest" by a government-appointed panel, which submitted its findings to the Drugs Controller General of India on Saturday evening. The DCGI will take the final call on approving of the vaccine.

- While speaking at Assocham Conference, Road Minister Nitin Gadkari said that the Government is working on a proposal to remove all toll plazas on the highways in next two years so that vehicles will not have to stop or slow down at plazas for making payments; instead, toll charges will be collected from vehicles such as trucks and buses with the use of GPS technology, mapping the distance moved and automatic deduction of toll.

- The Government has initiated the foundation of six Light House Projects, as part of the Global Housing Technology Challenge-India (GHTC-India) initiative, in Indore, Rajkot, Chennai, Ranchi, Agartala and Lucknow. About 1,000 houses at each location are expected to be constructed in a year, using six distinct technologies from a basket of 54 such technologies shortlisted under the GHTC-India, 2019.

- The Government has flagged off the country's first-ever fully-automated driverless train service on the 37 km Magenta Line (Janakpuri West to Botanical Garden) in Dehli while also launching the fully operational National Common Mobility Card (NCMC) for travel on the 23 km Airport Express Line (New Delhi to Dwarka Sector 21). Dubbed as 'One Nation One Card', the NCMC is an inter-operable transport card that allows holders to pay multiple kinds of transport charges, including using metro and bus services across the country, toll, parking and even for retail shopping and withdrawing money.

- The Union Ministry of Road Transport and Highways extended the deadline for 100% toll collection through FASTags on national highways till February 15, 2021. The previous deadline was January 1, 2021. The Nitin Gadkari-led ministry aims in making the cashless transactions a norm from the first day of 2021 for seamless movement of traffic through fee plazas.

- The Ministry of Road Transport & Highways has mandated fitment of FASTag in M and N categories of motor vehicles sold before 1st December 2017 from January 1 onwards. A motor vehicle with at least four wheels used for carrying passengers is categorized as 'M'. While a motor vehicle with at least four wheels used for carrying goods and passengers fall under the category 'N'.

Goods and Services Tax

- Amended rule 36(4) concerning availment of the input tax credit for invoices not reflecting in GSTR-2B now restricts provisional ITC to 5% instead of 10% earlier (20% originally). Since the rule is applicable from January 1, ITC availment for the month of December 2020 for which returns shall be filed in January 2021, shall also be covered by the new rule.

- New Rule 86B effective from January 1 restricts usage of input tax credit to 99% in case of a registered taxpayer with taxable supplies exceeding INR 50 lakh per month which means such taxpayers are compulsorily required to pay 1% ITC in cash. However, the rules exempt the following taxpayers:

    1. the taxpayer, proprietor, karta, managing director or any two partners, whole-time directors, members of the managing committee of associations or board of trustees, as the case may be, have paid more than INR 1 lakh as income tax in each of the last two financial years for which the time limit to file the return of income has expired

    2. the taxpayer has received a refund of INR 1 lakh or more in the preceding financial year on account of the unutilised input tax credit for zero-rated supplies e.g. exports or SEZ or on account of inverted rate structure

    3. the taxpayer has discharged his liability towards output tax through cash above 1% of the total liability, applied cumulatively, up to the said month in the current financial year

    4. the registered person is government department, a public sector undertaking, a local authority or a statutory body.

- The Traders' body CAIT has urged Finance Minister Nirmala Sitharaman to defer the implementation of Rule 86B in GST, whereby businesses with over Rs 50 lakh monthly turnover will have to pay at least 1 per cent of their GST liability in cash, terming it a counterproductive measure that will increase the traders' compliance burden. The mandatory requirement of 1% cash payment of GST liability with effect from January 1 would apply to only 45,000 taxpayers, forming mere 0.37% of the total businesses registered in the Goods and Services Tax system, said Ministry of Finance.

- In view to providing relief amid the COVID-19 crisis, the government has extended the due date for furnishing Annual GST Return GSTR-9 for the FY 2019-20 to February 28, instead of December 31. This applies to all taxpayers whether filing Annual Returns GSTR-9 alone or along with Reconciliation Statement GSTR-9C.

- Amongst other amendments, Rule 21 has been amended to provide for the suspension of registration of taxpayers in case of the following situations:

    1. avails input tax credit in violation of the provisions of section 16 or rules thereunder

    2. furnishes details of outward supplies in Form GSTR-1 for one or more tax periods over the outward supplies declared in GSTR 3B

    3. violates the provision of rule 86B

- Further Rule 21A provides that officer may suspend registration without affording the said person a reasonable opportunity of being heard. Thereby, the registration shall be suspended and thereafter, the opportunity would be given to the taxpayer to submit reply and seek revocation.

- Further Sub Rule (2A) to Rule 21A provides that if significant differences or anomalies indicating contravention of the provisions or rules exist, the officer may suspend registration without providing any opportunity of being heard. Besides, no refund shall be granted to a taxpayer whose registration has been suspended.

- Taxpayers will now have to ensure that the above rules are adhered by their enterprise as well as by their vendors, as a suspended vendor may not be able to pass on the input tax credit.

- Rule 59 has been amended to disallow following taxpayers from filing GSTR 1 –

    1. who have not furnished GSTR-3B for the preceding two months or two quarters, as applicable

    2. who is required to discharge at least 1% tax liability by cash and has not furnished GSTR-3B for the preceding tax period (instead of two months)

- Rule 8 and 9 have been amended to provide for biometric verification i.e. Aadhaar authentication and taking photograph or taking biometric information, photograph and verification of such other KYC documents, for new GSTR registrations. Besides, the period for granting the registration has been increased from 3 days to 7 days. However, if proper officer considers it necessary to carry out physical verification of places of business, the registration shall be granted within a period of 30 days. A similar process will apply for an additional place of business.

- The Central Board of Indirect Taxes and Customs (CBIC) made clarifications in a series of tweets as confusion emerged amongst the taxpayers with the notification of amendments.

Myth vs Reality (as per tweets by CBIC)

(Disclaimer: Although tweets have been issued by CBIC's official handle for taxpayers' awareness, the same cannot form the basis for legal interpretation or enforced in a court of law, since they do not form part of the GST law and thus, must be read as mere guidance and not law.)

Myth: No opportunity of being heard will be given if a proper officer believes that registration is liable to be cancelled.

Fact: The GST laws passed by Parliament and state legislatures provide that GST registration is liable to be cancelled for those who have not filed six or more returns. Therefore, the cancellation will not be done without any reason. To protect the interest of revenue, this provision has been put in the law so that fraudsters do not run away with GST collected from their customers. Immediate action for suspension is necessary in cases where unscrupulous operators seek to pass on huge fake credit by gaming the system. Such action will not affect genuine taxpayers and will provide them with a level playing field. Moreover, the suspension may be revoked by the officer based on the taxpayer's representation.

Myth: Even if there is a clerical error in filing returns, GSTIN will be cancelled. There is no option to correct your mistakes.

Fact: Only in fraudulent cases where there are significant discrepancies based on data analytics and sound risk parameters, and not mere clerical errors, the action of suspension and cancellation will be taken up, for example, the taxpayer who has passed on crores of ITC and not filed GSTR-3B returns, nor has he filed income tax returns (ITRs).

The GST ecosystem is carefully working towards curbing fake invoice frauds in the interest of bonafide taxpayers applying sophisticated tools like BIFA, data analytics, artificial intelligence and machine learning, to pinpoint and segregate the fraudsters.

Myth: The proposed change will impact the ease of doing business.

Fact: The fraudsters are misusing the system to the detriment of the interest of genuine taxpayers. Data-driven targeting of the fraudsters is the need of the hour. The data is being collected from the income tax department, banks, customs and necessary matching are being done to identify fraudsters and take action of suspension and cancellation after following due process of law. Precise targeting of fraudsters is being done only in specific cases, after doing a comprehensive analysis, using advanced data analytics tools. Further, multiple risk indicators are checked and only then few high-risk entities are selected. Action against fraudsters will not impact the Ease of Doing Business which is achieved in GST through liberal registration, refund regime and self-compliance system with little or no manual checks.

- The government has launched the Quarterly Return filing & Monthly Payment of Taxes (QRMP) scheme for small taxpayers under the GST system. Taxpayers with an aggregate annual turnover of up to INR 5 Crore in the preceding financial year and have filed their October GSTR-3B return by November 30, are eligible for this scheme.

- According to a report, tax officers have cancelled GST registrations of over 1.63 lakh entities in October and November for non-filing of returns. Out of 720 deemed registrations granted between August 21 to November 16 where Aadhaar authentication was not completed, 55 have been identified for discrepancies and the process of cancellation has been initiated in these cases.

- The Central Board of Indirect Taxes and Customs (CBIC) has extended the due date of GST compliance till 31 March, for those compliances about the period from March 20 to November 29. Further, the deadline for completing GST anti-profiteering probes has also been extended to March 31.

- The Directorate General of Analytics and Risk Management (DGARM), which mines Goods and Services Tax (GST) data to expose tax evaders, has compiled a list of over 12,900 business entities, including some big companies and export firms suspected to have availed of input tax credit (ITC) through fake invoices worth over INR 1 lakh crore since 2017. DGARM has captured thousands of suspicious transaction carried by business entities and shared the data with investigative agencies for action. Based on such inputs, the government has launched a massive crackdown against GST frauds and arrested 104 people.

- Rule 138(10) has been amended with effect from January 1, to curtail the available travel time by 50%. For example, if dispatch to the destination located 500 km away has taken place on January 1, as per the existing rule, the validity of the E-way bill expires on January 7 (100 km per day). However, as per the amended rules, the same shall expire on January 4 (200 km per day), and thus, the goods must reach the destination within the said time frame.

- Effective January 1, the time limit for availing input tax credit on debit note shall be linked to the date of original invoice against which the debit note has been issued and not the date of issuing the debit note.

- The lack of preparedness from the banks has forced the government to waive off proposed penalty for not implementing dynamic QR code on invoices issued by GST-registered taxpayers with over INR 500 crore annual turnover. The provision to penalise businesses not using QR codes on their invoices from December 1 would now come into force from April 1.

- A bench comprising justice Ashok Bhushan, R Subhash Reddy and M R Shah has ruled that the Central Goods and Services Tax Act, 2017 and the notifications issued thereunder bringing lottery and gambling under the GST are valid. While determining the taxable value of supply the prize money is not to be excluded for levy of GST. The inclusion of actionable claim in definition 'Goods' as given in Section 2(52) of CGST Act, 2017 is not contrary to the legal meaning of goods and is neither illegal nor unconstitutional.

- A facility of 'Communication Between Taxpayers' has been provided on the GST Portal, for sending a notification by recipient (or supplier) taxpayers to their supplier (or recipient) taxpayers, regarding missing documents or any shortcomings in the documents or any other issue related to it. This facility is available to all registered persons, except those registered as TDS, TCS or NRTP

- The Goods and Services Tax (GST) collections touched a record high of INR 1.15 lakh crore in December, the highest ever since the new tax system kicked in 2017. The previous highest was in April 2019 when GST collections stood at INR 1.13 lakh crore. GST collections topped INR 1 lakh crore for the third consecutive month in December.

(For queries or more information relating to GST, contact our colleague Ashish Gandhi at ashish.gandhi@greenvissage.com)

Income Tax

- The Central Board of Direct Taxes (CBDT) has extended the deadline to file an income tax return (ITR) for FY 2019-20 from the current deadline of December 31 to January 10. The various extended due dates are as follows:

  1. January 10 – ITR due date for Non-audit cases (FY 2019-20)
  2. January 15 – The last date to submit tax audit report (FY 2019-20)
  3. February 15 – ITR due date for audited taxpayers (FY 2019-20)
  4. March 31 – Last date to submit belated ITR for Non-audit cases (FY 2019-20)

- The Income Tax Department announced on Twitter that it has launched the 'Jhatpat Processing' feature. The feature has already been started for ITR-1 and ITR-4. The 'Jhatpat processing' feature applies only to taxpayers whose ITRs are verified, bank accounts are pre-validated, there are no arrears or income discrepancy, and no TDS or tax challan mismatch. Income tax returns of such taxpayers shall be processed faster and refunds shall be issued quicker.

- In a set of Frequently Asked Questions (FAQs) released by the income tax department, the Central Board of Direct Taxes (CBDT) has mentioned that entities filing declaration under the direct tax dispute resolution scheme 'Vivad Se Vishwas' can revise the declaration till the time tax authorities issue certificate mentioning details of tax arrear and the amount payable.

- Over 4.84 crore income tax returns for the fiscal year 2019-20 have been filed till December 31 according to the statistics released by the Income Tax Department. This figure includes 2.65 crore

ITR-1, lower than the 3.09 crore filed till August 31, 2019, for FY 2018-19 and 1.08 crore ITR-4, as compared to 1.28 crore, filed till August 31, 2019, for FY 2018-19.

(For queries and more information relating to Income Tax, contact our colleague Sneha Halder at sneha.halder@greenvissage.com)

Corporate Laws

- The Securities and Exchange Board of India (SEBI) in a consultation paper titled 'Review of Framework of Innovators Growth Platform (IGP)' under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, has proposed nine changes to the IGP framework based on inputs from startups and other market participants and has sought public comments on the same by January 11. In the terms of the eligibility criteria, SEBI has recommended reducing the hold period before listing from two years to one year to help startups attracting investors who are inclined to an early listing at the time of investing. The current rule seeks 25 per cent of the pre-issue capital required to be held by eligible investors for two years.

- The Securities and Exchange Board of India (SEBI) has mandated that companies emerging from insolvency proceedings must have at least 5% upfront public shareholding if the resolution process has resulted in the public shareholding falling below 10%. The move is aimed at curbing volatility and manipulation in the share prices of these companies, allowing companies 12 months from the date their shares are admitted for re-trading on the exchanges to achieve 10% public shareholding and 36 months to reach 25%.

- The Securities and Exchange Board of India (SEBI), has eased the criteria for the new players to enter the asset management business in India. The markets regulator has announced that sponsors who did not fulfil the profitability criteria would also be eligible to sponsor a mutual fund if they have a net worth of more than INR 100 crore.

(For queries and more information relating to Corporate Laws, contact our colleague Adnan Ginwala at adnan.ginwala@greenvissage.com)

Customs and Foreign Trade

- The government has allowed import and export of COVID-19 vaccines without any value limitation, to ensure speedy clearance and distribution. The Central Board of Indirect Taxes and Customs (CBIC) has amended the regulations to facilitate the import/export of COVID-19 vaccines through courier, at locations where the Express Cargo Clearance System (ECCS) is operational.

- The commerce ministry has recommended for extension of anti-dumping duty for five years on carbon black used in the rubber and tyre industry from China and Russia, intending to guard domestic players from cheap imports from these two countries.

- The Central Board of Indirect Taxes and Customs (CBIC) announced through a notification that the Government has extended anti-dumping duty on imports of methylene chloride from China till January 31.

- The Confederation of All India Traders' complaints against E-commerce platforms has been forwarded by the Department for Promotion of Industry and Internal Trade (DPIIT) to Enforcement Directorate (ED) and the Reserve Bank of India (RBI) for necessary action. The complaints pertain to an alleged violation of foreign direct investment (FDI) policy in the deal between Flipkart and Aditya Birla Group, violation of FDI policy related to manufacturing which is is being used for multi-brand retailing by various e-commerce companies, violation of the FEMA and its rules by Amazon, and exploitation of FEMA and FDI policy loopholes.

- The Union Government has approved changes to the guidelines for providing Direct to Home (DTH) services to bring it in line with the existing policy that allows 100% FDI in the DTH broadcasting services sector. It has also said that licences will now be issued for 20 years, instead of existing 10 years, with a renewal provision after every 10 years. The licence fee has also been lowered from 10% of gross revenue to 8%. The fee will have to be paid quarterly instead of annual payment as at present.

- The Union Government has issued a notification regarding changes in the Foreign Exchange Management Act (FEMA) permitting Foreign Direct Investment (FDI) in defence production up to 74 per cent under the automatic route. Earlier in September, the Union Ministry of Commerce and Industry had raised the FDI limit for the defence sector through the automatic route to 74 per cent from 49 per cent. This was done in line with the decisions taken by the Centre in August. The raised limits would help the firms seeking new industrial licences.

- Foreign direct investment (FDI) equity inflows into India grew 21% to USD 35.33 billion during April-October period of the current financial year, according to official data.

(For queries and more information relating to Foreign Trade, contact our colleague Adnan Ginwala at adnan.ginwala@greenvissage.com)`

Banking and Finance

- The Reserve Bank of India (RBI) has asked the public to be careful about whom they are borrowing from, cautioning that some digital lenders are operating beyond the framework of the law and could turn out to be unscrupulous.

- The Reserve Bank of India (RBI) on January 1 announced that it has constructed a composite Digital Payments Index (DPI) to capture the extent of digitisation of payments across the country. This is a significant development given the sharp pick-up in digital transactions recently. The apex bank and government have been pushing for digital transactions over the years to bring in more transparency and efficiency in the system.

(For queries and more information relating to banking and finance, contact our colleague Kethaan Parakh at ksparakh@greenvissage.com)

Accounting and Auditing

In Focus: IndAS 2

- What is the difference between 'Net Realisable Value' and 'Fair Value'? Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For example, an entity holds inventories of 10,000 units and it can sell the same in the market at INR 10 each after selling expenses. However, the entity has an order in hand to sell the inventories at INR 11. In this situation, fair value is INR 10 each, however, net realisable value is INR 11 each.

- *Does Ind AS 2 allow a free choice between FIFO and weighted average methods?* Yes. Since the statement "the formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition." Is omitted in Ind AS 2, any of the permitted methods, i.e. FIFO or weighted average method can be used when the specific identification method is not possible.

- *Can an entity use different cost formulae for inventories held at different geographical locations having similar nature and use to it?* An entity shall use the same cost formula for all inventories having a similar nature and use to it. Since the inventories held at a different geographical location are similar and use to the entity, different cost formula cannot be used for inventory valuation purposes.

- *Whether the following costs should be considered while determining the Net Realisable Value (NRV) of the inventories? (a) Costs of completion of work-in-progress;*

  (b) Trade discounts expected to be allowed on sale; (c) Cash discounts expected to be allowed for prompt payment? Ind AS 2 defines Net Realisable Value as the "estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale." (a) Costs of completion of work-in-progress are incurred to convert the work-in-progress into finished goods and thus, must be included in Net Realisable Value. (b) Trade discount is allowed either expressly through an agreement or prevalent commercial practices in the terms of the trade and the same is adjusted in arriving at the selling price. Accordingly, the trade discount expected to be allowed should be deducted to determine the estimated selling price (c) Cash discounts are incurred to recover the sale proceeds immediately or before the end of the specified period or credit period allowed to the customer. In other words, these costs are not incurred to make the sale, therefore, the same should not be considered while determining NRV.

- *Whether packing material and publicity material are covered by the term 'materials and supplies awaiting use in the production process'?* While the primary packing material may be included within the scope of the term 'materials and supplies awaiting use in the production process', the secondary packing material and publicity material are selling costs and thereby excluded. Primary packing material is one which is essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc. in case of food and beverages industry. Other packing material required for transporting and forwarding the material will normally be in the nature of secondary packing material.

(For queries and more information relating to Accounting, contact our colleague Rahul Mundada at rahul.mundada@greenvissage.com)

Payroll and Personal Savings

- The Ministry of Labours has notified 8.5% as the rate of interest on employees' provident fund accounts for the financial year 2019-20.

- The Employees Providen Fund Organisation (EPFO) has announced that the interest on provident fund for FY 2019-20 shall be credited to the accounts of over six crore subscribers in one instalment, instead of two instalments.

- Maharashtra Government has banned T-shirts and jeans for all its employees. As per the latest order issued by the administration, the workers are to refrain from wearing clothes with deep colours and strange embroidery patterns or pictures. Women have been advised to wear sari, salwar, churidar-kurta or trousers with a kurta or a shirt and a dupatta if required. Men have been advised to wear trousers and shirts. Employees have been advised to wear Khadi once a week.

(For queries and more information relating to Payroll, contact our colleague Kumari Snigdha at kumari.snigdha@greenvissage.com)

Economic Indicators

- Latest statistics relating to the key economic indicators of Indian economy stand as follows:

Indicator	As on	Current	Prior
GDP Growth (%)	Sep-20	−7.5	−23.9
Inflation (%)	Nov-20	6.93	7.61
Unemployment (%)	Nov-20	6.5	7.0
Trade Balance ($m)	Nov-20	−9870	−8780
GOI Bond 10yr (%)	Dec-20	5.90	5.90

- The movement in the major indices of various stock exchanges across the world, during the month of December, 2020 was as follows:

Equity Index	Country	%
NIFTY 50	India	+ 5.73
BSE SENSEX	India	+ 6.19
INDIA VIX	India	+ 8.50
NIFTY BANK	India	+ 3.90
DOW JONES	USA	+ 1.28
NASDAQ	USA	+ 3.40
S&P 500	USA	+ 1.54
FSTE 100	UK	− 1.37
NIKKEI 225	Japan	+ 2.59
SHANGHAI COM	China	+ 0.83
MOEX	Russia	+ 3.28
CAC 40	France	− 1.03
DAX	Germany	+ 3.16
ASX 200	Australia	− 0.71
BOVESPA	Brazil	+ 4.63
FTSE STI	Singapore	+ 0.67
KOSPI	South Korea	+ 5.20
HANG SENG	Hong Kong	+ 1.47

- The movement in the major commodities futures with latest expiry, as per MCX during the month of December, 2020 was as follows:

Commodity	Expiry	Price	%
Gold	05/02	50,280	+ 2.18
Silver	05/03	68,120	+ 6.69
Crude Oil	19/01	3,527	+ 3.28
Natural Gas	25/01	185	− 3.39
Aluminum	29/01	161	− 3.10
Copper	29/01	595	− 0.19
Cotton	29/01	20,770	+ 4.37

- The movement in the reference rates of major global currencies during the month of December, 2020 was as follows:

Currency Pair	Dec 31	Nov 30	%
INR/1 USD	73.5	73.51	+ 0.62
INR/1 GBP	99.60	98.24	− 1.38
INR/1 EUR	89.79	87.90	− 2.15
INR/100 YEN	70.84	70.44	+ 0.57

- Movement in the major cryptocurrencies during the month of December, 2020 was as follows:

Currency	Pair	Price	%
Bitcoin	BTC/USD	34,080.00	+ 76.23
Ethereum	ETH/USD	788.79	+ 29.98
Tether	USDT/USD	1.00	− 0.03
XRP	XRP/USD	0.22	− 64.28
Btc Cash	BCH/USD	364.86	+ 27.11

- Breaking all previous highs, Bitcoin breached USD 20,000 for the first time and also reached USD 29,500 from USD 19,500 on December 15, within a span of 15 days. The cryptocurrency has gained more than 170% this year owing to expectations of becoming mainstream payment method.

Corporate News

- After a successful venture in India, Marcopolo SA has decided to exit from the joint venture with **Tata Motors** known as Tata Marcopolo Motors Limited (TMML) formed in 2006. Tata Motors has announced that it shall acquire the entire balance 49% stake in the venture for a consideration of INR 12 per share aggregating to an INR 99.96 crore deal.

- After suffering INR 22,000 crore loss against Vodafone Idea in the retrospective taxation case at the International Court of Justice, the Indian Government has lost another retrospective taxation case with **Cairn Energy** for INR 10,500 crore where the International Court of Justice overturned the tax demand. While the Government can challenge the decision, the same would send a wrong signal to foreign investors in India.

- German vaccine maker **BioNTech**, whose COVID-19 vaccine with partner Pfizer has received approvals in multiple countries, has warned of gaps in supply until other vaccine candidates are rolled out. BioNTech CEO and co-founder Ugur Sahin said the company is working with Pfizer to boost production of its vaccine after it was slow to arrive in Europe.

- **Coal India** has recorded a 6.3% year-on-year growth in production at 156.8 million tonnes (MT) in the third quarter of the current year, while its quarter-on-quarter growth was 36.4% over the production of 115 MT during the second quarter. Supplies in the quarter under review grew 9.2% at 154.6 MT, compared to 141.6 MT in the third quarter last fiscal.

- **Mahindra and Mahindra** and **Ford Motors** said that the global disruptions brought about by COVID-19 and the ensuing change in capital allocation priorities forced them to abandon a proposed partnership for engine and vehicle development in India. The move is a blow to Mahindra’s plans to get access to manufacturing capacities and new technologies for engines and connected vehicles.

- **Vodafone Idea** and **Reliance Jio** are expected to gain in EBITDA this year with the elimination of inter-operator IUC charges from January 1, while the same shall be neutral for Airtel, according to a report by Credit Suisse. The zero IUC (Interconnect Usage Charges) regime was previously slated to come into effect from January 2020, but then the telecom regulator deferred its implementation till January 1, 2021.

- **Reliance Jio Infocomm** has made domestic calls free from January 1, after inter-connect usage charges (IUC) on such services end. "Honouring its commitment to revert off-net domestic voice-call charges to zero, as soon as IUC charges are abolished, Jio will once again make all off-net domestic voice calls free, starting 1st January 2021", the company said in a statement.

- Government has sought bids from top law firms for selecting legal advisors that will facilitate for disinvestment of 10% equity in **Rashtriya Chemicals & Fertilizers Limited (RCFL)** through an offer for sale.

- **Adani Green Energy Ltd (AGEL)** has announced that its wholly-owned subsidiary Adani Renewable Energy Holding Eight Ltd (AREHEightL) has been awarded a 600-megawatt wind-solar hybrid power project by Solar Energy Corporation of India. With the latest win, AGEL's total capacity stands at 14,795 megawatts (MW) of renewable energy. Of this, 2,950 MW of renewable energy projects are operational.

- The Enforcement Directorate has announced that it has attached assets worth INR 72 crore of a Maharashtra-based man whose wife's alleged transaction with Shiv Sena leader Sanjay Raut's spouse is under its scanner in the over INR 4,300 crore PMC Bank money laundering case. The central probe agency alleged that the man, Pravin Raut, had allegedly siphoned off INR 95 crore worth of funds from the scam-hit bank.

- **Amazon India** has entered the Indian television market by introducing its first series of televisions under the AmazonBasics brand. AmazonBasics televisions have been unveiled in two different sizes including 50-inch and 55-inch. The 50-inch TV will cost you INR 29,999 whereas the 55-inch Smart TV can be bought at INR 34,999. Both the models have been listed on the Amazon India website.

- The Securities Exchange Board of India (SEBI) has imposed penalties on **Reliance Industries**, it's Chairman and Managing Director Mukesh Ambani as well as two other entities for alleged manipulative trading in the shares of erstwhile Reliance Petroleum Ltd (RPL) back in November 2007. Fines of INR 25 crore and INR 15 crore have been imposed on Reliance Industries Ltd (RIL) and Ambani, respectively.

- **Tata Consultancy Services (TCS)** has completed 100% acquisition of Postbank Systems AG from Deutsche Bank AG through its subsidiary Tata Consultancy Services Netherlands B.V. Postbank Systems AG is the full range captive IT service provider that provides project management, application management and infrastructure support services to Postbank and other subsidiaries.

- With IPO expectations in the air, **PhonePe** has posted its first-ever decline in losses since being founded in 2015. The Walmart-owned digital payments startup posted a 7% decline in its net losses at INR 1,771 crore for 2020, as compared to 2019 when it reported INR 1,905 crore in losses. For the year ending March 31, 2020, PhonePe revenue surged by 74% to INR 427 Crore from INR 245 Crore in 2019.

- **Flybig**, India's newest airline company began its operations on January 3. The inaugural flight took off from Indore, the airline's base, to Ahmedabad. The airlines received a permit from DGCA in December and shall operate thrice a week initially.

- **Toyota Kirloskar Motor (TKM)** reported 14% growth in its domestic sales to 7,487 units in December 2020. The carmaker had sold 6,544 vehicles in December 2019.

- At the end of 2020, **Tata Sons** became the largest promoter of listed companies, overtaking the central government. This is the first time in two decades that the government has not held the position after the market capitalisation of state-run companies declined. Tata Sons stake in the conglomerate's listed companies is now worth INR 9.28 lakh crore.

- Online restaurant guide and food ordering platform **Zomato** saw a record number of orders on New Year's eve as more people in India ordered food online due to covid-induced curfews in many states. Zomato clocked an unprecedented record of over 4,000 orders per minute(OPM) on the New Year's eve. Zomato founder and CEO Deepinder Goyal live-tweeted interesting statistics.

- **Jubilant Foodworks Limited (JFL)** has announced an investment of INR 92 crore into Barbeque-Nation Hospitality Limited (BNHL) for an equity stake of 10.76%. The Company has entered into a Share Subscription Agreement to acquire equity shares and a Restated Shareholders' Agreement to regulate the rights and obligations of BNHL's key shareholders.

How to finance your business setup in India? People wonder how entrepreneurs discover amazing ideas and start new ventures they couldn't even think of. Did this question cross your mind too? Let me spill the beans – the ideas are right in front of you, it's just that your perception restricted your vision. We all face problems in life, what makes entrepreneurs different is that they perceive the same problem differently, and are curious, passionate, and courageous to ...

Transfer Pricing – What are Associated Enterprises? Transfer Pricing is important as it serves two main purposes – 1) Understanding the internal Profitability and Costing of all Units of the same Organisation 2) Compliance with extensive reporting requirements placed by the Tax Authorities. Thus, transfer pricing is crucial for your business, as proceeding without having an appropriate pricing structure in place, may expose ...

Safe Harbour Rules – How to keep your Transfer Price 'Safe'? "Earth is flat like a mat, it's a disc, not sphere," says Flat Earth Society. Do you ever wonder which is the last thing that humans unanimously agreed on? We have opinions and they differ, sometimes even radically. Therefore, we raise questions over contrary opinions. Questioning is good for science and our development, however, the same is not the case with the business world ...

10 Registrations, but 1 Single Form for Company Incorporation Over the past few years, India has been aggressively amending its laws, regulations, and procedures to simplify doing business in India. This is quite evident from the fact that India jumped from 142 to 77th rank in just 4 years. For businesses to prosper and the country to flourish, the businesses are a key stakeholder and the Indian Government is leaving no stone unturned to enable the same ...

Newsletter by:

Greenvissage

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