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MONTH AT A GLANCE

August 2019 witnessed several roll backs and amendments on the recent Budget pronouncements. The recent amendments by the government are expected to further strengthen the industry and consumer confidence, ensuring better transparency, through use of technology and mandating disclosures and facilitating "ease – of – doing – business" in India.

1. There has been renewed focus on encouraging more foreign investors by relaxing FDI/ FPI norms and allowing 100% automatic route FDI in coal mining and contract manufacturing sector. SEBI has also simplified FPI registration process and made amendments to regulations making disclosures and reporting mandatory at various levels.

2. Many amendments have been made in order to facilitate growth in the MSME sector and encourage start-ups. Various measures such as relaxation in Differential Voting Rights have been made to enable the promoters of Indian Companies to maintain their control over the corporates while they continue to grow in the long term by raising equity capital from global investors.

3. There is continuous focus on digitization and using technology to bring more transparency into the system and ensuring compliance at all levels. Introduction of pre-filled forms and faceless scrutiny are small steps towards ensuring that people gain faith over the system and are encouraged to disclose their income and pay applicable taxes.

4. The Government in the budget, announced criminal provisions for not adhering to CSR norms. The new announcements have amended the provisions from being treated as criminal offences to civil offences.

Mergers of Banks: An Ill-timed move

" The whole idea that the consolidation of banks will solve the problem of public sector banking is not correct. If the problem is structural, if the problem is governance, it does not matter whether banks are large or small"- Dr. Y V Reddy, former RBI Governor, while delivering the Professor D T Lakdawala Memorial Lecture on "Future of Public Sector Banking", 2017

On August 30, 2019, Government of India announced a major reform in the banking sector by merging large PSU banks. The plan is to merge 10 state-owned banks into four larger ones Banking mergers have been happening frequently in the last few years, but this time, the consolidation will leave only 12 PSU banks instead of 27 (as in 2017).

Mergers of banks, globally, have always led to delays in credit transmission into the economy. India is no different. At a critical time, when consumer spending has virtually come to a grinding halt, the need of the hour should have been to ease the flow of liquidity into the system. Instead, the announcement of this merger will dampen the transmission of credit into the system in the near future due to integration issues like "fit", redeployment of staff, and fewer career opportunities. <u>The merger of banks is a correct step, but severely ill – timed</u>, given the current slowdown in the economy

For years, expert committees viz., Narasimham Committee (1991) and Narasimham Committee – II (1998) have recommended that India should have fewer but larger banks which are better managed to ensure optimal use of capital, efficiency of operations, wider reach and higher profitability. The basis is that rather than having several banks competing for the same market (in terms of deposits or loans) in the same geographies, leading to each one incurring overlapping costs, it would make ample logic to have large sized banks some of whom are concentrated majorly in one geography, or have complimentary presence in few. It has also been argued that such entities will then be able to respond better to emerging market trends or shifts and compete more with private banks. The Finance Minister has said that the proposed big banks would be able to compete globally and improve their operational efficiency once they lower their cost of lending and improve operational processes.

The Governments hopes that these mergers may solve the problems of PSBs, create more efficiencies in the banking system by reducing NPA and increasing credit activities. Large banks will be more confident to lend which in turn may revive investments in the economy. The government also hopes that by merging banks, large behemoths will be created which may be able to deal with financial situations more resiliently.

It may all be good in the long term and if the fundamentals of our economy are strong. Not now!

A bigger challenge now for the government will be in ensuring that there is no disruption in activity, especially lending, because of the proposed mergers at a time when banks are reluctant to lend to industry and customers. Our concern is that this announcement and the long gestation period for executing the mergers will lead to a further slowdown in credit flow for a while.

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MERGER OF PUBLIC SECTOR BANKS

Oriental Bank of Commerce, United Bank of India → Punjab National Bank

Business Size*	₹17.94 lakhs crore
PSB rank by size	2nd largest lender
No. of branches/ network rank	11,437 / 2nd largest
CBS	Finacle

Andhra Bank, Corporation Bank → Union Bank of India

Business Size*	₹14.59 lakhs crore
PSB rank by size	5th largest lender
No. of branches/ network rank	9,609
CBS	Finacle

Syndicate Bank → Canara Bank

Business Size*	₹15.20 lakhs crore
PSB rank by size	4th largest lender
No. of branches/ network rank	10,342
CBS	iFlex

Allahabad Bank → Indian Bank

Business Size*	₹17.94 lakhs crore
PSB rank by size	2nd largest lender
No. of branches/ network rank	11,437 / 2nd largest
CBS	Finacle

POST MERGER PUBLIC SECTOR BANKS

27 PSBs → 12 PSBs

1.	State Bank of India	2.	Punjab National Bank
3.	Bank of Baroda	4.	Canara Bank
5.	United Bank of India	6.	Bank of India
7.	Indian Bank	8.	Central Bank of India
9.	Indian Overseas Bank	10.	UCO Bank
11.	Bank of Maharashtra	12.	Punjab and Sind Bank

AMENDMENTS TO BUDGET ANNOUNCEMENTS

The Government of India announced the following major policy amendments and roll backs at the press conference held on 23rd August 2019. These are expected to improve consumers and industry confidence in the current downturn.

Income Tax Act: More transparency

a) Withdrawal of enhanced surcharge on capital gains for foreign portfolio investors.
b) Introduction of pre-filled IT returns to facilitate easier filing of income tax returns by taxpayers.
c) Faceless scrutiny will commence from 8th October 2019 which aims to make tax payments more transparent.
d) All notices, summons and communications from the IT dept will be issued through a centralized computer system bearing a Unique Document Identification Number (UDIN). Any document issued without UDIN will be treated as non – existent in the eyes of law.

Goods & Services Tax: Further Simplification

a) Reduction in the number of GST returns and further simplification in GST forms.
b) Simplification of GST refund process.

Start – ups: Further ease of business

a) Angel – tax has been exempted for start-ups registered with the DPIIT, in order to encourage innovative ideas.
b) CBDT to establish a separate cell to address problems and queries of the start – ups.

Corporate Affairs: Further simplification

a) CSR will be treated as civil liability and not as a criminal offence.
b) Company incorporation process will be simplified and can be completed within 1 day.
c) Recent amendments in the Companies Act have removed imprisonment from various sections as punishment for contravention. Around 16 offences have been shifted to monetary penalties only.
d) Over 14,000 prosecutions under Companies Act have been withdrawn.

MSMEs: Ease of doing Business

a) Online tracking of loan applications will be enabled to ensure smooth disbursal of loans to SMEs and increase transparency in the system.
b) TReDS platform to use GSTN system in medium term to enhance market for bill discounting for MSMEs.
c) Decisions on recommendations regarding ease of credit, marketing, technology, delayed payments etc. will be made within 30 days.
d) Faster processing of GST refunds for SMEs - pending refunds due to SMEs will be paid within 30 days and all future GST refunds shall be paid within 60 days from date of application.

Government support to NBFCs/ HFCs: Improving liquidity in the system

a) Additional liquidity support of ₹20,000 crores to be provided to HFCs by NHB to ease liquidity.
b) Partial Credit Guarantee Scheme to be provided to PSBs for purchase of pooled assets of NBFCs/ HFCs up to ₹1 lakh crores which will be monitored at highest level in each bank. The government has laid down stringent criteria for eligibility of NBFCs and HFCs under this scheme.
c) To reduce time in processing, NBFCs are now permitted to use the Aadhaar authenticated bank KYC.

POLICY UPDATES

RBI UPDATES

➢ RBI relaxes end – use stipulations under ECB framework for corporates and NBFCS

RBI has relaxed end – use stipulations relating to External Commercial Borrowings (ECBs) for working capital requirements, general corporate purposes and repayment of rupee loans with a view to liberalize ECB framework. Eligible borrowers will now be allowed to raise ECBs from recognized lenders, except foreign branches/ overseas subsidiaries of Indian Banks.

The RBI mentioned the following in its press release:

a. ECBs with average maturity period of 10 years can be used for working capital and general corporate purposes.
b. Borrowings for on – lending by NBFCs for the above maturity period and end – uses is also permitted.
c. Corporates can utilize ECBs with average maturity period of 7 years for repayment of rupee loans availed domestically for capital expenditure.
d. Borrowings for on – lending by NBFCs for repayment of rupee loans is permitted, and for rupee loans availed domestically for purposes other than capital expenditure, the minimum average maturity period of ECB should be 10 years.
e. For the purpose of repayment of rupee loans availed for capital expenditure in manufacturing and infrastructure sector, and classified as SMA-2 or NPA, eligible corporate borrowers are permitted to avail ECB under one – time settlement arrangement with lenders.

SEBI UPDATES

➢ SEBI imposes stricter penalties for non – compliance of ICDR norms

SEBI has issued guidelines imposing stricter penalties for non – compliance with some of the ICDR (Issue of Capital and Disclosure Requirements) Regulations. These penalties have been made stringent to avoid deliberate non – compliance and ensure adherence with the regulations.

SN	Contravention	Penalty
a	Delay in completion of bonus issue	Penalty of ₹20,000/ day
b	Failure to complete conversion of convertible securities and allotment of shares within 18 months from date of allotment, by listed entities.	
c	In case of further issue of equity shares, failure to apply for listings with the stock exchange(s) within 20 days of allotment of shares	

The penalties so realized will be credited to "Investor Protection Fund" of the concerned stock exchange(s).

POLICY UPDATES

➢ Highlights of SEBI Board meeting

A. SEBI (Foreign Portfolio Investors) Regulations:

a) Registration process and compliance requirements of FPIs have been simplified by removing the broad-based eligibility criteria for Institutional Foreign Investor.

b) Registration for Multiple Investment Manager (MIM) structures has been simplified.

c) FPIs will be permitted for off-market transfer of securities which are unlisted, suspended or illiquid, to a domestic or foreign investor.

B. Innovators Growth Platform (IGP)

Eligibility criteria for migration of companies listed on IGP to regular trade categories have been relaxed. Companies listed on the IGP for minimum period of 1 year and having at least 200 members as on date of application have been made eligible to trade under regular categories.

C. Clarification on Buy – Back Regulations

a) The ambiguity whether post buy-back debt-to-equity ratio of 2:1 should be maintained on standalone basis or consolidated basis has been clarified by SEBI.

b) The post buy-back debt-to-equity ratio of 2:1 is to be maintained on standalone as well as consolidated basis (except for companies requiring higher ratio as per Companies Act 2013).

c) The ratio of 2:1 on consolidated basis will exclude NBFCs and HFCs subsidiaries regulated by the RBI.

D. Further amendments have been made to other SEBI regulations such as - Issue and Listing of Debt securities by Municipality, Credit Rating Agencies, Prohibition of Insider Trading and Mutual Funds.

OTHER UPDATES

➢ MCA amends share capital and debenture rules:

A. Relaxation in Debenture Redemption Reserve (DRR) requirements

The Ministry of Corporate Affairs has amended the provisions regarding Debenture Redemption Reserve (DRR).

a) Listed Companies, NBFCs and HFCs are no longer required to create DRR of 25% of the value of outstanding debentures, both for public issue as well as private placements.

b) DRR requirement has also been reduced for unlisted companies from present level of 25% to 10% of the outstanding value of debentures to be issued.

These amendments have been made to implement uniform DRR norms across all corporate bodies including listed companies, NBFCs, HFCs, banking companies and financial institutions.

B. Differential Voting Rights (DVR) Shares

The differential voting norms have been relaxed in order to give a boost to the start-ups. The Companies can now have up to 74% differential voting rights (DVR) shares of the total post issued paid share capital. The earlier limit was 26%. The clause which mandated requirement of consistent track record of distributable profits in last three years to issue equity shares with DVR has been omitted.

POLICY UPDATES

➢ **The Union Cabinet approved reforms In FDI Policy:**

a) 100% FDI permitted through automatic route in coal mining and contract manufacturing sectors.

b) Online retailing is also permitted before opening of physical stores under Single Brand Retail Trading (SBRT).

c) If an SBRT entity has more than 51% FDI, then 30% of the value of the goods must be procured from within India.

➢ **RERA can grant interest on delay in possession: HREAT**

Dismissing applications by builders, the Haryana Real Estate Appellate Tribunal (HREAT) has ruled that RERA is competent to deal with complaints where the matter relates to only awarding of interest due to delay in delivery of possession to the home buyers.

CORPORATE UPDATES

➢ **Highlights of Reliance Industries Limited AGM**

- ✓ Reliance to launch its ultra fast fibre services from 5th September 2019 on the eve of Jio turning 3 years old. This is expected to increase the speed of broadband connectivity in India.
- ✓ RIL is to form partnership with Saudi Aramco. Saudi Aramco will take 20% stake in a proposed special purpose vehicle (SPV) housing the twin refineries of Reliance as well as the firm's petrochemical complex and will also supply 5,00,000 barrels of oil to Jamnagar refinery per day or 25 mn MT of crude per annum to RIL's twin Jamnagar facilities.
- ✓ RIL will also enter into a Joint Venture with British Petroleum which will pay about ₹7,000 crores to RIL to acquire stake in its fuel retail business. The existing 14,000 - odd petrol pumps and 31 aviation fueling stations of RIL will be transferred to this new joint venture company.

➢ **Banks reduce lending rates after RBI cuts repo rate by 35 basis points**

- ✓ Various banks have reduced their lending rates after RBI announced its monetary policy on 7th August 2019. SBI reduced its MCLR by 15 basis points within hours of announcement made by the RBI. Axis Bank, Bank of Baroda, OBC and IDBI have followed suit and have reduced their lending rates by 5 – 10 basis points.
- ✓ SBI had also reduced its rates on deposits whereas the private sector banks have not had much scope to reduce their deposit rates. In the 46-176 days deposits window, SBI had lowered its deposits rates from 6.25% to 5.75% in July to a further 5.50% in August 2019. Private banks such as HDFC and ICICI are already offering around 6% rate in this deposits slab.
- ✓ In the 6 months to 1 year deposits window, private banks are offering higher rates as compared to public sector banks, but a strong growth in credit requirement as against weaker growth in deposits have limited the banks abilities to curtail rates offered for deposits.

GLOSSARY

AGM	Annual General Meeting	**KYC**	Know Your Customer
CBDT	Central Board of Direct Taxes	**MCLR**	Marginal Cost of funds based Lending Rate
CSR	Corporate Social Responsibility	**MIM**	Multiple Investment Manager
DPIIT	Department for Promotion of Industry & Internal Trade	**NBFC**	Non Banking Financial Company
DRR	Debenture Redemption Reserve	**NHB**	National Housing Bank
DVR	Differential Voting Rights	**NPA**	Non - Performing Assets
ECB	External Commercial Borrowings	**OBC**	Oriental Bank of Commerce
FDI	Foreign Direct Investors	**PNB**	Punjab National Bank
FPI	Foreign Portfolio Investment	**PSB**	Public Sector Bank
GST	Good & Services Tax	**PSU**	Public Sector Undertaking
HDFC	Housing Development Finance Corporation	**RBI**	Reserve Bank of India
HFC	Housing Finance Company	**RERA**	Real Estate Regulatory Authority
HREAT	Haryana Real Estate Appellate Tribunal	**RIL**	Reliance Industries Limited
ICDR	Issue of Capital and Disclosure Requirements	**SBRT**	Single Brand Retail Trade
ICICI	Industrial Credit and Investment Corporation of India	**SEBI**	Securities Exchange Board of India
IDBI	Industrial Development Bank of India	**SME**	Small & Medium Enterprises
IGP	Innovators Growth Platform	**TReDS**	Trade Receivables Discounting System
IT	Income Tax	**UDIN**	Unique Document Identification Number

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- Risk Management
- IFC Review
- DAS Audit
- Compliance Management
- Process Improvement
- Cost Reduction
- Working Capital Optimization
- Data Analytics
- Physical Verification

Assurance & Regulatory

- Compliances
- Accounting & Reporting
- Regulatory Compliance Audits
- Financial Audits
- FEMA / RBI Regulatory Compliances
- RERA Compliance
- Secretarial

IT Risk, Forensics

- Information Security Management Services
- Forensics
- Technology Risk Solution
- Security Risk Management
- Creative Training Solution

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