

“Power is gained by sharing knowledge and not hoarding it”



EMERGING THOUGHTS

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TABLE OF CONTENTS

<u>Foreword</u>	3
<u>Update 211 Bid Ask Spread Analysis</u>	4
<u>Update 212 Phantom Stocks</u>	6
<u>Update 213 Crowd Funding and Legal Implications In India</u>	8
<u>Update 214 Fugitive Economic Offender</u>	10
<u>Update 215 Statue of Unity</u>	12
<u>Update 216 Why Starbucks Failed in Australia</u>	14
<u>Update 217 AI – All set to revolutionize the game of lending</u>	15
<u>Update 218 Customer Loyalty Programs</u>	17
<u>Update 219 Hedge Funds</u>	20
<u>Update 220 Daylight Saving Time</u>	22
<u>Update 221 Jan Aushadhi</u>	25
<u>Update 222 Khelo India Youth Games</u>	28
<u>Update 223 E-Commerce Business Models</u>	30
<u>Update 224 RERA</u>	32
<u>Update 225 The Knights of Takeovers</u>	35
<u>Update 226 Vedic Mathematics</u>	39
<u>Update 227 Changes in FDI Policy in E-Commerce</u>	42
<u>Update 228 Electoral Bonds</u>	44
<u>Update 229 Make In India</u>	46
<u>Update 230 An insight on freedom fighter Netaji Subhash Chandra Bose</u>	49
<u>Update 231 “OFO”</u>	51
<u>Update 232 A Glimpse of Rafale Deal</u>	55
<u>Update 233 CEO Dan Prices model of organisation</u>	57
<u>Update 234 Dr. Sree Sree Shivakumara Swami ji- Saga of Service to the Society</u>	59
<u>Update 235 The Madrid System</u>	61
<u>Update 236 Search(Raid) and Seizure under Income Tax Act,1961</u>	65
<u>Update 237 Forces that move Stock Prices and Impact of budget on the same</u>	69
<u>Update 238 Startup India</u>	71
<u>Update 239 Prospect Theory: An analysis of decision under risk</u>	73
<u>Update 240 POA for Demat A/C</u>	76

Foreword

We are happy to release the third publication series “EMERGING THOUGHTS”. As the name suggests, these updates are the emerging and constructive thoughts of article assistants (Interns undergoing Chartered Accountancy course). We, at SURESH & CO., have attempted to imbibe the habit of reading and updating one’s knowledge library every single morning. The organisation has successfully implemented the concept of daily updates. This has been a beautiful journey of knowledge without any breaks. Many a times we ourselves have been surprised by the new learning opportunities that we got from these daily updates

The main objective of this publication is to enable the article assistants of SURESH & CO., to think beyond their capabilities. It also helps the articles to improve their knowledge and climb the professional ladder and reach greater achievements.

Every day is a learning day at SURESH & CO., As an organisation, we encourage all the budding professionals to share their views and opinions on various technical and non-technical aspects.

The article assistants have various practical insights which help them understand the theoretical aspects in a more efficient way, and they are able to share the same with all of us in these series of updates.

The intent behind these updates is imparting the skill of technical analysis and professional decision making of any case study/situation.

We at SURESH & CO., wanted to share these gems of infant thoughts as conceived by these young minds. It is to be noted that these updates may or may not have been reviewed by any senior or a technical expert and thus these should be used only to kindle thoughts in certain positive direction. Readers are advised to do further research and analysis on the topics which they find interesting. Professional advice should be sought before acting on any of the information contained in it.

A candle loses nothing by lighting another candle.

Update – 211

Bid-Ask Spread

Introduction

One of the most important characteristics that investors look for in an organized financial market is liquidity. To maintain liquidity, many organized exchanges use individual scalpers or market makers, who stand ready to buy or sell whenever the public wishes to buy or sell. They buy at the bid price, sell at a higher ask price. **The larger the Bid - Ask spread, the higher the liquidity.**

Let's know, what Bid price and Ask price are all about.

1. Bid price - It's the maximum price that a buyer is willing to pay.
2. Ask price - It's the minimum price that a seller is willing to receive.

What's Bid - Ask Spread?

It's the difference between the bid price and the ask price i.e. the amount by which the ask price exceeds the bid price for an asset in the market. If a trade is executed at market prices, closing that trade immediately without queuing would not get you back the amount paid because of the bid/ask difference. The spread can be viewed as trading bonuses or costs according to different parties and different strategies. On one hand, traders who do NOT wish to queue their order, instead paying the market price, pay the spreads (costs). On the other hand, traders who wish to queue and wait for execution receive the spreads (bonuses). Some day trading strategies attempt to capture the spread as additional, or even the only, profits for successful trades.

Applicability of Bid -Ask Spread -The Key Aspect of Profit for the security dealers-

Purchasers pay the ask price and the sellers receive the bid price. This is how the security dealers make profits. Their Job is to buy at at the bid price and sell at the ask price. Thus, the size of Bid-Ask spread is proportional to the size of the dealer's profit.

There would be a number of questions as to What's the time limit for a Bid-Ask strategy?

What's the risk involved? Is it really worth it?

Let's know how does Bid - Ask Spread work:

Unlike a number of trading strategies where you can have a win/loss ratio of less than 50% and still make money, scalp traders must have a high win/loss ratio. This is due to the fact that losing and winning trades are generally equal in size. The necessity of being right is the primary factor scalp trading is such a challenging method of making money in the market. It normally involves establishing and liquidating a position quickly, usually within minutes or even seconds.

Who pays the spreads (costs)?

1. Momentum traders on technical: **These traders look for fast movements of securities. When a real breakout occurs, price becomes volatile. A sudden rise or fall may occur within any second. They need to get in quick before the price moves out of the base.**
2. Momentum traders on news: **When news breaks out, the price becomes very volatile as many people watching the news will react at more or less the same time. A trader needs to take the market prices immediately as the opportunity may vanish after a second or so.**
3. Cut losses on market prices - **The spread becomes a cost if the price moves against the expected direction and the trader wishes to cut losses immediately on market price.**

Who receives the spreads (Bonus)?

1. Individual scalpers: They trade for spreads and can benefit from larger spreads.
2. Market makers or specialists: People who provide liquidity place their orders on their market books. Over the course of a single day, a market maker may fill orders for hundreds of thousands or millions of shares.

Therefore, we can conclude that, "Rather than looking for one big trade, the scalper looks for hundreds of small profits throughout the day". In this process, the scalper might also take hundreds of small losses during the same time period. For this reason, a scalper must have very strict risk management never allowing a loss to accumulate.



-Vidhyashree.M

Update - 212

Phantom Stocks

Ghosts roam among the trading pits in the market but not in the form of goblins or specters which are more traditionally celebrated on Halloween night, but these ghosts are a different variety of spirits, in the form of so-called “**phantom**” stocks that are becoming increasingly pervasive in the employee compensation sector.

Phantom stocks are just what their name implies a form of employee compensation that gives employees access to stock ownership without actually owning the stock. Like any genuine stock, phantom stocks rise and fall in value in line with the underlying company stock, and staffers (employees) are compensated with profits incurred from any company stock appreciation at a specific date.

By and large, the number of phantom shares given to an employee or manager depends on that person’s perceived value to the company. The higher that employee is valued, the more shares of phantom stocks he or she is likely to receive. When phantom stocks are awarded, a “delay mechanism” kicks in, where the actual financial pay-out is made after a long period of time, say two to five years is a common phantom stock pay-out, depending on the agreement made between the company and the employees. In that regard, companies use phantom stocks both as a motivational tool to reward employees and to give those employees “skin in the game” to increase workplace productivity and earn the company more profits, a formula that drives the company’s stock price higher, as well.

Types of Phantom Stock:

When implementing phantom stocks as employee stock compensation, companies tend to use either “**appreciation only**” phantom stocks or “**full value**” stocks. Here’s how each phantom stock model operates:

Appreciation Only: Appreciation stocks bar recipients from garnering the current value of a phantom stock. Instead, recipients earn any profit (i.e. stock price appreciation) that the phantom stock might earn over a specific period of time. For example, if employee “A” were to receive 1,000 shares of phantom stock, with each stock worth ₹ 20, the current value of the company stock would be ₹ 20,000. Under the terms of the agreement, the employee must stay with the firm for five years, for example, to benefit from the phantom stock deal (known as the “vesting” period.) At that time, the company’s stock has risen to ₹ 40 per share.

Under that scenario, employee “A”, after the five-year period was up, would receive the difference between the ₹ 20 per-share current value of the stock on the date when the deal was struck, and the ₹ 40 per share on the date when he or she becomes entitled to any profits from the stock (or ₹ 20 per share.) That would give the phantom stockholder a profit of ₹ 20,000.

Full Value: Under a full value phantom stock deal, the recipient earns both the current value and any stock price appreciation once the due date is reached. In the above case, employee “A” would not only receive the ₹ 20 per share price increase after five years, he or she would also earn the current price appreciation on the date when the deal commenced, also ₹ 20 per share on a stock that’s trading at ₹ 40 per share. At 1,000 shares of stock, that would give the employee ₹ 40,000 after the five-year vesting trigger date.

Pros and Cons of Phantom Stocks

As the case with any financial/investment instrument, there is no shortage of positives and slightly fewer negatives with phantom stock deals:

Pros:

1. Phantom stocks are a solid motivational tool to both keep key employees on board for the entire vesting period, but also to boost employee productivity. After all, when the phantom stock price appreciates, the recipient benefits, too. For employers, that's a true win-win.
2. By sticking to the phantom stock script, actual company stockholders don't see their shares diluted in value. For employees, there's no need to actually purchase phantom stock shares, as regular stockholders must do on the open market. Instead, phantom shares are given to employees with no money changing hands. That's a big benefit to employees, who only share in the stocks, without having to pay for them.

Cons:

1. For employees, the company calls all the shots in a phantom equity deal, giving them little control or manoeuvrability if the share price goes south. They also may be terminated before the deal triggers, over issues outside the employee's control, leaving them out of luck on collecting any phantom stock cash benefits.
2. For employees, phantom stocks come with limits that normally are par for the course for regular company stockholders. For instance, phantom stockholders hold no right to vote, and may not be eligible for dividends, dependent on the deal's structure.

The takeaway, Phantom stock plans can be both a good employee motivation tool for employers, and a solid cash incentive plan for employees. If events go sour and the stock price doesn't appreciate, neither the employer nor employee loses any money directly in the deal.

That provides more upside than downside for phantom stock plans an increasingly valuable financial tool at a time when employee retention is key, and when the stock market is on a general upward trend.



-Darshan Jain

Update – 213

Crowd funding and legal implications in India

What is crowd funding?

Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding is a form of crowdsourcing and alternative finance. In 2015, a worldwide estimate totaling over US\$34 billion was raised by crowdfunding.

Although similar concepts can also be executed through mail-order subscriptions, benefit events, and other methods, the term crowdfunding refers to Internet-mediated registries. This modern crowdfunding model is generally based on three types of actors: the project initiator who proposes the idea or project to be funded, individuals or groups who support the idea, and a moderating organisation (the "platform") that brings the parties together to launch the idea.

Crowdfunding has been used to fund a wide range of for-profit, entrepreneurial ventures such as artistic and creative projects, medical expenses, travel, or community-oriented social entrepreneurship projects.

In INDIA

India, with one of the world's fastest growing economies and a booming start-up ecosystem took quickly to the concept of online crowdfunding. It was imported to India by Indians trained and educated in the west (most co-founders of top crowdfunding websites) who saw power in the second-largest populated country, not only to fuel start-ups but provide a solution to problems in medical and social fundraising.

Since 2010, at least 15 crowdfunding platforms have emerged on the Indian web and are doing substantially well. Yet, as the industry grows, very little is known about the legalities surrounding it. Crowdfunding and its legal implications in India have been under question for most campaigners with not too much clarity even from the governing body SEBI (Securities and Exchange Board of India).

A Brief on How Donation-Based Crowdfunding Works

Donation based crowdfunding is a simple model where NGOs or individuals appeal for donations to effect social good or empower themselves. Donation based crowdfunding works great for non-profits working towards social good or medical patients looking to fund a life-saving treatment that they can't afford themselves. Thousands of kind-hearted individuals gather from different parts of the world come forward to help with whatever they can contribute.

Equity crowdfunding and its legal implications in India

As per SEBI rules, digital selling of shares is prohibited due to the high risk involved and thus equity crowdfunding is banned or not allowed under SEBI regulations in India. Until last year, many were unaware of equity crowdfunding and its legal implications in India, when SEBI issued warning to more than 10 crowdfunding platforms banning them from practicing equity crowdfunding.

Equity crowdfunding: Stock exchange on the web

Equity crowdfunding is where in return for someone's contribution in a company, equity shares of the company are issued. It entails early-stage funding for companies that are yet unlisted on the stock exchange. It helps easily raise capital for companies that are still in their nascent stage. Usually start-ups are funded by angel investors or by taking a bank loan and equity is sold after the company becomes commercially viable, however in equity crowdfunding the shares are sold at a much earlier stage.

What is next for crowdfunding and its legal implications in India?

Still in its early stages, crowdfunding is set to grow very fast despite of irregularities in its legal frameworks. Since many years, SEBI and RBI are trying to frame the impact of crowdfunding and its legal implication in India, but with the industry size being rather small currently with many possibilities left unexplored and undiscovered, it becomes a task to draft a standard law or policy.

Earlier this year, SEBI announced that it is taking a fresh look at crowdfunding regulations, including perhaps, even a legal framework allowing equity crowdfunding. Some of its considerations include having a minimum net worth criterion for investors, setting a minimum threshold for stake purchases and ensuring that no one entity owns more than 25% of the investee's firm.

Though the above will regulate financial returns-based models, community-based models will be left own to figure things out on their own. Thankfully, crowdfunding has not any major negative or fraud experiences till today, but as the industry grows the need for proper regulations and laws will be made evident. Till then, crowdfunding and its legal implications in India will always be up for debate.



-Ashoka

Update – 214

Fugitive economic offender

Economic offences relate to fraud, counterfeiting, money-laundering, and tax evasion, among others. Currently, various laws contain provisions to penalise such offences.

A person will be called as an '**fugitive economic offender (FEO)**' is "any individual against whom a warrant for arrest in relation to a scheduled offence has been issued by any court in India, who:

(I) leaves or has left India so as to avoid criminal prosecution; or

(ii) refuses to return to India to face criminal prosecution."

The new legislation will prevent big economic offenders like Vijay Mallya and Nirav Modi from fleeing the country and evading the law.

The Fugitive Economic Offenders Act, 2018

The Act allows for a person to be declared as a fugitive economic offender (FEO) if:

(I) an arrest warrant has been issued against him for any specified offences where the value involved is over Rs 100 crore, and

(ii) he has left the country and refuses to return to face prosecution.

Highlights of the Act

- To declare a person an FEO, an application will be filed in a Special Court (designated under the Prevention of Money-Laundering Act, 2002) containing details of the properties to be confiscated, and any information about the person's whereabouts. The Special Court will require the person to appear at a specified place at least six weeks from issue of notice. Proceedings will be terminated if the person appears.
- The Act allows authorities to provisionally attach properties of an accused, while the application is pending before the Special Court.
- Upon declaration as an FEO, properties of a person may be confiscated and vested in the central government, free of encumbrances (rights and claims in the property). Further, the FEO or any company associated with him may be barred from filing or defending civil claims.

Key Issues and Analysis

- Under the Act, any court or tribunal may bar an FEO or an associated company from filing or defending civil claims before it. Barring these persons may violate Article 21 of the Constitution i.e. the right to life. Article 21 has been interpreted to include the right to access justice.
- Under the Act, an FEO's property may be confiscated and vested in the central government. The Act allows the Special Court to exempt properties where certain persons may have an interest in such property (e.g., secured creditors). However, it does not specify whether the central government will share sale proceeds with any other claimants who do not have such an interest (e.g., unsecured creditors).

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- The Act does not require the authorities to obtain a search warrant or ensure the presence of witnesses before a search. This differs from other laws, such as the Code of Criminal Procedure (CrPC), 1973, which contain such safeguards. These safeguards protect against harassment and planting of evidence.

On 5th of January 2019 Vijay Mallya has become the first person to be declared FEO under the provisions of the new The Fugitive Economic Offenders Act,2018.



-Naman.S

Update – 215

Statue of Unity



Most of the Indians would not even know the calibre of "Sardar Vallabhai Patel". All our history textbooks were focused around Gandhi-Nehrus.

In very simple words, if I were to explain the greatness of this man, I would say he united, what is today the 7th largest nation of the world! And he did it in 3 years!!

Now this man definitely had something in him. Let us understand that the period (1947-1950), when he did this was such a delicate period for India, keeping in mind the partition, poor economy, issues with refugees, communal riots, war with Pakistan on Kashmir issues etc. Had Sardar not been there the 556 princely states would not have been able to unite under the single flag. If it were not this man, India would have been split into 100s of individual poor countries, just like those few backward African countries.

Despite all these, Sardar Patel has remained an unsung hero. He could not even be the PM of the country. He sacrificed this post only for the better of the nation. Today we see a lot of politics happening over his name. In about 60 years of their rule, the Congress did not even use his name for anything. They have named so many schemes, institutions, roads, stadiums, airports etc after Nehru, Indira Gandhi, and Rajiv Gandhi.

What was the purpose of the Taj Mahal and the pyramids? They should never have been built, because they served no useful purpose. But now today everybody like these kinds of monuments. Imagine this Statue after 173 years people will say how did they manage to build this type of statue 173 years ago.

What we have built after 1947? People from other countries come in India to see the Fort in Rajasthan, Taj mahal, Red fort, or monuments in Karnataka.

What are we leaving as monuments to our future generations? Ambani 's house or Big Malls? In the 60+ years of Independence, not one cultural symbol in our country has been raised. The largest iconic project undertaken was Ambani's house.

Mahatma Gandhi, Jawaharlal Nehru, Sardar Patel, BR Ambedkar, Bal Gangadhar Tilak, Netaji Subhas Bose, Bhagat Singh, Maulana Azad, C Rajagopalachari, Jayprakash Narayan and many others. They had disagreements in most of the issues, but what they had in common is that they all were fighting for the same thing FREEDOM.

We can't build statues of every freedom fighter. But what Sardar Patel did after the freedom was uniting all of us.

That's why it is the Statue of unity.

Now coming to this Rs.2989 crore spent (or "WASTED" as per some people) on the statue. For a country of 125 crore people, its less than Rs.25 per person.

Why don't we see how much of motivation this statue can induce into the minds of Indian youth? It can inspire the young India, and Sardar Patel's work can be role model to so many people. Do you think, the US having statue of liberty or the France having Eiffel tower is waste of money? France built the Eiffel tower as a mark of French revolution, which inspired the French for a long time.

It's a tourist destination. Not only is this not a religious spot, it's also one beautiful place. When foreigners come to the country, they won't just be faced with temple after temple, mosque after mosque, tombs, churches and the like. They'll have a giant statue, a secular monument to the man whose efforts made the country as one. This would be the largest non-religious structure in this religion-obsessed country.

In a long run if we try to see, this Rs.3000 crore is as good as an investment. (This figure is nothing compared to the money we have lost due to political scams!) This is in fact the least we can do in the respect of this great personality of India. This is how the whole world can know who "Sardar Patel" is. This is my personal-opinion.



-Vishal Purohit

Update – 216

Why Starbucks failed in Australia?

Australian coffee is one of the fastest growing market in the world.

Starbucks had 87 outlets at its heights. In 2008, 61 stores were shut down among them. By 2007, it accumulated 105 million dollars in losses. It was borrowing big loans from US totalling up to 54 million dollars by then.

At the time Starbucks entered in Australia, in July 2000, the Australian consumer market was fully formed. The consumption of coffee had evolved over the course of a century by then. They preferred their coffee European style as their population consist of immigrants from World Wars. The typical Australian routine was to drink coffee in small cafes with their fellow mates with whom they discussed their daily routine.

The business model was a replica of American coffee consumers. It decided not to tailor their business model to Australian market. They thought what worked in US would work in any English-speaking country.

After opening their first café, Starbucks decided not to wait. New coffeehouses appeared almost every month. Australian consumers did not feel a deficit in Starbucks. This led to rapid growth of outlets without market analysis.

The expansion strategy was not organic. From the very beginning the total income of all cafes did not show that they needed new place for coffee. Company's loss grew constantly in the first years.

The Financial Crisis of 2008 was a heavy blow even for the toughest nuts. The Starbucks entered 2008 with huge wounds. As a result, the number of cafes dropped drastically from 87 to 26.

Like Italians, Australian consumers have their own preferences. Starbucks ignored this point and the menu offered was completely copied from the US style. Australians don't like sweet coffee drinks. They ignored many drinks that are traditional for Australia like Long Black and Macchiato.

They didn't want to equate prices to the local. Almost many items were more expensive than from the local Baristas, while Baristas offered drinks that Australians really loved.

Calm lifestyle and love of communication distinguish Australia from US. Citizen perceived their favourite coffee house as a closed community and a personal place for communication, for this reason Australians felt a pressure of another culture and rejection of this American brand was just a matter of time.

This signifies that without market analyses even a multinational coffee chain store will not work to its favour.



-Ganesh.N.R

Update – 217

AI - All set to revolutionize the game of lending

Interesting Fact - Hindi is the fourth most spoken language of the world. It is the mother tongue of over 250 million people around the globe. In order to keep the language alive, World Hindi Day is celebrated on 10th January of every year to promote the language at global stage.

Topic for today's update – Artificial Intelligence - all set to revolutionize the game of lending

Credit is the most important part of any economy. Credit leads to an increase in spending, thus increasing income levels in the economy. This in turn leads to higher GDP (gross domestic product) and thereby faster productivity growth. If credit is used to purchase productive resources, it helps in economic growth and adds to income. Credit further leads to the creation of debt cycles.

For any bank or financial institution to give loan, “creditworthiness” is of prime importance. It is the possibility of the borrower defaulting or honouring the loan taken from the lender.

So, whenever a person approaches the lender, the lender first assesses the background of his credit files and assigns a credit score to that person. Based on the credit score, the lender decides –

- I) Whether to give him loan or not
- ii) At what rate the loan should be given

There is a large group of people who do not have any credit history or track of previous transactions due to any reasons. Such people are called “credit invisible”. Irrespective of their practical capability, either loans are not given to them or loans are given to them at very high rates.

Due to this, the cash-flow of the country gets hampered and this further results in obstructing nation’s development.

Artificial Intelligence introduced an alternative for assessing the creditworthiness of such people and mitigate the risk of the lenders.

Artificial Intelligence is built with algorithms which are capable of unearthing hidden relationships between the variables which are not apparent in the traditional credit scoring systems. The rules set in AI are very complex and in depth as compared with the traditional credit scoring method. Most of the AI – systems come with a feature of self-learning where, AI continuously improves based on the past searches/performances.

The system used in AI makes it possible to go much deeper when analysing data and allows lenders to extract valuable insights from available data patterns. AI instantly assesses whether the borrower is genuine regarding his reason behind him taking the loan, his current occupation, his regular cash inflows & outflows etc. A variable as simple as mobile number can be used to drive personal information from numerous sources within minutes. The analysis also focuses on factors like borrower’s frequency of bill payments, level of expenditure, cash-flows etc.

However, IT risks are unavoidable. Since, AI algorithms are based on system integration and they require access to sensitive data, the process raises privacy concerns among the consumers. Consumers

must trust the lending companies and believe that their data will be properly encrypted and safeguarded by such companies.

Using the updated technology, loans are provided to worthy people who otherwise have a low credit score. Thereby touching that sector of people, the national markets are explored more, and the roots of economy are deepened within the nation.



-Chirag Jain

Update – 218

Customer Loyalty Program

We walk into the retail chain stores, shop for our favorite products and stand at the billing counter waiting for our turn. During the time of our wait, the sales representative asks if you own a “**Customer loyalty card**”. If you don’t own, he allures you to have one and starts explaining the benefits of the card –

“For every ₹100 purchase you would earn 10 points. Every 100 points is worth ₹20 which can be encashed in the form of discounts during subsequent purchases at the store”.

These are techniques used by the retail chains to retain customers and encourage them to shop more for the attractive discounts.

But have you ever wondered that there is a separate accounting principle prescribed for recognition of revenue arising from the above sales model? Interesting right..... Let’s dive into Ind AS 115 and understand how to recognize the same.

- Under Indian Accounting Standards, revenue is measured at the fair value of the consideration received/receivable, considering any trade discounts and volume rebate. Accordingly, the requirements of Ind AS mandatorily require an entity to analyze and recognize discounts and sales schemes while accounting for revenue.
- Retail and customer product entities frequently give certain customers option to purchase additional goods or services. These options come in many forms including sales incentives, customer award credits (or points), contract renewal options or other discounts on future goods and services.
- Ind AS 115 states that when an entity grants a customer the option to acquire additional goods or services, that option is a separate performance obligation if it provides a material right to the customer.

The right is material if it results in a discount that the customer would not receive without entering into the contract.

- If the option provides a material right to the customer, the customer in effect pays the entity in **advance for future goods or services** and entity recognizes the revenue when the future goods or services are transferred or when the option expires.
- This standard requires the entity to allocate the transaction price to performance obligations on relative stand-alone selling price basis. If the stand-alone selling price for a customer’s option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the customer would obtain when exercising the option adjusted for the following:
 - Any discount that customer could receive without exercising the option.
 - The likelihood that option will be exercised.

An example would help you better understand the accounting treatment better.
Company X runs a loyalty scheme, rewarding a customer spend at its stores.

Description of the loyalty scheme:

- Customers are granted 10 loyalty points for every ₹100 spent in X's store.
- Customers can redeem their points for a discount off the price of a new product in X's stores.
- The loyalty points are valid for two years and 1 point entitle a customer to a discount of ₹1 on the retail price of the product in X's store.

Scenario:

During FY 2017-18, X has sales of ₹10,00,000 and grants 1,00,000 loyalty points to its customers. The entity estimates that only 80 per cent of the loyalty points are expected to be redeemed. During FY 2017-18, none of the reward points were exercised.

During FY 2018-19 as expected 80,000 points were redeemed in exchange for new products.

Revenue Recognition

Step 1: Identification of contract.

There is a contract between the company X and customer to sell the goods.

Step 2: Identification of Separate Performance obligation.

Firstly, there is an obligation on Company X to provide goods to customers. Besides selling the goods, it is granting reward points. Would the reward points granted be treated as separate performance obligation??

Yes, since the reward points granted to card holders provide them with accumulated rights (Material rights), which can be used to purchase goods or services in the future at discounted prices.

Step 3: Determination of transaction price

The transaction price in the current scenario is ₹10,00,000

Step 4: Allocation of transaction price to separate performance obligation

Company X to allocate the transaction price to performance obligations on relative stand-alone selling price basis which is demonstrated below:

Performance Obligation	Stand-alone selling prices	Selling price ratio	Price allocation
Sale of goods	₹ 10,00,000	92.6 (10,00,000/10,80,000)	₹ 9,26,000
Granting Reward points	₹ 80,000 (1,00,000*80%)	7.4 (80,000/10,80,000)	₹ 74,000
Total	₹ 10,80,000	100	₹ 10,00,000

Step 5: Recognition of revenue

The following journal entries will be recorded by company X:

Sl. No.	Particulars	Debit (₹)	Credit (₹)
FY 2017-18			
1	Cash	10,00,000	
	Revenue		9,26,000
	Deferred Revenue		74,000
	(To recognize revenue in relation to goods sold and deferred revenue for loyalty points awarded)		
FY 2018-19			
2	Deferred Revenue	74,000	
	Revenue		74,000
	(To recognize revenue in relation to loyalty points redeemed during the year)		



-Vaishnavi.G.R

Update – 219

Hedge Fund

Content / Objective of this update-

1. What are hedge funds?
2. How to invest in hedge funds?
3. Regulatory authority
4. Taxation of hedge funds
5. Difference between hedge funds and mutual funds

Hedge funds are alternative investments using pooled funds that employ numerous different strategies to earn active return, or alpha, for their investors. Hedge funds may be aggressively managed or make use of derivatives and leverage in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). It is important to note that hedge funds are generally only accessible to accredited investors as they require less SEC regulations than other funds. One aspect that has set the hedge fund industry apart is the fact that hedge funds face less regulation than mutual funds and other investment vehicles.

Legally, hedge funds are most often set up as private investment limited partnerships that are open to a limited number of accredited investors and require a large initial minimum investment. Investments in hedge funds are illiquid as they often require investors keep their money in the fund for at least one year, a time known as the lock-up period. Withdrawals may also only happen at certain intervals such as quarterly or bi-annually.

Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (also called AIF Regulations) are a set of regulations introduced by Securities and Exchange Board of India (SEBI) in 2012, to regulate pooled investment funds in India, such as real estate, private equity and hedge funds

The Difference between Mutual Funds and Hedge Funds

Both mutual funds and hedge funds are managed portfolios. A manager, or group of managers, chooses securities expected to perform well, and then lumps them into a single portfolio. Investors buy portions of the fund, and they either gain or lose depending on how their holdings perform. Both types of funds provide diversification and professional management. That's where the similarities between mutual funds and hedge funds end. Hedge funds are managed in a much more aggressive fashion. Unlike mutual funds, hedge funds take speculative positions in derivatives, and they short sell stocks. With increased leverage comes increased risk, but also the chance to gain when the market is falling. Mutual funds are safer, but they won't take highly leveraged positions. Hedge funds are only available to accredited investors, who must meet a specific set of criteria to qualify. They are sophisticated investors with high net worth. Mutual funds are easy to purchase with minimal cash.

How Are Hedge Fund Profits Taxed?

The Category III AIF (hedge funds) is still not given pass-through status on tax. This implies that income from these funds is taxable at the investment fund level. Hence, the tax obligation will not pass through to the unit-holders. This is a disadvantage for this industry as they are not on a level playing ground with other mutual funds.

*Accredited investor has the financial sophistication and capacity to suffer losses that enable him to avoid certain protections of the SEC.



- Rishab J

Update - 220

Daylight Saving Time

Today's update is about "Daylight Saving Time" a.k.a "Summer time".

Summer time

Daylight Saving Time gives us the opportunity to enjoy sunny summer evenings by moving our clocks an hour forward in the spring.

Yet, the implementation of Daylight-Saving Time has been fraught with controversy since Benjamin Franklin conceived of the idea. Even today, regions and countries routinely change their approaches to Daylight Saving Time.

Rationale and original idea

The main purpose of Daylight-Saving Time (called "Summer Time" in many places in the world) is to make better use of daylight. We change our clocks during the summer months to move an hour of daylight from the morning to the evening. Countries have different change dates.

If you live near the equator, day and night are nearly the same length (12 hours). But elsewhere on Earth, there is much more daylight in the summer than in the winter. The closer you live to the North or South Pole, the longer the period of daylight in the summer. Thus, Daylight Saving Time (Summer Time) is usually not helpful in the tropics, and countries near the equator generally do not change their clocks.

Idea of Daylight-Saving Time

The idea of daylight saving was first conceived by Benjamin Franklin during his sojourn as an American delegate in Paris in 1784, in an essay, "An Economical Project."



After World War I, Parliament passed several acts relating to Summer Time. In 1925, a law was enacted that Summer Time should begin on the day following the third Saturday in April (or one week earlier if that day was Easter Day). The date for closing of Summer Time was fixed for the day after the first Saturday in October.

When to change the clocks?

Most of the **United States** begins Daylight Saving Time at 2:00 a.m. on the second Sunday in March and reverts to standard time on the first Sunday in November. In the U.S., each time zone switches at a different time.

In the **European Union**, Summer Time begins and ends at 1:00 a.m. Universal Time (Greenwich Mean Time). It begins the last Sunday in March and ends the last Sunday in October. In the EU, all time zones change at the same moment.

When in the morning?

In the U.S., clocks change at 2:00 a.m. local time. In spring, clocks spring forward from 1:59 a.m. to 3:00 a.m.; in fall, clocks fall back from 1:59 a.m. to 1:00 a.m. In the EU, clocks change at 1:00 a.m. Universal Time. In spring, clocks spring forward from 12:59 a.m. to 2:00 a.m.; in fall, clocks fall back from 1:59 a.m. to 1:00 a.m.

In the U.S., 2:00 a.m. was originally chosen as the changeover time because it was practical and minimized disruption. Most people were at home and this was the time when the fewest trains were running. It is late enough to minimally affect bars and restaurants, and it prevents the day from switching to yesterday, which would be confusing. It is early enough that the entire continental U.S. switches by daybreak, and the changeover occurs before most early shift workers and early churchgoers are affected.

**Opposition and obstacles**

Many people intensely dislike Daylight Saving Time. Frequent complaints are the inconvenience of changing many clocks and adjusting to a new sleep schedule. For most people, this is a mere nuisance, but some people with sleep disorders find this transition very difficult. Indeed, there is evidence that the severity of auto accidents increases and work productivity decreases as people adjust to the time change.

Worldwide daylight saving

Today, approximately **70 countries utilize Daylight Saving Time** in at least a portion of the country. Japan, **India**, and China are the only major industrialized countries that **do not observe** some form of daylight saving.



- Deeksha N

Update – 221

Jan Aushadhi

It is a well-known fact that branded medicines are sold at significantly higher prices in India. Given the widespread poverty across the country, making available reasonably priced quality medicines in the market would benefit everyone, especially the poor and the disadvantaged. This has been always a major concern for the Government of India. Department of Pharmaceuticals, Ministry of Chemicals & Fertilizers has been taking several regulatory and fiscal measures from time to time towards realizing this objective.

It was envisaged that the scheme would run on a self-sustaining business model, and not be dependent on government subsidies or assistance beyond the initial support. It was to be run on the principle of “No Profit, No loss”.

Objective:

Making quality medicines available at affordable prices for all, particularly the poor and disadvantaged, through exclusive outlets “**Pradhan Mantri Bhartiya Janaushadhi Pariyojana Kendras (PMBJP)**”, so as to reduce out of pocket expenses in healthcare.

History:

“**Jan Aushadhi**” is the novel project launched by Government of India in the year 2008 for the noble cause – Quality Medicines at Affordable Prices for All. The campaign was undertaken through sale of generic medicines through exclusive outlets namely “Pradhan Mantri Janaushadhi Kendra” in various districts of the country.

The first “Pradhan Mantri Janaushadhi Kendra” was opened on 25th Nov 2008 at Amritsar in Punjab.

Initially in 2008, GOI has not reached anywhere near the desired objective as there was much reliance on Community and public sector union for supply of medicines and it couldn't cope up with the increasing demand. Effective implementation of PMBJP scheme has been analysed in a big way through organizing brain storming sessions and discussions with various stake holders and a Strategic Action Plan (SAP 2015) was prepared and submitted so as to achieve the objectives set by the Government. SAP 2015 was approved by the Hon'ble Minister for Chemicals & Fertilizers in September, 2015.

All State Governments shall be directed to open Janaushadhi Kendras in Government run hospitals and medical colleges.

Benefits:

The Jan Aushadhi initiative will make available quality drugs at affordable prices through dedicated stores selling generic medicines which are available at lesser prices but are equivalent in quality and efficacy as expensive branded drugs.

- Promote greater awareness about cost effective drugs and their prescription.
- Make available unbranded quality generic medicines at affordable prices through public-private partnership.

- Encourage doctors, more specifically in government hospital to prescribe generic medicines.
- Enable substantial savings in health care more particularly in the case of poor patients and those suffering from chronic ailments requiring long periods of drug use.

Some of the comparative prices are: Prices in Rs.

Name of Drug	Dosage	Janaushadi	Market Price	Savings
Tab. Ciprofloxacin	250 mg	12.89	54.79	41.90
Tab. Ciprofloxacin	500 mg	24.99	125.00	100.01
Tab. Diclofenac	100 mg	4.20	60.40	56.20
Tab. Cetrizine	10 mg	2.75	20.00	17.25
Tab. Paracetamol	500 mg	3.03	9.40	6.37
Tab Nimesulide	100 mg	3.16	39.67	36.51
Cough Syrup	110ml	13.30	33.00	19.70

Financial support for Jan Aushadi Store owner:

Jan Aushadhi Store (JAS) can be opened by State Governments or any organisation / NGOs / Trusts / Private hospitals / Charitable institutions / Doctors / Unemployed pharmacist/ individual entrepreneurs are eligible to apply for new Jan Aushadhi stores. The applicants shall have to employ one B Pharma / D Pharma degree holder as Pharmacist in their proposed store.

Bureau of Pharma Public Sector Undertakings of India (BPPI) will provide one-time financial assistance up to Rs. 2.50 lakh as per details given below.

The following financial support is available:

NGOs/agencies/individuals establishing Jan Aushadhi stores in Government hospital premises where space is provided free of cost by Government to operating agency:

- Rs. 1 lakh reimbursement of furniture and fixtures.
- Rs. 1 lakh by way of free medicines in the beginning.
- Rs. 50 thousand as reimbursement for computer, internet, printer, scanner, etc.
- 20% trade margin shall be included in MRP for retailers and 10% for distributors.
- Credit facility will be given to all Jan Aushadhi stores for 30 days and Distributors will get 60 days against post-dated cheques.

Jan Aushadhi stores established anywhere else by private entrepreneurs / institutions / NGOs / Trusts / Charitable organisations which are linked with BPPI headquarters through internet.

- Financial support of 2.5 lakhs. This will be given @ 15% of monthly sales subject to a ceiling of Rs 10,000/ per month up to total limit of 1.5 lakhs.
- The Applicants belonging to weaker sections may be provided medicines worth Rs. 50,000/ - in advance within the incentive of Rs. 2.5 lakhs.

-
- 20% trade margin shall be included in MRP for retailers and 10% for distributors.
 - Credit facility will be given to all Jan Aushadhi stores for 30 days and Distributors will get 60 days against post-dated cheques.



-Sumukh.K.A

Update – 222

Khelo India Youth Games (KIYG)

Today's Update is on '**Khelo India Youth Games (KIYG)**

The importance of sports and fitness in one's life is invaluable. Playing sports inculcates team spirit, develops strategic & analytical thinking, leadership skills, goal setting and risk taking. A fit and healthy individual lead to an equally healthy society and strong nation.

1. Khelo India Youth Games (KIYG), are the national level multidisciplinary grassroots games in India.
2. It is held for two categories, namely under-17 year's school students and under-21 college students.
3. Formerly it was known as Khelo India School games, which is now renamed as Khelo India Youth Games.

Objectives:

Its objective is to build strong framework for all sports played in our country and establish India as great sporting nation. It is expected to help scout young talent from School in various discipline and groom them as future sports champions:

Below are the objectives of KIYG:

1. Physical fitness of school children.
2. Sports for women.
3. Annual sports competition
4. Utilization and creation/upgradation of sports infrastructure.
5. Play field development.
6. Community coaching development.
7. State level khelo India Centres.
8. Sports for peace and development.
9. Promotion of rural and indigenous/tribal games.

Guideline for Nominations for U-17 and U-21 for Khelo India Youth Games (KIYG), 2019:

Players age below 17 years born on or after 1st January, 2002 are eligible to participate.

Athlete of 21 years should be born on or after 1st January, 1998 to be eligible to participate.

Selection Criteria:

1. In the individual sports, top 8 sportsperson from the School Games Federation of India's National School Games, 4 nominations from federation, one from Central Board of Secondary Education, one from the host State and 2 wild card entries for the individual events will be selected.

2. For archery, badminton and shooting, the top 16 from the National School Games, 8 nominations by the federation, 1 from CBSE, 1 from host State, 1 from organising committee, and 6 from wild cards will be selected.

3. Only selected school kids below the age of 17 years are eligible to compete. In team sports, the top

4. From the National School Games, 2 nominations by the federation, 1 from the host State and one from the organising committee will be selected.

Scholarships and Career:

To identify the talent at grassroots level, each sport has a dedicated talent hunt committee, which will identify top two sportsperson for each sport and they will be given an annual scholarship of INR 5,98,000 for 8 years.

Talent hunt committee identifies the talent at each level i.e. district, state and national level. Identified athlete are groomed and trained so that they become competitive to compete at International level.



- Suresh Poudel

Update – 223

E-Commerce Business Models

The topic for today's update is: “E-COMMERCE BUSINESS MODELS”

E-Commerce – An introduction:

The technological development has revolutionized the way people conduct business. Businesses have gone global and serve customers in countries they didn't even dream of before. E-commerce refers to the process of conducting trade over the internet. E-commerce is when commerce meets internet. Ecommerce is a global phenomenon and as such support several models. The good thing about ecommerce is that you could choose one or more models for your venture.

E-Commerce Business Models:

- **Business to Business (B2B):**

A website following the B2B business model sells its products to an intermediate buyer who then sells the product to the final customer. If the nature of your products or services is geared towards meeting the needs of businesses, setting up a B2B strategy is your best bet. Networking and reaching out is a bigger part of this strategy. The most important challenge you would face is convincing established businesses that your products/services are a great fit for their processes. The advantage of this business model is that order sizes are usually large, and repeat orders are very common, if you maintain the quality of your products. Some of the example of B2B models are Alibaba, Amazon Business, IBM.

- **Business to Consumer (B2C):**

The B2C sector is what most people think of when they imagine an ecommerce business. This is the deepest ecommerce market. A customer can view the products shown on the website. The customer can choose a product and order the same. The website will then send a notification to the business organisation via email and the organisation will dispatch the product/goods to the customer. This model works by marketers and retailers so that they can sell their goods to internet users. Examples include standard retail eCommerce stores, social shopping websites, etc. like Amazon, Flipkart.

- **Consumer to Consumer (C2C):**

Created by the rise of the ecommerce sector and growing consumer confidence in online sales. These platforms allow their users to trade, buy, sell, and rent products and services. In all transactions, the platforms receive a small commission. This business model is complex and requires careful planning to operate. Many platforms have failed, generally due to legal issues [Original documentation in relation to taxation, record retention obligations, import-export regulations, etc.]. Although the sites act as intermediaries to match the customers, they don't check the quality of products being posted online. Examples include C2C marketplaces and crowdfunding websites like OLX, Letgo, Kickstarter.

- **Consumer to Business (C2B):**

C2B is another model most people don't immediately think of, but that is growing in prevalence. This type of online commerce business is when the consumer sells goods or services to businesses and is roughly equivalent to a sole proprietorship serving a larger business. In C2B, freelance workers work on tasks provided by clients. Most of these clients are commercial entities and freelancers are often individuals. The one thing that differentiates C2B from other business models is that the consumers create the value for the products. Also, the model caters to the need of freelancers, who work on tasks given by the clients. The examples of C2B business models include Google AdSense, Commission Junction, and Fotolia.

- **Business to Government (B2G):**

Business to government is also referred to as the business to administration commerce. In this model, government and businesses use central websites to do business with each other. This e-commerce model is also referred to public sector marketing, which means marketing of services and products to multiple government levels. With this platform, the businesses can bid on government opportunities including tenders, auctions and application submissions.

- **Consumer to Government (C2G):**

Consumer to administration or consumer to government e-commerce model enables the consumers to post feedback or request information regarding public sectors directly to the government administration or authorities. Governments use websites to approach citizen in general. Such website also provides services like registration for birth, marriage or death certificates. The main objective of G2C websites is to reduce the average time for fulfilling citizen's requests for various government services.

Ecommerce is a broad term, but the simplest way to define it is the exchange of services, and products online. Affiliate, physical, and digital products all fall under this purview, as do services of all kinds that involve an exchange of funds online. As you must have observed by now that there are several ecommerce models available, each with its own set of benefits. The right thing to do is to analyse your business model and then pick the right model.



-Raghuram S Mallya

Update 224

RERA

Introduction to RERA

RERA or Real Estate (Regulation and Development) Act, 2016 aims at protecting the home purchasers and also boosts the real estate investments. The bill of this Parliament of India Act was passed on 10 March 2016 by the Upper House (Rajya Sabha). The RERA Act was effective on and from 1 May 2016. During this time, out of 92 sections, 52 were notified. All the other provisions were effective on and from 1 May 2017.

Some Points under Real Estate Regulation and Development (RERA)

- **Quality:** The builder must rectify any issue faced by the buyer within 5 years of purchase. This issue must be rectified within 30 days of the complaint.
- **Security:**
Under the RERA act, a minimum of 70% of the buyers' and investors' money will be kept in a separate account. This money will then be allotted to the builders only for construction and land related costs. Developers and builders cannot ask for more than 10% of the property's cost as an advance payment before the sale agreement is signed.
- **Transparency:**
Builders are supposed to submit the original documents for all projects they undertake. Builders are not supposed to make any changes to the plans without the consent of the buyer.
- **Fairness:**
RERA has now instructed developers to sell properties based on carpet area and not super built up area. In the event that the project has been delayed, buyers are entitled to get back the entire money invested or they can choose to be invested and receive monthly investment on their money.
- **Authorisation:**
A builder/developer cannot advertise, sell, build, invest, or book a plot without registering with the regulator. After registration, all the advertisement for investments should bear a unique project wise registration number provided by RERA.

How does RERA Act benefit the home purchasers?

The Real Estate (Regulation and Development) Act, 2016 is expected to increase the real estate demand. There are different ways in which RERA Act can help the home buyers.

- Builders will not be able to delay projects
- Builders will not be allowed to charge for area beyond the walls
- Builders will be held responsible for defects found in the house
- Builders will not be allowed to use your money to build someone else's house
- Grievances will be redressed quickly.

RERA impact on Real Estate

- Fewer project will be launched as the promoters and builders will spend time to understand the impact of the Real Estate (Regulation and Development) Act, 2016. However, the honest promoters / builders / developers will benefit from this scenario as they will face lesser competition.
- Dishonest builders will disappear as they will fail to sustain in the market after the RERA Act is implemented.
- The 32 sections that have been added to the Real Estate (Regulation and Development) Act, 2016 will encourage a financial discipline in this sector.
- After the Act implementation, the developers will have to follow several formalities if they wish to make certain changes to the project after its commencement. A short-term chaos might break out in the real estate industry but in the long run, it will boost the confidence of the customers and they will invest more.

Carpet area defined under RERA Act:

The Real Estate (Regulation and Development) Act, 2016 has mandated the developers on how to sell their apartments depending on the carpet area.

- According to the Act, carpet area is the total area of the floor that can be used within the walls of the apartment. This does not include areas like open terrace, shafts, balconies, etc.
- This normalization of the carpet area definition will ensure that buyers are not misled by the unlawful promoters.

As the loading factor is high, the saleable area can be inflated by the developer. This will allow the developer to reduce rate per square feet on the saleable area that is inflated. This is extremely misleading as the home purchasers get happy assuming that they are getting amazing rates. However, the flat size never changes, only the loading factor does.

Using the standard for carpet area will ensure that there is a certainty on the usable area. This also helps in the analysis of cost per square feet. Comparison between the different projects also becomes easier.

How can you ensure that the property is RERA compliant?

Things that must be considered to understand if a property is RERA compliant are mentioned below:

- If the area of the property is more than 500 square meters (i.e.5,382 sq. ft.), the builders should register it under RERA Act before launching or advertising a project on that particular property.
- Builders must provide proof that 70% of the total payment has been deposited by them into a discrete escrow account instead of using it for some other investment.

-
- Builders must get all the necessary consents before advertising a new project. Discounts for early bird bookings and pre-launch offers will not be there anymore.



-Nandan M N

Update 225

The Knights of Takeovers

What is it that comes to your mind when you read terms like **White Knight, Grey Knight and Black Knight!!**

Seems like the characters of fairy tales, isn't it??

Well possible! But there's nothing fictional about them once you get to know that Black, White and Grey Knights are some terms used in Mergers and Acquisitions.

We all know that there are several ways in which two entities can combine their resources to maximise profits and increase the shareholder's value. They can partner up for a particular project or mutually join forces through mergers or one entity can outright takeover the operations, assets and liabilities of another entity. It is in the last case that all the colourful terms pertaining to Mergers and Acquisitions arise from.

A takeover takes place when one company (the acquirer or the bidder) purchases the majority of stake in another company (the target) with an attempt to take control over the target company. The reasons for takeover are generally - enhancing business abilities, acquiring larger market share, product and service diversification, reduction of operational costs, replacement of management teams, etc.

In a welcome or friendly takeover such as acquisition or merger, both companies consider it to be a positive situation unlike in an unwelcome or hostile takeover where one party is not participating voluntarily. A hostile takeover is strongly resisted by the management and the board of directors of the target company.

Black Knight:



Clearly the name suggest that a Black Knight is unfriendly and functions as a destroyer. A Black Knight is someone making an unwelcome takeover attempt of a company, especially with the intention of selling it off or breaking it up into different organisations. A Black Knight will seek to replace the current board of directors and/or management with its new board reflective of its net interest in the corporation's equity.

For example, Company A is a publicly traded company that wants to expand into a new market. Company A approaches Company B with an offer to its Board of Directors (BoD). After consideration, Company B refuses the offer, concluding it is not in their best interest. If Company A proceeds with a takeover attempt after being rejected by Company B's board of directors, that is deemed as a hostile takeover and Company A would be referred to as a Black Knight.

There are several tactics that a Black Knight might employ to takeover a target company after the target company's management rejects a purchase offer. Some of which have been mentioned below:

1. A tender offer is made to the shareholders of the company at a premium to the market price. Here, the tender offer is directly being made to the shareholders thus surpassing the BOD. The objective is to acquire enough shares to gain a controlling interest in the target company.
2. A proxy fight is when the acquirer persuades existing shareholders of the target company to vote out the board of directors. This makes the company easier to take over, as the replacement board members are expected to be more open to a control change.

Among the various defences against the unwanted hostile takeovers by the Black Knight is the White Knight.

White Knight:



A White Knight is a friendly potential acquirer and a saviour. He performs the task of taking over the target company in a much friendly manner in order to avoid a Black Knight from making a hostile takeover or if it is facing bankruptcy. The White Knight usually does not seek for operational control over the company and only aims for the ownership of the target.

The White Knight might defeat the undesirable entity by offering a higher and more enticing bid, or strike a favourable deal with the management of the object of acquisition. After acquisition, the White Knight may then rebuild, or integrate the firm. White Knights are preferred by the BoD and/or management as in most cases as they do not replace the current board or management with a new board.

For example, let's assume that Company XYZ wants to acquire Company ABC. Company ABC feels that Company XYZ is a hostile bidder and will ruin the company. Company 123, which has worked with Company ABC for years and has a good relationship with its board, sees an opportunity to "save" Company ABC from the tense situation and make a lucrative acquisition at the same time. Company ABC welcomes Company 123's bid and merges with it to avoid acquisition by Company XYZ. Company 123 is a White Knight.

Grey Knight:



The Grey Knight often falls between the unfriendly Black Knight that is pursuing a hostile takeover and a White Knight that is working closely with the board of directors and management to reach a fair purchase price. Grey Knights are like circling vultures who watch how the sales deeds unfolds or wait for merger deals to get into problems or fail before they cross the finish line — creating a situation that puts the Grey Knight in a good negotiating position to make the offer. They might outbid a White Knight, or make a more-favourable offer than the White Knight, taking advantage of the fact that the target company sees them as a friendlier alternative to a hostile Black Knight. But a Grey Knight may not always reveal its true intentions.

A Grey Knight is thus an acquiring company that enters a bid for a hostile takeover in addition to the target firm and first bidder, who is perceived as more favourable than the Black Knight (unfriendly bidder), but less favourable than the White Knight (friendly bidder).

Some real-life examples:

- In the year 1984, Walt Disney Productions faced a hostile bid from Saul Steinberg. Disney was an attractive target for a hostile takeover because it had significant cash potential and a reduced stock value. Steinberg had hence declared his intentions to buy as much as 25% of Disney's shares. While Disney management was attempting to fend off this Black Knight, Roy E Disney arranged for the Bass family to come over as White Knight investors during the Steinberg bid to take over the company. Sid Bass and his sons saved Walt Disney by buying significant portions of the same. Over here Saul Steinberg behaved as a Black Knight and Sid Bass acted as the White Knight to save Walt Disney from the hostile takeover.

-
- In the year 2008, JPMorgan Chase acquired Bear Stearns. At that time Bear Stearns was struggling to keep their stock price up. And if JPMorgan Chase would not have acquired them, they would need to file for insolvency. At that time JPMorgan Chase acted as a white knight.



-Aishwarya R Bhat

Update 226

Vedic Mathematics

Like the Human computer, Shakuntala Devi has said,

“Without mathematics, there’s nothing you can do. Everything around you is mathematics. Everything around you are numbers.”

VEDIC MATHEMATICS

Vedic Mathematics is a collection of Techniques/Sutras to solve mathematical arithmetic’s in easy and faster way. It consists of 16 Sutras (Formulae) and 13 sub-sutras (Sub Formulae) which can be used for problems involved in arithmetic, algebra, geometry, calculus, conics.

Vedic Mathematics is a system of mathematics which was discovered by Indian mathematician **Swami Bharathi Krishna Tirthaji** in the period between A.D. 1911 and 1918 and published his findings in a Vedic Mathematics Book by Tirthaji Maharaj.

Using regular mathematical steps, solving problems sometimes are complex and time consuming. But using Vedic Mathematics General Techniques (applicable to all sets of given data) and Specific Techniques (applicable to specific sets of given data), numerical calculations can be done very fast. It offers techniques and shortcuts to master numerical calculations in split seconds. The difficult problems or huge sums can be solved almost immediately by the Vedic method.

The book was previously included in the school syllabus of Madhya Pradesh and Uttar Pradesh.

The Vedic Mathematics Sixteen Sutras in details along with their Sanskrit names:

Sutra	Sub-Sutra	Meaning
Ekadhikena Purvena	Anurupyena	By one more than the previous one
Nikhilam Navatashcaramam Dashatah	Sisyate Sesasamjnah	All from 9 and the last from 10
Urdhva-Tiryagbyham	Adyamadyenantyamantyena	Vertically and crosswise
Paravartya Yojayet	Kevalaih Saptakam Gunyat	Transpose and adjust
Shunyam Saamyasamuccaye	Vestanam	When the sum is the same that sum is zero
Anurupye Shunyamanyat	Shunya Anyat	If one is in ratio, the other is zero

Sankalana-vyavakalanabhyam	Yavadunam Tavadunikritya Varga Yojayet	By addition and by subtraction
Puranapurabyham	Antyayordashake'pi	By the completion or non-completion
Chalana-Kalanabyham	Antyayoreva	Differences and Similarities
Yavadunam	Samuccayagunitah	Whatever the extent of its deficiency
Vyashtisamasthi	Lopanasthapanabhyam	Part and Whole
Shesanyankena Charamena	Vilokanam	The remainders by the last digit
Sopaantyadvayamantyam	Gunitasamuccayah Samuccayagunitah	The ultimate and twice the penultimate
Ekanyunena Purvena	Dhvajanka	By one less than the previous one
Gunitasamuchyah	Dwandwa Yoga	The product of the sum is equal to the sum of the product
Gunakasamuchyah	Adyam Antyam Madhyam	The factors of the sum are equal to the sum of the factors

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Example

This is the multiplication of two numbers in the same structure of numbers with their sum being a multiple of 10

For example: 43×47 , 116×114 etc.

For this you apply **Ekadhikena** (by one more than the previous one) for the first digits of left-hand side leaving the last digit and multiply with the first number of right-hand sides. Then you multiply the last digit of the left-hand side with the last digit of right-hand side.

Practically explained as below.

$$\begin{aligned} \text{i) } 43 \times 47 &= (4+1) \times 4 \mid 3 \times 7 \\ &= 5 \times 4 \mid 21 \\ &= 20 \mid 21 \\ &= 2021 \end{aligned}$$

$$\begin{aligned} \text{ii) } 116 \times 114 &= (11 + 1) \times 11 \mid 6 \times 4 \\ &= 132 \mid 24 \\ &= 13224 \end{aligned}$$

A number of academics and mathematicians have opposed these attempts on the basis that the techniques mentioned in the book are simply arithmetic tricks, and not mathematics. They also pointed out that the term "Vedic" mathematics is incorrect, and there are other texts that can be used to teach a correct account of the Indian mathematics during the Vedic period.

Proponents of Vedic Mathematics however argue that the methods are not merely mathematical tricks and that there is an underlying psychology because the aphorisms describe personal approaches to problem-solving.

As pedagogic tools, the methods are useful because they invite students to deal with strategies.



-Ghanashyam M

Update 227

Changes in FDI policy in E-commerce

On 26 December, the department of industrial policy and promotion (DIPP) surprised everybody with fresh regulations that could throw a spanner in India's thriving e-commerce marketplaces. The Modi government allowed 100% FDI under the e-commerce marketplace model i.e, e commerce companies act as platforms for vendors to sell their products but prohibited FDI in inventory-based e-commerce model, i.e., they can sell their own products.

The changes which will take effect on 1st February are five-fold as follows:

- E- Commerce marketplace entity will not mandate any seller to sell any product exclusively on its platform.
- E-Commerce entity providing marketplace will not exercise ownership or control over the inventory.
Such an ownership or control over the inventory will render the business into inventory-based model.
Inventory of a vendor will be deemed to be controlled by e- commerce marketplace entity if more than 25% of purchases of such vendor are from the marketplace entity or its group companies.
- The new regulations would bar online marketplaces with foreign investments from selling products of the companies where they hold stakes, and ban exclusive marketing arrangements.
- E commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field.
- Cashback provided by group companies of marketplace entity to buyers shall be fair and non-discriminatory. For the purposes of this clause, provision of services to any vendor on such terms which are not made available to other vendors in similar circumstances will be deemed unfair and discriminatory.
- E-commerce marketplace entity will be required to furnish a certificate along with a report of statutory auditor to reserve bank of India, confirming compliance of above guidelines by 30th of September of every year for the preceding financial year.

These norms, which are effective February 1, would hit **Amazon** and Walmart backed **Flipkart** the hardest. Since they may lose up to 40% in revenues – between Rs 35,000 crore (\$5 Billion) and Rs. 40,000 crore- by 2020 due to tightening of FDI norms, according to CRISIL Ratings.

Amazon and Walmart-owned Flipkart have sought an extension of the February 1 deadline for complying with the revised FDI norms in e-commerce, stating that they need more time to understand the details of the framework.

The new rules are aimed at safeguarding the interests of offline retailers.



-Yash M Chhajer

Update 228

Electoral Bonds

What is an electoral bond and how do we get one?

In order to “cleanse the system of political funding in the country” and in keeping with the government’s desire to move to a cashless economy, Union Finance Minister Arun Jaitley expanded on some of the details of the electoral bonds scheme. The scheme, announced during the 2017 Budget, aims to account the donations made to all major political parties.

What is it?

An electoral bond is designed to be a bearer instrument like a Promissory Note — in effect, it will be similar to a bank note that is payable to the bearer on demand and free of interest. It can be purchased by any citizen of India or a body incorporated in India.

How do you use it?

The bonds will be issued in multiples of ₹1,000, ₹10,000, ₹1 lakh, ₹10 lakh and ₹1 crore and will be available at specified branches of State Bank of India. They can be bought by donor with a KYC-compliant account. Donors can donate the bonds to their party of choice which can then be cashed in via the party's verified account within 15 days from date of issue. No payment would be made to any payee political party if the bond is deposited after expiry of the validity period.

What are the other conditions?

Every party that is registered under section 29A of the Representation of the Peoples Act, 1951 (43 of 1951) and has secured at least one per cent of the votes polled in the most recent Lok Sabha or State election will be allotted a verified account by the Election Commission of India. Electoral bond transactions can be made only via this account.

The bonds will be available for purchase for a period of 10 days each in the beginning of every quarter, i.e. in January, April, July and October as specified by the Central Government. An additional period of 30 days shall be specified by the Central Government in the year of Lok Sabha elections.

The electoral bonds will not bear the name of the donor. In essence, the donor and the party details will be available with the bank, but the political party might not be aware of who the donor is. The intention is to ensure that all the donations made to a party will be accounted for in the balance sheets without exposing the donor details to the public.

Who can purchase Electoral Bonds?

Electoral Bonds may be purchased by only citizen of India. An individual can buy Electoral Bonds, either singly or jointly with other individuals. The bonds can only be encashed by an eligible political party only through a bank account with the authorized bank.

Will it be tax deductible?

During the Budget presentation in February 2017, the Finance Minister had proposed that the maximum amount of cash donation that a political party can receive be capped at ₹2,000 and that parties be entitled to receive donations by cheque or digital mode, in addition to electoral bonds.

Donations would be tax deductible. “A donor will get a deduction and the recipient, or the political party, will get tax exemption, provided returns are filed by the political party”.

Benefits of an Electoral bond

- Transparent political funding
- Protecting donors from harassment
- No disclosure of information to third parties
- Achieving Digital India Vision
- Bringing donations under Tax perview



- Saketh P

Update – 229

Make in India

" This is best time ever to be in India and it is even better to **Make in India**"

Make in India was a movement launched by our Honourable PM Narendra Modi on 25th September 2014 which aims at encouraging companies to manufacture their products in India and increase their investments. Currently, make in India covers 25 sectors of the economy.

Purpose of Make in India

The objective of launching Make in India was to create employment and job opportunities in 25 sectors of the economy and to “**transform India into a global design and manufacturing hub**”.

Impact of Make in India

The launch of Make in India has seen India jump to 77th place out of 190 countries in the World Banks’ 2018 Ease of Doing Business Index, has moved up by 32 places in World Economic Forum’s Global Competitive Index and by 19 places in the Logistics Performance Index.

Make in India follows the concept of ‘Zero Defect Zero Effect’ wherein emphasis is given on those product mechanisms that produce products with no defects and with no effect on the environment and ecology.

A Make in India week was held on 13th February 2016 to 18th February 2016 which was attended by 2500+ international and 8000+ domestic, foreign government delegations from 68 countries. Business teams from 72 countries and 17 Indian states held expos. Event received over Rs. 15.2 lakh crore worth of investment commitments and investment inquiries worth Rs 1.5 lakh crore. Between September 2014 and November 2015, the government received Rs. 1.20 lakh crore worth of proposals from companies interested in manufacturing electronics in India.

Sectors covered by Make in India

- **Automobile Sector**

General Motors has announced an investment of US \$1 billion to manufacture automobiles in Maharashtra.

In April 2017, KIA motors announced that it would invest over \$1.1 billion to build its first manufacturing industry in India in Anantapur, Andhra Pradesh. The manufacturing plant is now set up and the company will soon start a trial run of their plant before the first model enters mass production by mid-2019. In March 2016, BK Modi Group announced that it would set up an electric bus manufacturing plant in Moradabad, UP.

In July 2017, SAIC Motors announced that it would set up a manufacturing facility in Halol, Gujarat.

- **Aviation**

French drone manufacturer LH Aviation announced a manufacturing plant in India to produce drones. During the Magnetic Maharashtra: Convergence 2018, Thurst Aviation Pvt Ltd signed a MOU with Govt. of Maharashtra to build an aeroplane manufacturing plant near Paighar with an investment of Rs. 35,000 crores.

- **Defence Manufacturing**

India and Russia deepened their Make in India defence cooperation by signing agreements for the construction of naval frigates, KA-226T twin engine utility helicopters and Brahmos cruise missile. In August 2015, HAL began talks with Russia's Irkut Corp to transfer technology of 332 components of Sukhoi Su-30 MKI fighter aircraft under the Make in India program. Boeing announced setting up a factory in India to assemble fighter planes as well as the manufacture of F/A-18 Super Hornet. In May 2018, the Indian Army announced a Rs. 50,000 crore ammunition projects to be implemented over a 10 years period.

- **Wellness and Healthcare**

Columbia Asia announced in June 2017 that it would invest over Rs. 400 crores to set up two new hospitals in India by the end of 2019. In Assam investor summit, Indo-UK Institute of Health announced that it would setup a medical city in Guwahati at a cost of Rs. 1,600 crores. Other sectors covered under Make in India are Automobile components, Biotechnology, Construction, Defence Exports, Electronics, Electrical machinery, Food Processing, Railways, Oil and Gas, Pharmaceutical etc., Make in India has resulted in India emerging as a top destination globally for FDI surpassing USA and China as the current policy ensures that there is 100% FDI in all the sectors except Space Industry (74% FDI), defence industry (49% FDI) and Media of India (26% FDI).

Tax impact

- During the Union Budget 2018, the Finance Minister, in order to incentivise domestic value additions, increased the custom duty on mobile phones from 15% to 20%, on some of their parts and accessories to 15% and on certain TV parts to 15%. This was done in order to create more jobs in the country.
- Custom duties on 'Perfumes and toiletry preparations' has doubled to 20%.
- In automobile and automobile parts, CKD imports and some accessories of motor vehicles, motor cars and motor cycles will be charged at 15%.
- Duty on silk fabrics and footwear has doubled to 20%.
- In food processing industries, customs duty has jumped up five times to 50% for cranberry juice while the duty for orange juice has increased to 35% from 30%. For other fruits and vegetable juices, duty has gone up to 50% from 30%

The government has come up with the following incentives to increase the ease of doing business in India:

- The requirement of a common company seal has been eliminated
- Introduction of Form – 29 by MCA wherein 3 processes such as Name availability, DIN and Incorporation of a Company are clubbed into one. Thus, a company can be registered within 1-2 working days in India.
- Provisions in place for getting PAN and TAN in T+1 day using digital signature
- ESIC and EPFO is completely online with no physical touch point for registration or document submission.
- Validity of industrial license extended to 7 years from 3 years
- Power connection to be provided within a mandated time frame of 15 days instead of 180 days.
- Permanent residential status for investors for 10 years. In order to avail this scheme, the foreign investor will have to invest a minimum of Rs. 10 crores to be brought within 18 months or Rs. 25 crores to be brought within 36 months. Further, such foreign investment should result in generating employment to at least 20 residential Indians every financial year.
- Number of documents for imports and exports reduced from 11 to 3.

In order to facilitate the availability of cheap credit, the following schemes have been introduced

- Amending the SARFAESI Rules, 2011 to allow uploading of data pertaining to security interests created on all types of properties covered under the definition of property under section 2(1)(t) of SARFAESI Act.
- Establishing MUDRA bank and Pradhan Mantri MUDRA Yojana which facilitates loans to MSMEs
- Credit Guarantee Schemes for SMEs



-Abhishek S

Update 230

An insight on freedom fighter Netaji Subhash Chandra Bose

Today is the 122nd Birthday of our true hero Netaji Subhash Chandra Bose.

On the 23rd day of January of the year 1897 God gave a gift to India from the hands of Janakinath Bose and Prabhavati Devi in the form of Subhash Chandra Bose who was born in Cuttack in Orissa.

Undoubtedly Subhash Chandra Bose formerly known as Netaji is one of the prominent names in the list of people who gave their lives to India's Independence.

Bose was born in a large family in Orissa being the 9th child to his parents. As a student Bose was a brilliant student with full of patriotic and Indian values. He came 2nd in his matriculation exams in 1913. He completed his B.A in philosophy with a First class in 1918.

After completing his graduation, he went to England to appear in Indian Civil Services exam. As expected, he performed brilliantly and came 4th in the Merit list. But this did not please him much as working to the Government had become hatred for him because the Jallianwala Bagh Massacre had left a mark on his memory.

His struggle during the Freedom Movement

After returning from England Subhash joined the Congress and became forward group activist. He worked with newspapers such as Swaraj and Forward. His mentor was Chittaranjan Das. Netaji played an important role in enlightening the students, youth and labourers of Calcutta. He wanted India to become independent, federal and republic nation.

He emerged as charismatic and firebrand youth icon. In 1939 he was elected as President of Congress. But strong-willed Bose could not gel with moderate and soft Gandhiji. Subhash never compromised on his goals. So, he had to resign as the president and form the All India Forward Bloc.

He was imprisoned in various jails of India for 11 times during the period of 1921-1941.

During Second world war Subhash raised his famous slogan – “Give me blood and I will give you Freedom”

British got rattled and he was imprisoned in 1941. But he escaped from the house arrest and reached Berlin, Germany. During his stay in Berlin he established the Free India Centre and Azad Hind Radio Station. He sought the help of his enemy's enemy, i.e. With the help of Japan, Singapore and other countries he formed Indian National Army/ Azad Hind Fauj with over 40000 soldiers.

Along with the Japanese army they brought independence to Andaman and Nicobar Islands and came all the way to Manipur in India. But by then Japan had grown weak and after its withdrawal from World War II, the Azad Hind Fauj had to retreat and disband.

Netaji was one single personality whom the British viewed as the most dynamic and influential leader respected and regarded by all sections and communities of the country. He was called as the patriot of patriots by Mahatma Gandhi.

Glimpse of the meeting between Hitler and Netaji

Subhash Chandra Bose went to Hitler to seek his support for India's Independence. When he arrived at Hitler's Residence he was welcomed by Hitler's staff and was directed to wait outside his office. He was also informed that Hitler was in an important meeting and he would meet Netaji as soon as the meeting is over. Netaji agreed to wait and began reading newspapers. After sometime Hitler came out of his office, saw Netaji but did not meet him. Neither Netaji went up to him. Hitler went away.

After some time, Hitler passed by Netaji but did not meet him. The same gesture was repeated by Netaji. At last Hitler came up to Netaji and stood there silently, but Netaji remained silent engrossed in reading.

Hitler went behind Netaji and placed his arms on Netaji's shoulders. Netaji looks up and says "Hitler" for which he asked back how can he be so sure. To this Netaji replied "No one except the real Hitler has the audacity to place his arms on my shoulders"

His Quote: One individual may die for an idea, but that idea will, after his death, incarnate itself in a thousand lives.

But even today his death is one of the concocted mysteries as Netaji's death in a plane crash is not proven by any evidence.

Government institutes award to honour Subhash Chandra Bose

PM Narendra Modi has announced National Award in the name of Netaji Subhash Chandra Bose to honour those involved in disaster response operations. The award would be given out on 23rd January every year on the birth anniversary of Subhash Chandra Bose, recognizing the bravery and courage displayed in saving lives of people, at the time of a disaster.



-Akshatha HN

Update 231

OFO

History

2014–2016: Founding in China

The company was founded in 2014 by five members of the Peking University cycling club as a project that initially focused on bicycle tourism before deciding on bicycle sharing. It was named "Ofo" due to the word's resemblance to a cyclist on a bicycle. Ofo was launched in June 2015 in Beijing, gaining 20,000 users and 2,000 bicycles by October with investment funding from a Peking University alumnus. In 2016, Ofo expanded to other cities in China, and had a fleet of 85,000 bicycles by the end of the year. The company raised \$130 million in funding from tech firms Xiaomi and Didi Chuxing in September 2016, allowing it to expand outside China. A Series D funding round in February 2017, led by Didi Chuxing and Russian investor Digital Sky Technologies, raised \$450 million for Ofo and valued the company at \$1 billion.

2016–2018: International expansion

Ofo began expanding outside China in 2017, which launched in Singapore in February 2017; Cambridge, United Kingdom in April; Seattle, United States in August; and Sydney, Australia in October.

In April 2017, it was announced that the United Nations Development Programme has started a partnership to raise public awareness on climate changes. The partnership project, "1 KM Action" led to another collaboration with the Clara Lionel Foundation, an organisation founded by Rihanna, which aims to provide bikes and scholarships to girls in Malawi.

In the same month, Ofo announced an undisclosed amount of funding from Ant Financial, an Alibaba affiliate.

In July 2017, Ofo announced \$700 million of additional funding in a round led by Alibaba, Hony Capital and Citic PE.

In December 2017, Ofo launched its service in Paris, France, and progressively deployed 2,500 bikes over the city of Paris. According to figures communicated by the company in July 2018, the bikes are rented up to four times a day, representing 5,000 to 10,000 daily trips. Ofo stated that financial accounts for its Paris operations are balanced.

In February 2018, Texas A&M University partnered with Ofo and rolled out a bike sharing platform on campus.

Ofo raised an additional \$866 million led by Alibaba in March 2018.

Usage

Customers use the company's mobile app on their smartphones to locate nearby bicycles. Each bike has a QR code on the frame, which the customer scans to unlock the bike. Ofo bike unlocking is also available on other collaborative apps such as WeChat and Alipay in Mainland China. Each yellow bicycle reports its location via satellite positioning, allowing users to see which bikes are available nearby. Users pay within the app with their credit cards. After customers are finished, they can leave the bike anywhere and lock it. The bicycles use Narrow Band IOT to power the locks, developed by Huawei and China Telecom.

Yes, fail is a harsh word. But it's true. It happens to a lot of companies, especially in China.

The good news is that in China, failure is not final. There are always more opportunities, and many companies that falter can bounce back to great success later.

Ofo failed because of five reasons:

- **They underestimated how long money wars can last in China – and they didn't preserve their capital.**

Money wars are common in China. After a new business (Groupon, social media, online video, food delivery) is launched, lots of venture-backed competitors jump in and fight for customers. They subsidize services, pay for referrals, and so on.

Spending big usually gets more market share, which in turn lets raise more money (at a higher "valuation"). Whoever fundraises the most aggressively tends to pull ahead. A few market leaders emerge, and the rest die off.

Ofo did all this successfully and ended up a market leader, along with Mobike.

However, that was not the end.

Ofo did well in the initial phase of the bike-sharing money war. But it ran out of capital and could no longer compete with Didi, Mobike, Meituan, Hellobike and Alibaba – all of whom are still probably operating at a loss in this fight. Ofo couldn't compete even if it deployed new bikes, cancelled the deposit requirement, and so on.

- **They went international before winning in China.**

This is a minor point, but Ofo went international in 2017. That took time and money and exacerbated because going global wasn't necessary.

Launching operations in the US, Europe, and other locations probably helped their "valuation." But it also meant buying lots of bikes and placing them all over the world. There wasn't a strategic requirement for them to do this. Ofo's success or failure was always going to be about their success or failure in China.

Expanding overseas is usually something China's digital giants do after they win at home (like Didi and Alibaba) or if they need to avoid larger domestic competitors (like Huawei in the 1990s or OnePlus today). In retrospect, it was a mistake, though not a huge one.

- **They stayed a standalone bike-sharing company, which is not competitive in China in the long term.**

It was clear that a standalone bike-sharing company doesn't have the economic power to compete. Digital China is a rough sport where they need to get big in order to play. A successful bike-sharing business is a US\$2 billion or US\$3 billion mobility company, but a leading ride-sharing business is a US\$50 billion to US\$100 billion company.

Digital China is also a team sport. In a country where three to four giants – Alibaba, Baidu, Tencent, and Bytedance – dominate the consumer-facing markets, you'd want to be on these teams.

In addition to size, it was also clear that bike-sharing was going to be part of a more comprehensive mobility service. Cars, taxis, trains, buses, bikes, scooters, and such would all be integrated into a get-me-from-here-to-there super mobility service.

So, it was always clear that Ofo was going to end up as a service in a larger business. It had also done deals with Didi and Alibaba/Ant Financial early on, so things looked fine.

But then something happened in these relationships that somehow led Ofo to end up a standalone company. They had also made several statements about wanting to stay an independent company. But the big partners were gone. Didi ended up with Bluegogo and launched its own bike service, Alibaba entered a tie-up with Hellobike, and Meituan got Mobike. So even without the money war problems, Ofo ending up a standalone bike-sharing company was a huge problem. It was almost certainly not competitive.

- **They didn't kiss the ring of Didi and Alibaba.**

Now, getting to the bigger stuff, and this probably relates to reason number three. Since mid-2017, there was rumours of discord between Didi and Ofo. But when Didi launched Didi Bikes and acquired Bluegogo in late 2017, there was something bad between the two.

Over the next year, there was rumours and press reports about maybe three rounds of negotiations between Ofo and Didi/Ant Financial, but that they all ended up falling apart. Didi is China's mobility giant and Alibaba is the country's consumer titan. Either companies can put Ofo, out of the market if they wanted to. If the management at Didi was upset (even mildly), Ofo should have gone and apologized. It should have done everything possible to build a good relationship. That's a good business strategy in general, but in this case, it was critical.

- **Ofo didn't recognize and/or address management problems.**

By mid-2017, Ofo had a great service with massive consumer adoption, it was one of two market leaders, and it had partnered with Didi and Alibaba.

But it somehow snatched defeat from the jaws of victory: it ran out of money, stayed independent, and broke up with Didi and Alibaba. It wasn't the market or its competitors that took them down.

Ofo clearly had problems at the management and board level.



-Adarsh S

Update 232

A glimpse of Rafale Deal

We have been hearing a lot on the National news about the political state due to an Indo-French Rafale Aircraft Deal so, here is a small note about it.

The Rafale deal controversy is a political controversy in India related to the purchase of 36 multirole fighter aircraft for a price estimated to be worth Rs 58,000 crore (7.8 billion euros) by the Defence Ministry of India from France's Dassault Aviation. The origin of the deal lies in the Indian Medium Multi-Role Combat Aircraft (MMRCA) competition, a multi-billion-dollar contract to supply 126 multi-role combat aircraft to the Indian Air Force (IAF).

Background;

On 31 January 2012, Indian Ministry of Defence announced that Dassault Rafale had won the MMRCA competition to supply Indian Air Force with 126 aircraft along with an option for 63 additional aircraft. The first 18 aircraft were to be supplied by Dassault Aviation fully built and the remaining 108 aircraft were to be manufactured under license by Hindustan Aeronautics Limited (HAL) with transfer of technology from Dassault. Rafale was chosen as the lowest bidder based on life-cycle cost, which is a combination of cost of acquisition, operating cost over a duration of 40 years and cost of transfer of technology. The negotiations with Dassault dragged on over disagreements on warranty for aircraft produced by HAL. India wanted Dassault to ensure the quality of aircraft produced by HAL, but Dassault refused to do so. As disagreements over cost and warranty for aircraft produced by HAL continued, defence minister Manohar Parrikar said that Sukhoi Su-30MKI could be acquired as an alternative to Rafale. Air Chief Marshal Arup Raha disagreed, saying that Su-30MKI and Rafale had different capabilities and one could not replace the other. In February 2015, it was reported that the Rafale purchase was headed for cancellation as it was misjudged to be the lowest bidder due to an incomplete bid submitted by Dassault.

During an official visit to France in April 2015, Indian prime minister Narendra Modi announced that India would acquire 36 fully built Rafales citing "critical operational necessity". In July 2015, defence minister Manohar Parrikar informed the Rajya Sabha that the tender for 126 aircraft had been withdrawn and negotiations for 36 aircraft had begun.

On 3 October 2016, Reliance Group and Dassault Aviation issued a joint statement announcing the creation of a 51:49 joint venture named Dassault Reliance Aerospace Limited (DRAL) to focus on aero structures, electronics and engine components as well as foster research and development projects under the "Indigenously Designed Developed and Manufactured" (IDDM) initiative. Dassault intends to invest in excess of €100 million in the joint venture as part of its offset obligations. The joint venture will manufacture components for Legacy Falcon 2000 series of jets such as the nose, cockpit and doors at the DRAL facility in Nagpur starting from January 2018.

Allegations of Favouritism;

In November 2017, Congress leader Randeep Surjewala alleged that HAL was bypassed in the Rafale contract and questioned the presence of Anil Ambani in France during Modi's announcement to acquire 36 fully built aircraft. He also alleged that the necessary government approvals were not obtained before the formation of joint venture between Dassault Aviation and Reliance Defence Limited. Anil Ambani's Reliance Defence Limited denied the allegations and released a statement that he was present as a member of Indo-French CEO forum. The statement added that no government approvals were required for foreign investments of up to 49%. Congress vice-president Rahul Gandhi accused Indian prime minister Narendra Modi of dropping the requirement of licensed manufacture by the state-owned Hindustan Aeronautics Limited to ensure that the privately-owned Reliance Defence Limited obtained an offset contract from Dassault. Defence minister Nirmala Sitharaman denied the allegations and said that transfer of technology to HAL would not be economically feasible in a smaller contract for 36 aircraft, which was an emergency purchase to make up for a decade-long delay. She said that no government approvals were required for the joint venture between two private companies.

Judiciary's Stand;

In September 2018, the Supreme Court of India agreed to hear the PIL petitions related to the controversy, while Congress said they would wait for getting the necessary documents before moving court on the matter. On October 10 The Supreme Court asked the Central government to provide details of the decision-making process in the Rafale deal with France in a sealed cover by October 29.

On 14 December 2018, the court dismissed all the petitions seeking a probe into the alleged irregularities in the deal, and gave a clean chit to the Union government on all the three aspects, viz., the decision making, pricing and selection of Indian offset partner. In its ruling, the court said it has "studied the material carefully" and is satisfied with the decision-making process, and that it found no evidence of wrongdoing. It expressed its satisfaction on the pricing aspect, after investigating the details, which were provided to it by the government. So, now Rafale project is continuing its operations inspite of many oppositions in the country.



-Vijaya Simha S

Update – 233

CEO Dan Prince's Model of Organisation

Gravity Payments is a credit card processing and financial services company. Dan Price is the co-founder and CEO of Gravity Payments. Dan Price made headlines in April 2015 when he committed to giving every employee at Gravity Payments a minimum wage of \$70,000 per year stating this was the minimum needed to secure them from financial hardship when hit by unexpected expenses.

Dan Price, who previously paid himself a salary of 1 million \$ per annum, cut his own salary to 70000\$ to partially cover the increased pay for employees. Critics began asking whether his \$70,000 minimum wage policy was all a publicity stunt, or had it really?

Today, Gravity says its average salary is \$103,000 and everyone there earns more than Price's living wage, just as he promised. Price, however, says he defines success not by financial results, but by the ways the pay raise changed people's lives. "Babies being born at the company went from zero to two a year to, since then, about 20. Our home purchases — it's a very unapproachable market in our place — really significantly increased. I think that's been great." Price also argues that 80% of the wealth made by the company goes to the top management or corporate ownership and in the meantime the actual workers' share of income is not much high, and hence if we keep taking away the basic needs of the majority humans so that we can glorify a very tiny percentage with wealth and power, it really ends very poorly for everyone.

So, the question to ask would be, should more CEO's model their approach like Dan Price. Dan's initiative can be applauded and it shows his humility and leadership in doing what he has done. However not all CEO's have the same attitude that he has, fearing that their company might not grow, but the surprising fact is today Gravity Payments is flourishing. Revenue is growing at twice the rate it was. Profits have doubled. It claims it has 80% clients now than when the experiment started. In fact, Gravity's customer retention rate rose from 91 to 95 %.

We may question as to how did the profits rise and as to how the company did well, but the fact is employees tend to work more loyally and whole-heartedly and with great enthusiasm when they are being really well paid and have a pay which is equivalent or almost equivalent to the CEO's pay. Workers tend to get a family like feeling and some kind of togetherness among them, when they are being measured up to the level of top management, which in turn delivers happy customers and clients, and bringing a smile on customers is all a company wants.

Like everything, this model too developed few cons, creating a flat salary scale for the entire company did cause some problems. Some of the employees felt that the new salary scale did not reward excellence and recognize the value of top employees. He lost some clients, who might have feared that pay hike could be recovered from them and hence would result in a higher fee being levied on them.

Hence, this case study tells how an employee's well being and pay, and an organisation model where all of them are being paid at the same rate might create a sense of togetherness and reduce ego clashes among each other, and how it might affect the company's performance as a whole.



-Anand M B

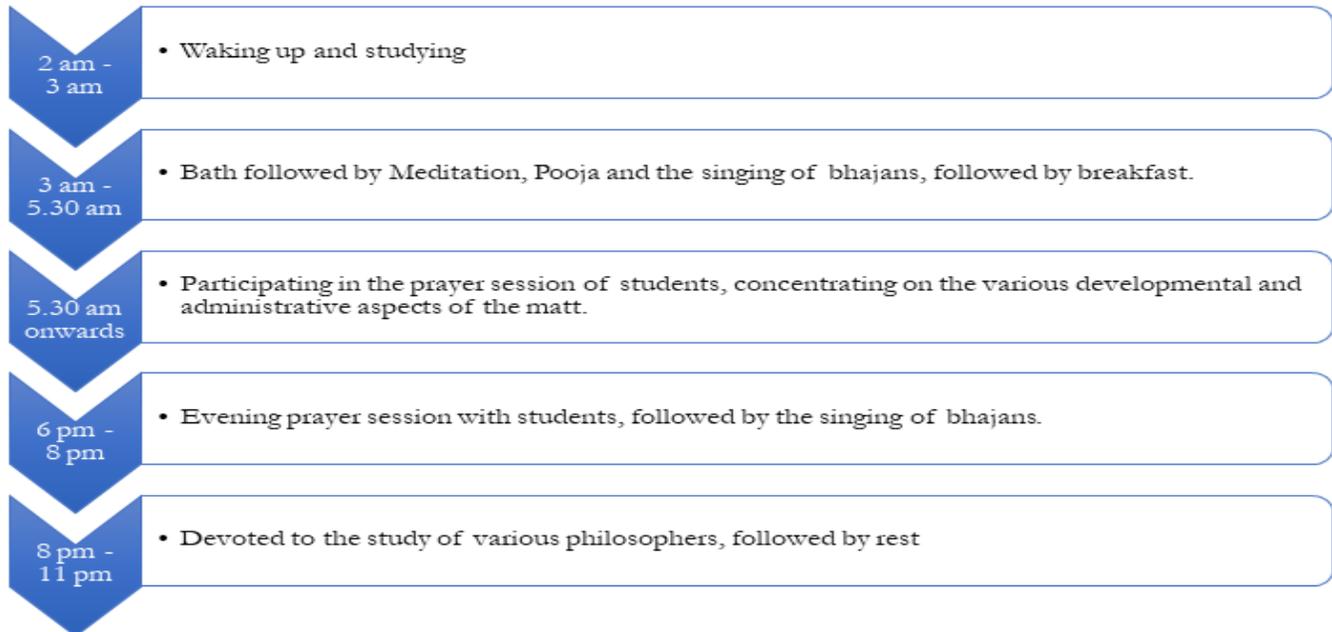
Update – 234**Dr. Sree Shivakumara Swamiji – A Saga of Service to the Society**

- Dr Shivakumara Swamiji aged 111 years, head pontiff of Sri Siddaganga Mutt in Tumkur passed away at 11.44 am, on 21st January 2019. The seer fondly known as 'nadaadauva devaru' (walking god) was battling lung infection for the last few weeks and breathed his last after he developed complications.
- Born on April 1, 1907 in Veerapura village near Magadi (near Bengaluru), Swamiji graduated from the Central College in Bengaluru (1927-30) and is one of the most revered pontiffs in the country for his humanitarian work.
- Swamiji's 'Gurukula', which imparts education to more than 8,500 children aged between 5 and 16 years is open to all religions and castes. The Lingayat seer chose the path of 'Trivida dasoha'—free food, education, and shelter to empower generations, as a true follower of 12th century social reformer Basaveshwara (Basavanna).
- Sree Siddaganga Matha (also called Siddaganga Kshetra) is a Lingayat matha with an attached educational institution. Sree Siddaganga Mutt was established in the 15th century by Sri Gosala Siddeshwara Swamiji in a village in the southern state of Karnataka, India. It is located in the Tumkur district in Karnataka.
- Sri Shivakumara Swamiji was initiated into the holy order by his Guru Sree Uddana Shivayogi Swamiji and he became the head pontiff in 1941.
- Sri Uddana Swamiji established a Sanskrit College in 1917, to teach Sanskrit to students belonging to all castes and communities.
- Realising the importance of technology for development, Shivakumara Swamiji started Siddaganga Institute of Technology (in 1963)—a residential campus across an expanse of 65 acres near Tumakuru.
- Today, nearly 30,000 students are studying across 126 educational institutes set up by the mutt across Karnataka, for education and training, that range from nursery to colleges for engineering, science, arts and management as well as vocational training. He established educational institutions which offer courses in traditional learning of Sanskrit as well as modern science and technology. He was widely respected by all communities for his philanthropic work.
- He also provides free education to more than 9,000 poor students and feeds nearly 6,000 students and pilgrims daily.
- Under the pontiff's guidance, an annual agricultural fair is held for the benefit of the local population. The Government of Karnataka announced the institution of Shivakumara Swamiji Prashasti from 2007, the centennial birth anniversary of Swamiji.
- Swamiji's disciples say the Swamiji had visited the villagers around Kyatsandra Mutt seeking donations to feed those who came there seeking shelter. Since then, the local farmers in the region have been offering their first harvest to the mutt. "Take the prasada before you go" were Swamiji's words to anyone who visited the mutt. At the mutt, Sanskrit classes are compulsory for all inmates as Swamiji considered it as every Indian's birth right to learn the 'language of the Gods'. The seer also believed that farmers are the backbone of our society. During the Mahashivarathri festival, the mutt conducts the annual cattle fair.

- “Kayakave kailasa” (Work is worship) is one of the philosophies of Sri Basavanna that was sincerely practised by Shivakumara Swamiji who used to work 18 hours a day.

Daily schedule

Dr. Sree Shivakumara Swamiji was a light eater and a light sleeper even during his 100's. He slept only for three hours a day, from 11 pm to 2 am. His routine ran like this.



Awards and recognitions

- In recognition of his humanitarian work, Swamiji was conferred with an honorary degree of Doctor of Literature by the Karnataka University in 1965.
- On his centenary in 2007, the Government of Karnataka awarded Swami the prestigious Karnataka Ratna award, the highest civilian award of the state.
- In 2015 the Government of India awarded him the Padma Bhushan.

His intake of meal is very scientific. Foods with sourness, spicy or with hot chilli powder and fried items were not his likings. He considered food as sacred prasad, and it was for maintaining the body functions only. He had never suffered from indigestion in his lifetime. He could walk without support and very agile and brisk in his steps. He would climb floors without an iota of tiredness in his body or legs. His hearing was sharp and spoke in a low tone and people are accustomed to his exceedingly poised gestures.

It's no surprise as to why people called him as "The Walking God".



-Vishnu V N

Update – 235

The Madrid System | Trademarks: Can a company in same industry with similar name exist?

Can I register my trademark internationally? If yes, how? Here is the Madrid System which talks all about international registration of trademarks.

The Madrid System:

The system of international registration of marks is governed by two treaties: the **Madrid Agreement Concerning the International Registration of Marks** (referred as ‘**Madrid Agreement**’ in brief), which dates from 1891, and the **Protocol Relating to the Madrid Agreement** (hereinafter referred as ‘**Madrid Protocol**’ in brief), which was adopted in 1989, entered into force on December 1, 1995, and came into operation on **April 1, 1996**. Common Regulations under the Agreement and Protocol also came into force on that date.

The Madrid Protocol system provides for the international registration of trade marks by way of one application that can cover more than one country. The opportunity of having a single registration to cover a wide range of countries gives advantages, both in terms of portfolio management and cost savings, as opposed to a portfolio of independent national registrations.

Madrid now permits the filing, registration and maintenance of trade mark rights in more than one jurisdiction, provided that the target jurisdiction is a party to the system. The Madrid system is administered by the **International Bureau of the World Intellectual Property Organisation (WIPO) in Geneva, Switzerland. There are 90 countries part of the Madrid System.**

Where the application complies with the applicable requirements, the mark is recorded in the International Register and published in the WIPO Gazette of International Marks. The International Bureau then notifies each Contracting Party in which protection has been requested whether in the international application or subsequently. Each designated Contracting Party has the right to refuse protection of mark by so notifying to the International Bureau within the time limits specified in the Madrid Protocol. Unless such a refusal is notified to the International Bureau within the applicable time limit, the protection of the mark in each designated Contracting Party is the same as if it had been registered by the Office of that Contracting Party.

An international registration remains dependent on the mark registered or applied for in the **Office of origin**, for a period of five years from the date of its registration. If, and to the extent that, the basic registration ceases to have effect within this five-year period, the international registration is no longer protected.

An international registration subsists for the period of **10 years** from the date of its registration and it may be renewed further by paying renewal fee before the expiry of every 10 years.

How the Madrid System works?



Some businesses receive threatening letters or emails at some point in which the senders accuse them of trademark infringement. (**Trademark infringement** is the unauthorized and illegal use of a trademark or service mark when such use could lead to confusion between the original trademark and a mark that is used later). These accusations are often based on the use of similar logos, slogans or names.

What are Trademarks?

Trademarks are recognizable signs, designs, or expressions which identifies products or services of a particular source from those of others.

Registering a trademark with The Trade Mark Registry gives a business protection for its use in India. This means that other parties are not allowed to use a business's trademarks when they are conducting business.

Example: Here's the trademark of McDonald's



Trademarks: Can a company in same industry with similar name exist?

The answer is yes. However, a seasoned trademark attorney would be the best person to ask regarding the particular situation. That being said, the **Trade Mark Registry** (herein after referred as **TMR**) routinely rejects trademark registrations based on the “**likelihood of confusion**” that consumers would face between a prospective trademark and one that is already on file with the TMR.

Likelihood of confusion is a part of a proving trademark infringement. It means that the public is likely to confuse your mark and the mark of another business. The guiding principle of trademarks is to avoid consumer confusion. If there is little likelihood that the customers of the accusing business will be confused by your use of a similar mark, there is very little chance that there will be a trademark issue. Courts look at several factors, including whether or not consumers are likely to be confused by two businesses that operate in the same industry.

It is still possible for two different businesses to have similar names or marks. For example, Delta Faucets and Delta Airlines have obviously similar names. However, the question is determined by the potential for the confusion of consumers.

Which of the two businesses used the mark first? If your business shares the same market as the other business, you will then need to figure out whether your business or the one that is claiming trademark infringement used your business name first. If you can show that your business used the name first, you will hold senior rights to it.

Which business registered the mark first? Before applying to register a mark, a business should ideally conduct a thorough search of its market to make certain that another business hasn't already been using it. However, people sometimes do register marks that were already in use by other businesses. If you began using the name before the other company registered it, you will be able to continue using it. The other company that has registered the trademark will have priority for its use in all other markets and can stop you from using it in new locations. **This means that you should register your trademarks regardless of how long you have been using them.**

If the other business registered the mark prior to your first use of it, there is an issue. When a company registers a mark, other businesses are considered to have constructive notice that the mark cannot be used. If you find out that this is true, you should settle the infringement claim.

Businesses often seek the assistance of a lawyer to make sure their application gets accepted (which can be a time-consuming process) and to avoid any future potential legal liability.

However, a trademark cannot be registered if it is identical or similar to an earlier registered trademark or trademarks. According to Section 11(1) of the Trade Marks Act 1999 – a trade mark shall not be registered if, because of its identity or similarity with earlier trade mark(s) and because of identity or similarity of goods or services covered by such trademarks, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association with the earlier trade mark.



- Shreya R Mahendrakar

Update- 236

Search (Raid) and Seizure under Income Tax Act, 1961

Search and Seizure action are conducted by the Income Tax Department also popularly referred to as **RAIDS** involves through 'looking for' or 'seeking out' through an inspection of a building, office, place, vehicle.

Basis for Search and Seizure

The assessing officer must always have a reason to believe that the person, whether or not a notice has been served on him, is thus not likely to produce his books, etc. in such a case, the basic is that the person would suppress books of account and other documents which may thus be useful and also relevant to income tax proceedings. Here thus the authorizing authority, if challenged, is thus required to prove the basis of belief.

Also, there must be information with the authorizing authority that is related to two matters. First, the person should be in possession of money and secondly, such money represents either wholly or partly income or the property which has not been disclosed.

Circumstances under Search and Seizure:

Section 132(1)(a) –

(i) summons u/s 131(1) or
(ii) notice u/s 142(1), was issued to produce or cause to produce any books of accounts, or other documents which has been willfully omitted or failed to produce such books of accounts as required by such issued summons or notice to assessee.

Section 132(1)(b) - any person to whom summons or notice has been issued, will not or would not produce any books of accounts which will be useful or relevant to any proceedings undertaken under the income tax act, 1961.

Section 132(1)(c) - any person who is in possession of any money, bullion, jewelry or any other valuable things and these assets represent either wholly or partly the income or property which has not been disclosed by the person concerned for the purposes of this act.

The officer who is authorized for conducting search is referred to as Authorized officer. The authorization is done by issuing a search warrant in Form 45.

Clauses (a spell out the circumstances under which the authorizing authority may issue a warrant of search. In order to attract clause (c) there must be information with authority relating to two matters), **(b), (c) of section 132(1).**

1. That any person is in possession of money, etc.
2. That such money, etc. represents either wholly or partly income or property which has not been or would not be, disclosed for the purposes of the act.

Reasons for Income Tax Raids:

An income tax raid, technically known as the process of Search and Seizure, is one of the crucial weapons that the Income-tax department possesses to check black money. It is a measure that is known to be constitutionally valid too. A raid gets triggered under any of the following circumstances:

- Credible information of tax evasion; for instance, any evasion coming out of reports received from the Intelligence Wing of the Income tax department
- Information coming from government departments
- Information procured from assessment records of taxpayers
- Information received with regard to spending being disproportionate to income of the taxpayer i.e. an instance of lavish spending without corresponding income to match the same
- Manipulation of books of accounts, vouchers, invoices etc.
- Illegal investment in real estate
- Unexplained cash credits, share transactions etc.

Who can conduct a Raid?

According to Section 132(1) of the Income Tax Act, the:

- Principal Director General or Director-General or
- Principal Director or Director or
- Principal Chief Commissioner or Chief Commissioner or
- Principal Commissioner or Commissioner

may authorize an

- Additional Director or
- Additional Commissioner or
- Joint Director or
- Joint Commissioner or
- Assistant Director or
- Deputy Director or
- Assistant Commissioner or
- Deputy Commissioner or
- Income-tax Officer to conduct a tax raid. The authorizing officer will do so, if he has a “reason to believe” that:
 - A taxpayer has failed to comply with any summons or notices sent to him by the Department or
 - He has in his possession money and secondly, such money represents either wholly or partly income or property which has not been disclosed.

Power of tax authorities during a raid:

The officer authorized to carry out the raid can:

1. Enter and search any building, place, etc. where he has a reason to suspect that the books of account, other documents, money, bullion, jewellery or other valuable article or thing representing undisclosed income is kept
2. Break open the locks, where the keys are unavailable

3. Carry out personal search of a person who is suspected to have secreted some item as mentioned in (1) above
4. Seize the items as mentioned in (1) above
5. Place marks of identification and take extracts or copies of the books of account and other documents
6. Make a note or inventory of the valuables found during the search.

Assets that can be seized:

The authorized officials can seize the following types of assets:

1. Undeclared cash, jewellery
2. Books of accounts, challan, diaries, etc.
3. Computer chips and other data storage devices
4. Documents relating to property, deed of conveyances, etc.

Assets that cannot be seized

The authorized officials cannot seize the following types of assets:

1. Stock-in-trade (except cash) of a business
2. Assets or cash which are disclosed before the Income Tax and Wealth Tax Department
3. Assets declared in books of account
4. Cash which are duly explained
5. Jewellery provided in wealth tax return
6. Gold up to 500gm per married woman, 250gm per unmarried woman and 100 gm per male member of the family.

Rights of a person during a tax raid

- To insist on personal search of ladies being taken only by a lady, with strict regard to decency.
- To have at least two respectable and independent residents of the locality as witnesses
- A lady occupying an apartment being searched has a right to withdraw before the search party enters, if, according to custom, she does not appear in public
- To call a medical practitioner in case of emergency
- To allow the children to go to school, after checking their bags
- To have the facility of having meals, etc. at the normal time
- To inspect the seals placed on various receptacles, sealed in course of search and subsequently at the time of reopening of the seals
- To have a copy of the panchanama together with all the annexures
- To have a copy of any statement that is used against him by the Department
- To have inspection of the seized books of account, etc., or to take extracts therefrom in the presence of any of the authorized officers or any other person empowered by him.

Duties of a person during a raid

- i. To allow free and unhindered ingress into the premises
- ii. To identify all receptacles in which assets or books of account and documents are kept and to hand over keys to such receptacles to the authorized officer
- iii. To identify and explain the ownership of the assets, books of account and documents found in the premises

- iv. To identify every individual in the premises and to explain their relationship to the person being searched. He should not mislead by impersonation. If he cheats by pretending to be some other person or knowingly substitutes one person for another, it is an offence punishable under section 416 of the Indian Penal Code.
- v. Not to allow or encourage the entry of any unauthorized person into the premises.
- vi. Not to remove any article from its place without notice or knowledge of the authorized officer. If he destroys any document with the intention of preventing the same from being produced or used as evidence before the court or public servant, he shall be punishable with imprisonment or fine or both, in accordance with section 204 of the Indian Penal Code.
- vii. To answer all queries truthfully and to the best of his knowledge. He should not allow any third party to either interfere or prompt, while his statement is being recorded by the authorized officer.
- viii. Being legally bound by an oath or affirmation to state the truth. If he makes a false statement, he shall be punishable with imprisonment, fine, or both under section 181 of the Indian Penal Code.
- ix. Similarly, if he provides evidence which is false and which he knows or believes to be false, he is liable to be punished under section 191 of the Indian Penal Code.
- x. To affix his signature on the recorded statement, inventories and the panchanama.
- xi. To ensure that peace is maintained throughout the search process, and to cooperate with the search party in all respects so that the search action is concluded at the earliest and in a peaceful manner.
- xii. Similar co-operation should be extended even after the search action is over, so as to enable the authorized officer to complete necessary follow-up investigations at the earliest.

Rights of a person after a tax raid

The person from whose custody any books of account or other documents are seized may make copies thereof or take extracts therefrom in the presence of any of the authorized officers or any other person empowered by him. An aggrieved person can file a writ petition before the High Court challenging the raid, if he feels that the action of the department was unfair. He can also challenge the assessment and file an appeal before the Commissioner of Income Tax (Appeal).

Conclusion

One can lawfully avoid a tax raid by being compliant in terms of responding to summons and notices sent to him by the department and refrain from keeping money, property undeclared.

Further Search, Survey and Seizure under the Income tax law is a very vast subject in itself consisting of various issues, considerations, procedural aspects and litigation. An attempt made in this article to give a brief overview or concept. Some of the aspects of the topic are discussed in brief without going into Nitti gritty of complexity of law and litigation involved.



-Manoj.K

Update 237

Forces that move stock prices and impact of Budget on the same



Have you ever wondered about what factors affect a stock's price?

Stock prices are determined in the marketplace, where seller supply meets buyer demand. But, unfortunately, there is no clean equation that tells us exactly how a stock price will behave. That said, we do know a few things about the forces that move a stock up or down. These forces fall into three categories: Fundamental factors, Technical factors and Market sentiment.

Fundamental Factors

In an efficient market, stock prices would be determined primarily by fundamentals, which, at the basic level, refer to a combination of two things:

1. An earning base, such as earnings per share (EPS)
2. A valuation multiple, such as P/E ratio

Technical Factors

Things would be easier if only fundamental factors set stock prices! Technical factors are the mix of external conditions that alter the supply of and demand for a company's stock. Some of these indirectly affect fundamentals. For example, economic growth indirectly contributes to earnings growth.

Market Sentiment

Market sentiment refers to the psychology of market participants, individually and collectively. This is perhaps the most vexing category because we know it matters critically, but we are only beginning to understand it. Market sentiment is often subjective, biased and obstinate. For example, you can make a solid judgment about a stock's future growth prospects, and the future may even confirm your projections, but in the meantime, the market may myopically dwell on a single piece of news that keeps the stock artificially high or low. And you can sometimes wait a long time in the hope that other investors will notice the fundamentals.

IMPACT OF FLOW OF FDI ON INDIAN CAPITAL MARKET

Fast growing economies like China, Korea and Singapore etc have registered incredible growth at the onset of FDI. As we know that FDI provides an access to the foreign capital but at the same time FDI also helps to provide the most modernize technology available, various tools of innovations and other complementary skills.

Now the government plays a very vital role in drafting and executing various policies regarding the inflow of FDI.

The FDI policies framed on the part of the government will act as a stimulus so that various foreign countries may be attracted to ensure their investment in India. No doubt that amount of the inflow of FDI will account to our growth in GDP but at the same time the Indian stock market will also be affected due to the inflow of FDI.

2019 Union Budget Impact on the Stock Market

Traders and investors are actively curious during the time of the union budget to determine its impact on the stock market or share prices. Every major share tends to show some volatility before and after the presentation of the budget. If we take the historical benchmarks into the consideration, then it can be quite easily analysed that from the year 2010, the stock market has risen 6 out of 10 times, after the budget. The different ways in which the union budget impacts Indian market are as follows:

Scenario 1: If there is an increase in interest rates

There is no doubt at all that the budget impacts the economy, which can be both positive and negative. How the union finance spends or invests the money eventually impacts the fiscal deficit of the country. The extent of the deficit can very much influence the interest rates. If the rates are on the higher side, then it means lower profits for the company and decline in the stock prices.

Scenario 2: If there is an increase in the direct taxes

If there is an increase in the direct taxes, then it means that the disposable income will decrease. In such a situation the demand for the goods will be on the lower side. If there is a decrease in the demand for the goods, then it is quite obvious that the production of goods will suffer, therefore impacting the profits and share prices of the company.

Scenario 3: If there is an increase in the indirect taxes

In the same lines, if there is an increase in the indirect taxes, then it will also lead to a decrease in the demand for the goods. The prominent reason behind this is that most of the companies generally pass the indirect taxes partially or completely on to the customers by increasing the prices of the products. If the prices of the goods are increased, then the demand for the same will eventually be lower than would impact the profit margins of the companies and share prices will also come down.



-Rakesh.K

Update 238

Startup India

Today's topic is about **Startup India** - an initiative by The Government of India.

The campaign was first announced by the Indian Prime Minister, Narendra Modi during his 15 August 2015 address from the Red Fort, in New Delhi.

The event was inaugurated on 16 January 2016 by finance minister Arun Jaitley. Among the attendees were CEOs, startup founders and venture capitalists.

The action plan of this initiative, is based on the following three pillars:

1. Simplification and Handholding.
2. Funding Support and Incentives.
3. Industry-Academia Partnership and Incubation.

An additional area of focus relating to this initiative, is to discard restrictive States Government policies within this domain, such as License Raj, Land Permissions, Foreign Investment Proposals, and Environmental Clearances. It was organized by The Department of Industrial Policy and Promotion (DIPP). **A startup is defined as an entity that is headquartered in India, which was opened less than seven years ago, and has an annual turnover less than ₹25 crore (US\$3.5 million).** Under this initiative, the government has already launched the I-MADE program, to help Indian entrepreneurs build 1 million mobile app start-ups, and the MUDRA Banks scheme (Pradhan Mantri Mudra Yojana), an initiative which aims to provide micro-finance, low-interest rate loans to entrepreneurs from low socio-economic backgrounds. Initial capital of ₹200 billion (US\$2.8 billion) has been allocated for this scheme.

Key Points:

- 10,000 crore startup funding pool.
- Reduction in patent registration fees.
- Improved Bankruptcy Code, to ensure a 90-day exit window.
- Freedom from mystifying inspections for first 3 years of operation.
- Freedom from Capital Gain Tax for first 3 years of operation.
- Freedom from tax for 3 years of operation.
- Self-certification compliance.
- Create an Innovation hub, under the Atal Innovation Mission.
- To target 500,000 schools, and involve 1 million children in innovation related programmers.
- Encourage entrepreneurship within the country.
- Promote India across the world as a start-up hub.

Tax Exemption

The Inter-Ministerial Board setup by Department of Industrial Policy and Promotion validates Startups for granting tax related benefits.

1. Income Tax Exemption on profits under Section 80-IAC of Income Tax Act

A DIPP recognized Startup shall be eligible to apply to the Inter-Ministerial Board for full deduction on the profits and gains from business. Provided the following conditions are fulfilled:

- A private limited company or a limited liability partnership,
- Incorporated on or after 1st April 2016 but before 1st April 2021, and
- Products or services or processes are undifferentiated, have potential for commercialization and have significant incremental value for customers or workflow.

The deduction is for any three consecutive years out of seven years from the year of incorporation of startup.

2. Income Tax Exemption on investments above fair market value received under Section 56 of Income Tax Act

A DIPP recognized Startup being a private limited company shall be eligible to apply to the Inter-Ministerial Board for exemption from income tax on investments above fair market value made by angel investors. Provided the following conditions are fulfilled:

- The aggregate amount of paid up share capital and share premium of the Startup after the proposed issue of shares does not exceed ten crore rupees,
- The investor/proposed investor, who proposed to subscribe to the issue of shares of the Startup has, —
 - the average returned income of twenty-five lakh rupees or more for the preceding three financial years; or
 - the net worth of two crore rupees or more as on the last date of the preceding financial year, and
- The Startup has obtained a report from a merchant banker specifying the fair market value of shares.



- Varsha N K

Update 239

Prospects Theory

Prospect Theory: An analysis of decision under risk

Before knowing what Prospect Theory, is about, let me ask you what would you do in the following scenario?

Would you prefer winning Rs.50 with certainty or would you take Rs.100 or nothing for betting on a coin toss?

Have you made your decision?

Now, let me ask you another question.

Would you choose a 100% chance of losing Rs.50 versus a 50% chance of no loss/Rs.100 loss?

Most of the people decide to choose the latter.

Did you choose the latter too? Maybe you did or maybe you didn't. Well, if you did, I'm sure you'd want to know why most of the people choose the latter. If you didn't, you're anyway reading the article until now, you may as well spend few more minutes reading it further.

Let's jump right in. Shall we?

Prospect Theory: In 1979, psychologists Daniel Kahneman and Amos Tversky published this paper titled "Prospect Theory: An Analysis of Decision Under Risk". It states that, "People make decisions based on the potential value of losses and gains rather than the final outcome".

According to them, losses and gains are valued differently, and thus users make decisions based on perceived gains instead of perceived losses.

Prospect Theory explains three biases people have while making decisions:

- **Certainty:** "This is when people tend to overweight options that are certain and risk averse for gains."
- **Isolation effect:** "Refers to people's tendency to act on information that stands out and differs from the rest."
- **Loss aversion:** "When people prefer to avoid losses to acquire equivalent gains."

Let us take examples of each of them and analyse how people make biased decisions.

Certainty

Most of us would rather get assured and lesser win than taking the chance at winning more. Consider this example.

What would you choose?

- 100% chance of losing Rs.900
- 90% chance of losing Rs.1000 or nothing

Most people would choose second option.

Because, when aiming to avoid losses, we become risk seeking and take the gamble over a sure loss, in the hope of losing nothing.

You must have shopped in departmental stores or big clothing stores where you must have received coupons for discounted price for next purchase. More often than not, many would make subsequent purchases intending to use the coupons. Haven't you?

Isolation effect

“When multiple stimuli are presented, the stimulus that differs from the rest is more likely to be remembered.”

Tversky and Kahneman also introduced a systematic pattern in thinking that affects the decisions and judgments that people make, named “Behavioural cognitive biases”

These biases impact how we buy, sell, think, feel, interact with friends and more. Which means, they also affect how your visitors think and feel about your site, about your company, products, and services.

People react to a particular choice in different ways depending on how it was presented. We tend to avoid risk when a positive frame is presented but seek risks when a negative frame is presented.

Example, look at this picture

Wouldn't you rush to buy tickets for a play if these boards were on display?

Let's try to look at it the other way-round, the bookings are still open for 66% and is filled only by 33%. Now, wouldn't you cut yourself some slack and wait to buy the tickets? This is called “Isolation effect”.

Loss Aversion

“Pain of losing something is twice as powerful as the pleasure of gaining.”

Winning Rs.100 and then losing Rs.80 would feel like a net loss even though you are still left with Rs.20.

However, if you were to lose Rs.80 and later win Rs.100, then you would feel like there was net gain although the result of both situations eventually is the same.

Why does this happen?

Because you were put in a “loss” frame. The idea of losing Rs.80 was more painful than losing it later.

It is the reason why we have so many clothes in our closet which we hardly use or why we have an annual gym subscription which we're reluctant to use. We tend to place higher value on a good that we own than on an identical good that we do not own.

This is also why marketing teams focus on words like “last chance” or “Hurry up” in their marketing campaigns.

This theory tells us that, we tend to make biased decisions every now and then in our day-to-day life. It helps us to avoid such mistakes that happen unconsciously.

It is also to be noted that this theory doesn't take into consideration many other factors (like emotion) that would strongly influence the decision making.

Did you know?

Have you ever been shopping at these supermarkets or hypermarkets when you are starving? We all have, right? You end up buying so many things only to realize later that you didn't even need many things you bought. This happens because our mind tricks us to buy all those things that you don't really need just to make sure that you don't miss out on them, because you're hungry.

Quick Tip: Don't go shopping for eateries when you're hungry. I know what must be thinking, you're welcome.



-Sri Ganesh

Update 240

POA for Demat A/C

Have you ever wondered how the HNIs being so busy manage to earn so much in the stock market?

Well the answer is fund managers like centrum, IIFL, Standard Chartered and many names to add on. Would anyone just give their fund to fund manager without any instructions or agreement?

No, they wouldn't. They would authorize them with a POA.

What about other investors and traders?

Yes, they sign a POA with their demat stock broker too!

What is a POA?

Power of Attorney (POA) is a legal document giving legal authority to another person to operate your account (in this case the demat account).

Power of Attorney – Mandatory or Optional?

Power of attorney is not a mandatory document. SEBI or exchange does not specify that it is essential for the investors to trade. You as an investor have the choice of deciding whether to give it or not. However, power of attorney is required for smooth functioning of a demat account.

If it is not signed by the client, he can show his consent by issuing a Delivery Instruction Slip (DIS) which is similar to a bank's cheque leaf that serves as an authority to sell shares/transfer shares from one demat account to another demat account. I must add that doing work through delivery instructions slips is unnecessary and you could end up wasting a lot of time in the process. Make sure that the POA is in the name of the stockbroking firm only and not any individual who act on their behalf. The Power of Attorney can be left open-ended since it is specific to your demat account and the powers are clearly mentioned within. You could do it for a limited time-frame but it is not recommended as it limits the service providers the ability to give you a hassle-free experience.

What are the different types of POA?

1) **General Power of Attorney**-Here the POA holder can perform all activities on behalf of the original holder. Hence, before going for such generic POA you must do take care of the after effect also. It gives more power to POA holder.

2) **Specific Power of Attorney**-Here POA holder perform only specific activities on behalf of the original holder which are specified in POA document. This simply restricts POA holder. So, this seems to be somewhat secured than General Power of Attorney.

Within above two basic POAs there are again two more sub categories of POA.

1) **Revocable POA**-Where you can revoke the rights you have given in POA.

2) **Irrevocable POA**-Where you can't revoke the rights you have given in POA.

Specific POA states the limited range of powers of the POA whereas General POA is generic. The POA given to for example Zerodha is specific and mentions the various powers on the POA. Ensure that when signing the POA, it is only in the name of a SEBI registered stock broker and no one else.

Use of POA?

While trading futures and options or intraday equity trading, there is no requirement of the POA. But whenever you sell shares from your demat account or want to pledge them for getting margin for trading F&O, the POA is used. This ensures that the entire process is online and less cumbersome.

POA, though not a mandatory document to be signed, is required for smooth operation of your demat account.

Below are the few actions what stock brokers would do on behalf of you if you sign a power of attorney:

1. Securities

- When a client raises a request to sell shares, we transfer the securities to stock exchange & from there the buying party/broker would take the delivery of the same.
- To pledge securities in our favour for a limited period to meet the margin requirement of the trade executed by the client.
- To apply for various products like Mutual Funds, Public Issues, rights, offer of shares etc. based on the client instructions which also includes redemption.

2. Funds-Transfer of funds from client's bank account in the following cases

- For meeting settlement obligations and margin requirements for the trade executed by client on stock exchange.
- For recovering outstanding dues arising out of the client's trading activity on the stock exchange.
- For meeting other obligations of client's subscription to products such as mutual funds, public issues, rights or offer of shares etc.
- For any dues pending as a fee or charges towards maintaining DP account.

How you can track activities in your demat account:

- a. You can your contract notes which are sent to you at the end of the day to your e-mail
- b. You can go through the Statement of Accounts which is sent to you by e-mail.
- c. You can verify by checking quarterly settlement statements of funds and securities.



-Rahul Murthy

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