Edition - March-April 2016

S-CAP

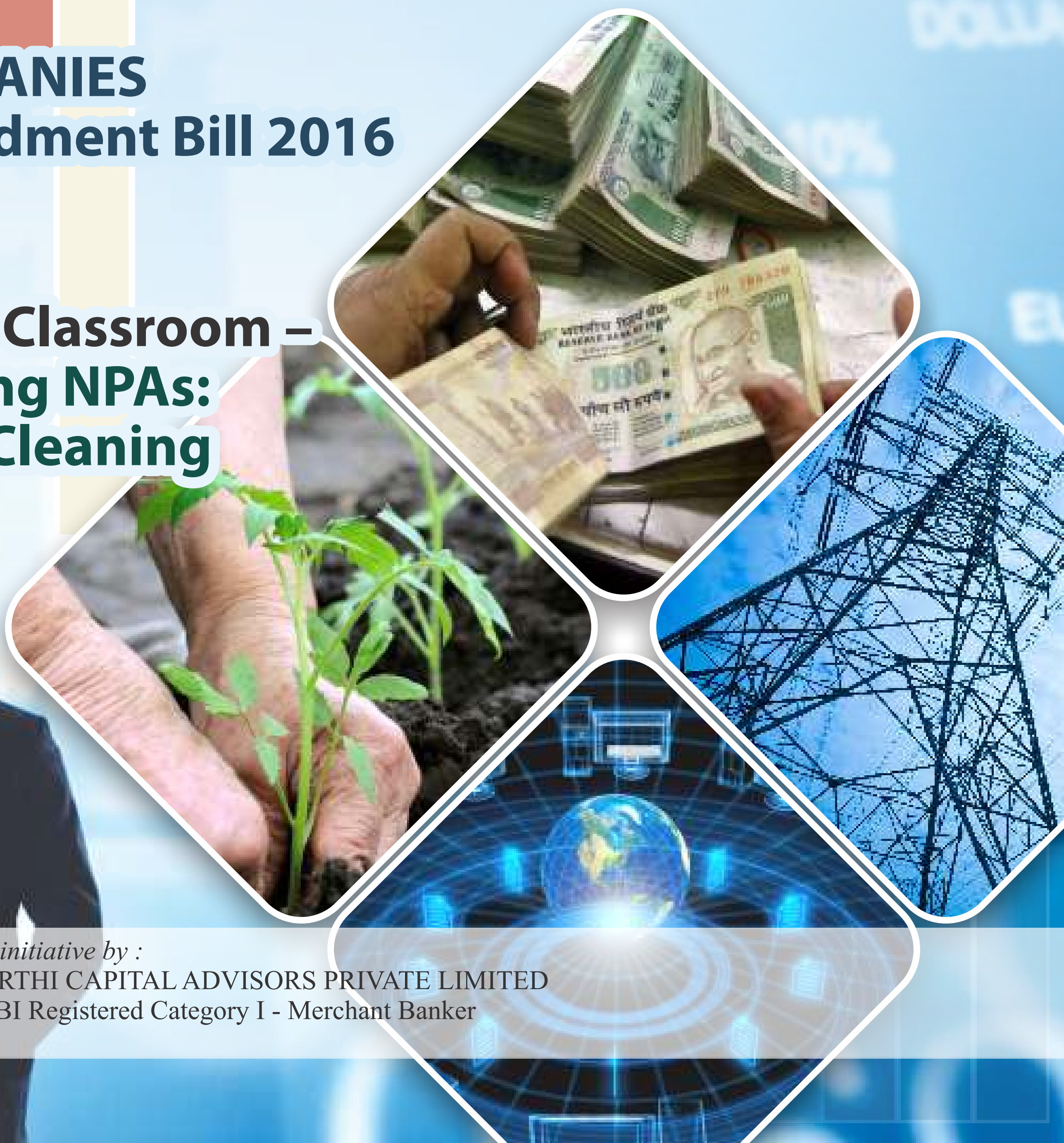
SME Capital Market Watch

2016-17 Budget

The Growth Driver

COMPANIES Amendment Bill 2016

In The Classroom – Banking NPAs: Deep Cleaning



An initiative by :

SARTHI CAPITAL ADVISORS PRIVATE LIMITED

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SARTHI

PREFACE

After long time we have seen a very well thought Budget. The Budget is pragmatic and growth-oriented. The Union Budget 2016 continues to rightly focus on rural and infrastructure sector. The current budget lays tremendous focus on rural development and resource mobilization for the rural economy while endorsing technology as a key platform for ensuring accountability and ease of operations.

The planned investment in these two critical sectors will not only create jobs but also give impetus to demand generation and economic growth. Keeping the fiscal deficit at 3.5% and yet meeting the growth & social objectives, is a difficult task which the Finance Minister has attempted to solve. Amongst positives, focus on infrastructure development, fixing distressed asset concerns of financial sector, employment generation through indigenization stand out. Bankruptcy code and a framework for commercial dispute settlement under PPP framework are the two most significant regulatory reforms rolled out. Measures such as no change in service tax, reduced corporate tax for new companies and ease of doing business for new age start ups are definitely encouraging are sure to spur consumption led growth in the country.

Budget 2016 had a series of policy initiatives and schemes that aimed at easing the hurdles that startups face and ensuring MSMEs in the country get a boost. The Budget looks to provide some very important steps around the ease of doing business, taxation, and access to capital for MSMEs and skilling. However, certain issues remain and it may fall short of being the ideal budget that it could have been.

In this issue of S-Cap, we have tried to brief the major take-away from the budget, the Start-Up policy, synchronisation of companies act with LODR besides other regular columns.

Taking the government's ambitious 'Startup India, Standup India' programme a step ahead, Finance minister proposed a slew of initiatives to help entrepreneurs realise their dreams. The FM has proposed 100 per cent deduction of income tax on profits for the first three years of a startup's life. This exemption would apply for firms incorporated between April 2016 and March 2019. However, minimum alternate tax will continue to be levied on such firms.

Happy Reading!

Regards,

Deepak Sharma
Group Managing Director

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BRIDGING THE GAP BETWEEN ENTREPRENEURS AND ANGELS

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& many more...


Start up
INDIA
SYNCHRONISATION
of Companies Act with
Listing Obligation and
Disclosure Requirements
BUDGET 2016-17
Analysis
Banking
NPA's
Deep Cleaning
Market
Developments
Other
Developments

Contents

The Startup Policy

On 16thJanuary, one of its kind (probably in the world) Startup event was conducted by Government of India. Prime Minister himself graced the occasion and unveiled the Startup Action Plan 2016. The action plan contains several positive initiatives for Indian startups that look at easing up various regulatory, legal, financial and other challenges faced by them.The much anticipated, and needed, 'Start-up India' initiative was launched last weekend in a move to help start-ups and catalyse entrepreneurship. Start-ups and entrepreneurship are critical to India's efforts to restart private investment into the economy, in the face of risk aversion, stalled or slow investments from corporate India.

Start-ups in India have faced two significant obstacles. One is government apathy, corruption and a complex approvals process. The other is the power of entrenched corporates, to oppose or kill start-ups which challenge them. So while the Action Plan unveiled by Mr. Modi is a catalyst, also needed are structural reforms that permit free and fair competition and other issues that determine the viability and existence of start-ups. Net neutrality, for instance, is a policy requirement that will determine the future for tech start-ups.

The Start-up India Action Plan lists out a comprehensive set of structural and regulatory reforms in order to achieve this. Income tax exemption, easing compliance through reduction of regulations and having fixed qualifications as to what a 'start-up' is, were expectations at the top of the entrepreneurial bucket-list. But the Action Plan goes further. It goes on, for instance, to provide an 80 per cent waiver on patent filing fees by start-ups, provide advisory services and create a Rs.10,000 crore fund-of-funds which is to be managed by professionals drawn from the private sector. These are just a few of the 'sweetheart' deals for start-up entrepreneurs under the Action Plan.

Key Highlights of the Action Plan

- **A Rs. 10,000 crore fund for startups:**

  The government will set up a fund with an initial corpus of Rs. 2,500 crore and a total corpus of Rs. 10,000 crore over a period of four years, which will be managed by a board with private professionals drawn from industry bodies, academia, and successful startups. The fund will participate in the capital of SEBI registered venture funds, and invest in sectors such as manufacturing, agriculture, health, and education

- **A single point of registration for startups:**

The government will launch a mobile app and a portal on April 1, which will enable startups to register their company in a day. The portal will also serve as a single point of contact for clearances, approvals and registrations, and for companies to apply for schemes under the Startup India Action Plan.

- **Simplified regulatory regime based on self-certification:**

  To reduce the regulatory burden for startups, the government will allow startups to self-certify compliance on 9 labour and environment laws through the startup mobile app. No inspections will be conducted in case of the labour laws for a period of 3 years.

- **A fast-track mechanism filing patent applications:**

  Launched on a pilot basis for a year, the Central Government shall bear the cost of patents, trademarks and designs for a startup, with an 80 % rebate to encourage the creation and protection of its intellectual property.

- **Credit guarantee fund for startups:**

  A credit guarantee mechanism will help startups raise debt funding through the formal banking system through National Credit Guarantee Trust Company (NCGTC)/ SIDBI, which has an annual corpus of Rs. 500 crore for the next four years.

- **Tax exemption for three years, and capital gains:**

  Aimed at facilitating growth and help retain capital,

startups will be exempted from income-tax for a period of three years. However, the exemption shall be available subject to non-distribution of dividend by the startup. To augment the funds available to various VCs and alternative investment funds, capital gains invested in SEBI registered venture funds will be exempt from tax as well.

- **A Startup India Hub for collaboration:**

  The Startup India Hub will serve as a single point of contact for startup ecosystem players, and will function in a hub and spoke model with central and state governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions. The hub will assist startups in obtaining financing, and organise mentorship programs to encourage knowledge exchange.

- **Relaxed norms of public-procurement:**

  The Central Government, State Government and PSUs will exempt startups in the manufacturing sector from the criteria of "prior experience/ turnover" as long as they have their own manufacturing facility in India, and have the requisite capabilities and are able to fulfill the project requirements.

- **Faster exits for startups:**

  Startups may be wound up within a period of 90 days from making of an application for winding up on a fast track basis, as per the recently tabled Insolvency and Bankruptcy Bill 2015, which has provisions for voluntary closure of businesses. This process will respect the concept of limited liability.

- **Atal Innovation Mission to encourage entrepreneurship and innovation:**

  The Atal Innovation Mission will establish sector specific incubators and 500 'Tinkering Labs' to promote entrepreneurship, provide pre-incubation training and a seed fund for high-growth startups. Three innovation awards will be given per state and union territory, along with three national awards, as well as a Grand Innovation Challenge Award for finding ultra-low cost solutions for India.

- **Innovation Focused Programs For Students:**

  An innovation core program targeted at school kids aims to source 10 lakh innovations from five lakh schools, out of which the best 100 would be shortlisted and showcased at an Annual Festival of Innovations, to be held in Rashtrapati Bhavan. A Grand Challenge program called NIDHI (National Initiative for Developing and Harnessing Innovations) shall be instituted through Innovation and Entrepreneurship Development Centres (IEDCs) to support and award INR 10 lakhs to 20 student innovations. Uchhattar Avishkar Yojana, a joint MHRD-DST scheme has earmarked Rs. 250 crore annually to foster "very high quality" research amongst IIT students.

- **An Annual Incubator Grand Challenge:**

  The government will identify and select ten incubators, evaluated on pre-defined Key Performance Indicators (KPIs) as having the the potential to become world class, and give them Rs.10 crore each as financial assistance to ramp up their infrastructure.

Relaxations and Initiatives Taken by Reserve Bank of India

The following regulatory changes for easing the cross-border transactions, particularly relating to the operations of the start-up enterprises are proposed to be made, in consultation with the Government of India.

- Enabling start-up enterprises, irrespective of the sector in which they are engaged, to receive foreign venture capital investment and also explicitly enabling transfer of shares from Foreign Venture Capital Investors to other residents or non-residents;
- Permitting, in case of transfer of ownership of a start-up enterprises, receipt of the consideration amount on a deferred basis as also enabling escrow arrangement or indemnity arrangement up to a period of 18 months;
- Enabling online submission of A2 forms for outward remittances on the basis of the form alone or with document(s) upload/submission, depending on the nature of remittance;
- Simplifying the process for dealing with delayed reporting of Foreign Direct Investment (FDI) related transaction by building a penalty structure into the regulations itself.

The notifications/circulars under Foreign Exchange Management Act (FEMA), wherever necessary, will be issued shortly.

- Permitting start-up enterprises to access rupee loans under External Commercial Borrowing (ECB) framework with relaxations in respect of eligible lenders, etc.;
- Issuance of innovative FDI instruments like convertible notes by start-up enterprises; and
- Streamlining of overseas investment operations for the start-up enterprises.
- Issue of shares without cash payment through sweat equity or against any legitimate payment owed by the company remittance of which does not require any permission under FEMA;
- Collection of payments by start-up enterprises on behalf of their subsidiaries abroad.

– Rajesh Kumar

SYNCHRONISATION *of* Companies Act *with* Listing Obligation *and* Disclosure Requirements

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

-Sir Adrian Cadbury, UK, Commission Report: Corporate Governance 1992.

Corporate Governance as a concept aims to balance the interests of the various parties involved. It may be referred to as the rules or the system through which the Company is directed or controlled. By balancing the interests of all the stakeholders- management, shareholders, consumers etc, it formulates ways to attain company's objectives. The concept of Corporate Governance became a central issue after the Sarbanes-Oxley Act was introduced in the United States. This Act was passed to restore the faith of general public in the Companies.

Corporate governance is of paramount importance to a

company and is almost as important as its primary business plan. When executed effectively, it can prevent corporate scandals, fraud and the civil and criminal liability of the company. It also enhances a company's image in the public eye as a self-policing company that is responsible and worthy of shareholder and debtholder capital. It dictates the shared philosophy, practices and culture of an organization and its employees. A corporation without a system of corporate governance is often regarded as a body without a soul or conscience. Corporate governance keeps a company honest and out of trouble. If this shared philosophy breaks down, then corners will be cut, products will be defective and management will grow complacent and corrupt. The end result is a fall that will occur when gravity – in the form of audited financial reports, criminal investigations and federal probes – finally catches up, bankrupting the company overnight. Dishonest and unethical dealings can cause shareholders to flee out of fear, distrust and disgust.

The Listing Regulations elaborates on the issue of Corporate Governance and prescribes the norms under which the Companies are mandated to operate. Securities and Exchange Board of India (SEBI) on September 2, 2015 issued the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') with the aim to consolidate and streamline the provisions of listing agreements for different segments of capital markets such as equity shares including convertibles, non convertible debt securities, etc. and disclosure norms in relation thereto, thereby ensuring better enforceability. Listing Regulations came into force with effect from December 1, 2015. But the Regulations relating to (i) passing of ordinary resolution instead of special resolution in case of all material related party transactions subject to related parties abstaining from voting on such resolutions, in line with the provisions of the companies Act, 2013, and (ii) reclassification of promoters as public shareholders under various circumstances, were made effective from September 02, 2015 itself.

APPLICABILITY:

The Listing Regulations are applicable to a listed entity who has listed any of the following designated securities on recognized stock exchange(s):

a. Specified securities i.e. equity shares and convertible securities listed on main Board, or SME Exchange or institutional Trading Platform;

b. Non-convertible Debt Securities, Non-convertible Redeemable Preference Shares, Perpetual Debt Instrument, Perpetual Non-cumulative Preference Shares;

   c. Indian depository receipts;

   d. Securitised Debt Instruments;

   e. Units issued by mutual funds;

   f. Other securities as may be specified by SEBI

All listed entities shall be required to execute a "Uniform Listing Agreement" with recognized Stock Exchanges within six months from the date of notification the Listing Regulations i.e. September 02, 2015. The format of the said Listing Agreement has already been issued by SEBI.

Brief Highlights under Various Chapters of Listing Regulations

General Obligations of Listing – Chapter II of Listing Regulations

1. The listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations in accordance with the Principles enunciated in the Listing Regulations.

2. The principles of Listed Entities whose specified securities are listed on recognized stock exchange(s) are similar to those provided under Clause 49 of the Equity Listing Agreement which broadly categorized under following headings:

   - The rights of shareholders
   - Timely information
   - Equitable treatment
   - Role of stakeholders in corporate governance
   - Disclosure and transparency
   - Responsibilities of Board of Directors

Common Obligations of Listed Entities - Chapter III of Listing Regulations

It is pertinent to note the compliances under this Chapter have to be adhered to by listed entities who have listed any or all of the designated securities i.e. specified securities i.e. equity shares and/or convertible securities, non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares, Indian depository receipts, securitised debt instruments, units issued by mutual funds and any other securities as may be specified by the SEBI.

1. The listed entity shall ensure that KMP, directors, promoters or any other person dealing with the listed entity, complies with responsibilities or obligations, if any, assigned to them under these regulations. Therefore, adequate information/training on Securities Law, etc. shall be provided to the said persons on time to time basis.

2. Company Secretary of the Company who shall be "Compliance Officer" shall ensure compliances under these regulations. Any qualified Company Secretary of the Listed Entity can be appointed as Compliance Officer for adhering compliance under these Regulations which shall be ideally approved by Resolution to be passed by Board of Directors at its duly convened Meeting/or through Circular Resolution.

3. "Compliance Certificate" to be provided to Stock Exchanges by Compliance Officer and Share Transfer Agent duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent, wherever applicable, within one month of end of each half of the financial year, certifying compliance with the requirements of Regulation 7(2) with respect to all the activities relating to Share Transfer in relation to both physical and electronic share transfer facility are maintained by RTA

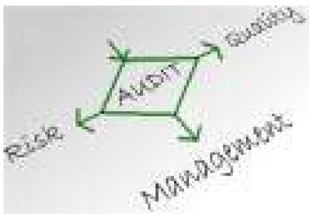
4. The listed entity to have a Policy For Preservation Of Documents duly approved by Board, classifying them in at least two categories such as the documents to be preserved permanently and the documents for preservation for less than 8 years. Documents may also be kept electronically.

5. The listed entity shall file the reports, statements, documents, filings and any other information with the recognised stock exchange(s) on the electronic platform and proper infrastructure shall be put in place by listed entity. This means that electronic filing will be compulsory from December 01, 2015 and accordingly the

listed entities shall ensure that appropriate infrastructure and electronic systems are in place in the listed entities to ensure the electronic filing.

6. Dividend/ Interest / Redemption or Repayment shall be paid in electronic mode and if not possible than by warrant 'payable at par' or cheque and if amount exceeds Rs. 1500 per warrant or cheque it has to be delivered through Speed Post only and Courier or ordinary post shall not be allowed.
7. The listed entity shall file with the recognised stock exchange(s) on a quarterly basis, within twenty one days from the end of each quarter, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter. The said statement shall be placed before the Board on Quarterly basis.

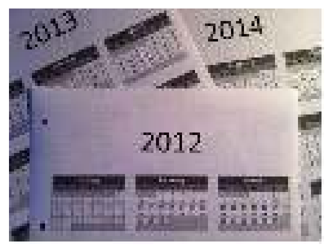
Chapter IV of Listing Regulations – Obligations of Listed Entity Which Has Listed Its Specified Securities i.e. Equity Shares and Convertible Securities



The listed entities whose equity shares and convertible securities are listed on recognized Stock Exchanges shall comply under this Chapter:

1. The role of audit committee to review with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to the qualifications in the audit report has now been amended to include review with respect to modified opinion in the draft audit report. Therefore, the umbrella of reviewing the qualifications/adverse remarks in the audit report has been expanded under the Listing Regulations 2015. Concept of "Modified Opinion" is newly coined phenomena in Regulations which was earlier referred to as "Qualification in Audit Report" in Listing Agreement.
2. All existing material related party contracts or arrangements entered into prior to the date of notification of these regulations i.e. September 2, 2015 and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to notification of these regulations.
3. All related parties irrespective of the fact whether the party is related to a particular transaction or not, will be abstained from voting on any material related party transaction. This means that even if a certain related party is not interested in the transaction even then by virtue of the Listing Regulations, the dis-interested related party also would be abstained from voting.
4. Modification or reclassification of the status of the shareholders shall be allowed only on application made by Company to stock exchanges and all relevant evidence and on being satisfied with the compliance of conditions mentioned in this regulation.
5. When a new promoter replaces the previous promoter subsequent to an open offer or in any other manner, re-classification may be permitted subject to approval of shareholders in the general meeting and compliance of the conditions mentioned in Regulations. The compliance requirements are provided in brief below:
   - Shareholders' approval is required.
   - Outgoing promoters cannot hold more than 10% shares/ Vrs &
   - Outgoing promoters cannot act as KMP for more than 3 years without shareholder approval.
   - They shall not exercise control over the listed entity & all Special rights shall be terminated.
   - In case of professionally managed companies-No group can hold more than 1%.
6. The Financial Results shall be approved by the Board of Directors which was not specifically provided under Listing Agreement earlier.

7. The listed entity shall on the direction issued by the Board, carry out necessary steps, for rectification of modified opinion and/or submission of revised pro-forma financial results, in the manner specified in Schedule VIII of the Listing Regulations.
8. There is no mention to submit the explanation of the reasons for variations between the unaudited quarterly or year to date financial results and the results amended pursuant to limited review for the same period.



9. The financial results shall be submitted to the stock exchange within thirty minutes of conclusion of the meeting of the Board in which they were approved. Previously, under the listing agreement the outcome was required to be provided within 15 minutes from the conclusion of the Board Meeting.
10. The timeline to give prior intimation regarding date of the Board meetings in which the financial results will be considered, has been reduced to five days prior to the meeting (excluding the date of the intimation and date of the meeting).
11. Listed entity shall inter- alia give prior intimation for fund raising by way of further public offer, rights issue, American Depository Receipts/Global Depository Receipts/Foreign Currency Convertible Bonds, qualified

institutions placement, debt issue, preferential issue or any other method and for determination of issue price.

Provided that intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance.

12. The redundant requirement of serving six copies of Annual Report has been done away with altogether but sending Annual Report is now required to be sent to Stock Exchanges within 21 days of the same getting approved by the shareholders in the Annual General Meeting which earlier was required to be sent as soon as they were sent to shareholders.

13. Disclosure pertaining to Loans and advances in the nature of loans where there is: (I) no repayment schedule or repayment beyond seven years or (II) no interest or interest below section 372A of Companies Act, 1956 by name and amount was required to be provided in Consolidated Financial Statements in Annual Report, the same has been done away with in the Listing Regulations.

14. The listed entity shall submit to the stock exchange(s) an "Annual Information Memorandum" in the manner specified by the Board from time to time. The said requirement is not there in Equity Listing Agreement currently. The format of the said Annual Information Memorandum is yet to be prescribed by SEBI.

15. Disclosure of commodity price risk or foreign exchange risk and commodity hedging activities is required to be provided in Annual Report. There was no such requirement under the Equity Listing Agreement.

16. Every listed entity shall make disclosures of any events or information which, in the opinion of the board of directors of the listed company, is material.

    a. Certain events are deemed to be material as per the list provided in the Regulations under Schedule III i.e. no test of materiality to be applied for such events.

    b. Certain events have to be decided as material based on criteria provided in the Regulations.

17. The listed entity shall frame a Board approved policy for determination of materiality, based on criteria specified in the regulation 30 of the Listing Regulations and disclose on its website.

18. The Board needs to authorize one or more KMP(s) for determining the materiality of a certain event and the contact details of such personnel shall be also disclosed to the stock exchange(s) and as well as on the listed entity's website.

19. The listed entity shall make disclosures updating material developments on a regular basis, till such time the event is resolved/closed, with relevant explanations.

20. The listed entity shall disclose all material events or information with respect to subsidiaries for the listed entity.

21. Change in name of the listed entity shall be done only after receiving confirmation from Stock Exchange upon filing application of the same.

22. The Company whose specified securities are listed i.e. equity and / or convertible securities shall maintain functional website and inter – alia following information shall be disclosed which are additional requirements apart from one already required under exiting Listing Agreement:

    - Details of its business;
    - Composition of various committees of board of directors;
    - Criteria of making payments to non-executive directors, if the same has not been disclosed in annual report;
    - Details of familiarization programmes imparted to independent directors including the following details:-

        i) Number of programmes attended by independent directors (during the year and on a cumulative basis till date),

        ii) Number of hours spent by independent directors in such programmes (during the year and on cumulative basis till date), and

        iii) Other relevant details

    - Details of agreements entered into with the media companies and/or their associates, etc;
    - Schedule of analyst or institutional investor meet and presentations made by the listed entity to analysts or institutional investors simultaneously with submission to stock exchange.

CONCLUSION

SEBI had made a sincere effort in consolidating the different Listing Agreement pertaining to various securities under Capital Markets and bringing them under one set of Regulations and had tried to address the issues of complying with the conflicting provisions of the Companies Act, 2013 and Listing Agreement.

– Nikhil Arya

Prime Minister, Shri Narendra Modi had announced the 'Startup India, Standup India' initiative in his Independence Day address last year.

The Prime Minister, also announced an action plan to boost such ventures which are seen as key to employment generation and wealth creation.

Based on a 2015 NASSCOM report, India ranks third globally with more than 4,200 start-ups. Start-ups in India are expected to go beyond 10,000 by 2020.The start up India program will boost the Indian economy,thereby providing certain tax benefits to Startups for three years which would boost the growth of Start ups in India and also boost young entrepreneurs who are looking to explore their business.

In order to build a more conducive business environment, and for ease of doing business, the Government of India recently launched the "Startup India" campaign. The government vide its notification dated February 17,2016 had announced the start up India initiative for creating a conductive environment to boost start ups.

They have first time defined what a Start up is?

An entity shall be a start up if

a) Up to five years from date of its incorporation/ registration

b) If its turnover in any of its financial year does not exceed Rupees 25 crore and

c) It is working towards innovation, development ,deployment or commercialization of new products ,process or services driven by technology or intellectual property

Provided that such entity formed by splitting up or reconstruction of business already in existence shall not be considered as 'Start up'

There are Certain Key Points for Start Up India

Simplifying the start up process

A start-up will be able to set up by just filling up a short form through a mobile app and online portal. A mobile app will be launched on April 1 through which startups can be registered in a day. There will also be a portal for clearances, approvals and registrations.

Tax Exemption

Currently, investments by venture capital funds in start-ups are exempt from this law. Now, the same is being extended to investments made by incubators in start-ups,there will be no income tax on startupsfor three years i.e No tax would be charged on any startup up to three years from the day of its establishment once it has been approved by Incubator

Patent Protection

The government is also working on a legal support for fast-tracking patent examination at lower costs. It will promote awareness and adoption of Intellectual Property Rights (IPRs) by startups and help them protect and commercialise Intellectual Property Rights (IPRs).

Prime Minister announced 80% concession on fee for filing of patient application for the Start Up and also fast tracking of the patent examination at the lower cost.

Winding-up

The Insolvency and bankruptcy bill, 2015 also provides for a faster exit to start-upsthat assures that the entire winding up will be done in 90 days.

Self-certification compliance

The objective of compliance regime based on self certification is to reduce the regulatory burden on start-ups. This self-certification will apply to laws like payment of gratuity, contract labour, employee's provident fund, water and air pollution acts.

As there is a tax exemption been given for start-ups any entity which is being so recognized as start-up need to obtain a certificate from Inter-Ministerial Board of Certification

a) Joint Secretary, Department of Industrial policy and promotion

b) Representative of Department of Science

c) Representative of Department of Biotechnology

The central government would create a fund of funds that would invest in private venture capital funds. Part of a bunch of measures that constitute the action plan for the government's Start-up India initiative, the fund of funds' proposed Rs.10,000 crore (about $1.5 billion) corpus will be deployed in tranches of Rs.2,500 crore over a period of four years.(Source Live mint)

The Start-up India Action Plan lists out a comprehensive set of structural and regulatory reforms in order to achieve this. Income tax exemption, easing compliance through reduction of regulations and having fixed qualifications as to what a

'start-up' is, were expectations at the top of the entrepreneurial bucket-list. Promoting start-ups by improving ease of doing business is clearly at the forefront of the Action Plan. A significant benefit a start-up accrues under this policy is the waiver from labour inspections for 3 years. Now, anyone who has run a business and navigated the maze of bureaucracy understands the quagmire that labour laws can be, especially for a start-up. Along with the ease in environmental checks, these changes to labour inspections are a step in the right direction — particularly for those start-ups which are based in the manufacturing sector. But the Action Plan exempts starts-up from inspection under a fixed number of labour laws — six to be specific. There are about 45 laws at the central level and about four times this number at the state level. The Centre needs to work with the States to

ensure a smooth rollout of the benefits under the Action Plan and avoid discord between policies at the two levels.

Start up India program launched by Prime Minister Prime Minister has opened doors for entrepreneurs to start their business in an easy and convenient way. India start up aims to construct entrepreneurial competencies and environment to promote entrepreneurs, this encouragement from the government will give the fuel to atheistic adventures which young people have dreamed ever to take their business sky high.

– Prashant Makhija

Fiscal Prudence

- The Fiscal Deficit target for FY17E and FY18E are eastimated at 3.5% and 3.0% respectively while revised estimates for FY16RE is 3.9%.
- Plan/Non-plan classification to be done away with from FY17-18 and shall be replaced by Capital and Revenue expenditure.
- Total expenditure in budget—Rs.19.78 trillion.
- Non plan expenditure kept at 14.28 trillion an increase of 9.16%.
- Revenue deficit target at 2.5% of GDP.
- Net borrowing program reduced to Rs 4.2 trillion.

Sector Wise Analysis

1. Agri Input:

- Steps taken to implement Direct Benefit Transfer infertiliser after success in LPG. Marginal decline infertiliser subsidy of around 3% to Rs70,000 crore.

- Emphasise on irrigation through irrigation fund, implementation of 89 irrigation projects under AIBP to fast track and Pradhan Mantri Krishi Sinchai Yojana (28.5lakh hectare will be brought under irrigation).
- In case of the production of fertiliser, deduction shallbe restricted to 100% of capital expenditure (currently150% is allowed) w.e.f. April 01, 2017 (ie from next fiscalyear 2017-18 onwards).

Analysis

Budget was quite positive for agricultural and rural economy, whereas DBT scheme for fertiliser subsidy is positive for the beneficial user, this will give relief to the farmers to get benefit directly and avoiding the intermediaries.

2. Automobile:

- Levied tax at source at 1% on luxury cars priced aboveRs10 lakh: This move shall increase the cost of buyinga car and hence will be a deterrent to the demand for luxury cars.

- Infrastructure cess of 1% on small cars (petrol, LPG and CNG); 2.5% on diesel cars (up to 1,500 cc enginecapacity) and 4% on SUVs, bigger sedans and higherengine capacity vehicles: This will increase the cost ofvehicles and can have a adverse impact on the demandfor diesel cars, bigger sedans and SUVs.

- NIL basic customs duty and 6% excise duty/CVD being extended to parts of electric vehicles and hybridvehicles. The earlier deadline of March 31, 2016 shall bedone away. The extension of these benefits is a positive development; however major gains are unlikely to comein given the lower share of electric vehicles.

Analysis

Increase is cess and a 1% tax on bigger cars is negative for car OEMs as the increase will be passed on to customers whichcould negatively impact demand, particularly car OEMs having a large presence in big cars and diesel will be worst-hit. Overall, this budget is negative for the sector because of additional cess and taxes levied on cars.

3. Banking and Financial Services:

- Capital infusion of Rs25,000 crore in PSU banks (short ofexpectations of Rs 35,000 crore), commitment for further infusion basedon need.
- Adhrerence to fiscal targets and lower government borrowings (Rs4.25 trillion) to ease bond yields and willenable monetary easing by the RBI.

- NBFCs to be eligible for deduction to the extent of 5% of its income in respect of provision for bad and doubtfuldebts.
- Amendment to SARFAESI Act, 2002 to enable sponsors of asset reconstruction companies or ARCs to hold up to 100%stake in ARCs as against the current limit of 50% and allow non-institutional investors to invest in securitisation receipts.
- FDI in insurance and pension increased to 49% via automaticroute.

Analysis

Budget proposals are overall neutral for the sector. While lower recapitalisation is negative for public sector banks, higher capabilities of ARCs will benefit them, whereas lower bond yields will benefit all banks. NBFCs to benefit from deduction of provision for bad and doubtful debts, whereas micro finance institutions will benefit from higher allocation by MUDRA Bank. Allowing 49% FDI under the automatic route will ease investments in insurance sector.

4. Capital Goods & Power:

- Infra spending-Huge capital expenditure announced in transport infrastructure (roads and railways) to the tune of Rs2,18,000 crore in 2016-17, which will createopportunities for capital goods companies. Key plansannounced-MRTS and Metro Project:Rs10,000 croreand Delhi Mumbai Industrial Corridor: Rs1,400 crore. Allocation of Rs7,296 crore for Urban Rejuvenation Mission (AMRUT and Mission for Development of 100Smart Cities and Rs1,448 crore for National Industrial Corridors.
- Electrification-With commitment to achieve 100%village electrification by May 2018, the government has provided Rs8,500 crore for Deendayal UpadhayayaGram Jyoti Yojna and has allocated Rs5,500 crore for Integrated Power Development Schemes.
- Water and Pumps-Higher allocation for dinking water and sanitation by 27% to Rs14,010 crore and retainedallocation of around Rs6,000 crore for water resources, river development and Ganga rejuvenation.
- Further, excise duty on electric motor and various other equipments required for the manufacture of centrifugal pump (largely used in agriculture) is beingreduced from 12.5% to 6%.
- Allocation to Ministry of New and Renewable Energy isincreased from Rs262 crore to Rs5,036 crore.
- Basic Customs Duty on Active Energy Controller (AEC) for use in the manufacture of Renewable Power System (RPS) Inverters reduced to 5%, subject to certification by MNRE.

Analysis

The Indian capital goods sector has been going through continuous slowdown in order-inflows amid declining margins, delay in project execution and declining return ratios resulting in PE de-rating of the sector in last 2-3 years. On domestic front, glut in BTG industry would witness sustained pricing pressure. Sector would see some recovery from FY16E onwards with the beginning of capex of 13th Five Year Plan. While order flows to power generation continue to suffer, T&D remains an exception.

5. Cement & Cement Products:

- The total outlay for infrastructure is slated to beRs2,21,246 crore during 2016-17.
- Clean energy cess increased from Rs100/tonne to Rs200/tonne on coal.

Analysis

While demand boosting measures, given the fiscal constraints, are good, we have observed in the past that these measures deliver the results with a lag. Housing-related incentives are impractical and could mean another year of underachievement for the 'Housing for All' scheme. No near-term trigger for boosting private participation and addressing the current liquidity problem faced by construction companies is negative. Overal, we believe the budget is neutral for the sector.

6. Fast Moving Consumer Goods:

- GST to be in place from April 1, 2016.
- Gradual reduction of Corporate Tax rate from 30% to 25% over the next 4 years, while simultaneously also reducing exemptions given.
- Increase in MNREGA allocation to the highest-ever level of Rs385bn.
- Excise duty hike of 10%-15% on tobacco products was below our expectation of a 16%-17% hike and general expectation of~15% increase. We reckon the actual increase was 11%.

- Krishi Kalyancess of 0.5% in service tax from 1 June 2016. Lack of further increase in service tax level is a near-term positive forquick service restaurant or QSR players. QSR players will also benefit partly from the reduction in basic customs duty on coldchains from 10% to 5%.
- Basic excise duty on rubber sheets and resin rubber sheets for soles and heels reduced from 12.5% to 6.0%. Also, there has beenan increase in abatement from retail sales price (RSP) for the purpose of excise duty assessment for footwear players from 25% to 30%.

Analysis

Long due GST will streamline tax regime in India and help to get rid of numerous indirect taxes including state VAT, Octroi, etc. Exsice duty cut is good for rubber and rubber products industry. Basic custom duty reduction on cold chains to 5% is good for QSR and food companies.

7. Information Technology:

- Set-up of SETU (Self-Employment and Talent Utilisation), a techno-financial incubation and facilitation program to support all aspects of start-up businesses, particularly in technology-driven areas with allocation of Rs1,000 crore.

Analysis

While the quantum is not materially significant, it will be an enabler for start-ups seeking incubation funding. The funding avenue will support product innovation in domestic start-ups and make it more relevant to Indian IT's growth.

8. Infrastructure:

- The total investment in the road sector of Rs97,000 crore(PMGSY along with state support–Rs27,000 crore, budget for roads–Rs55,000 crore and NHAI bonds–Rs15,000crore) during 2016-17. To approve nearly 10,000km of national highways in 2016-17.

- Infra spending-Huge capital expenditure announcedin transport infrastructure (roads and railways) to thetune of Rs2,18,000 crore in 2016-17, which will create opportunities for capital goods companies. Key plansannounced-MRTS and Metro Project:Rs10,000 croreand Delhi Mumbai Industrial Corridor: Rs1,400 crore Allocation of Rs7,296 crore for Urban Rejuvenation Mission (AMRUT and Mission for Development of 100Smart Cities and Rs 1,448 crore for National Industrial Corridors.
- Mobilisation of additional finances to the extent ofRs31,300 crore by NHAI, PFC, REC, IREDA, NABARD andInland Water Authority through raising of bonds during2016-17.
- The budget has exempted long term capital gain tax on disposal of Infrastructure Investments Trusts (InvIT) units by sponsor in an event of stake sale/IPO, though Securities transaction tax will still be applicable. Short term capital gain shall continue to be taxed at 15%.
- Setting up of National Investment & Infrastructure fund (NIIF) and find monies to ensure annual inflow of Rs200bn as equity. This trust can then invest as equity in infrastructure finance companies such as IRFC and NHB. These companies will further leverage this equity manifold to fund projects.

Analysis

Positive for the already depleting order book of construction companies and impact will be higher once this amount gets leveraged. Alternative means of financing – currently most of the infrastructure developers are going through deep balance sheet stress (attributable to variety of reasons viz. pending claims, non-core diversification etc), setting up of National Investment Infrastructure Fund, Issuances of tax free bonds, etc. are steps in the right direction to mobilize funding for big infrastructure projects. Sharing of risks – until now the risk of the projects has been in entirety borne by developers, the revitalizing of PPP projects with Sovereign bearing the major part of risk will help attract foreign capital and partnership.

9. Metals & Mining:

- Increase in Tariff rate on Iron & Steel from 10% to 15%.
- Increase in Import duty on Metallurgical coke from 2.5% to 5%.
- Increase in excise duty from 12% plus education cess and

higher education cess to 12.5% all inclusive.

- Increase in clean energy cess on coal from Rs100/tonne to Rs200/tonne.

Analysis

While domestic steel off-take in the near-term is expected to remain weak, with the government's thrust on infrastructure, we expect domestic steel growth to be ~6% for FY16E. However, realizations are under pressure due to cheap imports and hence Net Sales Realization (NSR) is expected to dip over the next two quarters, resulting in steel spreads coming under pressure. On the non-ferrous front, while LME prices have been weak on a YTD basis, the deficits in Aluminium and Zinc to translate into higher prices going forward thus boosting profitability for domestic non-ferrous companies.

10. Oil & Gas:

- The cess on domestically produced crude oil is revised from currently fixed structure (Rs4,500/PMT) to advelorem structure at 20% rate (higher than expected).
- Incentivise production from deep sea, ultra deep, high pressure and high temperature fields.
- No excise duty is imposed on crude oil imports.

Analysis

Revision of cess is negative for oil exploration companies while there is some relief for the petroleum products companies and oil importers.

11. Power

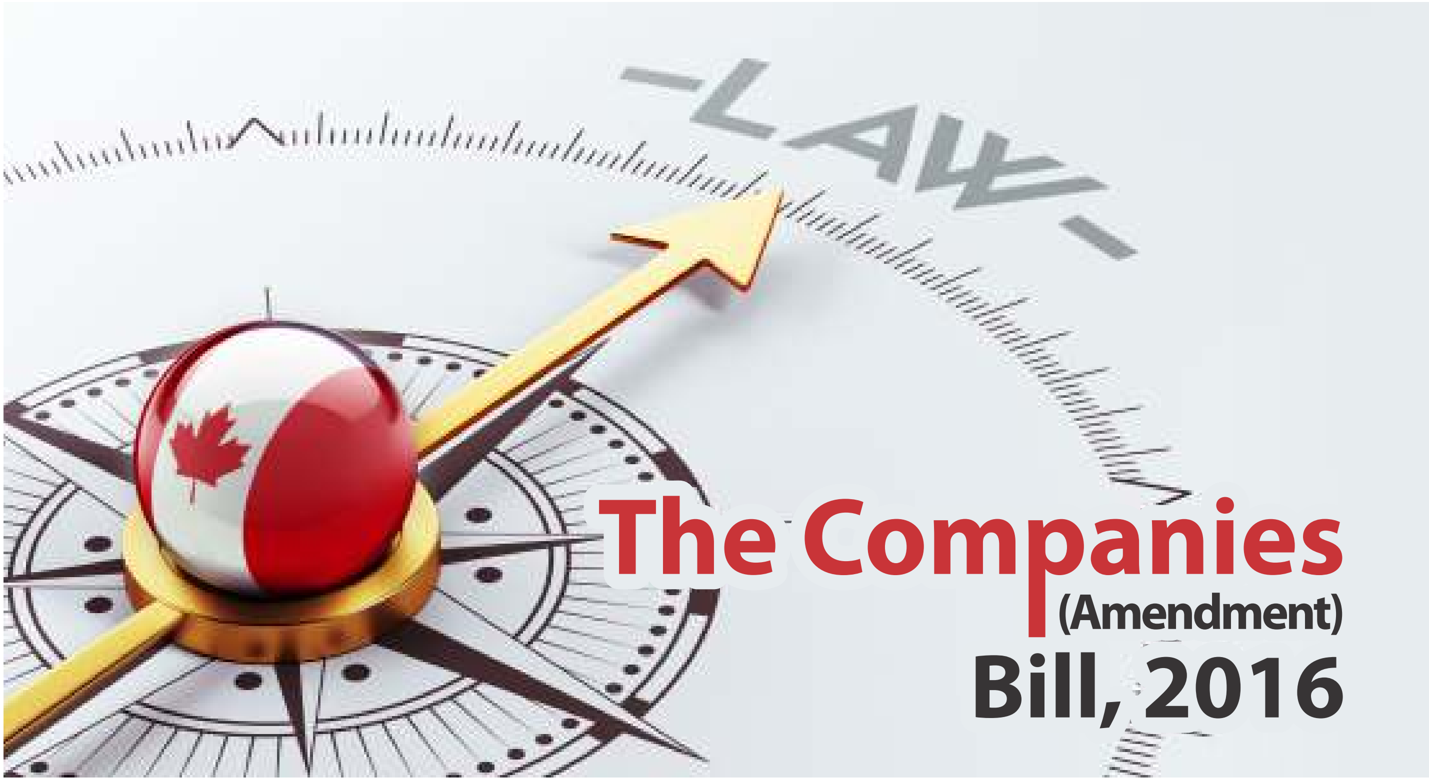
- Corporate tax reduction from 30% to 25%.
- The tariff rate of basic customs duty on bituminous coal is being reduced from 55% to 10%.
- Clean energy cess on Coal increased from Rs 100 per tonne to Rs 200.
- Additional depreciation of 20% of the cost of new plant or machinery acquired and installed is allowed under the existing provisions of section 32(1)(iia) of the Act over and above the general depreciation allowance.
- 5 New Ultra mega power projects of 4,000MW each with Coal linkage.
- Electrification-With commitment to achieve 100%village electrification by May 2018, the government has provided Rs 8,500 crore for Deendayal Upadhayaya Gram Jyoti Yojna and has allocated Rs 5,500 crore for Integrated Power Development Schemes.

Analysis

Clean energy cess will increase the power cost of thermal power plant. Neutral for Regulated player's since higher coal cost is pass-through while for others, impact is around 6 paise per unit. 100% electrification is positive move by the government that will benefit cable manufacturer and distribution companies.

12. Real Estate:

- The Union budget has exempted long term capital gains tax on disposal of REIT units by sponsor in an event of stake sale/IPO, though Securities transaction tax will still be applicable. Short term capital gain shall continue to be taxed at 15%.
- Pass through is provided in respect of income distribution by SPV to REIT, implies no taxation of such income in hands of REIT and no withholding tax at the level of SPV. However once the income is distributed by REIT, 10% TDS shall be effected on resident holder.
- Impetus on housing to construct 20mn houses in urban and 40mn houses in rural areas by 2022.
- **Analysis** Big positive for the success of REIT platform, as earlier the capital gains were deferred and deemed to be taxed at long term capital gains rate while being disposed. This brings the industry at level playing field with the IPO market. Pass through of Income distribution was the key demand of real estate players and will avoid double taxation and tax leakage.



The Companies (Amendment) Bill, 2016

To revamp the Companies Act, 2013, the Company Law Committee was constituted by the Ministry of Corporate Affairs on June 04, 2015 and it was chaired by Shri Tapan Ray. After a long consultative process undertaken by the Company Law Committee, a report dated February 01, 2016 was submitted to the Honourable Union Minister of Finance, Corporate Affairs and I&B.

An attempt to revamp the Companies Act, 2013 is out in form of The Companies (Amendment) Bill, 2016. The Bill aims to bring same radical changes in the Companies Act, 2013 in view to facilitate ease of doing business.

Highlights of key amendments proposed in the Bill are outlined below

S. No.	Section	Proposed Amendment	Existing Provisions
1.			
2.	Section 2(6) Definition of 'Associate Company'	For the purpose of this Clause: (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement; (b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement	For the purposes of this clause, "significant influence" means control of at least twenty per cent. of total share capital, or of business decisions under an agreement;
3.	Section 2(30)- Definition of 'Debenture'	Under the definition of the term "Debentures", it is proposed to exclude instruments referred to in Chapter III-D of the Reserve Bank of India Act, 1943 and such other instrument prescribed by the Central Government in consultation with RBI.	"Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not;
4.	Section 2(51)- Definition of 'Key Managerial Personnel'	(v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and (vi) such other officer as may be prescribed;	(v) such other officer as may be prescribed;
5.	Section 2(76)- Definition of 'Related Party'	(viii) any body corporate which is— (A) a holding, subsidiary or an associate company of such company; (B) a subsidiary of a holding company to which it is also a subsidiary; or (C) an investing company or the venturer of a company.	#(viii)any company which is – (A) a holding, subsidiary or an associate company of such company; or (B) a subsidiary of a holding company to which it is also a subsidiary; #Exemption to private company

6.	Section 2(85)- Definition of 'small company'	"Small company" means a company, other than a public company, (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees: Provided that nothing in this clause shall apply to- (A) a holding company or a subsidiary company; (B) a company registered under section 8; or (C) a company or body corporate governed by any special Act;	"Small company" means a company, other than a public company, (I) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; and (ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees: Provided that nothing in this clause shall apply to- (A) a holding company or a subsidiary company; (B) a company registered under section 8; or (C) a company or body corporate governed by any special Act;
7.	Section 2(87)- Definition of 'subsidiary company'	"Subsidiary Company" or "Subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company; (i) controls the composition of the Board of Directors; or (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies: Proviso to be Omitted Explanation– For the purposes of this clause– (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company; (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors; (c) the expression; company; includes any body corporate; (d) To be Omitted	"Subsidiary Company" or "Subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company; (i) controls the composition of the Board of Directors; or (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies: (Not notified) Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed. Explanation– For the purposes of this clause– (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company; (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors; (c) the expression; company; includes any body corporate; (d) "layer" in relation to a holding company means its subsidiary or subsidiaries;
8.	Section 3A- Members severally liable certain cases.	New Section 3A inserted after Section 3. If at any time the number of members of a company is reduced, in the case of a public company, below seven, in the case of a private company, below two, the numbers of members shall be increased within six months. If not, the members continuing to carry on the business after six months shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued.	-

9.	Section 4- Memorandum	It is proposed that the Memorandum of Association of the company may state that the company may engage in any lawful act or activity or business, or any act or activity or business to pursue any specific object or objects, as per the law for the time being in force. Provided that in case a company proposes to pursue any specific objector objects or restrict its objects, the Memorandum shall state the said object or objects for which the company is incorporated and any matter considered necessary in furtherance thereof and in such case the company shall not pursue any act or activity or business, other than specific objects stated in the Memorandum. It is proposed that name reserved by the RoC shall be valid for 20 days from date of the approval.	At present, the Memorandum of Association shall state specific objects of the Company in Main Objects. Name reserved by the RoC is valid for 60 days from the date of application
10.	Section 12- Registered office of company	It is proposed that the company shall have a registered office within 30 days of its incorporation.	The company shall have a registered office from 15th day of its incorporation.
11.	Section 21- Authentication of documents, proceedings and contracts	Apart from KMP and any Officer of the Company, it is proposed that an employee can also be authorized to authenticate documents on behalf of the Company.	Employees cannot be authorised.
12.	Section 26- Matters to be stated in Prospectus	It is proposed that information and reports in financial statement as specified by SEBI in consultation with the Central Government may prescribe, shall be provided.	Detailed disclosures are to be made in the Prospectus.
13.	Section 42- Private placement	Proposed changes related to private placement: Ø Return of allotment has to be filed within 15 days. Ø Money received under the private placement shall not be utilized unless the return of allotment is filed with the RoC. Ø Private Placement offer letter shall not contain any right of renunciation.	Current Provisions: Ø Return of allotment has to be filed within 30 days. Ø Money received under the private placement can be utilized before the return of allotment is filed with the RoC. Ø Private Placement offer letter shall not contain any right of renunciation.
14.	Section 54- Issue of Sweat Equity Shares	It is proposed to allow issue of Sweat equity shares at any time after registration of the Company.	Currently such shares can be issued only after the expiry of one year from the date of commencement of business.
15.	Section 62- Further issue of share capital	It is proposed that Right issue offer letter can also be sent through courier.	Currently it can be sent only through registered post or speed post or through electronic mode.
16.	Section 73- Prohibition on acceptance of deposits from public	In case of deposits, it is proposed that an amount not less than 20% of the amount of depositing, on or before the 30th day of April each year, such sum which shall not be less than twenty per cent. of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account. It is proposed to omit the requirement of deposit insurance. It is proposed that in case a company has made default in repayment of deposits and period of 5 years has elapsed since the date of making the default good, then such company can accept the deposits further.	Currently at least 15% of such amount is required to be deposited. Mandatory to enter into contract for deposit insurance
17.	Section 74- Repayment of Deposits, etc., accepted before commencement of this act	Where any amount of such deposit or part thereof or interest thereof remains unpaid on the commencement of the Companies Act 2013, it is proposed that such amount shall be repaid within 3 years from the date of commencement or before the expiry of the period for which the deposit was accepted, whichever is earlier.	Currently the amount has to be repaid within 1 year or before the expiry of the period for which the deposit was accepted, whichever is earlier.

18.	Section 89- Declaration in respect of beneficial interest in any share	For the purpose of declaration of beneficial interest , it is proposed that beneficial interest in a share includes, directly or indirectly, through any contract, arrangement or otherwise, the right or entitlement of a person alone or together with any other person to— Ø exercise or cause to be exercised any or all of the rights attached to such share; or Ø receive or participate in any dividend or other distribution in respect of such share.	-
19.	Section 90- Investigation of beneficial ownership of shares in certain cases	The provisions are proposed to be revamped.	Where it appears to the Central Government that there are reasons so to do, it may appoint one or more competent persons to investigate and report as to beneficial ownership with regard to any share or class of shares and the provisions of section 216 shall, as far as may be, apply to such investigation as if it were an investigation ordered under that section. #Exemption to Government companies
20.	Section 92- Annual Return	The requirement of MGT-9 is proposed to be omitted. The copy of annual return shall be uploaded on the website of the Company, if any, and its link shall be disclosed in the director's report.	It is mandatory to attach MGT-9 with the director's report.
21.	Section 96- Annual General Meeting	It is proposed AGM of unlisted company may be held at any place in India if consent is given is writing or by electronic mode by all the members in advance.	Currently AGM shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situate.
22.	Section 100- Calling of Extraordinary General Meeting	It is proposed that EGM of wholly owned subsidiary of a company incorporated outside India can be held outside India.	-
23.	Section 123- Declaration of dividend	It is proposed that the Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.	The Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared
24.	Section 129- Financial Statement	The requirement of consolidating the accounts of a joint venture is proposed to be omitted.	The company is required to attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiaries, associate company and joint venture.
25.	Section 134- Financial Statement, Board's report, etc.	It is proposed that CEO whether appointed as a Director or not, will sign the financial statement. In case of Directors reports. It is proposed that disclosures which have been provided in the financial statement shall not be required to be reproduced in the report again. Further instead of exact text of the policies, key feature of policies along with its web link shall be disclosed.	Currently CEO is required to sign, only if he is also acting as a director.
26.	Section 135- Corporate Social Responsibility	Eligibility criteria for the purpose of constituting the corporate social responsibility committee and incurring expenditure towards CSR is proposed to be calculated based on immediately preceding financial year. It is also proposed to empower the Central Government to prescribe sums which shall not be included for calculating 'net profit' of a company under section 135.	Currently this eligibility is decided based on preceding three financial years.
27.	Section 137- Copy of Financial Statement to be filed with Registrar	It is proposed to enable the filing of unaudited financial statements of foreign subsidiaries which is not required to get its accounts audited.	-

28.	Section 139- Appointment of Auditors	The requirement related to annual ratification of appointment of auditors by members is proposed to be omitted.	Currently ratification of appointment of auditors is required to be done by members at every annual general meeting.
29.	Section 149- Company to have Board of Directors	It is proposed that 182 days for determining whether a director is resident in India shall be computed with reference to the financial year. Further it is proposed that in case of new companies, the requirement of period of 182 days shall apply proportionately. In the definition of Independent Director, the words 'pecuniary interest' is proposed to be substituted by "pecuniary relationship, other than remuneration as such director or having transaction not exceeding ten per cent. of his total income or such amount as may be prescribed"	Currently it is calculated in reference to previous calendar year.
30.	Section 153- Application for allotment of Director Identification Number	It is proposed to empower the Central Government to recognize any other identification number to be treated as director identification number.	-
31.	Section 160- Right of persons other than retiring directors to stand for directorship	It is proposed that the requirement of deposit of rupees one lakh with respect to nomination of directors shall not be applicable in case of appointment of independent directors or directors nominated by nomination and remuneration committee.	Current rupees one lakh is to be deposited by the member to propose candidature of a director.
32.	Section 165- Number of Directorship	It is proposed that the directorship in a dormant company shall not be included in the limit of directorships of 20 companies.	-
33.	Section 167- Vacation of office of director	It is proposed that in case a director incurs any of disqualifications under section 164 (2), he shall vacate office in companies other than the company which is in default. It also seeks to amend section 167 with respect to appeal against conviction order.	Currently the office shall be vacated by the director even if he has filed an appeal against the order of such court.
34.	Section 177- Audit Committee	It is proposed that instead of listed company, listed public company shall constitute an audit committee. It is proposed that related party transactions other than those prescribed under section 188, if not approved by Audit committee, will require the approval of Board of Directors.	-
35.	Section 178- Nomination and remuneration Committee and Stakeholders Relationship Committee	It is proposed that instead of listed company, listed public company shall constitute a Nomination and Remuneration Committee. It is proposed that committee will specify methodology for effective evaluation of performance of Board and committees and individual directors either by the Board, nomination and remuneration committee or an independent external agency and for its review.	Currently the Nomination and Remuneration Committee is required to carry out evaluation of every director's performance.
36.	Section 185- Loan to directors, etc.	A completely new section 185 is proposed. Some of the key changes are : § Complete restriction on providing loan , guarantee or security in connection with loan to any director, director of the holding company or any partner or relative of any such director or any firm in which any such director or relative in a partner § Loan to parties covered under clause (c) to (e) of explanation to section 185(1) is allowed subject to special resolution of shareholders and certain other prescribed conditions Current exemption provided under section 185(1) continues to remain	-

37.	Section 186- Loan and investment by company	Ø It is proposed to omit the restrictions on layers of investment companies. Ø It also proposed to exclude employees from the ambit of this section Ø It is proposed that shareholders' approval will not be required where a loan or guarantee is given or where a security has been provided by a company to its wholly owned subsidiary company or a joint venture company, or acquisition is made by a holding company, by way of subscription, purchase or otherwise of, the securities of its wholly owned subsidiary company.	Ø Currently the companies can make investment through two layers of investment companies. Ø Shareholders' approval is required in all cases, if exceeding limits.
38.	Section 188- Related Party Transactions	It is proposed that the requirement related to restriction on voting by relatives in the general meeting shall not apply to a company in which ninety per cent or more members in numbers are relatives of promoters or related parties. It also seeks to provide that non-ratification of transaction shall be voidable at the option of the Board or shareholders, as the case may be.	Currently restriction on voting is applicable to all companies.
39.	Section 194- Prohibition on Forward dealings in securities of company by director or Key Managerial Personnel	It is proposed to omit this section	Currently directors and Key Managerial Personnel are prohibited on Forward dealing.
40.	Section 195- Prohibition on Insider trading of securities	It is proposed to omit this section	Currently director and Key Managerial Personnel are restricted to deal in securities of the Company.
41.	Section 197- Overall maximum managerial remuneration and managerial remuneration in case of absence or inadequacy of profits	It is proposed that the approval of the Central Government shall not be required at the time of the payment of remuneration exceeding 11% of the net profits of the company.	Currently approval of Central Government is required for payment of remuneration exceeding 11% of the net profits of the company.
42.	Section 366- Companies capable of being registered	It is proposed to allow conversions into companies from partnership firms, LLP, Society etc. with two or more members.	Currently seven or more members are required.
43.	Section 403- Fee for Filings, etc.	It is proposed that only document, fact or information required to be submitted, filed, registered or recorded, as the case may be, under section 89 (Declaration in respect of beneficial interest in any share), 92 (Annual Return), 117 (Resolutions and agreements to be filed), 121 (Report on Annual General Meeting), 137 (Copy of financial statement to be filed with registrar) or 157 (Company to inform director identification number to registrar) may be submitted, filed, registered or recorded, as the case may be, within a period of two hundred and seventy days from the expiry of the period so provided in those sections, on payment of such additional fee as may be prescribed. Further it is proposed that in case of documents referred in section 89, 92, 117, 121, 137 or 157 is not submitted, filed, registered or recorded, as the case may be, within the period of two hundred and seventy days from the expiry of the period so provided in those sections or in any other case within the period prescribed under the relevant section, then such information, document or fact can be filed on payment of such higher additional fees as may be prescribed.	Currently any document, fact or information may, without prejudice to any other legal action or liability under the Act, be also submitted, filed, registered or recorded, after the first time specified in first proviso of Section 403 sub-section (1) can be filed on payment of fee and additional fee specified under this section.

44.	Section 447- Punishment for Fraud	It is proposed instead of any fraud, only fraud involving an amount of at least ten lakh rupees or one percent. of the turnover of the company, whichever is lower shall be punishable with imprisonment for a term which shall not be less than 6 months but which may extend to ten years and shall also be liable to a fine which shall not less than the amount involved in the fraud but which may extend to three times the amount involved in the fraud. Further that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to twenty lakh rupees or with both.	-

Conclusion:

On March 16, 2016 Lok Sabha has passed the Companies (Amendment) Bill, 2016 to further amend the Companies Act, 2013. The amendments in The Companies Act, 2013 on regular basis shows that it was passed without considering the practical difficulties and ground realities. The Amendment Act has proposed Amendments in 87 Section out of total 470 Sections in Companies Act, 2013. The Bill is expected to bring cheer and relief among the corporates as it addresses some of their major issues

– Nikhil Arya

Home services startup Housejoy acquires fitness startup Orobind

Bangalore-based Sarvaloka Services On Call Pvt Ltd, which operates home services marketplace Housejoy, has acquired at-home personal fitness tech startup Orobind Fitness Technologies Pvt Ltd for an undisclosed amount in an all-stock deal. The deal would give Housejoy a much-needed push to be the largest player in the overall wellness category, claimed the company, declining to divulge the details of the deal.

Amazon acquires Noida-based payment gateway EMVANTAGE

E-commerce bellwether Amazon.com Inc has agreed to acquire Noida-based online payment solutions provider EMVANTAGE Payments Pvt Ltd for an undisclosed amount. As part of the acquisition, EMVANTAGE's employees will join Amazon's payments team to develop solutions tailored for the Indian market, Amazon said in a press statement.

"EMVANTAGE is a valuable addition to our team as we accelerate our payment offerings, ensuring the best in class online payment experience anywhere that customers shop with us," said SrinivasRao, director of Amazon Payments India. The deal is expected to close in the first quarter of 2016. EMVANTAGE provides an online payment gateway, besides solutions around mobile payments and pre-paid card solutions.

Tata Chemicals' arm to sell entire stake in Grown Energy Zambeze

Tata Chemicals Ltd's Mauritius-based wholly-owned subsidiary Bio Energy Venture -1 has signed a definitive agreement with RademanJanse van Rensburg for sale of its entire stake in Grown Energy Zambeze Holdings Pvt Ltd, Mauritius, for $5.5 million, as per a stock market disclosure. As per the agreement, the buyer will discharge the above consideration on a deferred payment basis over five years ending December 31, 2020. The deal is, however, subject to fulfillment of certain condition precedents laid down in the agreement.

As per the agreement, the buyer will discharge the above consideration on a deferred payment basis over five years ending December 31, 2020. The deal is, however, subject to fulfilment of certain condition precedents laid down in the agreement. Grown Energy Zambeze is the holding company of Grown Energy ZambezeLimitada (GEZ Ltda), which owns the company's biofuel assets in Mozambique.

IIFL Wealth Management buys NBFC Chephis Capital

IIFL Holdings Ltd's (formerly India Infoline) wealth management unit IIFL Wealth Management Ltd has acquired

the non-banking finance company Chephis Capital Markets Ltd, according to a stock market disclosure. The acquisition of Chephis Capital, a non-deposit taking non-systematically important NBFC, has been approved by the board of the directors, pursuant to the prior approval of RBI and other regulatory compliances, IIFL Holdings said in the statement. Also, the board of IIFL Wealth Management has given its consent for an investment of Rs 50 crore ($7.3 million) by way of additional capital into Chephis Capital.

Allcargo to buy controlling stake in CCI Integrated Logistics

Allcargo Logistics Ltd, an integrated logistics company which is part of The Avvashya Group, has received an in-principle approval from its board of directors for the acquisition of controlling equity stake in CCI Integrated Logistics Pvt Ltd for an undisclosed amount, according to a stock market disclosure. To integrate such activities of the company, it is also proposed to transfer the business of freight forwarding and contract logistics of the company and that of Hindustan Cargo Ltd, a wholly owned arm of the firm, to CCI. The deal is, however, subject to determination of valuation by an independent valuer and receipt of necessary statutory, regulatory and shareholders' approvals.

Auto-parts maker Minda Industries to buy stake in two group firms

Auto-components maker Minda Industries Ltd has received board approval to buy stakes in two joint venture companies from its group firms as part of an ongoing group consolidation exercise, as per a stock market disclosure. The Mumbai-listed Minda Industries said it will acquire 51% of Minda TG Rubber Pvt Ltd for about Rs 17.85 crore and 30 per cent of Kosei Minda Aluminum Co Ltd for about Rs 12.3 crore from group companies MaaRukmani Devi Auto Pvt Ltd and Minda Investments Ltd, respectively. Both transactions are subject to approval from its shareholders.

Wipro to acquire HealthPlan Services for $460M

Wipro Ltd, India's No. 3 software services exporter, has agreed to purchase US-based HealthPlan Services for $460 million (Rs 3,130 crore) in its second-biggest acquisition ever. The all-cash deal for the business-process-as-a-service (BPaaS) provider will strengthen Wipro's offerings in the US health insurance market, the Indian company said in a statement.

Wipro, which has about $2.32 billion (Rs 15,894 crore) in cash reserves, has aggressively bought companies overseas in the recent past. The latest deal is Wipro's second acquisition of a US-based BPaaS firm and the first takeover since AbidaliNeemuchwala took over as its CEO earlier this month. Since July, this is Wipro's fourth takeover. The company had in late December agreed to acquire US-based Viteos Group, a BPaaS provider for the alternative investment management industry in the US, Europe and Asia, for $130 million in cash.

IL&FS Transportation sells 49% in Gurgaon's rapid metro rail for $75M

IL&FS Transportation Networks Ltd said on Thursday the company and its units have sold a 49 per cent stake in Rapid MetroRail Gurgaon Ltd for Rs 509.90 crore (about $75 million). Rapid MetroRail was set up as a joint venture of IL&FS Rail Ltd, earlier known as ITNL ENSO Rail Systems, IL&FS Transportation and DLF Metro. It was formed to construct and operate the metro rail system in Gurgaon. The company reported revenue of Rs 44.32 crore for the financial year ended on March 31, 2015, compared with Rs 14.9 crore the year before. Its net loss widened to Rs 135 crore from Rs 63.67 crore, according to the annual report of IL&FS Transportation for 2014-15.

Strides Shasun to buy 51% each in Australian, Kenyan firms

Drugmaker Strides Shasun Ltd said on Monday it will acquire controlling stakes in an Australian and a Kenyan company to strengthen its presence in the two countries. The Bangalore-based company has agreed to pay AUD 15 million (US$10.6 million) upfront to buy a 51 per cent stake in Australian pharmaceutical and research company Generic Partners Holdings Co Pty Ltd. It has also committed to invest AUD 10 million (US$7.05 million) to fund future R&D, the company said in a stock-exchange filing. In a separate filing, Strides Shasun said it will acquire a 51 per cent stake in Kenyan drug manufacturing and marketing company Universal Corporation Ltd for an initial payout of $11 million in cash. The deal includes a performance-related payment capped at $3 million for achieving operating profit of $2.95 million for 2015.

Rallis India buys balance 19% stake in Metahelix Life for $10.8M

Tata group firm Rallis India has acquired an over 19 per cent stake in its subsidiary firm Metahelix Life Science for Rs 73.33 crore.After this transaction, Metahelix Life Science (MLS), seeds research company, has become the wholly owned subsidiary of the Rallis India.Prior to this transaction, the Tata group firm had 80.51 stake in Metahelix.

Rallis India has acquired additional stake of 19.49 per cent in the Metahelix Life Science in all cash deal for Rs 73.33 crore, the company said in a regulatory filing.MLS deals in seeds of rice, maize, millet and vegetable seeds along with good germplasm with many products in the pipeline.MLS had reported a net profit of Rs 16.52 crore in the last financial year.

Reliance Infra to sell cement unit to Birla Corp for $710M

Reliance Infrastructure Ltd said on Thursday it has agreed to sell its cement unit to Birla Corp for Rs 4,800 crore ($710 million), as the company led by billionaire Anil Ambani-led strives to pare debt and shifts focus to the defence manufacturing business. The deal for Reliance Cement Company Pvt Ltd comes after Birla Corp's proposed acquisition of two cement plants of Lafarge India fell through due to regulatory issues.

Reliance Infra said in a statement it has signed the final binding agreement with the flagship company of the MP Birla Group for the unit. Reliance Cement has an integrated cement capacity of 5.08 million tonnes at Maihar, Madhya Pradesh, and Kundanganj, Uttar Pradesh as well as a grinding unit of half a million tonnes capacity at Butibori, Maharashtra. The deal was struck at $140 a tonne, it said.

Godrej Consumer to buy 75% stake in Kenyan homecare products firm

Godrej Consumer Products Ltd (GCPL) has agreed to acquire a 75 per cent stake in Kenya's Canon Chemicals Ltd for an undisclosed amount, as the Indian consumer-goods company strives to expand its Africa business. The acquisition of the home and personal care products maker is subject to approval from the Competition Commission of Kenya, GCPL in a statement. The deal is likely to be approved within four months of making the application, it added.

Canon had revenue of 1,146 million Kenyan shillings, or about Rs 76 crore ($11 million), for the year ended June 2015. This is up from 1,097 Kenyan shillings in the previous year, the statement said. GCPL's Africa business has annualised revenue of about $200 million.

RMZ Corp to buy Essar's Equinox Business Park for $353M

Bangalore-based developer RMZ Corp has agreed to acquire Equinox Business Park in Mumbai from the realty arm of Essar Group for Rs 2,400 crore ($353 million) in the country's biggest property deal in rupee terms. The two companies have signed a definitive agreement for the deal, Essar said in a statement. The Equinox Business Park is spread across 1.25 million sqft and is located in Mumbai's Bandra-Kurla Complex. It has four towers, of which three have been completed and rented out while the fourth is yet to see tenants move in.

RMZ has 20 million sqft of core assets under management and aims to grow it to 80 million sqft in five years. Besides going solo, it acquires commercial assets through a joint investment platform with Qatar Investment Authority (QIA). The platform recently acquired an IT park in Gurgaon from BPTP Ltd for Rs 850 crore.

Camlin Fine Sciences to buy 65% stake in Mexico's Dersen

Speciality chemicals maker Camlin Fine Sciences Ltd said on Wednesday it has agreed to acquire a 65 per cent stake in Mexico's DresenQuimica SA de CV, along with its group companies, for $7.8 million (Rs 53 crore) in cash. Camlin struck the deal through unit CFS Antioxidantes De Mexico SA De CV, it said in a stock market disclosure.

Incorporated in 1987, Dresen makes speciality intermediate chemicals for feed and food manufacturers, pet food manufacturers and industrial customers. It has operations in Mexico, Guatemala, Peru, Columbia and Dominican Republic.

Firstsource to buy Adventz Group's BPO business for $12.6M

Mumbai-based business process management firm Firstsource Solutions Ltd said on Thursday it has agreed to acquire US-based ISGN Solutions Inc and the BPO business of ISG Novasoft Technologies Ltd for around $12.6 million in cash. The acquisition will mark Firstsource's entry into the US mortgage processing market, the company said in a statement to stock exchanges.

ISGN Corp, ISGN Solutions Inc, ISG Novasoft Technologies are subsidiaries of CFCL Technologies Ltd, which in turn is an arm of Chambal Fertilisers and Chemicals Ltd. Chambal Fertilisers is part of Saroj Kumar Poddar-led Adventz Group.

- Incorporated in 2008, OFS Technologies Ltd is an IT company engaged in the business of software development. They are software development and Information technology outsourcing company with own ERP product division catering to the food processing industry. Company came up with IPO at BSE SME exchange of Rs 4.25 cr with issue price of Rs 25 per share. Issue was subscribed 2.38 times.
- Blueblood Ventures Ltd is a Delhi based company which was incorporated in 2007, company is engaged in trading of securities and related activities. They are mainly in the business of equity investment and trading in equity, derivatives, commodities, futures, and options, as well as other financial products. Recently they have also entered in the real estate segment. Listed its shares on BSE SME exchange with issue size of Rs 7.04 cr at fix price of Rs 50 per share.
- Tiger Logistics India Ltd which listed its shares on BSE SME exchange in 2013 has now migrated to the Mainboard of BSE under 'T'group and is available for trading with effect from 16th Feb 2016. Tiger came up with an IPO of Rs 7.52 cr in 2013 with issue price of Rs 66 per share.
- Ganga Pharmaceuticals Ltd (GPL) listed its shares on BSE SME with issue of Rs 1.54 cr at issue price of Rs 15 per share. Company is engaged in production of quality Bulk Ayurvedic Medicines in Mumbai. Apart from manufacturing, the company is also into marketing, distribution of Bulk Ayurvedic Medicines all over Maharashtra.
- Fourth Dimension Solutions Ltd is an information technology (IT) infrastructure, technical support services and operations outsourcing company. FDS has raised Rs 8.68 cr equity at NSE EMERGE, IPO was priced at Rs 30 per share. Issue was subscribed 1.95 times of which retail was subscribed 1.89 times.
- Hi Tech Pipes Ltd, is one of India's leading engineering house of excellence and innovation producing steel pipes, hollow sections, tubes, cold rolled coils, road crash barriers, solar a variety of other galvanized products. Listed its shares on NSE Emerge with issue of Rs 13.65 cr equity at a issue price of Rs 50 per share. Issue was subscribed 2.53 times of which retail subscription was 1.70 times. This IPO is the highly subscribed IPO so far at NSE EMERGE platform.

Forthcoming IPOs

Name of the Company	Exchange	Issue Size (Rs. crore)	Issue Price (Rs. Per Share)
Bajaj Healthcare Limited	BSE	30.90	170.00
Umiya Tubes Limited	BSE	2.00	10.00
Khemani Distributors & Marketing Limited	BSE	15.84	100.00
Shanti Educational Initiatives Limited	BSE	7.20	90.00
Diamond Power Transformers Limited	BSE	11.87	20.00
Lancer Container Lines Limited	BSE	1.85	12.00
Octopus Papers Limited	BSE	5.05	30.00
United Polyfab Gujarat Ltd	NSE	7.65	45.00
Sagardeep Alloys Ltd	NSE	6	20.00
Sitaram India Limited	NSE	5.94	22.00

Procurement of raw materials by PSUs from MSMEs doubles

Union Minister Kalraj Mishra said sourcing of raw materials from micro, small and medium enterprises (MSME) by PSUs in the country has doubled following the government's mandate to procure a minimum of 20 per cent raw material from the sector. "The procurement of raw materials by PSUs from MSMEs has doubled since it was made mandatory by the government effective April 1, 2015," the MSME minister told reporters on the sidelines of the Make in India Week. "Even though we had issued a notification to PSUs to purchase 20 per cent raw materials from MSMEs long back, they were not doing so. However, once we made it mandatory, the procurement of raw materials from MSMEs by industries has doubled," he said, without disclosing figures.

Prime Minister Narendra Modi Launched Startup India Action Plan

On 16th January, one of it's kind (probably in the world) Startup event was conducted by Government of India. Prime Minister himself graced the occasion and unveiled the Startup Action Plan 2016. The action plan contains several positive initiatives for Indian startups that look at easing up various regulatory, legal, financial and other challenges faced by them. The much anticipated, and needed, to help start-ups and catalyse entrepreneurship. Start-ups and entrepreneurship are critical to India's efforts to restart private investment into the economy, in the face of risk aversion, stalled or slow investments from corporate India.

The key measures taken are Rs. 10,000 crore funds for startups, A single point of registration for startups, Simplified regulatory regime based on self-certification, A fast-track mechanism filing patent applications, Credit guarantee fund for startups, Tax exemption for three years, and capital gains and A Startup India Hub for collaboration.

Indian Q3 GDP at 7.3%, full-year forecast revised upward to 7.6%

The third quarter (Q3) FY16 gross domestic product (GDP) has come in at 7.3 percent, compared to 7.4 percent in the second quarter and 6.6 percent in Q3 last year. The full year GDP forecast has been revised to 7.6 percent from 7.2 percent. The Q1FY16 growth has been revised to 7.6 percent from 7.0 percent, while Q2FY16 has been revised to 7.7 percent from 7.4 percent. The gross value added is seen at 7.3 percent, compared to 7.1 percent in the previous year. At current prices, the economy grew at 9.2 percent in Q3, while in Q2 it was 6.4 percent due to higher deflation and 8.7 percent in Q1.

The manufacturing sector is expected to grow at 9.5 percent in FY16 as compared to growth of 5.5 percent in FY15.Trade, hotels and transport & communication and services related to broadcasting is expected to grow at 9.5 percent compared to 9.8 percent previous year. Financial, insurance, real estate and

professional services sector is expected to grow at 10.3 percent compared to 10.6 percent in the previous year. The growth in the agriculture, forestry and fishing, mining and quarrying, electricity, gas, water supply and other utility services, construction and public administration, defence and other services is estimated to be 1.1 percent, 6.9 percent, 5.9 percent, 3.7 percent and 6.9 percent, respectively.

December IIP for India reported at -1.3%

India's Index of Industrial Production (IIP) for the month of December has contracted 1.3 versus -3.2 percent in November, while the Consumer Price Index (CPI) for the month of January has come in flat at 5.69 percent compared with 5.6 percent reported for the month of December.

As far as industrial production is concerned, ten out of twenty two industry groups in the manufacturing sector have shown negative growth during the month of December as compared to the corresponding month of the previous year. Analysingsectorally, mining, manufacturing and electricity grew 2.9 percent, -2.4 percent and 3.2 percent in December as compared to the same month in 2014.

January WPI at -0.9%, contracts for 15th straightmonth

January wholesale price index (WPI) has contracted for the fifteenth straight month to come in at -0.9 percent versus -0.73 percent in December.The November data has been revised to -2.04 percent from -1.99 percent.Food articles inflation is at 6.02 percent compared to 8.17 percent last month.Primary articles inflation is at 4.63 percent versus 5.48 percent last month, while manufacturing products inflation is at -1.17 percent compared to -1.36 last month.Among others, fuel inflation is at -9.21 percent, cereals at 1.24 percent, vegetable at 12.52 percent and pulses at 44.91 percent.

India assumes chairmanship of BRICS

India has assumed chairmanship of the influential bloc BRICS comprising five countries having 42 per cent of the world population and combined GDP of over $16 trillion."As on Feb 15, India has assumed the chairmanship of BRICS for the next 11 months," External Affairs Ministry Spokesperson VikasSwarup said.India will host the BRICS (Brazil-Russia-China-South Africa) summit later this year date and venue for which has not been yet finalised.Russia had the chairmanship of BRICS and it was passed onto India.

RBI revises norms for NBFC factor firms

The Reserve Bank today revised guidelines for NBFC factor companies stipulating that there should be board approved limit for underwriting commitments with a view to mitigate credit risk.Besides, the RBI has also raised threshold for reporting of frauds from Rs 25 lakh to Rs 1 crore for NBFC."Factoring services should be extended in respect of invoices which represent genuine trade transactions," RBI said in a notification.Factoring business is a type of financial service wherein a firm sells its accounts receivable to a factoring company, which then pay discounted value to seller against receivable receipts."Since under without recourse factoring transactions, the factor is underwriting the credit risk on the debtor, there should be a clearly laid down board-approved limit for all such underwriting commitments," RBI said in a notification.

With regard to NPA classification, it added, in case of factoring on 'with-recourse' basis, the exposure would be reckoned on the assignor.In case of factoring on 'without-recourse' basis, the exposure would be reckoned on the debtor, irrespective of credit risk cover or protection provided, except in cases of international factoring where the entire credit risk has been assumed by the import factor, it said.In a separate notification, RBI said it has been decided to revise the threshold for reporting of frauds and submission of quarterly progress reports on frauds to Central Fraud Monitoring Cell, from Rs 25 lakh as on date to Rs 1 crore with immediate effect.

Banking NPA's

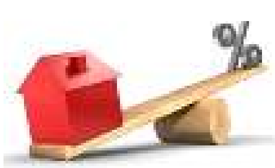
Deep Cleaning

Credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of timeis termed as Non Performing Asset (NPA). In simple terms, an asset is tagged as Non Performing Asset when it ceases to generate income for the lender.

For every loan given out, the banks to keep aside some extra funds to cover up losses if something goes wrong with those loans. This is called provisioning. Provision Coverage Ratio (PCR) refers to the funds to be set aside by the banks as fraction to the loans.

If the borrower regularly pays his dues regularly and on time; bank will call such loan as its "Standard Asset". As per the norms, banks have to make a general provision of 0.40% for all loans and advances except that given towards agriculture and small and medium enterprise (SME) sector. However, if things go wrong and loans turn into bad loans, the PCR would increase depending up the classification of the NPA as discussed in next section.

Classification of the NPAs



Banks are required to classify nonperforming assets further into three main categories (Sub-standard, doubtful and loss) based on the period for which the asset has remained non performing. This is as per transition of a loan from standard loan to loss asset as follows: If the borrower does not pay dues for 90 days after end of a quarter; the loan becomes an NPA and it is termed as "Special Mention Account". If this loan remains SMA for a period less than or equal to 12 months; it is termed as Sub-standard Asset. In this case, bank has to make provisioning as follows: 15% of outstanding amount in case of Secured loans 25% of outstanding amount in case of Unsecured loans If sub-standard asset remains so for a period of 12 more months; it would be termed as "Doubtful asset". This remains so till end of 3rd year. In this case, the bank need to make provisioning as follows: Up to one year: 25% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans 1-3 years: 40% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans more than 3 years: 100% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans If the loan is not repaid even after it remains sub-standard asset for more than 3 years, it may be identified as unrecoverable by internal / external audit and it would be called loss asset. An NPA can declare loss only if it has been identified to be so by internal or external auditors.

Example of NPA: A party was disbursed a loan on January 1, 2010. Its due date is June 1, 2010. But the party does not make a payment. So It will be an Standard Asset from January 1, 2010 till June 1, 2010 (Due Date) It will be a Special Mention Account From June 2, 2010 till August 29, 2010 (90 days) It will be Sub-standard from August 30, 2010 till August 29, 2011 It will be doubtful from August 30, 2011 till August 29, 2012 It may remain doubtful Asset for a period of 3 years, beginning from 12 months of being an NPA, but once the auditors identify it as a loss, it will be assigned a loss asset; however, the period may be anything above 3 years.

Implications of the NPAs on Banks

The most important implication of the NPA is that a bank can neither credit the income nor debit to loss, unless either recovered or identified as loss. If a borrower has multiple accounts, all accounts would be considered NPA if one account becomes NPA.

The problem of NPAs in the Indian banking system is one of the foremost and the most formidable problems that had impact the entire banking system. Higher NPA ratio trembles the confidence of investors, depositors, lenders etc. It also causes poor recycling of funds, which in turn will have deleterious effect on the deployment of credit. The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks.

Profitability: NPAs put detrimental impact on the profitability as banks stop to earn income on one hand and attract higher provisioning compared to standard assets on the other hand. On an average, banks are providing around 25% to 30% additional provision on incremental NPAs which has direct bearing on the profitability of the banks.

Asset (Credit) contraction: The increased NPAs put pressure on recycling of funds and reduces the ability of banks for lending more and thus results in lesser interest income. It contracts the money stock which may lead to economic slowdown.

Liability Management: In the light of high NPAs, Banks tend to lower the interest rates on deposits on one hand and likely to levy higher interest rates on advances to sustain NIM. This may become hurdle in smooth financial intermediation process and hampers banks' business as well as economic growth.

Capital Adequacy: As per Basel norms, banks are required to maintain adequate capital on risk-weighted assets on an ongoing basis. Every increase in NPA level adds to risk weighted assets which warrant the banks to shore up their capital base further. Capital has a price tag ranging from 12% to 18% since it is a scarce resource.

Shareholders' Confidence: Normally, shareholders are interested to enhance value of their investments through higher dividends and market capitalization which is possible only when the bank posts significant profits through improved business. The increased NPA level is likely to have adverse impact on the bank business as well as profitability thereby the shareholders do not receive a market return on their capital and sometimes it may erode their value of investments. As per extant guidelines, banks whose Net NPA level is 5% & above are required to take prior permission from RBI to declare dividend and also stipulate cap on dividend payout.

Public Confidence: Credibility of banking system is also affected greatly due to higher level NPAs because it shakes the confidence of general public in the soundness of the banking system. The increased NPAs may pose liquidity issues which is likely to lead run on bank by depositors. Thus, the increased incidence of NPAs not only affects the performance of the banks but also affect the economy as a whole.

In a nutshell, the high incidence of NPA has cascading impact on all important financial ratios of the banks viz., Net Interest Margin, Return on Assets, Profitability, Dividend Payout, Provision coverage ratio, Credit contraction etc., which may likely to erode the value of all stakeholders including Shareholders, Depositors, Borrowers, Employees and public at large.

NPA and SARFAESI Act.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act has provisions for the banks to take legal recourse to recover their dues. When a borrower makes any default in repayment and his account is classified as NPA; the secured creditor has to issue notice to the borrower giving him 60 days to pay his dues. If the dues are not paid, the bank can take possession of the assets and can also give it on lease or sell it; as per provisions of the SAFAESI Act. Reselling of NPAs If a bad loan remains NPA for at least two years, the bank can also resale the same to the Asset Reconstruction Companies such as Asset Reconstruction Company (India) (ARCIL). These sales are only on Cash Basis and the purchasing bank/ company would have to keep the accounts for at least 15 months before it sells to other bank. They purchase such loans on low amounts and try to recover as much as possible from the defaulters. Their revenue is difference between the purchased amount and recovered amount.

Way forward

Today, the banking industry has been reeling under increased incidence of NPAs while the expectations of the stakeholders are on the rise, which is a cause of serious concern. There is an imminent need to address this issue focusing attention on demand and supply side.

Prevention is better than cure. Proper evaluation of credit proposals definitely helps the banks in detecting the unviable projects at the first instance. Full information about unit, industry, its financial stake, management etc., should be collected.Lending being a focused segment, there is an urgent need to develop specialized skills in the area of appraisal, monitoring and recovery to ensure the quality of credit portfolio. The decentralized model that is being vogue in many banks need to shift towards adoption of centralized model for sanction and recovery of Retail / Corporate loans. Separate cell should be established at the bank level, which would have complete information about the industry and its prospects in future.Selection of right borrowers, viable economic activity, adequate finance and timely disbursement, end use of funds and timely recovery of loans should be the focus areas for preventing or minimizing the incidence of fresh NPAs.

Managing credit risk plays an important role and its effectiveness lies in an efficient recovery and exit strategy. Banks should be equipped with latest credit risk management techniques to protect the bank funds and minimize insolvency risks. Banks should explore the possibilities to develop credit derivatives markets to avoid these risks.

Timely follow up is the key to keep the quality of assets intact and enables the banks to recover the interest/installments in time. To have better control on the assets created out of borrowings, banks need to watch the functioning of the units by paying frequent visits and this is to be done to all the units irrespective whether the account is performing or non-performing one.

The key challenge going forward for Indian banks is to expand credit portfolio and effectively manage NPAs while maintaining profitability. Asset quality continues to be the core function and also biggest challenge for the banks in the present dynamic environment. Though, management of asset quality is a balance sheet issue of individual banks, it has wider macro economic implications. In order to overcome the associated risks including externalities, there is an imminent need for the banks to have well structured and effective credit monitoring system in place coupled with appropriate business models.

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What's in PRESS

Maharashtra government to provide 50% subsidy to SMEs on land in MIDC areas

To help SMEs set up plants in the state, the Maharashtra government is providing land at half of the market price in various industrial clusters, a senior official said. "The SMEs are free to apply for two-acre land anywhere falling under MIDC areas across the state for setting up a plant. Maharashtra government is providing 50 per cent subsidy on those plots of land," state industry secretary Apurva Chandra told reporters on the sidelines of the Make in India Week.

Moreover, the state government is trying to sort out problems like making the subsidy available to the SMEs and also making the plots of land available for them beyond Maharashtra Industrial Development Corporation (MIDC) areas, by holding talks with the authorities concerned.

Stanford GSB looks to set up SEED to support SMEs in India

Targeted at the Small and Medium Enterprises (SMEs) and with the intent of ending the cycle of poverty in developing economies, The Stanford Graduate School of Business (GSB) on Thursday said it is keen on setting up The Stanford Institute for Innovation in Developing Economies (Stanford Seed) initiative in India. "In the next 12 months Stanford wants to have a Seed center in South or South-East Asia and India is one the countries under consideration. India is attractive to us because of our existing programme in Bangalore in partnership with Infosys. We know we can do it in India and also believe there is a need here given the enormous number of SMEs that have great potential in the country," said Stanford GSB, Dean, GarthSaloner. The Business School already runs the 11-week certificate program called Ignite for innovators and entrepreneurial thinkers.

10 MSME clusters will be set up in Haryana

Haryana government said the Centre has given its approval to set up 10 clusters to boost the Micro, Small and Medium Enterprises (MSME) sector in the state."Special focus is being laid on the traditional clusters, rural functional clusters and thrust or focus clusters," Haryana Chief Minister Manohar Lal Khattar said. He said there are a total of 92,525 MSMEs in the state and out of these 2,835 such units have been set up during last 15 months tenure of present state government. These have catalyzed an investment of Rs 2,297 crore and provided employment to 50,730 youth in the State.

Quotes

"Innovation essentially comes because in a big corporation, the innovative activities get diffused where as in a micro or small unit, the innovative activity is more focused, more linked to the actual problem that they face."

Anup Pujari
MSME Secretary

"There is a need for developing a multi-pronged approach to improve productivity of the MSME sector through innovative means"

Kalraj Mishra
Union MSME Minister

SME MARKET STATISTICS

Company	Close#	Return	52 Week High	52 Week Low
Aanchallspat Limited	7.30	-63.50%	16.80	5.53
Abition Mica	60.00	50.00%	67.40	39.90
Ace Tours	5.05	-68.44%	11.42	3.74
ADCC Infocad Ltd	57.50	43.75%	81.50	51.00
AGI Infra	106.00	96.30%	136.50	54.05
Agrimony Commodities	5.85	-41.50%	7.00	5.85
Ahimsa Industries	25.20	0.80%	26.00	25.00
Akme Star Housing Finance	40.50	35.00%	42.50	30.50
Alacrity Securities	3.75	-75.00%	6.25	3.29
Amrapali Capital	38.00	-62.00%	55.00	30.00
AmrapaliFincap	120.30	0.25%	126.40	120.00
Amsons Apparels Ltd	4.08	-59.20%	14.75	3.55
AnishaImpex	11.60	16.00%	21.00	6.49
Anubhav Infrastructure Ltd	11.05	-26.33%	14.65	10.85
Aryaman Capital Markets	19.25	60.42%	19.25	12.80
Athena Construction	33.50	235.00%	39.90	11.23
AtishayInfotech Ltd	63.00	293.75%	65.00	23.00
Bansal Roofing	30.25	0.83%	33.25	28.00
BC Power	28.00	55.56%	52.30	19.10
BCB finance	27.00	8.00%	29.40	25.00
Bella Casa Fashion	22.50	60.71%	27.60	14.25
BhanderiInfracon	118.10	-1.58%	120.00	118.05
Bothra Metals	24.00	-4.00%	44.95	24.00
Captain Pipes Limited	38.00	-5.00%	42.00	31.00
Captain Polyplast	61.50	105.00%	69.00	34.67
Carewell Industries	7.10	-52.67%	8.40	4.00
CawasjiBehramji Catering	34.00	142.86%	44.00	15.05
Channel Nine	30.30	21.20%	49.00	18.20
Chemtech Industrial	22.00	46.67%	40.60	11.52
Comfort Commotrade	10.10	1.00%	14.40	10.00
DhabriyaPolywood Ltd	48.90	226.00%	50.00	16.20
Dhanuka Commercial	10.45	4.50%	17.60	5.75
Eco Friendly	24.30	-2.80%	51.00	20.95
Emkay Taps	335.00	1.52%	372.00	320.00
Encash Entertainment	30.05	-24.88%	90.00	28.95
Esteem Bio	45.35	81.40%	46.00	18.20
Filtra Consultants	34.60	-17.62%	47.10	34.60
Fourth Dimension Solutions	70.40	134.67%	82.00	31.80
Funny Software	9.95	-28.93%	13.50	9.95
Gala Prints	23.30	-2.92%	26.10	22.95
GCM Capital Advisors	47.35	136.75%	141.60	47.35
GCM Comm	5.90	-70.50%	18.90	4.60
GCM Securities	17.50	-12.50%	68.90	15.55
H. K. Trade International	16.30	-9.44%	18.60	16.30
HPC Biosciences	39.40	12.57%	66.00	28.90
Jet Infraventure Ltd	145.50	16.40%	146.00	127.00
Jiya Eco	22.10	16.32%	34.95	18.60
JLA Infraville Shoppers Ltd	12.99	29.90%	29.80	11.36
Jointeca Education	16.95	13.00%	17.90	16.00
Junction Fabrics and Apparels Ltd	16.00	0.00%	20.00	16.00
Karnavati Finance Ltd	10.90	9.00%	13.10	9.80
Karnimata Cold Storage	19.45	-2.75%	20.00	17.00
Looks Health	22.90	-42.75%	85.65	14.85
Loyal Equipments	19.45	8.06%	22.50	12.90
M D Inducto	45.85	69.81%	69.50	27.85
MahabirMetallex	12.90	29.00%	14.15	9.79
Majestic Research	67.30	417.69%	92.25	14.00
Mangalam Seeds	72.25	44.50%	84.00	53.00
Max Alert	12.25	-38.75%	32.00	11.50
Mishka Exim Ltd	18.00	80.00%	21.00	13.50
Mitcon	68.00	11.48%	101.00	40.00
Momai	90.50	16.03%	115.00	78.00
Money Masters	6.94	-53.73%	8.88	6.18
Navigant Corporate Advisors	9.15	-34.64%	14.35	9.00
Naysaa Securities Ltd	16.80	12.00%	35.00	11.90
Newever Trade	3.85	-61.50%	13.90	1.52
O. P. Chains Ltd	13.45	22.27%	17.22	11.25
Oasis Tradelink	57.00	90.00%	89.65	31.80
OceanaaBiotek	16.00	60.00%	22.75	10.10
OFS Technologies	21.50	-14.00%	28.70	21.50
OnesourceTechmedia	4.86	-65.29%	7.58	3.33
Opal Luxury	104.45	-19.65%	120.50	95.00
Oyeeee Media	49.50	23.75%	51.70	45.00
P. B. Films	7.30	-27.00%	10.79	7.23
PatdiamJewellery	65.00	71.05%	66.05	42.00
Pecos Hotels	60.00	20.00%	67.05	50.00
Perfect Infraengineers	20.50	-10.87%	26.00	17.40
PolymacThermoformers	18.45	-47.29%	44.30	17.50
Powerhouse Fitness & Realty Ltd	32.00	6.67%	54.00	27.50
R&B Denims	10.50	5.00%	11.98	7.00
RaghuvanshAgrofarms Ltd	40.90	271.82%	40.90	11.55
RCI Industries & Technologies	59.85	49.63%	125.35	40.10
RCL Retail	16.95	69.50%	26.00	9.36
RJ Biotech	42.50	112.50%	52.00	23.00
Samruddhi Realty	31.50	162.50%	42.00	25.00
Sanco Industries	72.20	301.11%	25.00	15.25
SatkarFinlease	18.40	2.22%	55.00	9.18
Shaival Realty	100.50	0.50%	104.00	100.00
Shri Krishna Prasadam	12.00	20.00%	31.00	5.40
Siddhi Vinayak Shipping	30.50	22.00%	49.50	25.00
Sirohia& Sons ltd	11.05	-7.92%	15.00	8.00
SPS Finquest	84.00	12.00%	88.00	78.00
SRG Securities Finance	22.50	12.50%	34.90	15.75
Sri Krishna Construction	41.00	-8.89%	49.90	38.05
SSPN Finance	18.60	-7.00%	21.20	8.10
Starlit Power Systems Ltd	14.75	-18.06%	21.50	12.00
Stellar Capital	6.26	-68.70%	10.16	3.60
Subh Tex India	16.50	65.00%	18.25	16.50
Suncare Traders	58.00	-9.38%	64.75	49.00
Sunstar Realty Development	26.50	32.50%	41.99	25.20
Supreme (India) Impex Ltd	71.75	19.58%	72.30	60.00
Suyog Telematics	142.00	468.00%	155.30	42.45
Tarini International	14.50	-64.63%	20.70	11.00
Tejnaksh Healthcare	78.00	-2.50%	90.00	70.00
Tentiwal Metal Products	7.40	-43.08%	9.98	7.30
Thejo	199.00	-50.50%	215.00	126.00
Tiger Logistics	148.20	124.55%	194.00	55.20
Ultracab India Ltd	217.00	502.78%	259.00	46.30
Unishire Urban Infra	10.00	0.00%	17.10	7.70
Universal Autofoundry	30.00	100.00%	31.50	15.50
Vaksons Automobile	26.05	0.19%	27.25	26.05
VCU Data Management	22.20	-11.20%	35.00	21.05
Vibrant Global Capital Limited	18.90	-0.53%	25.25	17.00
Vishal Bearing	30.00	20.00%	36.90	26.00
Vishal Fabrics	170.00	277.78%	190.00	50.00
VMV Holdings	9.15	-8.50%	10.85	9.15
Women's Next	71.00	9.23%	80.00	40.10
Yogya Enterprises	13.00	-13.33%	27.30	11.62

Note: Absolute return since IPO
 # Closing price as on 08 Feb 2016

Indices	Current #	% Return YTD
BSE SME IPO	805.21	484.42%
TSE MOTHERS	807.19	94.48%
CHINEXT PRICE INDEX	2190.91	210.62%
FTSE AIM All Share Index	681.42	-4.83%
TSX Venture Composite	518.02	-58.22%
Hong Kong GEM Index	418.78	9.77%

 # Closing price as on 08 Feb 2016

Particulars	Bothra Metals & Alloys	Tiger Logistics	RJ Biotech	RCI Industries & Technologies	B C Power	Starlit Power	JLA Infraville	MahabirMetallex	Sunstar Realty
A Valuation / Market Cap	(Rs. Crore)								
Pre Issue Net Worth	20.82	16.34	11.64	25.63	10.29	7.97	3.20	7.01	5.54
Issue Size	12.21	7.52	5.00	11.52	10.37	2.95	2.00	3.90	10.62
Market Capitalization*	44.50	164.61	40.25	65.24	32.93	11.88	8.43	13.04	647.19
B. Price Pattern									
Issue Price	25.00	66.00	20.00	40.00	18.00	18.00	10.00	10.00	20.00
CMP (Face Value Rs. 10)*	24.00	155.70	42.50	59.85	28.00	14.75	12.99	12.50	27.40

Particulars	Channel Nine	Max Alert	Samruddhi Realty	HPC Biosciences	SI VI Shipping	GCM Capital Advisors	Ace Tours Worldwide	Newever Trade	Looks Health	Captain Polyplast
A. Valuation / Market Cap	(Rs. Crore)									
Pre Issue Net Worth	5.56	7.10	4.39	4.80	3.09	25.30	8.71	17.53	0.75	7.36
Issue Size	11.67	8.00	2.60	15.75	6.86	9.00	8.00	6.30	7.20	5.94
Market Capitalization*	732.46	11.13	25.74	628.82	14.98	80.21	6.40	9.22	19.95	65.49
B. Price Pattern	(Rs. per Share)									
Issue Price	25.00	20.00	12.00	35.00	25.00	20.00	16.00	10.00	40.00	30.00
CMP (Face Value Rs. 10)*	31.45	12.10	25.50	39.40	26.05	47.35	5.05	3.85	19.00	65.00

Particulars	Pecos Hotels & Pubs	SatkarFinlease	VKJ Infradevelopers	Subh Tex	Akme Star	Comfort Commotrade	Sanco Industries	Thejo Engineering	Mitcon Consultancy	Fourth Dimension
A. Valuation / Market Cap	Rs in Crore									
Pre Issue Net Worth	1.00	21.16	5.40	16.43	10.13	4.43	16.43	25.8	54.42	17.43
Issue Size	2.30	13.51	12.75	3.50	4.80	6.00	4.32	19.00	25.01	8.68
Market Capitalization*	7.47	47.71	102.46	19.09	25.37	10.12	24.25	68.26	81.74	76.68
B. Price Pattern	Rs per share									
Issue Price	50.00	18.00	15.00	10.00	30.00	10.00	18.00	402.00	61.00	30.00
CMP (Face Value Rs. 10)*	57.05	25.05	57.40	17.35	42.75	10.10	28.30	200	68.00	70.40

*Closing prices as on 08th Feb, 2016
* Source: BSE SME, NSE Emerge websites

Upcoming Events

Conference on FINANCE AND INVESTMENT FOR START-UPs Focus on Integration | Finance | Business-Growth	13th April, 2016	Mumbai
Seminar on INTERNATIONAL COLLABORATION OPPORTUNITIES FOR SMEs	22nd April, 2016	Pune
MAHARASHTRA ECONOMIC SUMMIT and MAHARASHTRA INDUSTRY AND BUSINESS EXCELLENCE AWARDSMARATHI ENTREPRENEURS SUMMIT	11thMay, 2016	Mumbai

Notes

Media Cover

Sarthi in association with SME World &Humriyah Free Zone, Sharjah had organized a seminar on 15th February 2016 on “Make in India: Global Opportunities” at Mumbai. Sarthi also released its book on “Empowering Startups & SMEs”. Sarthi also presented the Sarthi SME Excellence Awards .

Fourth Dimension Solutions Ltd and Hi-Tech Pipes Ltd got listed on 22nd January & 25th February 2016 respectively on NSE Emerge

SARTHI

Bridging the Gap

Sarthi Capital Advisors Private Limited
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