



Monthly Newsletter

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On the basis of an assessment of current and evolving macroeconomic situation, RBI in its second bi-monthly monetary policy committee meeting for year 2018-19 decided to increase the policy repo rate by 25 basis points to 6.25. RBI has raised the rates for the first time in nearly four and a half years. The move by RBI has to be seen in the context of rising inflation, upside risk due to higher oil prices and exchange rate depreciation. Further, the hike is an affirmation of the growth recovery of Indian economy which is evidenced by the fourth quarter (Q4) estimates of GDP witnessing a growth rate of 7.7% for year 2017-18 released by Central Statistics Office (CSO) recently.

In the Financial Stability report (FSR) released on 26th June, 2018, RBI indicated that India's financial system remained stable overall. The FSR predicts that, if the prevailing macro-economic environment remains constant in the coming year, the ratio of gross non-performing assets (NPAs) to total loans and advances may rise to 12.2% in March, 2019. This estimate may demand the Insolvency and Bankruptcy Code (IBC) along with NCLT, to be more strengthened to overcome the challenges for resolution of the projected rise in NPAs in near future.

The President has given assent to promulgate Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018 on 6th June, 2018. It provide significant relief to home buyers by recognizing their status as financial creditors and giving them due representation in the Committee of Creditors ensuring their involvement in the decision making process. Another major beneficiary are the Micro, Small and Medium Enterprises (MSME). The Ordinance provides immediate relief by allowing the promoter of MSMEs to bid for his enterprise undergoing Corporate Insolvency Resolution Process (CIRP) provided that he is not a willful defaulter. In order to protect the sanctity of CIRP, the Ordinance allows a case to be withdrawn from CIRP prior to calling of expressions of interest, provided it has the approval of Committee of Creditors with 90% voting share. Further, to encourage resolution as opposed to liquidation, the voting threshold has been brought down to 66% from 75 % for all major decisions such as approval of resolution plan, extension of CIRP period etc.

In order to provide a comprehensive insolvency framework, the Insolvency Law Committee is studying the feasibility of introducing cross-border insolvency in the Insolvency and Bankruptcy Code. The Committee is looking at adoption of the United Nations Commission on International Trade Laws (UNCITRAL) model on dealing with cross border insolvency. The existing IBC provides for two sections i.e. 234 and 235 relating to the cross border insolvency which allows Central Government to enter into an agreement with a foreign country for enforcing the provisions of the Code, which is considered insufficient and time taking.

As a part of its measure against the black money and checking the menace of companies engaging in illegal activities, a second drive has been launched wherein 2,25,910 companies have been further identified for being struck-off under Section 248 of the Companies Act, 2013 along with 7,191 LLPs for action under Section 75 of the LLP Act, 2008 due to non-filing of financial statements for the years 2015-16 and 2016-17. This comes after more than 2.26 lakh firms were struck off in the last fiscal.

POLICY DEVELOPMENTS

National Voluntary Guidelines

MCA has put out a draft of the updated Guidelines on Social, Environmental and Economic Responsibilities of business (NVGs) for public comments till July 20, 2018. The updated version will be finalized after an assessment and review of suggestions and inputs received from stakeholders and wider consultations with the relevant Ministries, business and stakeholders at large.

MCA first issued the NVGs in July 2011 with a view to make business socially responsible and partake in the development of the nation through its expertise and efficiency and be internationally relevant. The NVGs comprise nine interrelated and interconnected principles and represent a holistic approach to business responsibility.

There have been several notable national and international developments in the wider sustainability and business responsibility domains since the first release of NVGs requiring an updating now. The adoption of Sustainable Development Goals (SDGs), debates on Climate Change and enhanced role of businesses in protecting Human Rights in their functioning are to mention a few.

KYC Drive

MCA is set to launch a mega drive to do a KYC of company directors that will include passport, PAN number and contact details. All of this information will have to be updated annually, duly certified by the company secretary or chartered accountant, at the time of filing annual financial statements. Besides this, there will be another KYC drive for companies very soon. As many as 33 lakh company directors would be registered as part of the mega KYC drive.

Income Tax (6th Amendment) Rules, 2018

The Central Board of Direct Taxes (CBDT) notified the Income Tax (6th Amendment) Rules on 24th May, 2018 wherein it is provided that only Merchant Bankers are entitled to do Valuation of Unquoted Shares and the Chartered Accountants (CAs) are no more eligible to do so. Sub (2) of rule 11UA under Section 56 of the Income Tax Act, 1961 provided an option to the assessee to determine the fair market value (FMV) of the unquoted shares with the help of a merchant banker or accountant. This amendment has omitted the term "or an accountant".

The Institute of Chartered Accountants of India (ICAI) and four other accounting associations (Bombay Chartered Accountants Society, the Ahmedabad Chartered Accountants Association, the Lucknow Chartered Society and the Karnataka State Chartered Accountants Association) have written to the Central Board of Direct Taxes (CBDT) opposing the latter's move to amend Section 11 UA of the Income Tax (I-T) Act. ICAI believes the paucity of available merchant bankers could increase the costs of determining the FMV of unquoted shares as there are over 11 lakh unlisted companies but only 200 merchant bankers. On the other hand there were around 3,00,000 CAs. Moreover, the manner of valuation provided by Rule 11UA(2)(b) predominantly mentions application of discounted cash flow method, and CAs have the competence to understand business and cash flow projections.

Delisting of firms under IBC

SEBI vide its notification dated 31st May, 2018 has exempted companies going for delisting and facing insolvency proceedings under the Insolvency and Bankruptcy Code from following the prescribed norms under its delisting regulations. The exemption is granted only if the resolution plan (i) lays down any specific

procedure to complete delisting of shares and (ii) provides an exit option to the existing public shareholders at a price specified in the resolution plan.

According to the notification, the exit to the shareholders should be at a price which shall not be less than the liquidation value as determined under Insolvency and Bankruptcy Board of India (Insolvency resolution Process of Corporate Persons) Regulations, 2016 after paying off dues in order of priority as defined under section 53 of the IBC.

In case the existing promoters or any other shareholders are to be provided an opportunity to exit under the resolution plan at a price higher than the price determined, then at least the same price should be offered for the existing public shareholders of that particular entity, as per the notification.

Review of Corporate Sector

As on 31st May, 2018, the number of companies registered under the Companies Act was 17,70,654. Of these, 5,41,354 companies were closed, 6,077 companies were under liquidation, 37,656 companies are in the process of being struck-off from the register, 106 companies were in the process of being re-activated and 1,352 companies have so far obtained the "dormant" status according to Section 455 of the Companies Act, 2013. There are 11,84,109 active companies, including 1,65,739 companies which were incorporated within the preceding eighteen months (not due for Annual Statutory Filings).

A total of 10,767 companies, including 541 One Person Companies (OPCs), were registered under the Companies Act, 2013 during May, 2018 with authorized capital of ₹1799.28 Crore. The breakup of the newly incorporated companies by type is as follows:

Type of Company	No. of Companies registered in May, 2018	Total Authorized Capital (In ₹ in Crore)
Company limited by Shares	10,733	1,799.26
Of which,		
(a) Private	10,486	1244.93
Of which,		
One Person Companies	541	15.31
(b) Public	247	554.34
Company limited by Guarantee	34	0.02
Of which,		
(a) Private	31	0.02
(b) Public	3	-
Unlimited Company	-	-
Grand Total	10,767	1,799.28

During the Month of May, 2018, Maharashtra had maximum number of company registrations (2,006) followed by Delhi (1,468) and Uttar Pradesh (1,116). "Business Services" topped the economic activity-wise classification (5,768) of newly registered companies.

During May, 2018, 10,733 (out of 10,767) companies were registered as companies limited by shares with authorized capital of ₹1799.26 crore. For more statistical details about the growth of the corporate sector, the reader is invited to the 'Monthly Information Bulletin on Corporate Sector', at URL: mca.gov.in/MinistryV2/InformationBulletin.html.

MONTHLY MIS REPORT FROM COMPETITION COMMISSION OF INDIA (As on June-2018)

S. No.	Sections	Cases pending as on last day of previous month (A)	Cases received during the month (B)	Total Cases (A+B)	Net Cases pending with CCI for final disposal	Remarks
1.	19(1)	87	03	90	90	#
2.	19(1)(a)	115	06	121	113	@
3.	19(1)(b)	11	03	14	14	
4.	5&6	08	05	13	07	*
TOTAL		221	17	238	224	

Cases remanded by COMPAT

5.	Remanded	12	-	12	12	
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Cases regarding contravention of orders of Commission

6.	Causing fresh inquiry	01	-	01	01	
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Notes and references:

- [#] Split cases: (a) Suo-Moto Case No. 07/2014 is segregated in to 02 sub cases w.e.f. August 2016 to facilitate exploration of investigation by DG. (b) Suo-Moto Case No. 02/2015 is segregated in to 66 sub cases w.e.f. July 2016 to facilitate exploration of investigation by DG.
- [@] Details of three oldest cases are attached as per Annexure-1.
- [*] Combination Cases filed u/s 5 & 6.

Notifications:-

(i) Vide notification no. S.O. 2422 (E) dated 13th June, 2018, 05 sections of Companies (Amendment) Act, 2017 have been brought into force. Changes to the said notification have been made vide corrigendum no. S.O. 3020 (E) dated 21st June, 2018 by replacing "section 22" with "clause (iii) of section 21 and section 22".

(ii) Vide Notification no. G.S.R. 559 (E) dated 13th June, 2018 the Companies (Registered Valuers and Valuation) Second Amendment Rules, 2018 were notified by which an amendment has been made to Rule 19(2) of the Companies (Registered Valuers and Valuation) Rules, 2017. The President of ICAI, ICSI and ICoAI as ex-officio members would be a part of the Committee to advise on valuation matters.

(iii) Vide notification no. G.S.R. 557(E) dated 12th June, 2008, two sub-rules in Rule 10 has been substituted in limited Liability Partnership Rules, 2009 by amending Limited Liability Partnership (Amendment) Rules, 2018. The Forms DIR-3 and DIR-6 are also made applicable for obtaining DPIN and making changes in DPIN particulars respectively of designated partner of an existing Limited Liability Partnership (LLP).

(3) Competition Commission of India celebrated its 9th Annual Day 2018 on 20th May, 2018 in New Delhi. Shri Rajiv Mehrishi, C&AG delivered lecture on "Competition Law 2.0: Way Forward". He addressed the gathering comprised of senior Government functionaries, leading Corporates, Academicians and legal luminaries. Shri Injeti Srinivas, Secretary, MCA was also present in the function and spoke about the recent developments in the area of competition law and policy.

(iv) Vide G.S.R. No. 558(E) dated 12th June, 2018, e-forms DIR-3 and DIR-6 have been substituted to bring the effect of amendment in Limited Liability Partnership (Amendment) Rules, 2018 as mentioned in (iii) above. Now, for becoming a partner in LLP, DPIN can be obtained through aforesaid eform DIR-3 and any changes in the particulars of DPIN can be filed in DIR-6.

(v) Vide G.S.R. No. 560(E), Companies (Management and Administration) Second Amendment Rules, 2018 was notified

on 13th June, 2018 wherein rules no. 13, 15 (6), explanation after clause (ix) in Rule 18(3) and form no. MGT-10 have been omitted and the proviso to rule 22(16) has been substituted. The requirement to file return with respect to change in number of shares held by promoters and top ten shareholders, to file advance copy of the proposed special resolution with the Registrar and to hold extraordinary general meeting at a place within India has been omitted for the purpose of this rule. For the items of business to be transacted by postal ballot, electronic voting also need to be facilitated.

(vi) Vide notification no. G.S.R. 561(E) dated 13th June, 2018, the Companies (Significant Beneficial Owners) Rules, 2018 has been brought into force. Section 90 of the Companies Act, 2013 amended vide Section 22 of the Companies Amendment Act, 2017 has necessitated to prescribe the rules for making declaration by every individual, a trust and person resident outside India to the company about the beneficial interest in shares of a company.

(vii) Vide G.S.R. 569(E), Companies (Accounting Standards) Amendment Rules, 2018 was notified on 18th June, 2018 wherein paragraph 12 of the Accounting Standard (AS) 11 has been substituted by a new paragraph. The remittance from a non-integral foreign operation by way of repatriation of accumulated profits will not form part of a disposal unless it constitutes return of the investment.

Research study on credit stress in Indian Corporate Sector

Credit stress in the Indian corporate sector has been a major area of concern. In this respect, MCA sponsored a study to NIPFP titled "Assessment of credit stress in Indian Corporate Sector". The study uses CMIE Prowess data for analysis which is then mapped to identify similar indicators in the MCA-21 database. This would aid in making the MCA-21 database more robust in identifying signs of credit stress in the corporate sector. Comparison of CMIE Prowess and MCA21 dataset for a common set of 319 firms across four major industries shows a high degree of similarity with 93% (297/319) of firms having similar scores and position in both datasets.

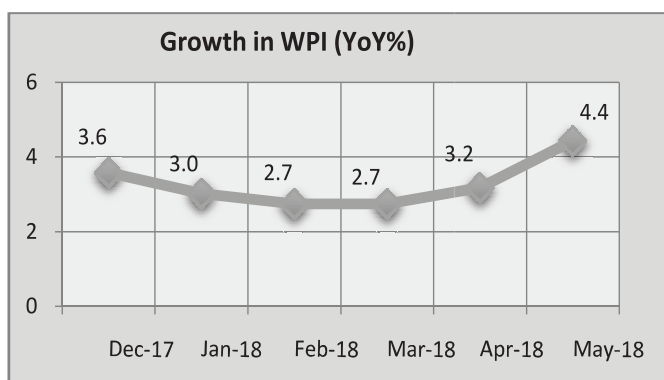
Indicators such as, (i) growth in sales, (ii) growth in operating profit, (iii) growth in total assets, and (iv) growth in borrowings were used to understand the performance of firms across industries. Sales growth has shown a considerable decline for firms in manufacturing sector comprising both of private listed and unlisted firms. Firms in the construction sector have shown a volatile growth in the past few years along with firms in the Mining & Quarrying industry which have even registered a negative growth in sales over the last 5 years. In contrast, firms in the Electricity sector have shown a stable sale growth over the years, except for a drop during 2013. Non-Financial services firms have been able to maintain a steady growth over the last few years.

Credit stress was analyzed by constructing a composite index (based on Median) that takes into account a set of financial ratios. The index was built by re-scaling and normalizing individual financial ratio and an aggregate score on a scale of 0-100 was computed for each firm across different industries. Distance to Default, an alternate approach, was also developed to corroborate the findings of the score based analysis in identifying firms with stressed financial conditions.

Some Macro indicators

Wholesale Price Index (WPI)

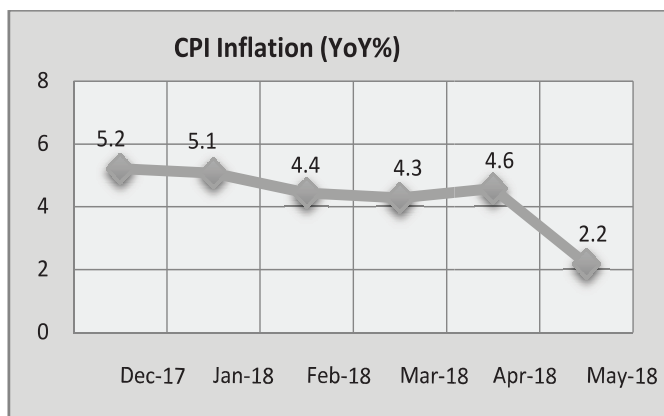
The annual rate of inflation, based on monthly WPI, stood at 4.43% (provisional) for the month of May, 2018 (over May, 2017) as compared to 3.18% (provisional) for the previous month and 2.26% during the corresponding month of the previous year.



Source: DIPP

Consumer Price Index (CPI)

The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation has revised the Base Year of the Consumer Price Index (CPI) from 2010=100 to 2012=100.

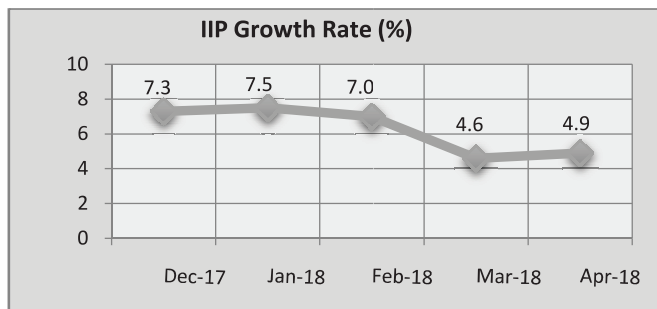


Source: MOSPI

Index of Industrial Production

The General Index for the month of April 2018 stands at 123.0, which is 4.9% higher as compared to the level in the month of April 2017. The cumulative growth for the period April-March 2017-18 over the corresponding period of the previous year stands at 4.3%.

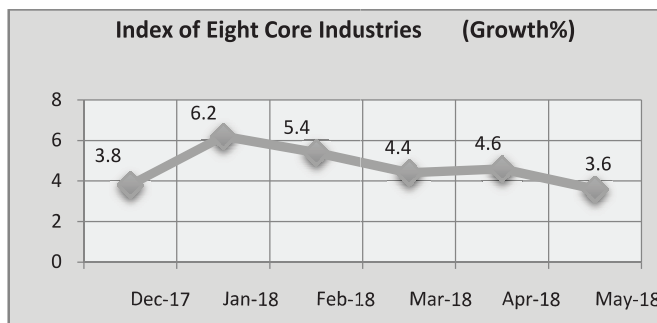
The IIP for the Mining, Manufacturing and Electricity sectors for the month of April 2018 stand at 103.8, 123.4 and 153.7 respectively, with the corresponding growth rates of 5.1%, 5.2% and 2.1% as compared to April 2017. The cumulative growth in these three sectors during April-March 2017-18 over the corresponding period of 2016-17 has been 2.3%, 4.5% and 5.4% respectively.



Source: MOSPI

Index of Eight Core Industries

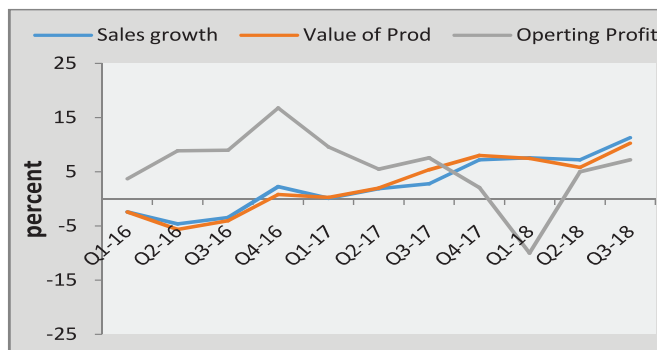
The Eight Core Industries (Coal, Crude oil, Natural gas, Refinery products, Fertilizers, Steel, Cement, and Electricity) comprises 40.27% of the weights of items included in the IIP and the corresponding index stood at 131.4 which was 3.6% higher as compared to May-17.



Source: DIPP

Growth in Sales, Value of Production and Operating Profits

Trends in the select corporate performance indicators published by RBI of a sample of non-government non-financial listed companies are as below:



Source: RBI