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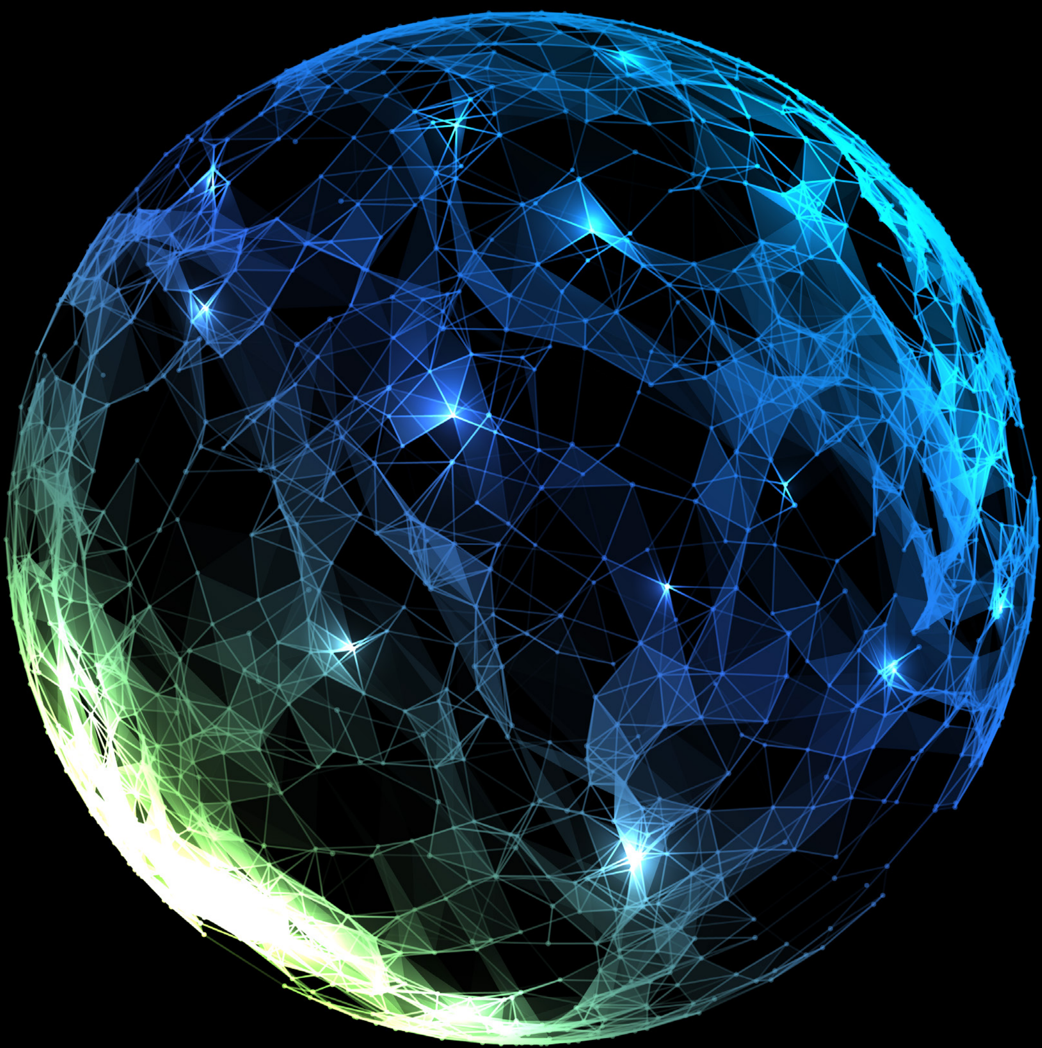


Growth-Deloitte Perspectives

Deloitte Private Newsletter

January 2020

Contents

Message from Joydeep Datta Gupta, National Leader, Clients and Industries, India

Joydeep Datta Gupta
National Leader,
Clients and Industries, India

Dear All,

Many people think of disruption as something to avoid. Synonyms for the word—disturbance, interruption, distraction, interference—all carry a negative connotation. But in today's competitive business environment, disruption can be a real positive—if you are embracing it and capitalizing on the opportunities it creates.

Across the world, that's the reality for many private companies. They are acknowledging that the marketplace is more complex and fast-paced than it was just a decade or two ago. It's not just technology, talent, or changing consumer behaviours and expectations driving this disruption—it's the interplay of all three. Truly innovative companies are proactively combining those inputs to transform their business model, pivot quickly in pursuit of new opportunities, and manage resources more effectively.

Continually evolving changes in the business environment is making it imperative to keep ourselves updated of the key developments and stay relevant.

With that thought, this is the first issue of our newsletter **"Growth – Deloitte Perspectives"**, a quarterly perspective, which entails updates around economic developments and best practices sharing. We aim to keep you abreast with the evolution in the current business environment within a wide net of spectrum such as industry trends, strategy, investment practices and business growth ideas.

We hope the perspectives will help foster a greater learning and sharing of best practices and promote awareness to create a leverage for growth.

Message from Mike Horne, Asia Pacific, Deloitte Private, Leader

Mike Horne
Asia Pacific Deloitte
Private Leader

Asia Pacific is the fastest growing and most complex region in the world. India is a major contributor into the future prosperity of the region. Private companies, family businesses, and entrepreneurs, as well as private equity investors and private equity backed businesses are the backbone of the economy and Deloitte Private has earned a reputation as trusted advisors by working closely with clients through many business and family issues. Private companies are faced with promising opportunities and considerable challenges: investing in emerging technologies, expanding global markets, navigating tax reform, and reorganising the workforce. That's why Deloitte Private is a major focus for Deloitte in Asia Pacific and India, and we continue to invest and grow in the region

Q&A with Carl Allegretti, Global Deloitte Private Leader

Carl Allegretti is the Global Managing Partner for Deloitte Private. He also serves as an advisory partner for several of the largest clients of the Deloitte US Firms and as the Managing Partner of Deloitte's US Chicago practice with leadership responsibility for more than 5,800 professionals in the Chicago market. He's spent the majority of his 37-year career serving private clients. Getting to know these clients and helping them solve their business challenges has been one of his favorite parts of his career.

What is the Global scenario for Family Business/Privately-Owned companies and how are they performing?
Private companies and family businesses play a major role in today's economy, not only in India but in our global economy. Around the world, we're seeing these businesses drive up to 75% of market revenues globally. Private companies also lead in terms of employment and have the agility and ability to take the long-term view, which trends show as important and significant in today's business environment.

In terms of how they are performing and setting themselves apart, here's what we are seeing at Deloitte.

In our **2019 Global Perspectives survey**, we talked to **2,550 executives at mid-sized companies, spanning 30 countries**, about the performance of private companies. And what we learned was that the majority surveyed anticipated growth over the next 12 months for key business metrics including revenues and profits. Nearly half expected to add to their full-time staff and 50% projected their company's revenues to rise by at least 26 percent.

Specific to respondents in Asia Pacific (AP), nearly twice were likely to cite new products and services as a competitive edge than those in the Americas, who felt more strongly that their advantage lies in increasing productivity. Private companies in the AP also have bigger plans for technology investment.

There's never been a better time to be a private company and is why we are seeing more companies and wealth staying private today.

What are the challenges these companies typically face in growth and the sustainability? What opportunities emerge out of these challenges?

What we're hearing from clients and seeing in the results of our surveys is that that while private companies are concerned about disruptions such as trade wars, cyberattacks, and geo-political uncertainty, they also have confidence in their abilities, and outlook.

For example, in the same 2019 Global Perspectives Survey, roughly 75% of respondents stated they have high or extremely high confidence in their company's success over the next 24 months and that they have cross border trade and supply chains outside their home country which lends to diversified geographies for growth. Most also expect revenues, profits, productivity, and capital investment to go up in the coming year.

Additionally, when we look at our 2019 Family Business Survey, over 50% of the 791 family businesses in the 58 countries we surveyed, believed their organisations were fit for the future in terms of ownership, governance, and strategy. And over 60% of family businesses cited agility as the most crucial attribute of their business. Specific to AP, 42% of respondents say they are considering new business models, and 58% of those respondents are in India. The percentages are close to the same when asked if they were implementing new business models.

How does the team engage with these companies at a global level? What are Deloitte's offerings for these companies?

We leverage the full power of our global network with operations in more than 150 countries to identify trends and insights to help our clients prepare for the future. We also drill down to look specifically at private markets to better understand our clients and provide solutions to their challenges of today and in the future.

We have differentiated offerings specifically tailored for private companies. We also offer some unique capabilities such as our interactive Family Business modules which help guide private business owners and family offices in determining their business, tax, and M&A needs. Cyber essentials is another offering that provides a scalable, flexible approach to deploying our cyber risk capabilities with private clients, including modular solutions and easily automated workflows.

And one last mention, our Best Managed Companies program leverages our global network to showcase best practices we've uncovered from working with a diverse range of companies setting themselves apart by driving sustained success in the private market.

Essentially, being a client of Deloitte Private means you have exclusive access to a global network serving thousands of clients across the globe along with resources from an experienced team.

As per our 2019 Global perspectives survey, in Asia Pacific (AP) region,

01. Nearly twice were likely to cite new products and services as a competitive edge than those in the Americas, who felt more strongly that their advantage lies in increasing productivity. Private companies in the AP also have bigger plans for technology investment.
02. 42% of respondents say they are considering new business models, and 58% of those respondents are in India.

Approximately, one third of the world's private "unicorn" companies (valued at US $1 billion or more) are headquartered in the region. Some of the trends we are seeing include being the home base for much of today's technology innovation, especially in the area of artificial intelligence and virtual reality. Countries spearheading these innovations are Japan, Taiwan, South Korea, Singapore, India, and Indonesia.

What are the unique offerings Deloitte Private offers Private clients and what is your perspective on technology offerings for Deloitte Private clients?
In a world driven by innovation, disruption and data, technology is key to almost all of the services we deliver to our Deloitte Private clients. Whether it is mid-market ERP solutions or technology assets that we have developed to support our Assurance and Tax offerings or specialised cyber tools that keep our clients' data and systems secure, we will continue to see an increasing amount of technology in what we do. This means our partnerships and alliances with strategic third parties will increase in importance and the technology fluency of our Deloitte Private teams needs to increase as we go forward. Technology is right at the core of what we do, and no organisation is better positioned for the technology-driven Fourth Industrial Revolution than Deloitte.

How do you see you trends for emerging companies (start-ups) in the AP region, how does Deloitte intend to focus on this sector?
The start-up market is a growing segment in the AP region. Approximately, one-third of the world's private "unicorn" companies (valued at US $1 billion or more) are headquartered in the region. Some of the trends we are seeing include being the home base for much of today's technology innovation, especially in the area of artificial intelligence and virtual reality. Countries spearheading these innovations are Japan, Taiwan, South Korea, Singapore, India, and Indonesia. We are also seeing some other sectors, such as consumer and retail, catching up with the technology sector. Combine that with the fact that 21% of Indian start-ups are primarily focusing on global markets and it's easy to understand why Deloitte has made it a priority to serve this market with a Deloitte Private leader focused entirely on this region in our network.

How do you see the Indian Economy growing? What are the opportunities and challenges of a professional services organisation like Deloitte in an emerging economy?
While India's economy has been growing rapidly for the past decade (10% growth in FY19) it's slowed lately slowed due to a range of factors.

However, the Indian government recently introduced fiscal policy changes to incentivise private investment and job growth, with a focus on economic recovery and sustained growth. And in the longer-term, I expect to see relatively strong growth in India owing to good demographics, a relatively good system of channeling savings toward productive investment, a strong entrepreneurial spirit, and modest reforms implemented by the government.

As the country continues to grow, the number and size of large business enterprises will increase, boosting complexity, and thereby creating opportunities for professional services. In addition, if India becomes more open to the outside world, there will be opportunities to serve foreign companies investing in India as well as Indian businesses competing in the global arena.

Data sources:
Global perspectives for private companies: Agility in changing markets
Global family business survey 2019 - Long term goals, meet short-term drive
India Economic Outlook | Deloitte Insights

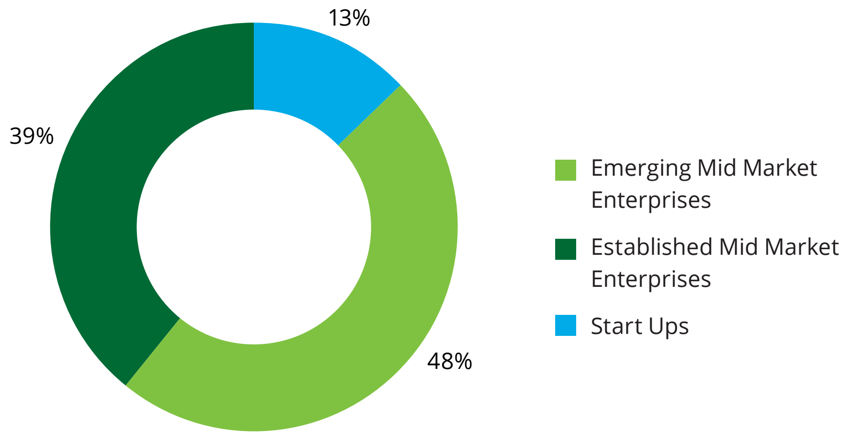
Promoters' survey for Deloitte Private

At Deloitte, we have undertaken an initiative to understand the evolving needs of the family-owned businesses. Through our in-person survey, we have gathered thoughts from emerging mid-market enterprises, established mid-market enterprises and start-ups to identify trends, insights, and challenges faced by these.

Family businesses and privately held enterprises are a key driver of growth for the Indian economy. The interplay of often differing motivations of the family, the business and the executives make these organisations complex entities to manage. Understanding this dynamic equation and how it impacts the organisation has been a fascinating topic for us at Deloitte to explore. We recently undertook a survey to better understand the fast evolving needs of family enterprises. We spent time engaging with key stakeholders (promoters and executives) of these organisations to get deeper insights related to how they strike a balance between the aspirations of the owners with meeting of business objectives.

Whom did we speak to? Or Who were our respondents?

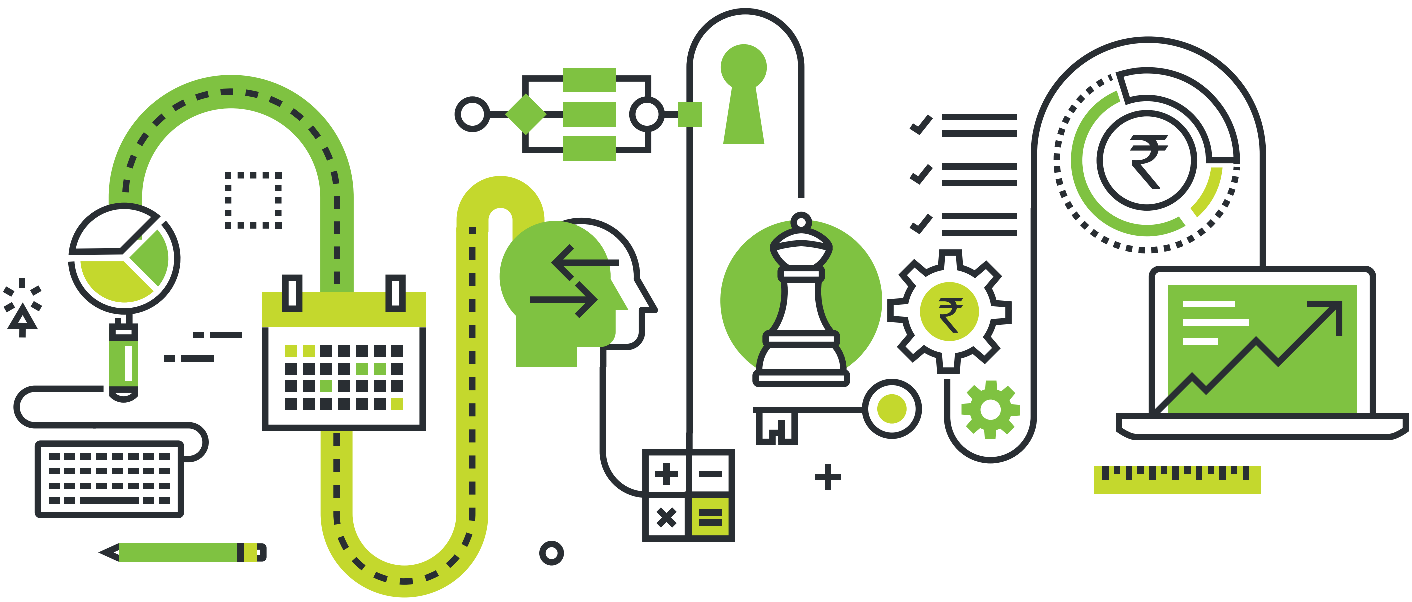
The respondents of the study included Emerging Mid-Market Enterprises (enterprises with annual revenue of less than INR 1,000 Cr and promoter holding of >20percent), Established Mid-Market Enterprises (enterprises with annual revenue of greater than INR 1,000 Cr and promoter holding of >20percent) and a broad spectrum of Start-ups.



The focus of these conversations was on understanding the needs of the mid-market enterprises along two dimensions – family and business.

Within Family, we focused on understanding their views on inducting the next generation of family into the business. Their experience of balancing the often-divergent needs of the family and business, including resolving conflicts. Lastly, we also touched upon their approach to managing and augmenting their family wealth.

On the Business side, the focus of our discussions was to understand the organisation’s short term and long term strategic objectives, funding and capital needs, path towards professionalisation, talent management, risk mitigation and compliance, and technology adoption.



Key insights that emerged from the conversation

Family Perspective – Areas of Interest

1 Well-planned succession planning

Across organisations, appropriately managing succession is a top priority for a leader. However, its' importance is much greater in a family business enterprise, where a poor choice of successor could disrupt the best laid out plans for both the family and the business. Given the criticality of such a decision, it is unsurprising that it figures as a top priority. Moreover, in our conversations, we realised that managing the 'transition process' was as equally important as identifying a successor.

2 Mentoring and grooming of the next generation

In the past, entering the family business was a default option for the next generation. However, the newer generations is eager to explore career options that go beyond their existing family businesses. Increasingly, they are happy playing the role of an "owner" without having to actively manage the business. Promoters have to balance the role of a parent (one who wants their kids to pursue their dreams) and the role of business owner (one who wants the business to scale new heights). They fear their biases may come to the fore and in certain instances feel ill-equipped to mentor their children appropriately.

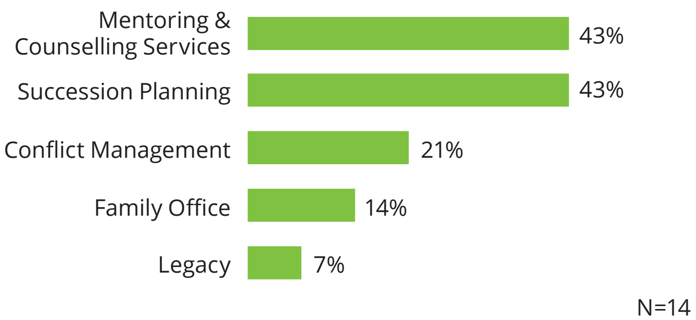
3 Differing needs between the "Emerging" and the "Established"

About a quarter of the respondents that we spoke to highlighted the importance of establishing a family office. This is a reflection of the growing acceptance of family offices as a useful construct to manage the needs of the family and business. For emerging mid-market enterprises setting up the family office including defining the family charter, defining the roles for family in business, establishing governance were the key needs. In contrast, for the more established mid-market organisation, identifying investment opportunities for the family office was a key requirement.

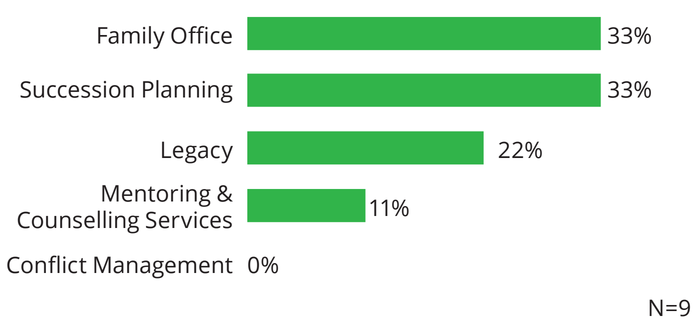
4 Establishing a "Legacy"

Having tasted business success, many entrepreneurs evolve to the need of leaving behind a "meaningful legacy". While this may manifest in multiple ways and across several areas of interest, there is a uniform desire from these families to establish a sustainable and impactful philanthropic initiative.

Emerging Mid Market Enterprises & Start-Ups



Established Mid Market Enterprises



Source: Primary Research, Monitor Deloitte Research

Areas of Interest – Business Management

Source: Primary Research, Monitor Deloitte Research

Reliable strategic advice: Most of the respondents we interviewed had witnessed strong growth in the last few years and were keen to continue on a similar trajectory. The slowing economy, changes in the geo-political equations, and the proliferation of competition is causing these family businesses to acknowledge the need to redefine their strategic priorities.

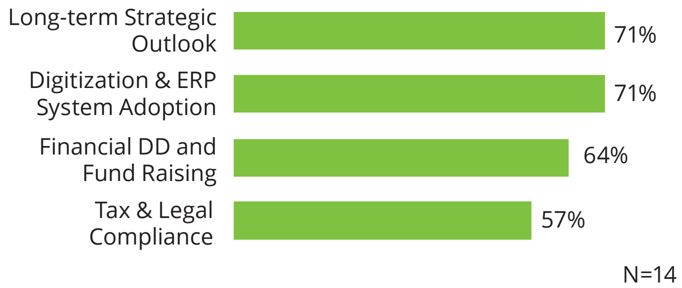
Digital Savviness: Family businesses have not been spared by the "Digital bug". 65percent of respondents have felt the need for their business to adopt technology. Furthermore, 13percent of respondents have indicated their interest in adopting new age technology such as block chain and cloud computing. Surprisingly, the need was articulated by respondents across both the categories. Respondents did acknowledge that adoption of technology was not limited to rolling-out a software but also managing the change and inculcating a digital mind-set amongst their employees.

Contemporising Processes: As enterprises begin to scale, their operations become more complex. The impact of this complexity is typically felt in key support functions such as Finance or HR. These functions are usually understaffed and often inadequately skilled. Especially amongst the less mature organisation, we found a clear need to help them establish more robust and contemporary processes for raising and managing of funds.

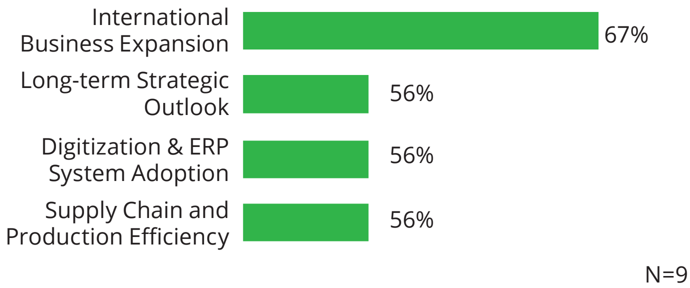
International Business Expansion: 57percent of respondents aspire to expand their footprint globally. While there are several ways to do so, they are often unaware of which strategy will suit their needs the best – from an operational, regulatory and capability standpoint.

Tax and Legal Compliance: Legislation and regulatory enforcement actions are rapidly changing across the world, more so in India. Organisation find themselves in the need to adapt to thrive in this changing regulatory environment. Furthermore, they are looking outward to tax and regulatory experts to understand ways to unlock greater financial benefits from these changes.

Emerging Mid Market Enterprises & Start-Ups



Established Mid Market Enterprises



Source: Primary Research, Monitor Deloitte Research

Acknowledgements

We are grateful to the respondents of this study, who took time out of their busy schedule to share their perspectives with us.

Macro-economic update

Losing sleep over growth concerns, policymakers gear to tackle the problem head-on

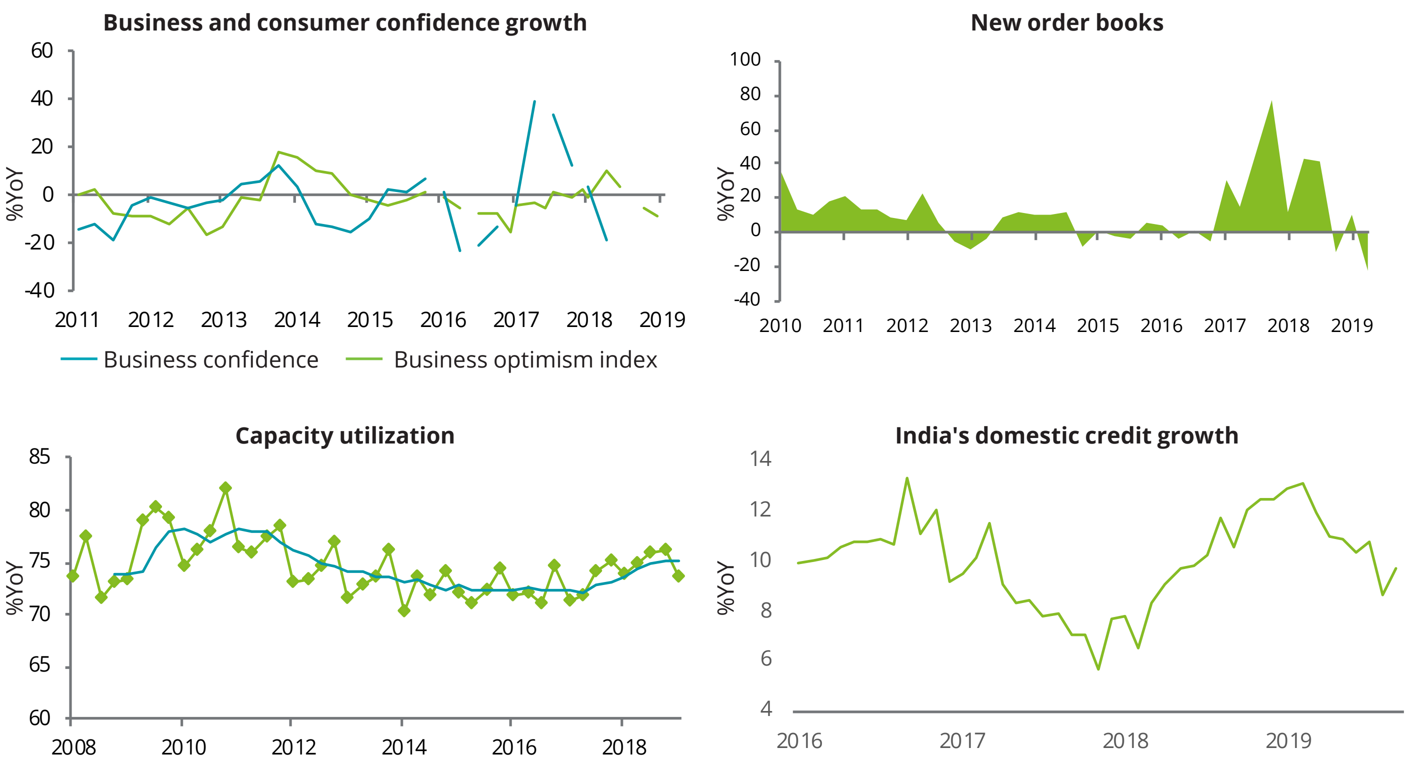
Economic activity has been losing momentum for over five quarters and the latest GDP numbers confirm that the current slowdown is the longest since liberalisation. At 4.5 percent year over year in Q2 FY 2019-20, GDP growth is the lowest since Q1 2013, driven by weak private domestic demand and exports. While private consumption grew by 5.1 percent, private investment growth nosedived to barely 1 percent—the slowest growth since 2014. Exports, whose share in GDP has fallen by close to 6 percent since 2013 contracted by -0.4 percent this quarter because of weak global demand and trade uncertainties. However, with imports contracting even more (-7 percent), pressure on current account deficit eases significantly. Growth has primarily been supported by government spend which grew by 15.6% this quarter.

On the industry side, gross value added grew by 4.3 percent, with the manufacturing sector contracting by -1.1 percent in Q2 FY 2019-20. Growth in the services sector has remained steady, although public administration, defence and other services provided a big impulse to the sector. Non-farm, non-government value added (manufacturing, mining, construction, and private services) increased by 3.4 percent compared to 5 percent in Q1 FY 2019-20.

Leading economic indicators point to just a gradual growth in the current quarter as well. Private consumption spending is unlikely to increase as credit and rural income growth remain sluggish. Excess capacity, falling order books, and highly leveraged corporate balance sheets will likely keep business confidence low and result in further postponement of investment decisions. Not much relief is expected from the global economy either as advanced nations are coping with stagnant economic activities, many of them are at the edge of a possible recession.

While growth concerns are bringing sleepless nights to policymakers, the fiscal deficit for the period April-October has crossed this fiscal year's target indicating further stress on fiscal concerns for the government. The target fiscal deficit for this year was 3.3 percent of GDP as was announced in the budget. With growth slowing down and government revenues likely to be low because of reduced corporate tax rates, there are concerns over fiscal slippage this year.

Chart 1: Select leading economic indicators point to gradual growth



Is it all gloom and doom? May be not

That said, India has experienced far worse slowdowns before. Of the five slowdown cycles since liberalisation in 1991 (the SE Asian crisis in 1997, Dotcom in 2002, global financial crisis in 2008, and high oil price volatility with indications from Fed tapering in 2012), India is faring better in terms of several economic fundamentals in this current slowdown. Core inflation (inflation excluding food and oil prices) is low and is expected to remain so because of excess capacity in the economy. This gives the RBI the elbow room to cut rates, which is highly anticipated in the December meeting. At the same time, aggressive asset sales and privatisation reforms will give the government some fiscal space to incur counter-cyclical fiscal policies to boost growth without widening the fiscal deficit.

Chart 2. Comparison of the five cycles of economic slowdown since liberalisation

	1997Q2 (South East Asian crisis)	2002Q2 (Dotcom bubble)	2008Q3 (Global financial crisis)	2011Q2 (Rising oil prices,fed tapering)	2018Q3 (Current)	
GDP (peak to trough)	-4.4	-4.2	-7.8	-5.9	-3.5	Slowdown is gradual and modest.
Duration (in quarters)	3	3	3	4	5	Current slowdown is the longest since liberalisation.
Inflation (average during slowdown)	6.1	5.1	9.7	8.1	3.1	• Inflation is the lowest among all slowdown cycles. • The RBI has a headroom to ease monetary policy. • However, rate cuts are not translated into cuts in commercial lending rates. • The bank's willingness to lend is low amid crisis in shadow banking.
Government balance (average during slowdown)	-3.8	-4.7	-5.9	-5.9	-3.4	• Fiscal deficit is the lowest, giving the government room to manoeuvre. • That said, the government has already crossed its budget target within six months of the financial year.
Oil prices US$/ barrel (range)	18.1-18.7	25-26.7	115.6-45	118.5-109	75.5-63	• CAD will be under control. • Oil prices are unlikely to rise as global demand remains weak.
INR per USD (peak to trough, spot)	-3.4	0.8	-8.0	-6.5	-2.0	• One of the least depreciations • The pressure of further depreciation will be high as dollar is firming up and the RBI's purchase of dollars is increasing to boost reserves.

In the medium to long run, the government's reforms such as the reduction in corporate tax rates, recapitalisation of banks, and support for auto and real estate sectors, among others, will likely help address some of the structural issues of the country. The latest announcement to amend India's bankruptcy code enabling the resolution of financial companies is a big step toward improving the liquidity and solvency issues among the ailing NBFCs and will likely help improve India's financial health and credit growth. The government is expected to undertake more reforms in the next few quarters. However, the impact of such reforms will be felt with a lag since these reforms are structural in nature and also because of impaired transmission channels through which policy changes impact real activity. With significant risks looming over global economic activities and trade, we expect a gradual recovery in the coming quarters.

The latest announcement to amend India's bankruptcy code enabling the resolution of financial companies is a big step toward improving the liquidity and solvency issues among the ailing NBFCs and will likely help improve India's financial health and credit growth.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27,752.93
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92

Industry update

In our endeavour to keep our clients updated, we will cover one industry in each of our quarterly updates. For our first quarter, we are providing key insights and perspectives on the consumer business industry.

Outlook for consumer business: A private perspective

The consumer business sector is currently facing headwinds due to slowing demand, channel liquidity constraints, and weakening consumer sentiment. The recently released GDP numbers highlight the consumption slowdown wherein Private Final Consumption Expenditure (PFCE), which contribute 55 – 60percent to the economy, grew by five percent in July-September 2019 as compared to 9.8 percent during Q2 of 2018-19. The reason for this slowdown is primarily due to issues of rural stress and growing unemployment brought on by the liquidity constraints. The real wages growth, has fallen to an all-time-low of minus 3.8percent in September which coupled with lack of non-farm avenues for employment and the skewed monsoon rains, has impacted labor demand and suppressed farm income. The rural to urban migration has also slowed down with many staying back in the villages due to lack of opportunities in non-farm activities like manufacturing, construction and services which make up over 60percent of the rural GDP. Subsequently, rural demand for discretionary spending has slowed down with rural consumers concentrating more on essential goods. Historically, aspirational rural consumers have been the key demand drivers for large categories such as two-wheelers, cars, FMCGs and appliances. However, the demand slowdown is evident in all these categories. Volume growth in toothpastes, hair oil, and shampoos, which are considered discretionary in rural consumption have all shown a decline with growth at 3percent, 0.4percent and nil respectively. Apart from slowing rural demand, there is a liquidity pressure on the trade channels which has resulted in a correction in trade inventories particularly in wholesale and retail, thereby affecting the growth of the companies involved in this sector. There's also a feedback loop working wherein the slowdown in wage growth and rise in unemployment, induces the consumer to spend less on discretionary items which in turn leads to lower demand thereby affecting manufacturing and allied sectors. This in turn feeds into the rise in unemployment and lower wage growth.[1,2,3]

Impact on consumer segments:

- **FMCG–** The segment has witnessed a growth slump in the fourth quarter straight since July-Sep 2018, both by value and volume. Value growth, or revenue earned, fell from 16.5percent in July-September 2018 to 10percent in the June quarter this year, according to industry officials quoting market researcher Nielsen. Growth by volume, or the number of packs sold, dropped from 13.4percent to 6.2percent in the same period.[4] The FMCG market further slowed to a five-quarter low in July-Sep 2019 period (Q2, FY20) – the value growth came down to 5percent, while the volume growth was down to 3percent in Q2 FY20.[5] The FMCG growth is expected to slow down further in the Oct-Dec 2019 quarter before picking pace in the next quarter.[6]

- **Retail–** India's annual retail inflation increased to 5.54percent in November 2019, faster than 4.62% observed in October. The retail price inflation jumped to a 40-month high which is in contrast to the economic slowdown implying little impact of the economic slump on the overall retail sector in the country. However, this put the country under the risk of stagflation where the economy is entering a stagnating phase while the retail prices are inflating.[7]
  - Online retail – The online retail is growing at a rapid pace vis-à-vis the overall consumer sector growth in India. However, the segment is also impacted by the ongoing slowdown of the economy's growth. The six-day festive period sales (first week of Oct 2019) concluded with online sales growing at over 30percent year-on-year (YoY). However, this growth was significantly less than that of last year's – sales grew at over 90percent in the festive period in 2018 YoY.[8]

- **Consumer durable and electronics–** Consumer electronics sales contrastingly witnessed a sales growth of 9-12percent in this year's festive season as compared to flat sales in the last period. Further, the sales boom was witnessed through brick-and-mortar format instead of online sales,

[1] Underlying causes of the economic slowdown, The Hindu, 14 December 2019
[2] Why the slowdown is in the mind, Live Mint, 6 Nov 2019
[3] Economy treading on thin ice, Deloitte, 8 Nov 2019
[4] Slow-moving consumer goods, four quarters in a row, The Economic Times, 7 Aug 2019
[5] FMCG slowdown gets worse in Q2 as consumer sentiment remains tepid, The Business Standard, 16 Oct 2019
[6] FMCG rural growth lowest in 7 years; poor farm income pulls down retail sales: report, Business Today, 18 Oct 2019
[7] India's rising retail prices stokes worries of stagflation, Reuters, 12 December 2019
[8] Amazon, Walmart confront India's slowing economy as holiday season growth stalls, TechCrunch, 9 Oct 2019

driven by premium and mid-premium products. Majority of the companies from this segment denied any impact of economic slowdown on consumer durable and electronics sales.[9]

- **Automotive–** Growth in the automotive sector has slowed down globally even before the Indian economy started showing signs of a slowdown. The macroeconomic parameters have further impacted sales in the sector – growth in automotive component industry declined from 18percent in FY18 to 14.5percent in FY19.[10] While overall sales in the auto sector declined in FY20, the recent sales data for November 2019 showed a marginal improvement in sales by 2percent YoY – sales grew for all segments of vehicles excluding commercial vehicles. Registration of passenger vehicles improved by 1percent, for two-wheelers it improved by 3percent, while for three-wheelers it increased by 20percent. Retail for commercial vehicles declined by 8percent in November. 2019 as compared to November sales for 2018. This marginal growth in sales was attributed to the spillover of demand from the festive period in October. Major auto industry players are optimistic of the sales growth beginning April 2020 when the new emission norms come into force.[11] However, the tractor sales – a good indicator for consumption by the rural rich – fell by around 10percent YoY in July-Sep 2019 period.[12]

- **Tourism and hospitality–** With the ongoing tourism season in India from Oct-Mar 2020, the impact of economic slowdown on travel and hospitality is yet to be ascertained. However, initial signs of tourism show a subdued growth and may be inferred to have been impacted by the ongoing growth slump. Growth in hotel room nights nearly halved to 6percent in July-Sep 2019 period from 12percent in Jan-Jun 2019 period. The air passenger traffic growth also slumped to 3-5percent in Aug-Sep 2019 period, it witnessed a significant growth of 15-20percent in the same period in previous year. However, the steep reduction in GST rates for hotel rooms announced in Sep 2019 may offset some impact of the economic slowdown in coming months.[13]

The domestic factors as well as the impact of global challenges like the US-China Trade deal and Brexit have all contributed to the current economic situation. The Government has taken a series of reforms to address both the supply side and the demand side economics. These include enabling retail credit by supporting non-banking finance companies (NBFCs) and housing finance companies (HFCs), clearing all government dues including those of public sector units, supporting micro, small and medium enterprises (MSMEs) via bill discounting and tax refunds. On the investment side, the government has taken steps to boost investment, support real estate, credit expansion, corporate tax and bank recapitalization. It is expected that the results of such measures would be visible in the quarters going forward. There is also the hope of further measures being announced in the budget to address the consumption slowdown.

[9] Consumer durables' sales grow 9-12% this festive season, The Economic Times, 19 Oct 2019
[10] This is how India's auto component industry can turn disruption into growth, WEF, 2 Oct 2019
[11] November automobile retail marginally improves over last year, The Economic Times, 11 Dec 2019
[12] Why the slowdown is in the mind, Live Mint, 6 Nov 2019
[13] Weak start to the high season for tourism sector, Business Today, 22 Oct 2019

Regulatory update

Empowered Regulators, Investment in regulatory mechanism and growth opportunities

Indian economic and regulatory environment has seen substantial shift in previous decades as regards relaxation to investors with an attempt to manifold FDI inflows, reforms like Make in India, Ease of doing business, State incentives, Invest India initiative, consolidation of labour and industrial laws into Labour Codes and so on. With liberalization, there emerges the need for investment in the regulatory and governance mechanism, which in turn can provide returns and rewards for stakeholders.

Over the years, the Regulators have put in place an enabling regime to set the stage to achieve the stable and sustainable economic growth. The year 2019 also witnessed key changes in the regulatory space:

Foreign Investment – Relaxation, Impact and Concerns

Single Brand Retail Trading:
To benefit global retailers, retail trading through e-commerce can also be undertaken prior to opening of brick and mortar stores, subject to the condition that the company opens brick and mortar stores within two years from date of start of online retail. Easing of sourcing norms will be a boost to foreign companies that need to buy at least 30% of the product locally (which would now include procurement either by themselves or through their group companies from India, even if such procurement is exclusively meant for exports).

Contract Manufacturing:
DPIIT has now clarified that 100 per cent FDI is permitted for contract manufacturing. In the erstwhile policy, 100 per cent FDI was allowed under the automatic route in the manufacturing sector but it was silent on contract manufacturing. Manufacturing activities may be either self-manufacturing by the investee entity or contract manufacturing in India through a legally tenable contract, whether on principal to principal or principal to agent basis.

Digital Media:
The Government of India permitted 26 per cent FDI under government route for uploading/streaming of news and current affairs through digital media. This came as a jolt for media companies as prior to that FDI caps existed only for the Indian print media at 26 per cent and news broadcast television companies at 49 per cent and there was no such cap on digital media. Flooded with concerns from media companies on the recent imposition of a 26 per cent limit on foreign direct investment (FDI) through the government route in the digital media sector, the Centre is looking at coming up with a clear decision on how such companies that already have a foreign shareholding above 26 per cent should be treated.

Coal and Mining:
In the coal sector, now foreign players can invest 100 per cent for mining and sale of coal under the automatic route and carry out other associated processing infrastructure operations related to the sector such as coal washery, crushing, coal handling, and separation (magnetic and non-magnetic). This move may result India as an attractive destination for global players, create a competitive market for coal and reduce the country's dependence on imported coal.

Insurance Intermediaries:
The government's decision to permit 100% foreign direct investment (FDI) in insurance intermediaries is expected to help foreign brokerages buy into Indian companies and deepen the market in terms of new products and technology. This could help bring in global products, practices, and sales strategies to India's insurance market.

Corporate Laws

Shares with Differential Voting Rights (DVR Shares)

DVR shares enable promoters to retain control of their companies while raising equity from global investors. It has now been decided that DVR shares can be issued upto 74% of total voting power (formerly 26% of paid-up capital). The requirement of having distributable profits for last three years prior to issue of DVR shares has been dispensed resulting which promoters may subscribe to DVR shares in the nascent stages and maintain control.

Employee Stock Options (ESOPs) by Start-ups

Start-ups may now issue ESOPs to identified class of employees (including promoter group) upto 10 years (formerly 5 years) from the date of incorporation.

Corporate Social Responsibility

With a view to ensure that corporates adhere to their responsibility towards society, it has now been decided that unspent amount of CSR fund attributable to 'ongoing project' to be transferred to 'Unspent Corporate Social Responsibility account' within 30 days from the end of financial year which should be subsequently spent on CSR obligation in next three financial years effective from the date of transfer. In the event the money has not been spent, the amount should be transferred to any of the following funds viz., Swatch Bharat Kosh, Clean Ganga Fund, or the Prime Minister's National Relief Fund at the discretion of the company.

Unspent amount of CSR fund (other than for 'ongoing projects') shall be transferred to the aforesaid funds within a period six months from the end of the financial year.

With regard to the CSR, GOI has changed its approach from "comply or explain" to "compulsory spend", penal provisions are now provided for shortfall in CSR spend.

Independent Directors – Data bank

GOI has launched data bank of Independent Directors (IDs) to provide an easy to access & navigate platform for the registration of existing IDs as well as individuals aspiring to become IDs. It is now obligatory for every person who is appointed as ID to register themselves in the data bank on or before March 01, 2020. Also, every person who intends to get appointed as ID after December 01, 2019 shall be required to get his name included in the data bank before such appointment.

IDs shall also be required to pass online proficiency self-assessment test (with atleast 60% marks), within 1 year from inclusion of their name in data bank, covering companies law, securities law, basic accountancy, and such other areas relevant to the functioning of an ID. However, Independent Directors who have served as Director or Key Managerial Personnel of a listed company or an unlisted public company having paid up capital not less than INR 10 Crores For 10 years or more, shall be exempt from aforementioned test.

Adjudication for non-compliances

Based on recommendation of Offences Committee, GOI amended Companies Act, 2013 to change the nature of certain non-compliances from criminal to civil in nature. Instead of being under the jurisdiction of Special Courts, Adjudicating Officers ("AOs") now adjudicate such violations through in-house adjudication mechanism. The design of In-house adjudication mechanism is intended to be objective, cost-effective and time-efficient.

Labour Laws

As part of labour law reforms, the GOI has undertaken the exercise of rationalization of various Labour Acts by framing 4 labour codes viz, Code on Wages, Code on Industrial Relations, Code on Social Security, and Code on occupational safety, health and working conditions. The objective and aim is to amalgamate, simplify and rationalize 44 Central and more than 100 of the State labour laws. The code on wages is the first labour code which has received presidential assent and is now awaiting the effective date of implementation. The code shall bring a vision for labour oriented units and enable to deal more efficiently with the labour law compliances.

Other Key Changes

Special Non-resident rupee (SNRR) accounts:

In a bid to boost internationalisation of the rupee, non-residents have been allowed to use SNRR accounts to maintain external commercial borrowings (ECBs) in rupees, retain rupee trade credits, and conduct business-related transactions in domestic currency even outside international finance centres. SNRR accounts were earlier subject to several restrictions which have now been eased and one key relaxation is removal of the limit on tenures up to seven years, which was applicable earlier for such accounts.

CCI approval for Combination

For expediting approval for fillings pertaining to scheme of merger and amalgamation, the Competition Commission of India introduced an automatic system of approval for combinations under green channel by amending the Competition Commission of India (Procedure in regard to the transaction of business relating to combination) Regulations. Under the said process, the combinations is deemed to have been approved upon the filing of notice in the prescribed format if it does not have appreciable adverse effect on the relevant market and there are no overlaps, etc.

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