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Editorial

CimplyFive wishes all the Company Secretaries and students pursuing their Company Secretary course in India a very happy golden jubilee on the completion of 50th anniversary of ICSI formation. Read more…

A CALL FOR CHANGE:

From Urgent to Important: Transforming Compliance Experts into Governance Champions



ISSUE

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Compliance calendar

Due dates for Professional tax, Goods and Service Tax, Companies Act, 2013 among others has been captured for your ready reference. View the list…

Gist of Regulatory Changes in Companies Act, 2013, SEBI (LODR), 2015 and Insolvency & Bankruptcy Code, 2016 in the month of August, 2018



Seven Regulatory changes in Companies Act, 2013, SEBI(LODR), 2015 and Insolvency & Bankruptcy Code, 2016 were made in the month of August.
View the list…

FIRST OF FIRST:

The Four Stages of Evolution in Equity Share Valuation: 1. Dividend Capitalization Method- The Concept, Trigger and Limitations

By Shankar Jaganathan

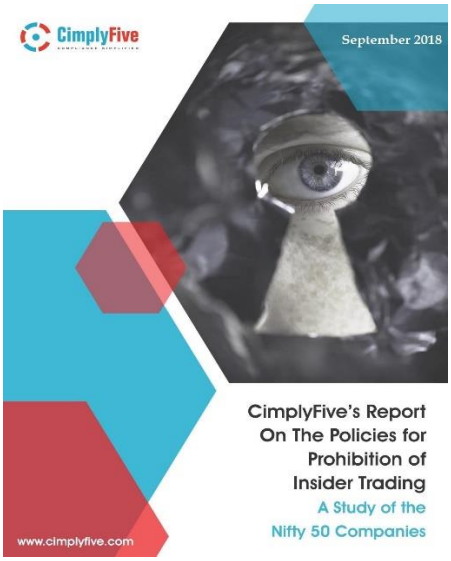


Large businesses and business intending to be large are organized as companies for they provide the triple advantage. Read more…

BUT: BLISS Useful Tips for the Month

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BUT#37: You can even search for a 'needle' in your Secretarial 'haystack'
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Releasing this month 'CimplyFive's Report on The Policies for Prohibition of Insider Trading



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Editorial

CimplyFive wishes all the Company Secretaries and students pursuing their Company Secretary course in India a very happy golden jubilee on the completion of 50th anniversary of ICSI formation. The profession has come a long way in establishing itself and is now a professional course on par with Chartered Accountants and Management and Cost Accountants.

If the profession needs to move from being Compliance specialists to Good Governance Leaders a key change required is to proactively set the agenda for business on the governance front. In our series **CALL FOR CHANGE,** we have addressed this specific issue with a game plan of how it can be accomplished.

In our series the **First of First** we have started a four-part article on the evolution of share valuation and how it contributed to the enduring success of company as a form of business organization. In the article this month we describe the trigger, concept and limitations of Dividend Capitalization method. In the next three issues, we will cover Share valuation based on the book value, Price Earnings multiples and valuing loss-making enterprises with potential.

Our other regular features –**Gist of Changes in the Companies Act** and **Statutory Compliance Calendar** is also included in this issue.

Please feel free to share your feedback with us at contact@cimplyfive.com. We look forward to your feedback with interest and as ever strive to improve the quality of everything we do.

Happy reading,

Shankar Jaganathan
Editor of iComply
September 5, 2018

A CALL FOR CHANGE:

From Urgent to Important: Transforming Compliance Experts into Governance Champions

ISSUE

Is your professional life like that of a fire fighter-unpredictable workday, putting out one fire after another, stiff deadlines to meet under intense pressure? Are the words crisis, problems, emergencies and deadlines frequently heard in your daily work life leaving you exhausted and fatigued?

If the answer to the above questions are yes, it is likely that you are a company secretary in a large corporate or in practice facing the challenge of a rapidly changing corporate law, punctuated by new deadlines like KYC-3, Ben-3 frequently cropping up with little notice and developments like mergers & acquisitions and restructuring taking a toll on your already tight schedule.

Faced with these challenges can you move from a reactive, hurried and task orientation work life to a proactive, serene and goal-oriented work life? The answer is yes, if you can make some conscious changes to your works style using the Eisenhower Decision Matrix.

CONCEPT

'What is important is seldom urgent, and what is urgent is seldom important' remarked Dwight Eisenhower the 34th US President and a Five-star general in the II Word War. This quote inspired a 2x2 matrix mapped on the two parameters-Urgent and Important that resulted in Eisenhower Decision Matrix.

Eisenhower Decision Matrix



Looking at the Not Important half of the matrix, activities like frequent checking of Whatsapp, the Facebook status and internet browsing are activities falling in the Not Urgent & Not Important quadrant. These activities can be eliminated during the work day or scheduled only at tea breaks, lunch breaks or after office hours. To the extent that these provide pleasure and can be stress busters, they can be allotted fixed time thereby enhancing work-life efficiency. Checking official emails and attending routine meetings fall in the quadrant of Urgent & Not Important. These are work life routines which cannot be avoided and where efficiency is the key; getting more done in less time is the answer and everyone has their own techniques for mastering this segment. But the two common techniques for achieving personal efficiency is delegation and automation.

The differentiating factor between a compliance expert and a governance champion is how they deal with the upper half of the Eisenhower Matrix of Important tasks. Based on the time spent between the two quadrants in this half, you can self-assess where you stand. In the quadrant, Important & Urgent are routine functional activities that define a function. For CS it would be preparing and attending board meetings and shareholder meetings, fulfilling SEBI and MCA compliances and providing inputs to the business team for their transactional needs. If you are spending more than 50% of your time in this segment, you need to pause and take stock of what you can do different. How you can minimize the time spent on this segment and reallocate it to time spend on the fourth quadrant -Important & Not Urgent. Your ability to reallocate time between the two quadrants will define how you can move from being reactive to being proactive; from having others set your agenda to setting your agenda.

Across all professions, not just professions but also personal life, the tasks in the quadrant of Important & Not Urgent look very similar. In this quadrant fall the activities which may be described as 'sharpening the axe' for cutting the wood; activities like setting your own goals, learning new skills, updating your professional knowledge, networking with your professional colleagues and scanning your environment to keep yourself abreast of the changes.

For the CS professional Important & Not Urgent activities can be the following:

1. Spending quality time for professional knowledge updates and changes in economic environment- not just in India but also globally,
2. Personal reskilling - learning to use the new emerging technology like social media and innovate apps for personal productivity, often an underrated element,
3. Setting new goals like defining your own timelines and not being dictated by statutory deadlines
4. Scheduling your calendar to attend professional meets and interact with fellow professionals, and
5. Last but not the least, visualising your profession in the social and economic context to see what it can do to enhance its influence in creating a more prosperous economy, embedded in a fair and just society.

To conclude, we can rephrase Eisenhower to say, "Your profession is defined by what you do that is important and urgent, and the time you spend on what is important and not urgent personally defines where you stand in your profession and collectively where your profession stands in the society."

THE FIRST OF FIRST:

The Four Stages of Evolution in Equity Share Valuation: 1. Dividend Capitalization Method- The Concept, Trigger and Limitations

By Shankar Jaganathan

Large businesses and business intending to be large are organized as companies for they provide the triple advantage of

- 'Existence at will' for they survive till their shareholders decide to dissolve them
- Limited liability enabling many unrelated investors to collaborate, and
- Transferable shares, providing liquidity to their shareholders without impairing the liquidity of the Company

A key ingredient that ensured the growing success of companies is the evolution in valuation of shares that permitted shareholders to sell and investors to buy

shares without diluting any of the economic advantages of ownership.

The evolution of share valuation is episodic, marked by stock market bubbles and often a major scandal that highlighted the limitation of the valuation method used which burst the bubble. The first of the four methods is the Dividend Capitalization method that evolved in the 18th century, followed by the Book Value method of the 19th century and the Price Earning Ratio of the 20th century. The 21st century saw the advent of dotcom/internet companies with long gestation periods that gave rise to the technique of valuing even loss-making entities with potential.

This article captures the concept, the trigger and the limitations of dividend capitalization method. In the next three articles, the concept, trigger and limitations of the other three valuation methods that followed the dividend capitalization method will be described.

The Concept

Lending and borrowing are concept that can be traced back to almost the beginning of human civilization. As these practices evolved, around the end of 17th century the concept of annuity bonds came into being in Europe, where the government would borrow money from its citizens and pay a fixed interest amount once every year to them. These bonds were called annuities as interest was paid once a year. The rate of interest paid on these bonds varied with the amount of money required by the government and the demand for these bonds from the citizens. Over time bonds with multiple interest rates came into being, example bond-A paying 6% interest and bond-B paying 8% interest. Once trading in bonds started, the price of the bonds could be related to the return they paid. If bond-A was trading at 100, Bond-B was priced at 133.33 (100 divided by 6 multiplied by 8) or if bond-B was traded at 100, bond-A was priced at 75 (100 divided by 8 multiplied by 6).

When trading in companies' shares started, their pricing was related to the bonds as they were seen as bond variants and hence initial pricing was related to dividend paid. If a company paid 8% divided, the company share price was equal to a bond paying 8% interest. With the result higher the dividend a company paid, higher would be its share price. The limitations of this method of valuation was highlighted when the first stock market bubble in the world burst in the year 1720.

The First of First

The year 1720 marks the first stock market boom. The place was London and the company at the centre of this boom was Southseas Company. Between January and June of 1720, the share price of this company went up from £128 to £1000 pounds. Among the techniques used to keep the share price high, announcing high dividends was a key factor. In August, the company announced 30% dividend for December, and it also promised a dividend 50% for the next decade. On August 24th as a show of confidence, it announced a fresh issue of £1 million at a price of £1000 per share. Despite these measures the share price did not react positively and it crashed by December 1720 to its January level.

Lessons Learnt

Even though shares are like bonds paying a periodic yield to their holders, there is a basic difference. While interest payments on bonds are contractual payments, dividend payments on shares are discretionary payments subject to the profits in the company and the decision of the Board of Directors. Hence Dividend Capitalization as a method of valuation is of limited use today, superseded by more advanced methods that evolved in the subsequent centuries. However, for anyone studying equity valuation, Dividend Capitalization is the place to start, but with a long road to travel that lies ahead.

Cimplyfive's Offerings

BLISS is a Cloud hosted software that automates the routines, provides an e-repository, timely alerts and a real-time dashboard, all aimed at ensuring compliance and good corporate governance. By doing so, it also provides complete peace of mind to the Board of Directors and assurance to professionals by providing them with real-time compliance status with respect to the Companies Act, 2013.

BLISSPLUS

An advanced variant of BLISS with multiple premium features like Directors view page, Past records, Automated compliance tracker under the Companies Act, 2013.

BLISS LISTED

An advanced variant of BLISSPLUS for Listed Companies with Companies Act, 2013 and SEBI's LODR 2015 compliances integrated to provide a single point compliance automation, risk manager & e-repository for secretarial records.

BLISSDOCS

An Android/IOS Board app for Directors which provides secure access to Board documents on tablets/mobile phones, facilitates enhanced productivity making the Board meetings more efficient & effective.

CAIRR

CAIRR is a free to use website from CimplyFive that provides at your fingertips, an integrated view of the Companies Act, 2013 & SEBI Regulations. The site is updated daily at 10AM for changes in the Act & Regulations. For more details, visit www.ca2013.com.



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Compliance Calendar

September 7th	TDS payment for August
September 11th	GSTR-1 (Aug 2018): Turnover exceeding Rs. 1.50 Crores or opted to file monthly Return
September 15th	Pay PF contribution for August, 2018
	ESIC payment for August.
September 20th	GST Payment for August 2018 - GSTR 3B
	GSTR-5 (August 2018): Return for Non-Resident foreign taxable person
	GSTR-5A (August 2018): Return to be furnished by Online Information and Database Access or Retrieval (OIDAR) services provider to un-registered person or customers, on the GST Portal for the services provided from a place outside India to a person in India, other than a registered person
	Professional Tax payment
September 25th	PF Return for month of August
September 30th	GSTR-6 (Jul'17 - Aug'18): Return filed by an Input Service Distributor

Gist of regulatory changes in Companies Act, 2013, SEBI (LODR), 2015 and Insolvency & Bankruptcy Code, 2016 in the month of August, 2018

- **07.08.2018**
  - **Commencement Notification**

Central Government has notified August 7th as the commencement date for the amended provisions relating to private placement of securities.

With this amendment, the following changes come into effect:

a. Renunciation rights cannot be provided for in the private placement offer and application form

b. Money received under the private placement shall not be utilized by the Company unless allotment is made and the Return of allotment (PAS-3) is filed with the Registrar.

c. Return of allotment (PAS-3) must be filed within 15 days from the date of allotment. Time for filing PAS-3 reduced from 30 days to 15 days.

d. Where the Company defaults in filing Form PAS-3 with the Registrar, the company, its promoters and directors shall be liable to a penalty for each default of Rs. 1000/- for each day during which such default continues but not exceeding Rs. 25 lakhs.

e. Where the company makes an offer or accepts monies in contravention of this section, the company, its promoters and directors shall be liable for a penalty which may extend to the amount raised through the private placement or Rs. 2 Crore, whichever is lower, and refund all monies received with interest. Prior to amendment, the penalty was higher of the amount involved in the offer or invitation or Rs. 2 Crore, and refund of monies was without interest.

- **The Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2018**

This rule is amended to make the following changes in the private placement provisions:

a. Additional details to be included in the explanatory statement for shareholders' approval is provided for. These are:

- Particulars of the offer including date of passing of Board resolution;
- Kinds of securities offered and the price at which security is being offered:
- Basis or justification for the price (including premium, if any) at which the offer or invitation is being made;
- Name and address of valuer who performed valuation;
- Amount which the company intends to raise by way of such securities;
- Material terms of raising such securities, proposed time schedule, purposes or objects of offer, contribution being made by the promoters or directors either as part of the offer or separately in furtherance of objects; principle terms of assets charged as securities.

b. Board approval is adequate where offer or invitation is for issue of non-convertible debentures and the total amount expected to be raised is not in excess of paid-up capital, free reserves and securities premium account in aggregate after including the money already borrowed.

c. Prior approval of Shareholders' through special resolution once in a year shall be obtained if the quantum of non-convertible debentures issued exceeds the limit specified in (b) above.
d. Private placement offer cum application letter shall be issued only after the relevant special resolution or Board resolution is filed in the Registry.
e. Private Placement Offer Letter is now titled as Private Placement Offer cum Application Letter (PAS-4) and the format is also revised

- **10.08.2018**

Circular on Notice for Meetings of the Committee of Creditors (CoC) vide Circular No. IBBI/CIRP/016/2018

Through this Circular, Insolvency Board directs the interim resolution professional or the resolution professional, as the case may be that he shall, in every notice of meeting of the Committee of Creditors and any other communication addressed to the financial creditors, other than creditors under section 21 (6A) (b), require that they must be represented in the Committee of Creditors or in any meeting of the Committee of Creditors by such persons who are competent and are authorised to take decisions on the spot and without deferring decisions for want of any internal approval from the financial creditors.

- **17/08/2018**

The Insolvency and Bankruptcy Code (Second Amendment) Act, 2018 w.e.f., 06/06/2018

IBBI had issued an Ordinance on June 06, 2018 to amend the Insolvency and Bankruptcy Code, 2016 to balance the interest of various stakeholders in the Code, especially the interests of home buyers and micro, small and medium enterprises, promoting resolution over liquidation of corporate debtor by lowering the voting threshold of the creditors committee and streamlining provisions relating to eligibility of resolution applicant. The amendments made vide the Ordinance is ratified on August 17, 2018 and the said Amendment act is deemed to have come into force from June 6, 2018.

All the 40 amendments made in this Amendment Act is integrated with the IB Code and is available in our site CAIRR (www.ca2013.com).

- **21.08.2018**

➢ **The Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2018**

Central Government has amended the proviso to rule 12A to extend the due date for filing Form DIR-3 KYC without any filing fee with MCA. The due date is extended from August 31, 2018 to September 15, 2018. The Form DIR-3 KYC is also substituted.

➢ **The Companies (Registration Offices and Fees) Fourth Amendment Rules, 2018**

Central Government has amended the Annexure of this rule to provide that for the current financial year (2018-19), no fee shall be payable for filing Form DIR-3 KYC till September 15, 2018 and on or after September 16, 2018, a fee of Rs.5000/- shall be payable.

- **31.08.2018**

Circular on Compliance with regulation 13 (2) of the Insolvency and Bankruptcy Board of India (Insolvency Professionals) Regulations, 2016 vide Circular No. IBBI/IPE/017/2018

Through this Circular, Insolvency Board provides for the format and particulars that should be submitted to the Insolvency Board by the Insolvency Professional Entity (IPE) within 7 days from the date when an insolvency professional (IP) ceases to be its director or partner or joins as its partner or director.

September 7, 2018 shall be the last date, in cases wherein the IPE have failed to inform the Board about any cessation or joining of an IP as its partner or director in the past.

About CimplyFive

Vision

Leverage research and technology to eliminate procedural non-compliance risk for entities regulated by the Indian Companies Act, 2013.

Mission

Provide a cost-effective, secure web-based, menu driven, subscription services that provides curated resolutions, timely alerts and informative dashboards to free the management bandwidth for pursuing business goals



CAIRR

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