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INSIDE THIS ISSUE

FOREWORD

Idea Behind This Weekly Newsletter

Being a Commerce College, students are expected to know the changes in the business world. This weekly newsletter will help the students get acquainted with a glimpse of what happened in the week gone by. It will also have insights into various business and commerce related updates which will help you gain in-depth knowledge. Make it a point to read each and every article in this issue and stay updated so that you don't get outdated.

- DR. D. M. Doke
Principal

BEYOND THE SMOKESCREEN
A BRIEF ANALYSIS OF CHINESE ECONOMIC SUPREMACY THROUGH DEBT-TRAP DIPLOMACY

The BAF Times

Dr. Sudha Subramaniam,
Core Faculty,
M.L.Dahanukar College of Commerce

India has always contended with debt-trap diplomacy both with external economies and world bodies as well as within its internal economy. On the one hand the Nation metamorphosed on debt and on the other hand the vicious debt trap within the economy consistently struck at its roots. In comparison, during January to April 2020, our close neighbour China struck 57 outbound M&A deals worth US $9.9 billion and 145 outbound investments worth US $4,5 billion. The key M&A target destinations for Chinese firms included Hong Kong, the US, UK, France, Germany, Canada and India. The key investment destinations during the period included the US, India, UK, Hong Kong, Japan, France, Germany, South Korea and Australia.

India's dependence on imports from China for electronic items, pharmaceutical intermediaries, motorcycle components, solar photovoltaic cells, textiles and so much more, has persisted and increased through the years. Ironically, India's relative demand for products as well as fast-tracked trade liberalisation has augmented China's economy and manufacturing in China while India's exports, in contrast, have always been tardy and sluggish. China's official agencies have stated the figure of Chinese investments in India, including those in India's Unicorn Companies, at approximately $8 billion!!

In sharp contrast to other Nations, China has contributed to development in other countries by financing major developmental projects through comparatively friendly loans. Government compromise has simultaneously been leveraged and we suddenly find that China is the repository of global wealth. Of course, several countries have been lulled by China into unsustainable loans for infrastructure projects. Moreover, Chinese investment has been systemically increasing across the world, even during the pandemic. The 2011 land lease in Tajikistan, the 2017 Hambantota Port Lease and equity sale in Sri Lanka are all high-profile deals involving Chinese State-owned enterprises.

(Continued on Page 2)

Several research organizations like the Rhodium Group, the Center for Global Development, the Kiel Institute for the World Economy and the Peterson Institute for International Economics did not find any clear-cut asset seizures in a review of 130 bilateral debt negotiations involving China between 2000 and 2020. But of greater concern is the fact that China has gained control of the asset and its operation in a wide-ranging global terrain that spans Sri Lanka, Bangladesh, South Africa, where they have borrowed more than they can repay. Although in terms of percentage of external debt the percentage may be in the range of 10% to 15%, the ramifications in real terms are massive and can bespeak of Chinese imperialism becoming a global masthead. China Harbor Engineering Company is the first foreign company to own a highway in Sri Lanka. Bangladesh's Payra Port has been the subject-matter of much discussion in terms of control by China, so also major infrastructure projects in South Africa. In July 2018, China invested $15 billion in South Africa's economy, which included loans for power utilities and infrastructure. In July 2020 South Africa was estimated to owe the equivalent of 4% of its annual GDP to Chinese lenders.

A traveller around the globe will benefit from Chinese funded infrastructure in Bangladesh, Srilanka, South Africa, etc and thrive on Chinese Investment across the world. The moot question is, 'Who is holding the reins?'. Pat comes the answer, 'The Chinese Dragon'.

THE RISE AND FALL OF TAX HAVENS

Isha Mahajan,
TYBAF

Tax havens are generally countries or places with low or no taxes that allow outsiders to easily invest money or set up businesses there. Tax havens also typically limit public disclosure about companies and their owners. Most tax havens also have formal law or administrative practices that prevent scrutiny by foreign tax authorities.

What gave rise to these tax havens? The answer lies in the history of England. When England lost many of its territories and the Suez Canal, investors began contemplating if the country was headed towards financial ruin. Some investors who bet on this started exchanging British currency for others. And as the Pound began depreciating, Britain's central bank was forced into action. They immediately halted domestic banks from lending money to overseas borrowers. The hope was that they could reduce the flow of currency out of the country and maintain its value. However, bankers were upset about losing business and a compromise was sought. And this compromise led the way for making of tax havens. The central bank had stipulated that foreign lending could continue as long as the transactions were not in British Pound. Secondly, both the lenders and borrowers had to reside somewhere other than the UK. Most banks simply chose British Overseas Territories as their location. And while at it, they figured out that this was an excellent way to circumvent key regulations and to borrow/lend billions without any oversight from the Government. The local authorities in these areas also deliberately designed regulations to make the process more seamless. And offshore banking took off in a massive way.

While using an offshore account isn't illegal, most people don't declare this information to local tax authorities in a bid to save money. It amounts to tax avoidance and evasion which is illegal. And this isn't even the biggest problem.

(Continued on Page 4)

There is another category — tax savings of multinational corporations, who use tax havens to pay little or no taxes in countries they operate. Think, Apple and Google who continue to use creative accounting practices to move wealth around. Some companies that have historically been known for offshore holdings include Apple, Microsoft, Alphabet, Cisco, and Oracle. Tax havens typically do not require outside entities to have a substantial local presence. Such a concession leads to companies claiming tax benefits by merely hanging a nameplate in a tax haven. There is no need for actually producing goods or services or conducting trade within the boundaries of the country. Tax evaders may continue their business in home country while claiming to be residents of a tax haven when it comes to paying taxes. Perhaps the most unjust aspect of this practice is that by increasing profits through tax avoidance, multinationals are increasing the value of their stock. This amounts to taxpayers paying these companies' shareholders through lost taxes.

Google made an announcement last year saying they were going to abandon the Double Irish Dutch Sandwich arrangement. The Double Irish Dutch Sandwich is an arrangement of a company and its legal entities in such a way in Ireland, Caribbean islands and Netherlands that the effective tax rate payable by a company is Zero!

Countries like Ireland and Luxembourg have been doing this for ages. They have been enticing major corporations by offering them low corporate tax rates and a business-friendly environment. And as companies began setting up subsidiaries and shifting the corporate headquarters, their home countries began losing tax revenue. Even worse, countries are forced to reduce their own tax rates in a bid to be more competitive. And it's happening everywhere. In 1980, the average global corporate tax rate stood at about 40%. As of 2020, however, it's at 24%. If a solution isn't found maybe the global tax rates will drop even further.

(Continued on Page 5)

The answer to this could be global minimum tax rate. The US government forwarded a proposal few couple of months ago—A global minimum tax rate of 21%. They revised it to 15% now but the concept is still the same. USA will tax all overseas income at this new rate and eliminate loopholes that allow companies to shift profits to tax havens. Meaning, if a US company trying to avoid tax by operating in Ireland (that boasts of a lower tax rate of 12.5%), then the US will simply come in and collect the extra 2.5% on the overseas income. Thereby making sure that they're paying at least 15% in taxes regardless of where the sales are made. It's called a global minimum tax rate.

USA wants a global consensus by having all countries to impose this rule. Only then, it would prevent companies from avoiding tax by looking at tax havens elsewhere. For countries that have already lost billions in tax revenue, a global minimum tax rate of 15% wouldn't seem like such a bad idea.

Last Saturday, G20 finance ministers approved a tax reform for multinationals that aims to put an end to tax havens, paving the way for minimum tax rate. The proposal to introduce a global corporate tax rate of at 15% has now been approved by more than 130 countries. The G20 is made up of Argentina, Australia, Brazil, Canada, China, France, Germany, Japan, India, Indonesia, Italy, Mexico, Russia, South Africa, Saudi Arabia, South Korea, Turkey, the UK, the US, and the EU. Together, the G20 account for 60% of the world's population and represent more than 80% of the global GDP and 75% of global trade.

Major tax haven countries like Ireland, Hungary, Estonia, Barbados, and Saint Vincent and the Grenadines have refused to sign up to the deal along with Kenya, Nigeria, Peru and Sri Lanka. However, United States says Ireland will be encouraged to sign the G20 global minimum tax deal soon.

Now it remains to be seen whether USA succeeds in persuading all the nations to adopt global minimum tax rate or if the tax havens reject the proposal and continue to thrive.

NON- PERFORMING ASSET AND SELLING OF THOSE NPA

Mr. Gaurav Rangnekar,
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NPA refers to “Non- Performing Assets” and in simple words we can analyse it as those loans which are due or in arrears for a period of more than 90 days to the Bank. Once the loan is due for a period of 90 days or more then the loan is classified into further categories. Arrears / Due consists of both Principal and Interest. NPA’s are the dead assets to the bank as there are very less chances of the loan of getting recovered from the customer. A bank having an NPA of 1% or less is considered to be strong. 1 to 1.5% is still manageable. But more than 1.5% is considered to be bad.

Category	Default Days
Standard Asset	Up-to 90 days
Sub- Standard Asset	Less than or equal to 12 months (from date of entering into NPA Category)
Doubtful Asset	More than 12 Months to 36 months
Loss Asset	Exceeding 36 Months (non – recoverable)

If the loan is non recoverable, it will add a lot of financial stress on the bank because it hampers/ ruins the operational revenue of the Bank (income from Interest). If the operational revenue is reduced then it will impact the overall EBIT of the bank and naturally the final net profit. Bank needs to incur the fixed expenses (interest to

(Continued on Page 7)

depositors , inhouse expenses etc) even if the operational revenue is impacted due to non -recoverable loan. Writing off each and every loan will erase the NPA amount from the bank's balance sheet but it won't help the bank because the loan amount is lost by the bank. So in this, one of the strategy used is "NPA Selling" by the Banks.

Selling of NPA

In-order to safeguard themselves from cash crunch, banks decide to sell of their NPAs to the asset reconstruction companies, or any collection agencies which are into this business segment. The NPA assets price is negotiated and fixed between the bank and the agencies. Once the deal is finalised, the collection agency will pay the money to the bank and then the loan recovery from the defaulter is the headache of the collection agencies. A Special Purpose Vehicle (SPV) is formed for this entire NPA selling purpose. (An SPV is a company or any form of organisation which is formed for a special purpose only).

Example- XYZ Bank has a total loan asset of Rs 100 crores (Rs 70 Crores is secured loan and Rs 30 crore is unsecured loan). Here out of this Rs 100 Crore loan , Rs 5 Crore becomes NPA. Here the banks will plan to sell of the NPA loan which is unsecured in nature because they are not backed by any asset (collateral).
This strategy / method of NPA selling is being widely used across the globe by all the banks.

(Recent update – SBI Bank had invited / offered to sell their two NPA accounts worth Rs 60 crore in the month of June 2021 and NPA worth Rs 217 Crore in the month of May 2021.)

(Continued on Page 8)

Few Indian Banks and their % of NPA for the year ended 31st March 2021.

Banks	% of NPA (NET)	Comments
HDFC Bank ltd	0.40	Excellent
Axis Bank ltd	1.05	Good
SBI ltd	1.50	Moderate
Bank of Baroda ltd	3.091	Worst
Bandhan Bank ltd	0.04	Excellent

Net NPA = Gross NPA – Provisions

During the covid pandemic, the banks with high NPA were facing a cash crunch and even the top banks like Kotak Mahindra, ICICI Bank, Axis Bank had to raise funds through QIP, Promoter Selling etc.
There is a high chance and prediction that the NPA of the banks are going to rise in the Financial Year as different relaxations for repayment is announced by RBI.

POOR RESPONSE FOR COAL MINE AUCTIONS

Ms. Tanisha Singh,
Alumni,
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India has the fourth-largest coal reserves and is the second-largest consumer, importer, and producer of coal. Last year Prime Minister Narendra Modi offered financial incentives to the private sector and removed restrictions on the end-use of the fuel in a bid to reduce imports and make India a net coal exporter.

Consequently, the coal ministry submitted 67 mines for bids from which only 19 of the mines had drawn the interest of private companies consisting of 4 coking coal mines and 15 non-coking coal mines. And only 8 mines out of the above received more than one bid, which makes the remaining bids invalid as per the Auction guidelines that stipulated a minimum of two technical bids for financial bid to be considered valid.

Burakhap mine in Jharkhand received the maximum interest with five bids, followed by the four bids in Rauta mine in the same state. Adani Power, Hindalco Industries, and Vedanta Ltd were among the companies that took part in the bids. Although, no foreign investors showed any interest.

EQUITAS HOLDINGS TO MERGE COMPANY WITH ITS SMALL FINANCE BANK

Mr. Advait Gaikwad, SYBAF &
Ms. Isha Amdaskar, SYBAF

Equitas Holdings Ltd, which is the promoter of Equitas Small Finance Bank Ltd, is looking to merge the company with the bank, and has actuated steps to finalise the scheme of amalgamation after getting RBI's acquiescence for the same. According to the guidelines of the Reserve Bank of India (RBI), "a promoter of small finance bank can egress or cease to be a promoter after the mandatory initial lock-in period of five years ("Initial Promoter Lock-in") depending on the RBI's regulatory and supervisory comfort and SEBI Regulations in this regard at that time", Equitas Holdings said in an exchange filing. For Equitas Small Finance Bank Limited, the initial promoter lock-in for the company expires on September 4, 2021. "Hence, the bank had requested RBI if a Scheme of Amalgamation of the company with the bank, resulting in exit of the promoter, can be submitted to RBI for approval, prior to the expiry of the said five years, to take effect after the initial promoter lock-in expires," it said. The central bank permitted Equitas Small Finance Bank to apply for approval for scheme of amalgamation, the filing said, adding that RBI also conveyed that any "no objection", if and when given on the scheme of amalgamation, would be without prejudice to the powers of RBI to initiate action, if any, for violation of any licensing guidelines or any terms and conditions of license, or any other applicable instruction. "Accordingly, we would be initiating steps to finalise the Scheme of Amalgamation, submit to the boards of the company and the bank for approval, and take further action thereafter in accordance with applicable regulations and guidelines," the company said.

*Equitas Holdings Limited - Equitas Holdings Limited is a Non-Deposit Taking Systemically Important - Core Investment Company – (CIS-ND-SI) registered with The Reserve Bank of India. The activity of the company is to make investment in subsidiary companies and providing loans to them. It has no other operations.

LIFE INSURERS' NEW PREMIUM INCOME UP NEARLY 7% IN Q1

Ms. Akshata Khandekar,
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The new premium income of life insurance companies rose nearly 7% to ₹52,725 crore in the June quarter this year, data from IRDS showed. For the month of June, the increase in new premium was around 4%.

IPO-bound Life Insurance Corporation of India (LIC) reported a 2.54% fall in new premium income in the June quarter, at ₹35,600 crore. For the period of June, LIC's premium fell 4.14% to ₹21,796 crore.

According to experts, a heightened demand for term covers, especially at private-sector life companies, have contributed to the rise in first-year premium for the sector even as LIC's business continued to remain subdued in the quarter even on a lower base. For the remaining 23 private sector life insurers, the new premium in June jumped about 34% to ₹8,213.20 crore as against ₹6,131.84 crore in the year-ago period. All 24 life insurance companies had collected the first-year or the new business premium income worth ₹30,009 crore in June of 2021.

Designed by:
Bhavya Bhat, TYBAF

If you wish to contribute your articles to be featured in the next issue, please mail your articles on swapnils@mldc.edu.in or contact on 9987094858 by Tuesday of every week and wait for the issue to be released on Saturday.

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