Newsletter

GM Corporate Solutions

Financial & Strategic Advisors

Snapshot 2023 and Outlook for 2024

Foreword

Indian Economic Overview

Following a successful Moon Mission and hosting the G20 Summit, India is well-positioned to emerge from 2023 with enhanced stability and optimism about its future progress and possibilities.

India, with a robust GDP of USD 3.75 trillion, is the fifth-largest global economy. According to the central bank – the Reserve Bank of India (RBI) – India is set to achieve a US$5 trillion economy by 2027, propelled by financial sector advancements and the demographic advantage the country holds.

The projections for economic performance in 2024 indicate that sectors such as banking, healthcare, and energy will witness high growth, while consumer goods, utilities, and chemicals might experience slower growth.

Economists are of the view that India is entering the central take-off portion of the 'S-curve,' characterized by a sharp rise in urbanization, industrialization, increased household income, and rising energy consumption. These key growth drivers typically take several decades to reach their peak. As a result, India is expected to remain the fastest growing economy for the next 10-20 years and be one of the primary global growth engines through the 2030s.

The industrial manufacturing sector is experiencing significant growth, attracting global technology giants like Apple seeking to expand their supply networks in India. This expansion is supported by state industrial policies and sector-specific incentive programs to achieve the Government's target of reaching a USD 1 trillion milestone in manufacturing by 2025-26. India is also strategically aligning with the 'China Plus One' approach to attract more foreign investment in manufacturing. The country has joined the Indo-Pacific Economic Framework for Prosperity (IPEF), aiming to strengthen regional supply chains, reduce dependence on China, and mitigate economic risks.

Currently, India's stock market holds the position of the fifth-most valuable market globally, boasting a market capitalization of USD 4.16 trillion. As per market reports, Indian equities outperformed top 10 global markets in terms of the gains. This was on the back of robust macro economic fundamentals and investments from domestic and foreign institutional investors.

Global M&A Snapshot

In 2023, global M&A activity decreased by 17%, amounting to about $2.9 trillion. Cash transactions represented 70% of the total, with an average control premium of about 25%. The year was marked by a significant shift in M&A dynamics, highlighted by 21 mega deals valued at $10 billion or more.

The launches of ChatGPT and GPT-4 by OpenAI in 2022 and 2023 have thrust AI into the spotlight, sparking increased M&A activity across the tech sector.

Domestic transactions exhibited greater resilience than cross-border deals, with geopolitical challenges in Europe impacting M&A volumes. However, North America remained resilient, and transactions also continued in the Asia-Pacific region, including Australia, India, Korea, and Japan.

Global private equity-led buyout volumes dropped by 38% to USD 433.6 billion due to reduced leveraged buyouts and fewer companies being sold by financial sponsors.

In 2023, companies navigated several global economic uncertainties, such as recession fears and increasing interest rates, with central bankers addressing record inflation. Due to these, while the global M&A activity was slower in 2023, there are a host of expected catalysts such as stable interest rates, pent-up demand, and industry-specific consolidation or divestment motivations which may lead to a more positive outlook for M&A transactions in 2024.

India M&A Trends

Deal Trends

The year 2023 witnessed a surge in the number of middle-market transactions, compared to the 2022 boom which had several mega deals. While the overall deal values shrank across all segments, the deal volumes remained robust and close to the 2022 levels.

Several acquirers were motivated by scaling-up or diversifying their existing portfolios. Some large companies also focused on strengthening their balance sheets by spin-offs and divesting non-core units.

The aggregate value of domestic M&A amounted to $51.8 billion, reflecting a 56% decline compared to 2022. Inbound M&As recorded a notable decrease of 36.4%, reaching USD 24.6 billion, marking the lowest annual level since 2015. Outbound M&As also witnessed a decline of 40%, totalling USD 5.9 billion, US emerged as the most targeted nation, capturing 23% of the share. M&A supported by private equity reached USD 13.4 billion, experiencing a 61% decline and marking the lowest annual since 2020.

Financial sector remained the primary focus of deal-making activities, amounting to USD 31.4 billion. Industrials secured the second position with a total of USD 12.9 billion, followed closely by high technology claimed a 10.8% share.

Several mid-market companies and conglomerates have increased appetite for M&A and expect the market to remain bullish. With expectation of a stable government, the favourable policies towards renewable energy, infrastructure, logistics and manufacturing are expected to continue the deal activity in these sectors.

Increasing availability of quality assets in healthcare would drive more investments in the sector. There have been several improvements in governance measures and Government's continual focus on startups is leading to many companies shifting their base back to India, launch of several IPOs, etc.

Notable M&A Deals

- Reliance Industries Limited (RIL) joined hands with Brookfield Infrastructure Partners and Digital Realty Trust in a three-way venture for setting up data centres in India.
- CarTrade Tech has entered into a share purchase agreement with Sobek Auto India Private Limited and OLX India BV, acquiring a 100 per cent stake in Sobek for USD 65 million in July 2023.
- Music label Saregama, under RP-Sanjiv Goenka Group, acquired a majority stake of 51.8% in digital entertainment company Pocket Aces Pictures Pvt Ltd for USD 21 million in September 2023
- Temasek invested USD 2 billion to acquire 41% stake in hospital chain Manipal Health Enterprises, increasing its stake to 59%. Manipal continues to expand its presence across the country and acquired Kolkata-based AMRI Hospital for USD 290 million.
- Leading global technology company HCLTech acquired ASAP Group, Germany for USD 280 million. ASAP Group focuses on future-oriented automotive technologies such as autonomous driving, e-mobility and connectivity.
- Kotak Mahindra received approval from the Reserve Bank of India to acquire Sonata Finance for USD 65 million, in October 2023.
- Ipca Laboratories, a manufacturer of pharmaceutical formulations, acquired majority stake in Unichem Laboratories for total USD 186 million.
- Liberty Global has invested Euros 1.2 Billion to acquire 1,355 million shares, representing 4.92 per cent of the outstanding share capital of UK-based telecoms giant Vodafone Group.
- National Investment and Infrastructure Fund (NIIF) acquired 25 per cent stake in Hindustan Ports Pvt Ltd. The regulatory approval also included the merger of Hindustan Infralog Pvt Ltd (HIPL) into HPPL.
- Adani Group acquired controlling stakes in both Ambuja Cements and ACC from Holcim for a combined value of $10.5 billion.

India PE/VC Snapshot

PE/VC Snapshot

In 2023, private equity and venture capital investments in India plummeted by 41% to USD 47.1 billion, down from USD 47.62 billion the previous year. This decline signals a significant slowdown in both investment amount and deal numbers.

Private equity exits saw a modest uptick in the year, reaching an enticing USD 19.34 billion—a slight boost from the previous year's USD 18.48 billion across 233 exits. Venture capital exits also showed an upward trend, rising from USD 3.09 billion across 113 deals in 2022 to USD 3.46 billion from 79 deals in the current year.

Private equity investments in Indian real estate declined by 44% to USD 3 billion in 2023. Though, PE investments from Singapore towards Indian real estate have significantly moved up from 31% in 2022 to 53% in 2023.

Data also reveals a notable increase in private equity (PE) investments in the healthcare sector, rising from 4% of India's total deal value in 2017 to 10% in 2023. In contrast, the pharma sector experienced a more modest shift, moving from 1% in 2017 to 2% in 2023.

PIPE (Private Investment in Public Equity) investments have reached a record high of USD 8.2 billion, constituting 17% of total PE/VC investments for the year. This figure already represents a doubling of PIPE investments compared to the previous year.

The financial services sector has emerged as the most appealing for PIPE investment, with infrastructure, real estate, and retail/consumer products following closely. Collectively, these four sectors have contributed to nearly 73% of total PE/VC PIPE investments since 2018.

The trend is also evident in exits, with open market exits reaching an all-time high of USD 9.5 billion in 2023. Over the last decade, open market exits totalled USD 45.1 billion, yielding significant returns for PE/VC investors, with nearly half of these exits occurring in the last three years. Notably, the financial services sector has contributed to 45% of all open market exits since 2018.

Notable Investment Announcements

- BPEA EQT, and PE firm ChrysCapital agreed to acquire 90% stake in HDFC Credila Financial Services for about USD 1.3 billion, signalling a major investment in education finance.
- Avaada Group secured USD 1.07 billion from Brookfield to support its green hydrogen and green ammonia projects in India, as part of its larger USD 1.3 billion fundraising initiative.
- Reliance Industries has received USD 1 Billion from Qatar Investment Authority (QIA) for approximately a 1% stake in Reliance Retail Ventures Ltd.
- Baring Private Equity Asia (BPEA) and EQT have agreed to acquire 60% stake in Indira IVF from TA Associates and the company's founders for about USD 657 million.
- Singapore's sovereign wealth fund Temasek invested USD 145 million in Mahindra Electric.

Notable Exits

- Tiger Global and Accel India have sold their stakes in the e-commerce giant Flipkart to its parent company Walmart for USD 1.78 billion.
- Mamaearth investors, including Sofina, Stellaris Venture Partners, Fireside Ventures, and Sharp Ventures, divested their stakes through a public issue, generating USD 133 million.
- Lenskart investors, including Chiratae Ventures, PremjiInvest, Unilazer Ventures, Steadview Capital, TR Capital, Kris Gopalakrishnan, and Epiq Capital, reduced their holdings and sold them to the Abu Dhabi Investment Authority for around USD 410 million.
- Non-banking lender DMI Finance obtained about USD 167 million from Japanese banking major MUFG Bank through the acquisition of stakes from the Burman Family Office, New Investment Solutions, and NXC Corp.

Startups

Governance & Regulatory

The Ministry of Corporate Affairs is planning new rules for large unlisted companies, including unicorns valued over USD 1 billion. The proposed guidelines may mandate quarterly financial report submissions to the MCA.

Incidents of corporate governance lapses at Byju's, along with similar issues in other Indian startups like Mojocare, GoMechanic, and BharatPe, underscore the critical need for enhanced corporate governance and oversight within India's startup ecosystem. The Ministry of Corporate Affairs is presently engaged in inter-ministerial discussions to propose amendments to the Companies Act, 2013, addressing these concerns.

Funding Trends

Startup venture capital funding experienced a 56% decline this year compared to the previous year due to sector turbulence, causing investors to become cautious. Late-stage fundraising was particularly impacted. Despite this, Indian new-age companies secured a total of $11 billion across all funding stages.

Late-stage funding in 2023 experienced the most significant decline, plummeting by more than 60% to reach USD 8.8 billion. Early-stage funding and seed-stage funding also witnessed notable drop of 17%, respectively. In specific figures, early-stage funding dropped to USD 2.5 billion in 2023.

In a challenging global economy with geopolitical conflicts, funding has hit a seven-year low akin to 2017. Venture capital's response? Prioritizing operational cash flows over the previous growth-at-all-costs approach, adapting to the high-interest rate environment.

In the midst of a funding winter, India witnessed the emergence of few unicorns as well. Zepto defied the challenging investment landscape by raising USD 200 million, propelling its valuation to USD 1.4 billion. Meanwhile, InCred, a fintech firm, navigated the funding chill to secure USD 60 million and achieve a unicorn status with a valuation of USD 1.04 billion.

In 2023, the fintech, ecommerce and enterprise sectors dominated in VC funding, securing USD 3 billion, USD 2.57 billion, and USD 1.65 billion, respectively.

IPOs

In 2023, MamaEarth, ideaForge, Yudiz, Zaggle, and Yatra Online entered the stock exchange. Additionally, Ola Electric, FirstCry, and Awfis submitted their draft red herring prospectus with SEBI. However, several startups, including Droom, OYO, boAt, Snapdeal, Mobikwik, PharmEasy, and Digit Insurance, postponed their IPO plans despite filing DRHP.

Notable Funding Announcements

- Fintech SaaS company Perfios raised USD 229 million in Series D funding from Kedaara Capital.
- PhonePe, a prominent fintech platform in India, raised an additional USD 200 million in primary capital from Walmart, with a pre-money valuation of USD 12 billion.
- B2B e-commerce custom manufacturing platform, Zetwerk raised USD 120 million in a Series F2 round led by Avenir Growth Capital. The funding values the company at around USD 2.7 billion post-investment.
- Ola Electric, an electric vehicle manufacturer, raised USD 385 million in a funding round led by Temasek and State Bank of India. The funding comprises a combination of equity and debt.
- Cashify, a re-commerce platform, secured USD 90 million in Series E funding from NewQuest Capital Partners and Prosus.
- InsuranceDekho, an insurtech startup, has garnered USD 60 million in a Series B funding round led by Japan's Mitsubishi UFJ Financial Group.
- Xpressbees, a logistics unicorn, secured USD 80 million in funding from Teachers' Venture Growth (TVG), the late-stage investment division of the Ontario Teachers' Pension Plan.

Sectoral Developments

Automotive & Auto-Components

In fiscal year 2023, the automobile sector in India saw an equity inflow from foreign direct investments worth approximately USD 2 billion.

India's Automotive Market, valued at USD 100 billion in 2021, is projected to reach USD 160 billion by 2027, reflecting a CAGR of 8.1% from 2022 to 2027. Specifically, the Indian passenger car market, valued at USD 32.70 billion in 2021, is expected to reach USD 54.84 billion by 2027, with a CAGR exceeding 9% between 2022 and 2027 in terms of market size.

As per a report from the India Energy Storage Alliance, the EV market in India is projected to experience a 36% CAGR until 2026. Furthermore, the expectation for the EV battery market is a CAGR of 30% during the same timeframe.

The auto component industry aims to invest USD 6.5 to 7 billion in the next five years for capacity expansion and technology upgrades, driven by the expectation of sustained demand. As of 2023, the Indian auto component industry is valued at around USD 57 billion, with a projected increase to USD 85 billion by 2026.

India's Automotive Plan 2026 aims to position the country as a global manufacturing hub for vehicles and auto components. The government has allocated US$10 billion for initiatives like infrastructure development, skill enhancement, and research and development.

Policies

The Bharat Stage 7 (BS7) emission standard, aligned with Euro 7, is the proposed regulation for vehicles in India. Its implementation is likely to raise production costs for vehicles, driven by the necessity for advanced emission control systems. Consequently, consumers may face higher prices.

The Ministry of Heavy Industries has extended the Production Linked Incentive Scheme for the Automobile and Auto Component Industry by one year, covering five financial years from 2023-24. Incentives, totalling INR 25,938 crore (~ USD 3.12 billion), will be disbursed from 2024-25 to March 31, 2028. Companies failing to meet the sales threshold will forfeit incentives, but maintaining 10% year-on-year growth can reinstate eligibility in the subsequent year.

Aviation

India is now the third-largest domestic aviation market globally and is set to surpass the UK by 2024 with a market size of USD 16 billion.

The year 2023 witnessed IndiGo and Tata-backed Air India placing record orders for new aircrafts and induction of wide-body aircrafts. SpiceJet faced issues of grounded aircrafts and tussle with its lessors, but saw a turnaround with funds infused by its promoters, financial institutions and foreign institutional investors. On the other hand GoFirst announced voluntary insolvency during the year. There are hopes of reviving GoFirst with interests coming in from SpiceJet, Sharjah's Sky One and few other entities.

In 2024, a pivotal moment in airport infrastructure is anticipated as both Delhi and Mumbai are set to have two new airports, expected to commence operations by the year-end. Regional connectivity is also expected to witness a boost with new regional airlines coming up like Fly91 and JettWings Airways and state governments actively supporting the sector.

Healthcare & Pharma

From 2018 to 2022, the Indian healthcare sector saw a surge in M&A activity with a cumulative deal value of USD 35 billion. In 2023, this trend continued with significant deals, including Temasek investing USD 2 billion in Manipal Hospitals and Blackstone acquiring Care Hospitals and Kims Hospitals for around USD 1 billion.

Indian healthcare scenario is swiftly evolving, with groundbreaking advancements in preventive care, wearable tech, and the transformative influence of IoT, ML, and AI. Additionally, Electronic Health Records (EHR) are on the rise, and geriatric healthcare is gaining prominence.

India's preventive healthcare sector is projected to reach USD 197 billion by 2025 with a remarkable CAGR of 22%. As per the 'India Ageing Report 2023,' the proportion of India's aging population is projected to double by 2050, reaching 20.8% of the total population. making geriatric healthcare a vital specialty.

Biopharma and MedTech companies have shifted towards "China plus one" strategy, diversifying beyond China. India being the focus for expansion in the Asia-Pacific region, accounting for about 30% of regional deal value in 2022 to 2023.

Sustainability Updates

Global Reporting Frameworks and Regulations

In June 2023, ISSB introduced two standards, IFRS S1 & IFRS S2.

- *IFRS S1* is a fundamental sustainability standard for large businesses, focusing on comprehensive disclosures for effective communication with investors.
- *IFRS S2* provides detailed disclosures, particularly emphasizing climate mitigation and adaptation, complementing frameworks like the TCFD.

The UK government has confirmed that, beginning in 2024, the UK Sustainability Disclosure Standards (UK SDS) will align with the guidelines of the IFRS ISSB. The UK government has also initiated a request for information regarding Scope 3 greenhouse gas emissions (GHG) reporting.

The Australian Accounting Standards Board (AASB) has released exposure drafts for three proposed sustainability reporting standards, which are mostly aligned with the ISSB. The drafts are open for public comments until March 2024, with the final standards anticipated to be launched in July 2024.

Singapore, Canada, and Japan also planning to adopt ISSB standards for sustainability disclosures in publicly traded companies, with potential reporting starting in 2025.

The Global Reporting Initiative (GRI) has released draft versions of two key standards for public comments, focusing on how organizations can reduce greenhouse gas emissions and energy consumption while adhering to just transition principles.

The EU has established the Sustainable Finance Disclosure Regulation (SFDR) to ensure transparency in disclosing sustainability information by financial market participants. SFDR allows investors to assess the integration of sustainability risks in investment decisions. In September 2023 the European Commission also launched 'targeted' and 'public' consultation on the implementation of the SFDR.

The EU will implement the Corporate Sustainability Reporting Directive (CSRD) in stages starting from Jan 2024, beginning with the largest companies. CSRD aims to update and reinforce regulations related to companies reporting social and environmental information. Entities under CSRD must adhere to ESRS, developed by the EFRAG. Companies failing to comply with the CSRD may face monetary penalties from EU member states.

The Carbon Border Adjustment Mechanism (CBAM) has entered into its transitional phase starting from October 2023. It aims to prevent 'carbon leakage' by imposing a carbon levy on specific imports from non-EU countries, linking it to the EU Emissions Trading System's carbon price. In its transitional phase it will apply only to cement, iron and steel, aluminium, fertilizers, electricity, and hydrogen imports.

Switzerland is aligning with the EU's Non-Financial Reporting Directive and adopting the European Sustainability Reporting Standards (ESRS), leading to more extensive and detailed Environmental, Social, and Governance (ESG) reporting than currently mandated in Switzerland.

As part of the European Economic Area Agreement, Norwegian Companies will adhere to additional ESG disclosure regulations, including the SFDR, EU Taxonomy Regulation, CSRD, and Corporate Sustainability Due Diligence Directive.

Sustainability in India

Sustainability Reporting

SEBI has introduced additional ESG metrics for mandatory disclosure under the 'BRSR Core' which is a subset of the comprehensive BRSR and encompasses specific key performance indicators.

1. Assurance of ESG reporting framework- will be applicable on top 1,000 listed companies by market capitalization starting from top 150 companies.

2. ESG disclosures for the value chain will apply to the top 250 listed entities by market capitalization on a comply-or-explain basis from FY 2024-25. Limited assurance for the same will be applicable on a comply-or-explain basis from FY 2025-26.

India is contemplating a domestic carbon tax, inspired by the EU's Carbon Border Adjustment Mechanism (CBAM), for its exports to European nations. India aims to retain the tax proceeds instead of sharing them with the EU. Additionally, there's a proposal for a countervailing tax on imports from the EU to India, but officials are concerned about its legality if challenged at the WTO.

Sustainability Initiatives

The government has introduced tradable Green Credits to encourage eco-friendly initiatives, allowing individuals or entities to earn and trade them on a dedicated exchange facilitated by the Ministry of Environment, Forest, and Climate Change. The program encompasses eight activities, including tree plantation, water management, sustainable agriculture, land restoration, waste management, air pollution control, and mangrove conservation and restoration.

PM Narendra Modi, alongside U.N. Secretary, inaugurated 'Mission LiFE' (Lifestyle For Environment), a new initiative promoting sustainable and healthy lifestyles. Recognizing climate change and global warming as significant global challenges, the PM emphasized that Mission LiFE democratically engages everyone in the fight against climate change, encouraging contributions from individuals in their own capacity.

The National Green Hydrogen Mission 2023 has been launched with the objective of establishing a green hydrogen production capacity of at least 5 million metric tonnes and an associated addition of renewable energy capacity of about 125 gigawatts (GW) by 2030.

The Ministry of Heavy Industries has implemented the Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India (FAME India) Scheme Phase-II. The program, with a total budgetary support of INR 11,500 crore (~ USD 1.5 billion), was designed to span five years starting from April 1, 2019.

Regulatory Updates

Securities & Exchange Board of India (SEBI)

SEBI amended Listing Obligations and Disclosure Regulations to mandate listed companies for timely reporting agreements which impact their management or control. Further, any subsequent amendments to such agreements are also required to be disclosed. SEBI has also introduced mandatory verification of market rumours by top listed companies – this is yet to be implemented and may have significant impact on price certainty for public market M&A.

SEBI approved amendments to the Real Estate Investment Trusts Regulations, 2014, creating a regulatory framework for Small and Medium REITs with an asset value of INR 50 crore, compared to the INR 500 crore minimum for existing REITs. This is in the wake of several fractional ownership platforms which have emerged over the past few years. The new framework for SM REITS will encourage retail investors to participate in real estate ownership. MCA and SEBI are considering the possibility of permitting the issuance of fractional shares. Final decisions on specific details and the minimum fraction allowed are yet to be made by the government and SEBI.

SEBI has made key changes to the Social Stock Exchange framework, including reducing the minimum issue size for Zero Coupon Zero Principal (ZCZP) instruments to Rs 50 lakh. The minimum application size for ZCZP by Non-Profit Organizations is now Rs 10,000, aiming to enhance retail participation to social enterprises.

SEBI's recent amendments to Alternative Investment Fund (AIF) regulations prioritize investor protection. Starting September 2024, all new AIF investments must be in dematerialized form, with exemptions for existing investments meeting certain conditions. As per extant regulations, Category III AIFs and Category I and II AIFs with corpus more than INR 500 crores are required to appoint custodian – this is now being extended to all AIFs.

SEBI aims to implement a same-day (T+0) settlement system by March 2024 and plans to introduce instantaneous settlement by the year 2025.

SEBI also updated the Offer-For-Sale framework and increased scope of eligible sellers by dispensing with the minimum shareholding requirement for non-promoters. Further, graded relaxations on pre- and post-OFS. cooling-off period for the seller.

SEZ and GIFT IFSC

- In December, the Ministry of Commerce introduced amendments to the regulations governing Special Economic Zones (SEZs), allowing the delineation of parts of an SEZ area into a non-SEZ area after the repayment of availed tax benefits.
- Non-resident individuals and foreign companies establishing bank accounts in GIFT IFSC are no longer obligated to furnish a Permanent Account Number (PAN). This exemption applies as long as these non-residents do not possess any other taxable income in India.
- Government is formulating rules for Indian Companies to directly list on GIFT City exchanges. GIFT-IFSC aims to be a green capital hub. Excitingly, the India International Bullion Exchange is preparing to introduce gold futures contracts.
- In a review to align the LRS for IFSCs with other foreign jurisdictions Resident Individuals can now open a Foreign Currency Account (FCA) in IFSCs for permissible LRS investments, and the requirement to repatriate funds lying idle in the account for a period up to 15 days is withdrawn. The procedure will now be governed by the provisions contained in the Master Direction on LRS.
- Authorized Persons can now facilitate remittances under the LRS for resident individuals for the purpose of 'studies abroad' to pay fees to foreign universities or institutions in IFSCs.

Industrial License

The period of validity for Industrial Licenses under the IDR Act is extended from three years to fifteen years, aligning with the validity of licenses issued for Defence items to enhance ease of doing business. Further, administrative Ministries/Explosive Section (DPIIT) can also grant an additional three-year extension subject to specified guidelines.

Regulatory Updates

Companies Law

Dematerialisation of securities

- For every public company which issued share warrants prior to commencement of the Companies Act, 2013 and not converted into shares:
  - Companies must inform the Registrar about the details of any such share warrants
  - Share warrant holders must surrender their warrants to the company for the dematerialization of shares into their accounts. The company must notify warrant holders through Form PAS-8 on its website, and also publish the information in a newspaper.
  - If a share warrant holder doesn't surrender it on time, the company must convert the warrants to dematerialized form and transfer them to the IEPF.

- Private companies, excluding small companies, are required to issue securities only in dematerialized form and facilitate the dematerialization of all their securities within a specified period. Non-small private companies as of the financial year ending March 31, 2023, must adhere to dematerialization rules by September 30, 2024. Also, Private companies, must ensure that their promoters, directors, and key managerial personnel dematerialize their entire holding of securities before making offers for issues, buybacks, or bonus shares.

Shifting of Registered office

The registered office can be relocated if new management, approved under the Insolvency and Bankruptcy Code, has taken over, and there are no pending appeals or post-approval inquiries, inspections, or investigations.

Meetings of the Company

The MCA has permitted companies with AGMs due in 2023 or 2024 to conduct them via video conference (VC) or other audio-visual means (OAVM) until September 30, 2024. Additionally, companies can also hold Extraordinary General Meetings (EGMs) through VC or OAVM, or transact items via postal ballot until the same date, maintaining compliance with the circulars' existing requirements.

LLP

Beneficial Owner

- Individuals with beneficial interest not listed in the register must submit a declaration to the LLP within 30 days of acquiring such interest, specifying the nature and partners' details.

- Reporting LLPs must identify and have individuals designated as Significant Beneficial Owners (SBOs) submit declarations in Form LLP BEN-1. The LLP must notify non-individual partners with at least 10% of financial interests for seeking information pertaining to SBOs. Reporting LLP must file a return with the RoC within 30 days and maintain a register of SBOs.

- SBOs in a reporting LLP must submit a declaration within 90 days of commencement of SBO Rules. Individual becoming an SBO or experiencing a change in significant beneficial ownership must file a declaration within 30 days to the reporting LLP.

- Partner without beneficial interest whether in full or part must disclose this within 30 days of being listed in the register of partners. This disclosure is required through the submission of a declaration using Form 4B.

Register of Partners

Firms are now required to maintain a detailed register of partners, including information on contribution type and amount, personal and professional details, date of becoming a partner, and date of cessation. Any changes in contribution, partner details, or partnership cessation must be promptly updated in the register within seven days.

Regulatory Updates

Income Tax Updates

International Taxation

The MFN clause in DTAA allows India to extend tax benefits to non-OECD countries. A recent Supreme Court ruling clarified that a formal notification under Section 90(1) is mandatory for MFN benefits. The third state seeking equal treatment must be an OECD member at the time of entering into the DTAA with India.

As per Article 5(3) of India-Singapore tax treaty, construction project exceeding 183 days in a fiscal year constitutes a Permanent Establishment (PE). Delhi ITAT ruled that, in determining the installation or supervisory Permanent Establishment (PE) status under Article 5(3) and Article 5(4) of the India-Singapore tax treaty, each project site should be considered as a separate project.

For dividends paid by a domestic company to a non-resident shareholder, the Additional Income Tax (Tax on Distributed Profits) under Section 115-O applies at the rate mentioned in that section. It has been clarified that the same does not follow the tax rate specified in the relevant DTAA for the non-resident shareholder's dividend income.

Tax on Online Gaming

Finance Act 2023 inserted a new section 194BA, which requires individuals responsible for paying winnings from online games to deduct income tax on the net winnings in the user's account. Tax is required to be deducted at the time of withdrawal and at the end of the financial year.

Angel Tax

If a privately held company issues shares to an investor at a price exceeding the fair market value, the surplus amount is treated as taxable income for the company therefore falls under angel tax provisions. However, CBDT has exempted specific groups from angel tax provisions:

- Government and government-related investors, regulated banks, insurance entities
- Entities registered as Category I FPI with the SEBI, endowment funds linked to universities, hospitals, or charities, pension funds under foreign law
- Abroad-based pooled investment vehicles or funds with over fifty investors from specified countries, includes Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Iceland, Israel, Italy, Japan, Korea, New Zealand, Norway, Russia, Spain, Sweden, the UK, and the US.

Valuation of Startups – Updated Methods

From Sep 2023 onwards, the CBDT has made effective the following valuation methods for issuance of equity shares:

Method	Description
A	Net Asset Value
B	DCF method based on report by merchant banker
C	Price of shares issued by a venture capital undertaking to a specified fund may be considered as the Tax FMV for the issue of shares to another investor within a period of 90 days.
D	Any of the five methods, based on a report by merchant banker: i. Comparable Company Multiple Method ii. Probability Weighted Expected Return Method iii. Option Pricing Method iv. Milestone Analysis Method v. Replacement Cost Method
E	Price of shares issued by a company to notified investor may be considered as the Tax FMV for the issue of shares to another investor within a period of 90 days.

Applicability of the above methods depends on the type of investor and type of shares issued:

Case	Methods Applicable
Issue of equity shares to non-resident	All methods
Issue of equity shares to resident	All methods except D
Issue of convertible preference shares to non-resident	B, C, D, E or based on FMV of equity shares as per any of the above methods
Issue of convertible preference shares to resident	B, C, E or based on FMV of equity shares as per any of the above methods (except D)

Regulatory Updates

Indirect Tax Updates

E-commerce Operators

CBIC provided clarifications in respect of transactions involving multiple E-commerce Operators (ECOs). This is relevant in the context of Open Network for Digital Commerce (ONDC)

- *Instance 1:* If the supplier-side ECO is not the actual supplier, it is responsible for TCS collection, compliances, and payment to the supplier after deducting its commissions/fees.
- *Instance 2:* When the supplier-side ECO is also the actual supplier, the responsibility of TCS collection and compliances shifts to buyer-side ECO.

Input Tax Credit

In cases of wrongly availed ITC, interest shall not be charged when the total available ITC in the Electronic Credit Ledger (ECL) is greater than the wrongly utilized IGST credit. However, interest is applicable when the total ITC in the ECL is less than the wrongly availed IGST credit. The credit of Compensation Cess in the ECL should not be considered for interest calculation as it is restricted to paying Compensation Cess only.

GST on Online Gaming

The value of supply in online gaming, including actionable claims in online money gaming and casino, is the total amount paid by the player, including virtual assets. Refunds by the supplier, for any reason, are not deductible from the gaming supply value.

E-invoicing

The government has amended the e-invoicing requirement, lowering the threshold from "ten crore rupees" to "five crore rupees." The effective date for this amendment was 1st August 2023.

Clarifications on GST Applicability

- If a manufacturer / distributer provides replacement parts or repair services during the warranty period without charging separate consideration, no additional GST is applicable. If any extra consideration is charged, GST applies on that amount.
- Securities, including shares, held by a holding company in a subsidiary company are not classified as goods or services according to the definitions in the CGST Act. The purchase or sale of shares or securities does not constitute a supply of goods or services by itself, hence, cannot be subject to GST.

Know-Your-Client

In India, the Prevention of Money Laundering Act, 2002 is the main law governing Know-Your-Client (KYC) requirements to be fulfilled by reporting entities, such as banks, financial institutions, intermediaries, etc. For market participants, SEBI also has the power to regulate the KYC norms.

The year 2023 saw several key amendments to the rules, enhancing the obligations and scope of information to be collected:

- In Oct 2023, the Government amended Maintenance of Records rules. Reporting Entities (RE) are now required to carry out a broader client due diligence. Further, each RE must undertake some key obligations at the time of commencement of account-based relationship – this includes client identification, identity verification through reliable sources, and obtaining information on the purpose for transactions exceeding Rs 50,000 or international money transfers. RE is also required to take all reasonable steps to understand nature of customer's business, its ownership and control.
- Earlier in May, the Government expanded the scope of Reporting Entity to include professionals viz. practising Chartered Accountants, Company Secretaries and Cost Accountants for the purpose of specified transactions carried out on behalf of their clients.
- To curb 'Benami' activities, the shareholding / ownership / interest threshold for beneficial owners has been reduced to 10% for all entities. Further, beneficial owner would also include a person who exercises control over management or policy decision through other means.
- Further, banks and financial institutions have now been mandated to collect information about Politically Exposed Persons and non-profits and share such information with Enforcement Directorate as and when sought. The government has also mandated KYC for crypto exchanges.
- SEBI has mandated that all Designated Depository Participants should capture and update beneficial ownership of Foreign Portfolio Investors on a look-through basis. Following the recent PMLA Rules update, the thresholds for identifying Beneficial Owners (BOs) in the case of FPIs structured as companies, trusts, and partnership firms have also been reduced to 10%.c

Expectations for 2024

Global

As the curtains fell on the fourth quarter of 2023, there is a lot of optimism in the investment and deal-making climate. Early whispers in the financial corridors hint at stability in interest rates and inflationary pressures, marked by structural growth across various sectors.

The approaching year, 2024, is anticipated to be a historic global election year, marked by the largest number of voters in history. Moreover, ongoing destabilizing conflicts in Ukraine and the Middle East persist, exerting a broad impact on markets.

Carve-outs have increasingly become popular as buyers become more discerning about their investments, choosing specific assets to acquire. Sellers, in turn, are reluctant to part with distinct segments of their businesses that hold evident potential. This trend might continue for the upcoming year.

In the past year, divergent pricing expectations between sellers and buyers hindered dealmaking. However, with factors like inflation, financing costs, and uncertainties stabilizing, there is an expectation that the gap between sellers' and buyers' expectations will narrow as sellers gradually accept the new normal in the next few months.

With a small number of transactions in 2023, surpassing year-over-year comparisons in 2024 is expected to be relatively straightforward. Nevertheless, challenges are foreseen for large deals, especially in the US, where regulatory emphasis on antitrust concerns may pose significant obstacles.

Globally, a cautious approach to dealmaking is expected to persist into 2024, although the new year is anticipated to experience a surge in pent-up activity. Certain subsectors, such as technology facilitating productivity and efficiency gains like industrial automation and decision intelligence platforms, have the potential for growth.

Anticipated trends such as AI, digitization, ESG focus, and the aim to enhance supply chain resilience are likely to prompt companies to contemplate expansion through M&A.

India

The scheduled Lok Sabha elections in April-May have implications for the Indian economy, including the potential impact of pre-election spending stimulus on consumption, a shift in the discourse between welfarism and trickle-down growth, and the potential for reinvigorating growth momentum amid divergent recovery trends.

India is projected to become the world's third-largest economy by 2027, exceeding a GDP of US$5 trillion. Positive trends in services, manufacturing, including education, healthcare, IT, and PLI industries, collectively contribute to a favourable outlook for the real estate sector.

India is expected to maintain its position as the fastest-growing economy in coming years, driven by robust consumer demand despite global challenges. Increased government capex is boosting construction and infrastructure sectors, with strong consumer demand likely to drive investments in various areas, including hospitality, railways, and aviation.

The country has intensified its decarbonization initiatives amid shifts towards renewable energy and aims to achieve 500 GW renewables capacity by 2030.

Foreign Portfolio Investors (FPIs) have made a significant return to India during last year, and the increasing signs of stability and continuity post the 2024 elections are viewed as another positive development.

FDI inflows are likely to gather momentum in 2024 in view of the healthy macroeconomics and better industrial output. Further, incentives for manufacturers such as PLI scheme and China-plus one strategy will attract higher number of overseas players looking to expand their facilities and market. The Government's continuous focus on ease of doing business, availability of skilled manpower and huge domestic market have resulted in increasing interest and investments from global investors, who want to tap into the growth journey of the country.

Glossary

Abbreviation	Description
AIF	Alternative Investment Funds
AML	Anti-money Laundering
CBAM	Carbon Border Adjustment Mechanism
CBDT	Central Board of Direct Taxes
CIRP	Corporate Insolvency Resolution Process
CSRD	Corporate Sustainability Reporting Directive
DDP	Designated Depository Participants
DGFT	Directorate General of Foreign Trade
DPIIT	Department for Promotion of Industry and Internal Trade
DTAA	Double Taxation Avoidance Agreement
ECO	Electronic Commerce Operator
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, and Governance
ESRS	European Sustainability Reporting Standards
FDI	Foreign Direct Investment
FPIs	Foreign Portfolio Investors
GIFT IFSC	Gujarat International Finance Tec-City International Financial Services Centre
GRI	Global Reporting Initiative

Abbreviation	Description
IEPF	Investor Education and Protection Fund
IFRS	International Financial Reporting Standards
IFSCs	International Financial Services Centres
ISSB	International Sustainability Standards Board
KYC	Know Your Customer
LRS	Liberalized Remittance Scheme
MCA	Ministry of Corporate Affairs
OECD	Organisation for Economic Co-operation and Development
PIPE	Private Investment in Public Equity
RBI	Reserve Bank of India
REITs	Real Estate Investment Trusts
SEBI	Securities and Exchange Board of India
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-related Financial Disclosures
UK SDS	UK Sustainability Disclosure Standards
ZCZP	Zero Coupon Zero Principal

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