Accounting basics for Startups

By Department of Accountancy, Patuck-Gala College, Santacruz(E).

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Over 100 bank employees penalised for malpractices during note ban

NEW DELHI: The government has suspended or transferred more than a hundred employees of banks for mismanagement during the demonetisation drive. While some employees from state-run lenders have been suspended, others have been transferred, a senior government official told ET. "Investigations are on in some cases and if they are found to be guilty, they will be removed from their jobs," said the official, who did not wish to be identified. Investigating agencies have also zeroed in on some of the most common methods used to launder money, the official said The government had on November 8 announced withdrawal of Rs 500 and Rs 1,000 notes as legal tender, rendering worthless nearly 86 per cent of the total currency in circulation.

"In some cases it was found that an account was opened without fulfilling the know your customer (KYC) norms and cash (in old currency) was deposited in these accounts, only to close the account the next day, and a demand draft was issued for the amount deposited," said another official aware of the investigations.

The other method, which was also used in connivance with bank officials, was to use the suspense account of the bank. Suspense account is an account where transactions, both deposits and withdrawals, are kept until they are classified. "The demonetised currency was deposited in the suspense accounts and later the amount was transferred into various accounts," the second official said. The other common methods which were used across banks and branches were loan foreclosures, backdated fixed deposits and new salary accounts opened for a firm. "The misuse of Jan Dhan accounts came down drastically after the first week, as it was highlighted the most and both banks and agencies were quick to react," said a bank official.

"Also, the impact of exchanging old demonetised notes for new currency was put to check by swift action from the government." On November 25, the government revoked the cash exchange facility under which the demonetised Rs 500 and Rs 1,000 notes were allowed to be exchanged for new currency. This was announced a week after the government curtailed the exchange limit from Rs 4,500 to Rs 2,000 a day. Banks are also proactively looking into large deposits or withdrawal done by their staff in their accounts. "If there have been some large deposits made in an employee's account after demonetisation was announced, explanation has been sought," said a senior official of State Bank of India BSE 0.27 %, the country's largest bank.

By Sonal Saki

Wary of choppy stock market? Bond with short-term debt and dynamic debt funds

Calendar 2016 was an eventful year for the bond market in terms of capital appreciation. But going into 2017, debt market analysts are not very confident as to how things are going to pan out.

Some analysts are advising investors to bet on the short end of the curve, as going forward, things might turn a little difficult.

Debt fund managers claim both short-term as well as long-term debt funds should do well in 2017, on likely announcement of another repo rate cut by by the Reserve Bank of India (RBI) this year once the hard impact of demonetisation fizzles out and the inflation data becomes more comforting.

Liquid funds offered 7-7.5 per cent return to investors in 2016, whereas gilt and long-term bond funds generated up to 15 per cent return and emerged the best performed among the debt funds due to a decent fall in interest rates in last two years

The repo rate cut by the Reserve Bank of India (RBI) in October 2016 has resulted in a cumulative 175 basis points drop in policy rates since January 2015.

Lakshmi Iyer, Head of Products and CIO for Debt at Kotak Mutual Fund, said: “There is a possibility of another rate cut this year. One should stay invested in short-term as well as long-term duration funds because reinvestment happened at lower levels, not at higher levels.”

The fund house sees an additional 25-50 basis points cut in repo rate in the year ahead.

Nonetheless, volatility will be a constant in the bond market. Iyer advises investors to consider accrual funds to get some shield against possible market volatility. “Investors seeking yields with less volatility in net asset value may seek to invest in accrual funds with a 2-3 year horizon. Accrual funds have more corporate bonds in their portfolios, and they offer higher yields compared with a 2-3 year horizon. Accrual funds have more corporate bonds in their portfolios, and they offer higher yields compared with government bonds,” she said.

On November 8, Prime Minister NarendraModi surprisingly banned high-value currency notes of Rs 500 and Rs 1,000 denomination to check black money, which have had a spiralling impact on the money market.

Murthy Nagarajan, Head of Fixed Income at Quantum Mutual Fund, said, “We expect a fall in India’s GDP growth due to demonetisation. This will create pressure on RBI to cut rates in February, if the government sticks to its fiscal deficit target. The 10-year yield at 6.50 per cent is already factoring in a 50 basis points rate cut. So there could be some volatility around that. We expect the debt market to remain rangebound. Investors should invest in short-term bond funds or dynamic bond funds.”

Besides rate changes, any fiscal slippage, a big spike in crude oil price above $60 a barrel and geopolitical turmoil are some of the factors that may impact the outlook for the debt market.

By Tasfiya Shaikh

Lending rates cut leads to balance transfers in home loan market: ICRA

The lending rates cut, which effectively set off a price war in the Rs 13 trillion home loan market, could lead to increased competition and balance transfers in the highly competitive housing loan market, rating agency ICRA said in its report.

With a bulk infusion of fresh liquidity arising out from the demonetisation, State Bank of India reduced the lending rates for home loans by 50 bps to 8.6 per cent (for floating rate loans), various lenders followed suit.

Key lenders that together account for over 65 per cent of the home loan market, now offer interest rates in the range of 8.5-8.7 per cent after the reduction, compared with their earlier rates of 9.1-9.3 per cent, the agency said.

"While the reduced rates are applicable for new loans and loans linked to Marginal Cost of Funds based Lending Rate (MCLR), this could lead to increased competition and balance transfers in the highly competitive Indian housing loan market, especially the prime salaried segment," the report said.

Loans linked to MCLR for banks were less than 15 per cent of the overall home loan book, it said.

The report said lenders might also try to retain borrowers by giving them the option to shift to a lower interest rate by paying a fee.

Housing finance companies (HFCs) would also benefit from the reduction in MCLR by various banks and should be able to re-price a portion of their liabilities.

However, the report said the smaller HFCs are likely to get impacted more on account of their relatively higher operating cost ratios.

"Given that only a few HFCs would be able to match the interest rates being offered by banks, this could lead to some balance transfers from HFCs to banks and hence an increase in banking sector market share," the report added.

By Liily Chwda

Should banks reinvent themselves as ATMs, plastic money will be redundant?

Kotak Mahindra Bank, like any other corporate, detailed its strategy in its annual report to shareholders last fiscal saying, "the number of rural branches has increased from 164 in FY15 to 196 in FY16. The bank will continue to increase its network in rural regions to provide products and services to a larger customer base."

That's exactly what almost all the banks thought and did too - expand branch network, acquire more customers through boots-on-the-ground sales force and ensure that they get to apply for loans at the automated teller machine (ATM) counters, and many such things. But the November 8 bombshell from Prime Minister Narendra Modi of demonetisation of Rs 500 and Rs 1,000 bills has changed all that.

Almost every bank is going back to the drawing board to figure out what to do in an era when banks will have millions of more customers but they won't visit the branches, a billion consumers who would begin to pay through their mobile phones without reaching for their leather wallets, millions of shopkeepers who won't visit the branch with wads of cash to deposit but would only exchange mails with bankers. And many more inconceivable things at this point.

"You will have to rethink all your old plans, for example, branches ... do you require physical branches," asks Dipak Gupta, joint managing director, Kotak Mahindra Bank. "Do you require them at the same rate you did in the past? Probably not." The Indian banking industry is in the throes of transformation for the first time since Citibank introduced plastic money about 25 years ago when they were hesitant to even set a target on how many would adapt to debit and credit cards. Those were the day when ATMs were few and far between even in metropolitan cities like Mumbai or New Delhi.

"Digital transactions have gone up manifold over the last few months," says Anup Bagchi, head of retail banking, ICICI Bank. "Several digital payment modes such as UPI, e-wallets, credit and debit card among others have leapfrogged owing to the push from the highest office in the country as well as pull against cash. Going forward, we see the momentum growing even further."

Since the launch of plastic money and the ATMs in 1987, Indian finance has come a long way with nearly 90% of total retail transactions happening in electronic format at the end of fiscal 2016. The forced withdrawal of high value currency and mandatory transfer of funds from the government in electronic mode are expected to usher in a kind of change that few are able to fathom. But there is a kind of unanimity that it is transformational.

"Fundamentally, there has been a tipping point that has played out thanks to demonetisation and, therefore, you will see much more innovation on payments that is probably the most noisiest piece right now," says Rajiv Anand, executive director, Axis Bank. "And sometimes I worry that the consumer is getting confused on whether I should use a debit card/ credit card, or wallet, UPI, or mobile banking, etc, etc."

With cash nearly vanishing from half of the ATMs, banks and payment technology companies like Paytm were quick to jump on to the electronic transfer bandwagon. Even the National Payments Corp of India has launched UPI and is working towards the launch of the India QR code to capitalise on the vacuum created by the absence of cash. According to the RBI data, digital transactions have registered a 40% month-on-month growth in the past one month. While payments through cards have risen 39.1%, usage of point of sale (PoS) terminals has gone up by 41%.

But in the process what many expect to see is the death of what a generation of bank customers thought were the greatest technological advancements in the world of finance - ATMs, debit cards, and the good old branches themselves which on an average have shrunk to about 1,500 square feet and five staff from 2,800 square feet with a dozen staffers.

"I don't see a business case for significant expansion of ATMs in the near future. If you ask me--is ATM a great business model going ahead? I would say it's a defensive business model," says Pralay Mondal, senior group president at Yes Bank. "The way the acceptance of other digital modes will grow, there is no way I see ATMs growing that way." ATM additions after peaking in 2013 have seen a steep fall over the last three years. In fact, ATM additions saw a growth of only 9% at the end of the March quarter last year compared with the previous year, and that is down from 25.4% in 2008-09, data from the Reserve Bank of India shows.

While withdrawals from ATMs may fall, the idea that these machines which were once thought to be a tool to sell loans has also failed. "Ultimately, credit and debit cards will die a slow death ... it's like WhatsApp. Do you still use SMS? May be 5-10% still do, but the majority will shift towards something which is far more convenient and simple," says Kotak Mahindra's Gupta.

Demonetisation has also led to proliferation of tools for customers which raise issues like usability and security. Often it is more confusing for customers that a bank itself has many products which make it difficult to choose the ideal one. "If you look from a technology point of view, it's very confusing," says Kotak Mahindra's Gupta. "There are so many things which are being tried... all of them in the last 30 days. It would never have happened otherwise." It is usually the private enterprise that pushes the regulator and the government to change their approach to innovation and change. Now, the government seems to be taking the lead and pronouncing the change.

"By 2020, my view is that, India will make all its debit cards, credit cards, all ATM machines, all PoS machines totally irrelevant," says Amitabh Kant, chief executive of Niti Aayog, the new avatar of Planning Commission that's blamed for much of Indian economy's miserable state. But what are banks, whose survival depend on how they adapt to changes, doing to face the future without the tools of the present?

"Someone is chasing UPI, someone is chasing India QR code, someone else is pursuing PoS and five other things. From a banker's perspective, the position is 'Bhai yeh sab mein bet lagane ka hai (I need to place my bet on everything)'. I cannot choose any one at this stage because I run the risk of missing out," says Gupta.

By Liily Chwda

India Regulatory Brief: Startups May Be Exempt from Local State Laws, Companies Act Norms Relaxed for IFSC Firms

In keeping with the government's goal of a flourishing startup sector in India, the government is in discussion with state governments to allow startup firms to get exempt from local laws, including labor regulations. Many such firms get entangled into regulatory and tax disputes as their evolution propels them into legal grey areas, with the need for the updation of regulatory norms and laws. This is why the central government is considering a more flexible approach, whereby startups can benefit from regulatory easing.

So far only ten states have cooperated in terms of exempting startups from various local laws and labor regulations, though the details of this agreement have yet to be finalized. An instance of industry regulations playing catch-up to the challenge posed by entrepreneurial disruption was observed in the case of cab aggregators battling both the respective state and central governments as well as taxi and autorickshaw (three-wheeler) unions last year.

Additionally, the central government is contemplating organizing startups into two stages, namely, the early-funds stage and the growth stage. Further, the department of industrial policy and promotion (DIPP) is reforming its US$1.47 billion (Rs100 billion) startup funding scheme by incentivizing venture capital (VC) funds to invest in startups while reducing overall capital risks. This means that VC funds will now be allowed to invest half of the US$1.47 billion corpus in startups and the rest of it in established firms, instead of the mandated 100 percent investment in startups.

By Liily Chwda