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How GST fraud worth Rs 40 crore came into light at Manpasand Beverages

Ever since Deloitte resigned as auditor for Manpasand Beverages Ltd (MBL), the Vadodara-based company, a listed one, has been in controversy. However, the recent goods and services tax (GST) fraud that came to light with the arrests of top management executives is the latest episode in the controversy and has made things worse.

Established by its current Chairman and Managing Director Dhirendra Singh, MBL boasted its presence in rural and tier-2 and 3 markets when its multinational competitors were ruling the metros and top cities.

By 2018, the company was congratulating itself on reaching out to these markets with a distribution strength of 600,000 outlets.

MBL was also on its way to setting up its fourth plant in the country. Its manufacturing plants in Vadodara, Varanasi and Sri City are either operational or under construction.

Yet, the recent arrests by the Central GST Commissionerate Vadodara-II of its whole-time director Abhishek Singh, along with his brother Harshvardhan Singh and Chief Financial Officer Paresh Thakkar, for allegedly fraudulent claims of input tax credit (ITC) of Rs 40 crore have revealed a deeper ploy of operating through fake units in the country.

And it is here that MBL has stood out among such similar cases of GST frauds unearthed by the CGST's intelligence. According to CGST commissionerate sources, MBL allegedly created and showed sales and purchases across more than 30 fake units.

“Usually the cases one comes across show companies running real units but acquiring fake invoices here and there to claim input tax credit (ITC). But in the case of MBL, it has been found that the company set up several fake units and across the country at that. Real purchase and sale transactions were then shown with values inflating with each transaction in order to claim a cumulatively large sum of input tax credit,” a source told.

In this case, MBL allegedly showed inter-unit transactions worth Rs 300 crore, which led to an accumulation of input tax credit (ITC) of Rs 40 crore. According to CGST commissionerate sources, the transactions took place on several occasions in 2018-19, beginning three-four months ago.

Independent chartered accountants and corporate law experts who have followed the case said the circular trading involved one of the real units showing a sales transaction to a fake unit, which is then followed by a string of similar transactions, adding a slight margin at each stage and eventually landing up as a purchase transaction by a real unit of MBL.

“The real unit which shows purchase in the end can now claim tax credit on the inflated value at each stage. Mostly, it is even difficult for auditors to find out such a long trail of 30 fake units because there are no RoC (Registrar of Companies) records. Also, there is no law in the country that prohibits such kinds of circular trading. Only CGST intelligence can smell it when they follow the trail on their system and find that these are similar or even same transactions shown again and again,” said an independent corporate law expert.

The board of directors, on the other hand, says it is ignorant of the matter even though most of them have resigned. So far, five of the six directors have quit the company. They are Vishal Sood, Bharat Vyas, Chirag Doshi, Milind Babar and Dhruv Agrawal.

On Wednesday, the apex court, while agreeing to hear the central government's plea seeking clarification of its powers, had asked the high courts to not intervene in such cases now. The Supreme Court said if high courts were to entertain such CGST cases, they “will keep in mind” that the top court had on May 27 agreed with the Telangana high court order upholding the powers of the GST commissioner to arrest an accused without filing an FIR under CGST laws.

Cummins India: Strong domestic growth fails to cheer investors

For investors of Cummins India, a subsidiary of US-based Cummins Inc, the unpredictability surrounding overall growth is a key concern. While the engine manufacturer has remained positive on domestic growth, exports — which account for over 30 per cent of its overall revenue — have remained the pain point for many quarters.

Exports are crucial for the company, not just in terms of revenue, but also for profitability. While India is not a key market for high-end products, overseas markets such as Europe, West Asia, and Africa are consumers of heavy-duty motor. Therefore, to scale up profitability, higher-margin export volumes are crucial.

FY19 was expected to be better than earlier financial years on domestic and overseas para-meters. However, the disappointment over exports was felt more in the March quarter (Q4).

While revenues grew 9 per cent year-on-year (YoY) to Rs 1,340 crore, it wasn't enough. Net profit shrunk by 13 per cent YoY to Rs 141 crore — also the weakest in recent times.

Volumes were largely pumped up by low horse power (LHP) engines, nearly tripling YoY on account of strong domestic demand. As a result, the key heavy-duty segment saw 67 per cent decline in volumes, thereby dragging operating margins down 121 basis points (bps) YoY to 12.8 per cent, in Q4.

Cummins ended FY19 with 15.3 per cent margins (up 11 bps YoY), but the weak management guidance on exports indicate that FY20 margins could be capped at current levels, or possibly trend down, unless exports spring up a surprise. Therefore, even if the 10-15 per cent domestic growth is positive, revenue growth and profitability will depend on the domestic product mix.

Analysts at ICICI Securities expect the domestic market to witness a gradual revival in demand, driven by data centres (where Cummins India holds highest market share), along with infrastructure, railways and manufacturing growth.

Cummins India: Strong domestic growth fails to cheer investors With a 3-5 per cent price hike undertaken in FY19, strong demand from these pockets could support profitability at current levels.

The good news is that despite a challenging environment, Cummins has maintained a leadership position in India with a market share of over 40 per cent.

Yet, at 24 times its FY20 estimated earnings, the Street isn't too positive on the stock given the expected pressure on near-term earnings.

Analysts at JM Financial Research have cut their earnings target for FY19-21 by 10 per cent, and operating margin estimates by 50-100 bps, to factor in an unfavourable product mix.

Max Financial Services stock offers opportunity for bottom-fishing

The Max Financial Services stock has been under pressure for over a year, on concerns over pledged shares of promoters (over 78 per cent), and the distribution tie-up with Axis Bank.

The latter accounts for around 55 per cent in terms of annual premium receipts. Since May 2017, the stock has dropped nearly 30 per cent, compared to a 33 per cent rise in the Sensex.

Despite the concerns, the holding company of Max group's life insurance business (holding 71.5 per cent in Max Life) reported healthy numbers for FY19, on Tuesday. This also enthused investors, with the stock gaining over 5 per cent. The valuation is still attractive, given the strong outlook.

According to analysts at SBICAP Securities, the huge valuation discount is unwarranted — which has factored in the worst with regards to uncertainties while ignoring the Max Life's successful track record in long-term execution. Life insurers' numbers are generally analysed by looking at the cumulative period in a financial year, and not merely on a quarterly basis.

The company clocked 22 per cent growth in annual premium equivalent (APE) in FY19, in line with analysts' expectations. Its value of new business (VNB) margin expanded by a sharp 150 bps to 21.7 per cent. Better product mix and improved persistency (shows customers' stickiness) fuelled profitability. Proportion of high-margin protection business, such as term plans, rose 220 bps to 10 per cent. Analysts expect profitability gains to continue.

Besides the continued focus on protection business, the rising share of proprietary distribution channel should support margin gains and APE growth.

Max Financial Services stock offers opportunity for bottom-fishing The firm opened 128 offices in FY19, and own-channel sales now account for 30 per cent of the total APE, versus 27 per cent in the last financial year.

Margins from own-channel sales will surpass banking channels (likely by FY22), says the firm, upon the ramp-up in scale.Nevertheless, the company remains confident of renewal of its distribution contract with Axis Bank beyond October 2021.Even on the issue of pledged shares, the management, during the analysts' call on Wednesday, said the promoters are in talks to sell a part of their stake in healthcare business to bring down the pledge.

Byju's turns profitable in 8 years, gears up to enter US in a big way

India's top education platform Byju's on Thursday announced it has achieved profitability, a first in the consumer internet start-up space.

The eight-year-old Bengaluru firm said its sales in FY19 were Rs 1,430 crore ($21 million), up 186 per cent over the last year, enough for the firm to churn out a small profit on a full-year basis. It did not reveal the bottom line. In FY18, Byju's had Rs 500 crore turnover and a loss of Rs 37 crore. “The growth in revenue was fuelled by deeper penetration across India and significant growth in the number of paid subscribers,” a statement by Byju's said.

The company presents a contrast to the other consumer internet players such as Ola, Flipkart, Swiggy and Paytm which are in the red. Byju's' stronger focus on sales has allowed it to race ahead in the bottom line terms, a metrics ignored by venture capital backed companies. Among major internet-led companies, Flipkart notched up sales of around Rs 24,717 crore, Paytm Rs 3,314 crore, Ola Rs 1,380 crore, and Swiggy Rs 468 crore in FY18.

With 2.4 million paid subscriber and an audience of 35 million (registered users), Byju's has all but capitalised the online learning market. Valued at $5 billion, Byju's has seen growth sky rocket in the last two years on the back of mega VC top-ups. Backed by investors such as the International Finance Corp, a World Bank arm, Light Speed India Partners, Byju's last year raised $540 million from premium investors General Atlantic, Naspers, and a Canadian severance pension.

A favourite of the VC world. Byju's valuation has surged over five times in about 18 months (valued at $5.4 billion in March 2019 vs $1 billion in early 2018). Sequoia Capital, which invested in 2015, sold part of its stake, 7 per cent by one estimate, for $190 million last year, in the latest financing round. Byju's strength is its core offering (learning platform), and deep sales network, according to experts. In the last one year, Byju's has grown its sales team to 40 Indian cities, and added about 1,000 employees to a strength which stands at 3,200.

The firm sells education subscriptions to schoolgoing students, which is 90 per cent of its business, and is fast growing its test prep offering for GMAT, GRE and other entrance examinations. Byju's is set to launch in the US in a big way, and has recently acquired Osmo. “While profitability is an important milestone for us, as a company our main focus continues to be on creating engaging learning experiences that will empower students to learn better,” founder Byju's Ravindran said in a statement.

After all, the best part about being in this sector is the long-term positive impact you can make on the society,” founder Byju's Ravindran said in a statement.

Higher Internet speeds and an uptick in consumption the economy, has upped spending in the online education sector, comprising Unacademy, CourseEra and a wide array of up and coming start-ups in consumer and corporate learning space. Edu-tech in India is expected to grow eight-fold to $2 billion by 2021, according to a Google and KPMG study.

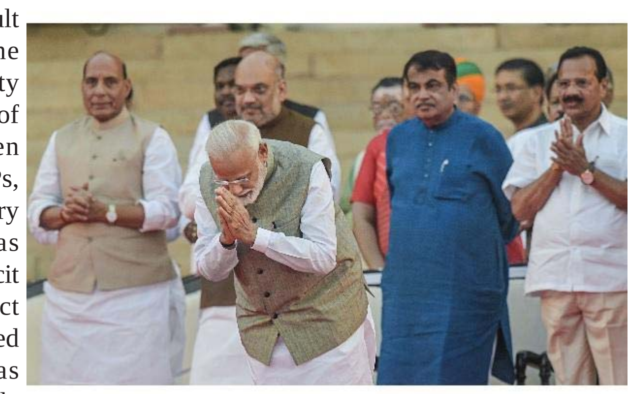
Byju's was stated in 2011 by math teacher Byju Ravindran, joined by a handful of his early students.

In the early days, the company offered classroom coaching for competitive exam, before it started recording lessons online. In 2013-14, Byju's started distributing courses over tablets, which came bundled with the subscription.

Amit Shah debuts in Modi's second innings; portfolios to be declared Friday

Narendra Modi, India's 16th prime minister, in his second term, put together a Council of Ministers largely composed of the same colleagues who were part of the team when his government left office.

Although his task was made more difficult because this time the Bharatiya Janata Party (BJP) won 303 seats, of which 131 have been won by first-time MPs, more than one of every two ministers was repeated, possibly in tacit recognition of the fact that just as he had asked for a second term as prime minister to enable the work left incomplete in his first term, his ministers too deserved the same chance.



Nearly 30 from the previous Council of Ministers have been dropped from the team this time.

As expected, BJP President Amit Shah joined the government, and Arun Jaitley, Sushma Swaraj, Uma Bharati and Sumitra Mahajan were not part of the team, with the last three opting to stay out of the electoral contest. Shah is tipped to be finance minister.

The previous government's civil aviation team — Jayant Sinha and Suresh Prabhu — was dropped. Also dropped was Sports Minister Rajyavardhan Rathore.

Maneka Gandhi has been named pro tem speaker and could be confirmed in that position once the House is constituted.

Jagat Prakash Nadda does not find mention on the list of ministers: He could be the next BJP president. Also missing were Anant Geete, who was replaced by another Sena minister Arvind Sawant, and former rural development minister Chaudhary Birender Singh, former tribal affairs minister Jual Oram, and former agriculture minister Radha Mohan Singh. Others who were dropped included Alphons Kannanthanam, Vijay Goel, S S Ahluwalia, Satya Pal Singh, and P P Chaudhary.

But there were some unexpected new faces among those who were sworn in as cabinet ministers. These included S Jaishankar, former foreign secretary who retired from government to join the Tata group but has returned to leverage his diplomatic heft in government as a cabinet minister. As he is not a member of either house, he will have to be accommodated in the Rajya Sabha from one of the three seats that will fall vacant with the resignation of Amit Shah, Smriti Irani and Ravishankar Prasad, who have all won in the Lok Sabha elections. Hardeep Puri, who is a Rajya Sabha MP and was urban development minister earlier, was inducted though he lost the Amritsar Lok Sabha seat.

There will be two ministers from West Bengal, where the BJP gave a stunning performance by winning 18 seats — Babul Supriyo and Debasree Chaudhuri, the latter being a first-timer in the government.

At least two of the National Democratic Alliance (NDA) partners threw a tantrum and refused to join the government. Nitish Kumar said he and his party felt that giving a paltry single seat to each party without considering what the party had brought to the table — and the pattern of sharing power in the state — was unfair.Apna Dal leader Anupriya Patel, who was a minister in the last government, also stayed out of the swearing-in because she felt her party nominee should have been included in the list of cabinet ministers.

The alliance partners who took oath as Cabinet minister were Harsimrat Badal from the Akali Dal and Arvind Sawant from the Shiv Sena.

Although the exit of the alliance partners poses no threat to the government, it did introduce an element of bitterness and discontent to the proceedings, which were celebrated joyously. The loudest applause was reserved for Modi and Shah but Irani and Anurag Thakur too were cheered when they took oath. How Modi and Shah placate alliance partners and win them over remains to be seen. It is unlikely that they will allow things to reach a point where the BJP has to exit the government in Bihar.

In terms of regional representation, UP provided eight ministers, Bihar seven, and Madhya Pradesh and Maharashtra six each. South India was most under-represented, reflecting the BJP's weakness. The largest complement of new ministers from the south came from Karnataka, including Nirmala Sitharaman, who is elected from there. The only nominee in the Council of Ministers from Tamil Nadu was P Raveendranath, the sole MP from the All India Anna Dravida Munnetra Kazhagam (AIADMK), with which the BJP allied in the state. Raveendranath is the son of Deputy Chief Minister O Panneerselvam and won his father's pocket borough, Theni.

An important principle that seems to have influenced the formation of the Council of Ministers is to reward ‘giant killer’. Kailash Choudhary, who contested the Barmer seat and defeated former BJP leader Jaswant Singh's son Manvendra Singh, was made minister. Irani, who defeated Rahul Gandhi in Amethyst, and Giraud Singh, who defeated Kanhaiya Kumar in Begusarai, Bihar, despite having been moved out of his traditional constituency, Nawada, where he won in 2014, were also made ministers.Some ministers who had got the short shrift in the last Council of Ministers appear to have been rehabilitated. Harsh Vardhan, MP from Delhi, was moved from the Ministry of Health and Family Welfare to the Ministry of Science and Technology in just five months of taking charge in 2014.