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The Newsletter

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Rule 89(5) of CGST Rules declared Ultra Vires: Refund of ITC on Input Services under Inverted Duty Rate Structure allowed

In the landmark of **VKC Footsteps India Pvt. Ltd vs. Union of India** (SCA/2792/2019 decided on 24.07.2020), the Hon'ble Gujarat High court ('**HC**') held that explanation (a) of Rule 89(5) of the Central Goods and Services Tax Rules, 2017 ('**CGST Rules**') which denies refund of unutilized input tax paid on input services as part of input tax credit ('**ITC**') accumulated on account of inverted duty structure is ultra vires to the provision of Section 54(3) of the Central Goods and Services Tax Act, 2017 ('**CGST Act**'). As per the facts of the case, the output supplies of the Petitioners attracted the GST at the rate which was much less than the GST rate on inputs and input services ('**Inverted Duty Rate Structure**'). Thus, due to the difference in outward and inward rate, there was accumulation of unutilized ITC. As per Section 54(3) refund was allowed of such accumulated ITC however, the Rule 89(5) of the CGST Rules only allowed the refund of accumulated ITC pertaining to input goods.

Further, Circular No. 79/53/2018- GST dated 31.12.2018 while clarifying refund related issues, also denied the

accumulated ITC on the input services in case of Inverted Duty Rate Structure. The Hon'ble HC considered the scheme and object CGST Act and declared that the explanation (a) of Rule 89(5) which defined 'Net Input Tax Credit' as the credit pertaining to 'inputs' only, is ultra vires to the provision of Section 54(3) of CGST Act.



Further, the Hon'ble HC also read down Explanation (a) to Rule 89(5) of CGST Act and held that the same means 'input tax credit' availed on 'inputs' and 'input services' as defined under the CGST Act. Accordingly, refund was granted to the Petitioners considering unutilized ITC of input services as part of 'Net ITC' for the purpose of calculation of refund of claim as per Rule 89(5) of CGST Rules for claiming refund under Section 54(3) of CGST Act.

Disallowance of Expenditure for not Complying with Other Provisions, Does Not Create Any Hardship to Assessee : Supreme Court

The Hon'ble Supreme Court ("**SC**") in the case of **Shree Choudhary Transport Company Vs ITO**, CA. 7865/2009 has held that disallowance u/s 40(a)(ia), 40A(3) etc. of the Income Tax Act, 1961 ("**Act**") are intended to enforce due compliance of the requirement of other provisions of the Act, to ensure proper

collection of tax and to provide safeguard to bona-fide Assessee.

The brief facts of the case were that the Assessee had made payments of Rs. 1,37,71,206/- to the truck owners on account hiring of trucks. On such payment, the Assessee failed to deduct TDS u/s 194C of the Act and

consequently, the Ld. AO disallowed expenditure of Rs. 57,11,625/- as per Section 40(a)(ia) of the Act which provides the disallowance of the sum payable / expenditure by assessee in case of non-deduction / non-payment of TDS.

Before the Hon'ble SC, one of the issues was whether the payments in question have rightly been disallowed from deduction in computation of total income of the Assessee. The Assessee challenged the disallowance of expenditure as per Section 40(a)(ia) of the Act.

While analyzing the issue, the Hon'ble SC observed that:



1. Purpose behind enacting provisions of Section 40(a)(ia) and 40A(3) was to ensure the compliance of provision and collection of tax along with transparency in dealing with the parties.
2. Disallowance comes into operation only when default specified in the provisions takes place.
3. For bona-fide taxpayers, who had collected TDS but not deposit within the time on or before due date of filling of ITR requisite relief is given after amendment in 2008 and 2010. To give relief to maximum taxpayers, retrospective effect to this amendment was made by amendment in 2010. The proviso so amended, obviously, safeguarded the interest of a bona-fide assessee.
4. Merely an amount of Rs. 57,11,625/- on which the appellant failed to deduct the TDS is disallowed and not the entire amount of Rs. 1,37,71,206/- paid to the truck operators/owners. So it can be inferred that there is no such prejudice or legal grievance with the appellant.
5. Accordingly, Section 40a(ia) and 40A(3) are not creating any hardship on assessee, therefore Ld. AO has rightly disallowed the aforesaid expenditure.

SEBI Issued Clarification for Investors Holding Securities in Physical Format

SEBI, vide circular dated July 31, 2020, issued clarification with respect to the applicability of regulation 40(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015 which provides that “except in case of transmission or transposition of securities, requests for effecting transfer of securities shall not be processed unless the securities are held in the dematerialized form with a depository.”

In the context of the same it is hereby clarified by the regulator that investors holding securities in physical form are now allowed to tender shares in open offers, buybacks through tender offer route and exit offers in case of voluntary or compulsory delisting. However, SEBI further made it clear that such tendering shall be as per the provisions of respective regulations only.

Whether Project Office or Liaison Office can constitute a Permanent Establishment

On 22nd July, 2020, the Supreme Court has delivered a landmark decision in the case of **Director of Income-tax (International taxation) vs. Samsung Heavy Industries Co. Ltd.** Civil Appeal No. 12183 of 2016, touching upon the tax consequences relating to a project office set up in India, when such office is meant to facilitate the liaison work between the foreign parent company and the project executed in India.



As per Article 5 – “Permanent Establishment” defined in DTAA means a fixed place of business through which the business of an enterprise is wholly or partly carried on. Assessee, a Korea based company, entered into a contract between ONGC on one hand and L&T on other hand as consortium partners for opening

project office in India. A reading of Board Resolution referred to in letter addressed to RBI for opening Project Office shows that Project Office was established to coordinate and execute delivery documents in connection with construction of offshore platform modification of existing facilities for ONGC. Further, there were only two persons working in Mumbai office, neither of whom was qualified to perform any core activity of assessee. It was clear that no permanent establishment had been set up within meaning of article 5(1) of DTAA, as Mumbai Project Office could not be said to be a fixed place of business through which core business of assessee was wholly or partly carried on. Therefore, it was held that the Project Office won’t be constituted as Permanent Establishment if Company wasn’t carrying out its core business through it. The foremost aspect to be seen is whether there is a Permanent Establishment in India, as only then, in view of the DTAA provisions, the business profits attributable to the Permanent Establishment in India, can be taxed in India.

Amendment to Section 29A of the Arbitration and Conciliation Act, 1996 to be applied Retrospectively: Delhi High Court

The Ld. Single Judge, Hon’ble Justice Mr. V. Kameshwar Rao, of the Hon’ble Delhi High Court in **ONGC Petro Additions Limited vs. Ferns Construction Co. INC.**, has recently infused clarity on a long debated issue relating to retrospectivity of Section 29A(1) of the

Arbitration and Conciliation Act, 1996 (hereinafter referred to as the “Act”).

As per Section 29(A)(1) of the Act, in the matters other than the International Commercial Arbitration, the Arbitral Tribunal shall pass the award within a

period of 12 months from the date of completion of pleadings.

That the factual matrix of the case which gave rise to the controversy before the Hon'ble High Court was that on an earlier occasion the Petitioner had already taken an extension under Section 29A of 18 months from the court for conducting the Arbitral Proceedings (hereinafter referred to as the "**Earlier Order**") subsequent to which the amendment was introduced which provided a 12 month time period with the Arbitral Tribunal to pass the award from the date of completion of pleadings. As a consequence, a petition seeking clarification was filed by the Petitioner before the Hon'ble Court.

The issue raised before the court was that whether the timeline fixed by the Court vide its Earlier Order shall be made applicable in the impugned proceedings in which one party is a foreign Party and the proceedings are in the nature of International Commercial Arbitration.

The Hon'ble Court while holding that since the amendment made to Section 29A is procedural in nature the same shall be made applicable to all pending arbitration proceedings seated in India as on August 30, 2019 and commenced after October 23, 2015. However, since the case at hand was in the nature of an International Commercial Arbitration, no strict timeline of 12 months shall be made applicable to the said case.

Certificate under Section 65B(4) of Evidence Act is a Condition Precedent to the Admissibility of Electronic Evidence: Supreme Court

In a reference dealing with the interpretation of Section 65B of the Evidence Act, 1872 that deals with admissibility of electronic records, the 3-judge bench of the Supreme Court held that the certificate required under Section 65B(4) is a condition precedent to the admissibility of evidence by way of electronic record, as correctly held in by the 3-judge bench in **Anvar P.V. v. P.K. Basheer, (2014) 10 SCC 473**, and incorrectly "clarified" by a division bench in **Shafhi Mohammad v. State of Himachal Pradesh, (2018) 2 SCC 801**. The Court also clarified that the required certificate under Section 65B(4) is unnecessary if the original document itself is produced. The controversy settled was at first arose when the Division bench, in the Shafhi Mohammad judgment, had "clarified" that the requirement of a certificate under Section 64B(4), being procedural, can be relaxed by the Court wherever the interest of justice so justifies, and one circumstance in which the interest of justice so justifies

would be where the electronic device is produced by a party who is not in possession of such device, as a result of which such party would not be in a position to secure the requisite certificate.



With that the Supreme Court has settled the long pending conflicted position on the interpretation of Section 65B. From the judgment it may so appear that the Court has sternly interpreted the provision which might risk the case of litigants when the party relying upon the electronic evidence is unable to procure the certificate, the judgement clarifies that if the party has explored all options available under law and despite such efforts is unable to procure the certificate, the Court may excuse such requirement.

Karnataka amends 3 Labour Laws to Boost Ease of Doing Business

The Karnataka government has brought Industrial Disputes And Certain Other Laws (Karnataka Amendment) Ordinance, 2020 w.e.f. 31.07.2020 which amends

- (i) The Industrial Disputes Act, 1947;
- (ii) The Factories Act, 1948 and
- (iii) The Contract Labour (Regulation and Abolition) Act, 1970.

The changes made in Industrial Disputes Act, 1947 will now permit the industries having less than 300 workmen to carry out lay-offs, retrenchments or closures without obtaining prior permission of the authorities. The amendments in Factories Act, 1948 increase the threshold from 10

workers (with power) and 20 workers (without the aid of power) to 20 (twenty) and 40 (forty) workers respectively for bringing a premises within the ambit of 'factory'. Furthermore, the Ordinance also increases the overtime limit for workers from 75 hours per quarter to 125 hours. The amendments in Contract Labour (Regulation and Abolition) Act, 1970 exempt establishments that have employed less than 50 workmen as contract labour from the applicability of the said Act. Previously, the said threshold was 20 or more.

Other Important Updates

1. Validly filed Income Tax Returns by assessee upto AY 2017-18 with return claims not processed u/s 143(1) can now be processed

CBDT through Circular F. No. 225/98/2000/ITA-II, dated 10-7-2020 has relaxed the Intimation provision under section 143(1) of the Act by directing that all the validly filed returns by assessee upto AY 2017-18 with return claims, which could not be processed under section 143(1) of the Act and which has become time barred, can be processed now with prior approval of Pr CCIT/ CCIT and intimation to assessee under section 143(1) of the Act can be sent to the assessee upto 31/10/2020. However, the said relaxation shall not be applicable to returns which are selected for scrutiny or the returns with demand claims or the returns which remain unprocessed due to the reason attributable to assessee.

2. One-time relaxation for verification of Income Tax Return upto AY 2019-20

Circular no. 13/2020 [F. NO. 225/59/2020/ITA -II], dated 13-7-2020 has provided a one-time relaxation for verification of tax returns for the AY 2015-16, 2016-17, 2017-18, 2018-19, 2019-20 which are pending due to non-filing of ITR-V form. The said verification process must be completed by 30/09/2020.

3. New Form 26AS

The new Form 26AS is the faceless hand-holding of the taxpayers to e-file their income tax returns quickly and correctly. From this AY, taxpayers will see an improved Form 26AS which would carry some additional details on taxpayers' financial transactions as specified in the Statement of Financial Transactions (SFTs) in various categories. From now onwards, the SFTs shall be displayed in Part E of the Form.

4. Extension of due date for AY 2018-19

Amendment in Section 3(1) of the Taxation and Other Laws (Relaxation of Certain Provision Ordinance) has been brought through Notification No. 56/2020 dated 29/07/2020. Accordingly, the due date of furnishing the return of income for the financial year 2018-19 has been **extended to 30th September 2020** from earlier specified 31st July 2020.

5. Listed Companies to get another year to achieve minimum 25% Public Shareholding

The Ministry of Finance *vide* notification G.S.R. 485(E) dated 31.07.2020 has introduced amendment to Securities Contracts (Regulation) Rules, 1957. Rule 19A of the Securities Contracts (Regulation) Rules, 1957 provides for maintenance of minimum public shareholding by every listed company of at least 25% and its attainment within a specified period.

Securities Contracts Regulation (Second Amendment) Rules, 2018 had given a period of 2 years to listed companies for achievement of minimum public shareholding and the said period was set to expire on 03.08.2020.

The new amendment to Rule 19A has increased the said period of 2 years to 3 years and thus, the listed companies which had public shareholding below 25% on 03.08.2018 have another 1 year to increase their public shareholding.

6. MCA has notified Companies (Indian Accounting Standards) Amendment Rules, 2020

Ministry of Corporate Affairs(MCA) *vide* Notification No. G.S.R. 463(E) dated 24.07.2020 has notified Companies (Indian Accounting Standards)

Amendment Rules, 2020 which has amended various Indian Accounting Standards such as Ind AS 1, 8,10, 34,37,103,107, 109, 116.

7. RBI empowered to administer Non-debt Instruments Rules

The Ministry of Finance *vide* Notification No. S.O. 2442 (E) dated 27th July, 2020 has formulated FEMA (Non Debt Instruments) Third Amendment Rules, 2020 wherein amendments are made in relation to the following:

- a. As per the amendment rules, power to regulate non-debt instruments rules has been now shifted from Central government to Reserve Bank. RBI may interpret and issue such directions, circulars, instructions, clarifications, as it may deem necessary, for effective implementation of the provisions of FEMA (Non Debt Instruments) Rules, 2019.
- b. The sectoral cap for foreign investment in Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and Regional Air Transport Service has also been amended.

8. Nil GST Return filing enabled through SMS

CBIC notifies Rule 67A w.e.f. 1st July 2020 for filing of Nil GSTR-3B and GSTR-1 through SMS, where Nil 3B and GSTR 1 shall mean all the tables in respective returns are blank.

9. GSTR4 filing due date extended

The due date to file GSTR-4 (Annual Return) has been extended to 31st August 2020 from 15th July 2020.

FAQ's on the Consumer Protection Act, 2019

1. How Consumer Protection Act, 2019 has widened the definition of consumer?

Under the Consumer Protection Act, 2019 (“**New Act**”), the definition of consumer includes any person who buys any goods, whether through offline or online transactions, electronic means, teleshopping, direct selling or multi-level marketing [Section 2(7)]. The Consumer Protection Act, 1986 (“**Earlier Act**”) did not specifically include e-commerce transactions.

2. Who can file a complaint?

Complain in the forum can be filed by: [section 35(1)]:

- a. Consumer to whom goods are sold
- b. Any recognized consumer association
- c. One or more consumers where there are numerous having same interest
- d. Central Government (Central Authority or State Government)



3. Where complainant can file a complaint as per the New Act?

Complaint can be filed in a consumer court where the complainant resides or works for gain. There was no such provision in the earlier Act. [Section 34(2)(d) and 47(4)(d)]

4. What are the rights of the consumer defined under the Act?

According to the New Act, Consumer's rights include [Section 2(9)]

- a. Right to be protected against marketing of goods or services which are hazardous to life and property
- b. Right to be informed about the details of the product including quality, quantity etc and information which is required to protect the consumer against unfair trade practices
- c. Right to access of variety of goods and product at competitive price
- d. Right to seek redressal against unfair trade practices
- e. Right to consumer awareness.

5. Whether there is any change in pecuniary jurisdiction limits under the New Act?

Yes, pecuniary jurisdiction has been enhanced under the New Act. The district court can now entertain consumer complaints where the value of goods or services paid does not exceed 1 crore [Section 34(1)]. The State Commission can entertain disputes where such value exceeds 1 crore but does not exceed 10 crores [Section 47(a)(i)] and the National Commission can exercise jurisdiction where such value exceeds above 10 crores [58(1)(a)(i)].

6. Do a consumer need to file a physical complain in the jurisdictional consumer forum?

No, the consumer now need not file a physical complain in the relevant forum as the New Act provides flexibility to the consumer to file an electronic complaints with the forum located at the place of residence or work of the consumer. [section 35(1)]

7. Is there any limitation period defined in which complain can be filed by the aggrieved consumer?

Yes, the consumer needs to file the complaint in the jurisdictional consumer forum within 2 years from the date on which cause of action has arisen. However, the forum can accept a complaint filed after the expiry of such period only if it is satisfied that the consumer has sufficient cause for not filing the complaint within the specified period. *[section 69]*

8. In cases where the product is found to be defective, who all can be made party to such complaint?

In cases where any harm is caused to the consumer due to the sale of a defective product then the consumer can file a complaint against the product manufacturer as well as the product seller in the circumstances more specifically provided under the Act. *[section 82]*

9. Can a complaint be filed against false or misleading advertisements?

Yes, under the new Act the consumer is entitled to file a complaint against misleading or false advertisement which is prejudicial to the interest of the consumer. Such manufacturer or service provider shall be liable to be punished with imprisonment for a term which may extend to two years and with fine which may extend to ten lakh rupees; and for every subsequent offence, be punished with imprisonment for a term which may extend to five years and with fine which may extend to fifty lakh rupees. *[section 89]*

10. Is there a separate regulator for protection of consumers under the New Act?

Yes, the Act proposes establishment of a central regulator, Central Consumer Protection Authority (“CCPA”) to be formed. There was no separate regulator in the earlier Act. The New Act proposes the establishment of a regulatory authority known as CCPA under Section 10 of the New Act. CCPA to regulate matters relating to violation of rights of consumers, unfair trade practices and false or misleading advertisements which are prejudicial to the interests of public and consumers and to promote, protect and enforce the rights of consumers as a class.

11. Whether there is any provision of alternate dispute resolution under the New Act?

Yes, as per the New Act, court can refer settlement through mediation. The New Act provides for mediation as an Alternate Dispute Resolution mechanism, making the process of dispute adjudication simpler and quicker. This will help with the speedier resolution of disputes and reduce pressure on consumer courts, who already have numerous cases pending before them. *[Section 74]*

12. What are the liabilities of the endorsers?

The Central Authority has power to issue order against concerned endorser if the advertisement is false or misleading and is prejudicial to the interest of any consumer or is in contravention of consumer rights. The Centre Authority can discontinue such advertisement or to modify the same in such manner and within such time as may be specified in that order. Penalty extending to 10 lakh rupees can be imposed on the endorser of the misleading advertisement. *[Section 21]*

13. What penalties can be imposed by authority on the grounds of product liability?

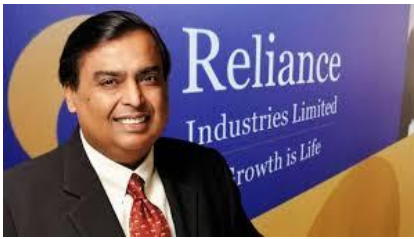
If a claim for compensation filed under product liability is proved, then District Commission has the power to ask the opposite party to remove the defect pointed out or to replace the goods with new goods of similar description, to return to the complainant the price, or, as the case may be, the charges paid by the complainant along with such interest on such price or charges as may be decided. District Commission can also grant punitive damages in circumstances as it deems fit. *[Section 39]*

14. Does the New Act govern the practices followed by e-commerce?

Yes, to protect the interest of consumers buying goods or services from e-commerce sites the New Act under Consumer Protection (E-Commerce) Rules, 2020 defines the practices which have to be followed by all models of e-commerce. E-commerce contravening the provisions of the rules is liable under the provisions of the New Act.

Reliance Industries Limited (RIL) – Road to a Debt Free Company

By CA Abhishek Pandya



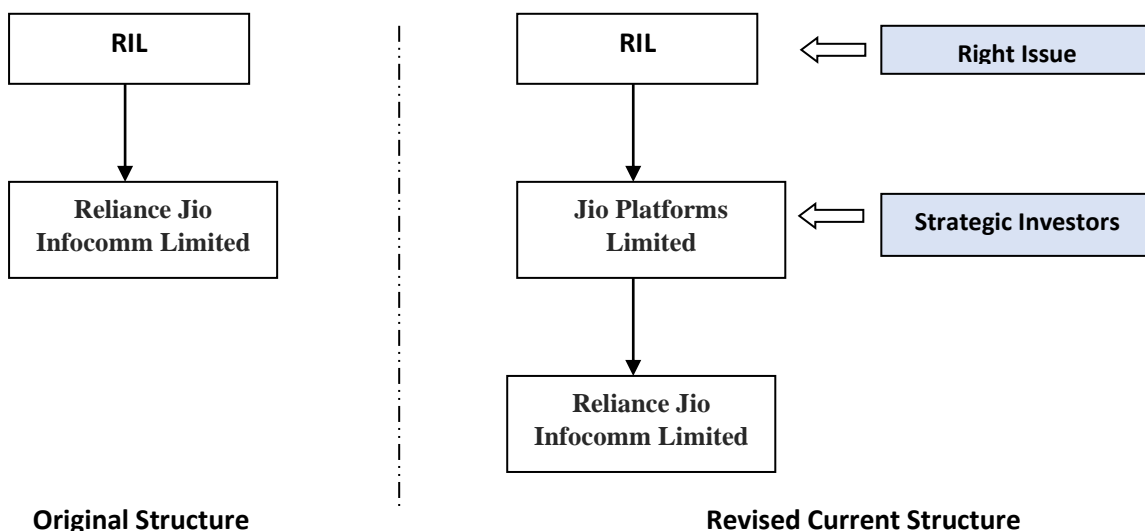
‘Don't ever promise more than you can deliver, but always deliver more than you promise’ these words by Lou Holtz sound very pertinent when one looks back at the statement made by the richest man of India, Mr. Mukesh Ambani at RIL’s 42nd Annual General Meeting (AGM) on August 12, 2019 wherein he stated *“We have a very clear roadmap to becoming a zero net-debt company within the next 18 months,*

that is by 31st March 2021,”. Last month on 19 June 2020, on the occasion of 43rd AGM, Mr. Ambani kept to his promise and announced, that it (RIL) has become net debt-free eight months ahead of March 2021 deadline it had set for itself.

Though the task seemed herculean, RIL was able to achieve it through a clear vision, a well-defined mission and strategic methods of infusion of additional capital and unlocking the value of assets lying in the balance sheet of the Company.

Just to state the facts, RIL started investing in Jio and Telecom business through its subsidiary Reliance Jio Infocomm Limited since 2007. In FY 2019-2020, RIL transferred its investment in Reliance Jio Infocomm Limited (equity shares – Rs. 44,200 crore and Optionally Convertible Preference Shares (OCPS) – Rs. 20,250 crore) to Jio Platforms Limited (JPL) its newly established wholly owned subsidiary at cost.

RIL net debt was Rs 161,035 crore as on March 31, 2020. On the other hand, on the same date, RIL held 100% Equity (Rs. 4961 Crore) as well as 100% of OCPS (Rs. 1,77,025 Crores) of Jio Platforms Limited (JPL), its wholly owned subsidiary which owns one of the India's largest mobile network operator ‘Jio’ and other digital businesses of Reliance. To become debt free, RIL adopted a two-way strategy for raising funds i.e. selling assets (Jio Platform Limited’s shares) as well as raising funds (Through right issue of RIL) against issue of equity.



Now, a point to be noted in the initial statement was ‘we have a very clear roadmap’, a roadmap which was structured well in advance. For a prudent businessman and consultant, it is important to understand those strategic moves which helped RIL in its debt free journey. Few of such strategic points are listed out below :-

- **Know your strengths**

RIL has been involved in Infrastructure sector i.e. a business model which requires upfront capital expenditure and gives eventual returns in future. To remove the risk of uncertainty, diversification always helps. RIL raised Debt based on its matured business such as Petrochemical, Refining, Retail etc. and invested in Telecom Business.

- **Timing of Fund Raising**

When the Telecom business became mature and self-sufficient, it approached investors for funds. Since not much further investment was required in business, RIL was able to get an exit by a secondary sale i.e. selling own stake in the subsidiary to receive cash flows in the holding company as against a primary sale wherein funds are infused in the subsidiary for future capital or operational expenditures.

- **Holding Subsidiary Structure**

Deploy the funds through its subsidiaries i.e. a Holding-Subsidiary model for each of its business so that funds can be raised at Holding Company level as well as at a Subsidiary Level for a specific business. Accordingly, RIL decided to raise such as huge debt in the holding company that maintained a high goodwill in the market.

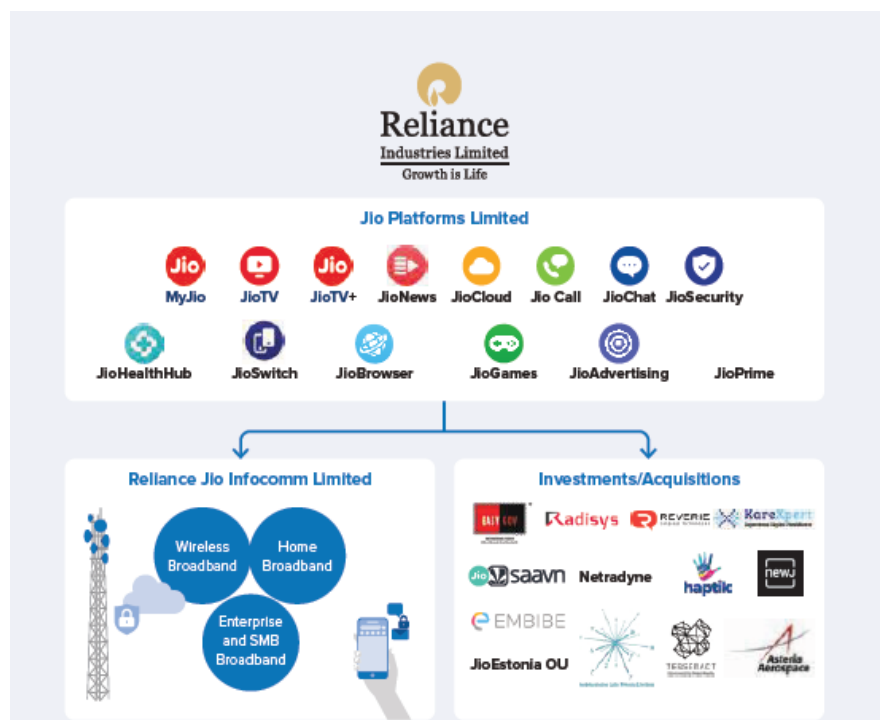
Strategic points considered while raising Rs. 1,17,588.45 Crores through selling assets

- **Measures for higher valuation**

Consolidation of digital business as well as telecom network business JIO under one company for higher valuation. The same can be analyzed from this chart.

- **Choose Strategic Investors Wisely**

First investor strategically chosen to be Facebook which also owns Whatsapp and Instagram to take advantage of synergies.



Source – RIL Annual Report FY 2019-20 Page 55

This, helped RIL to get an even better enterprise valuation for further stake sale from new investors as depicted in the table below:-

S. No.	Investor	Amount in Crore (A)	Stake (B)	Enterprise Valuation (Approx.) based on Stake (A/B)
1	Facebook	43,573.62	9.99%	4.3 lakh Crore
2	Silver Lake	5,655.75	1.15%	4.9 lakh Crore
3	Vista	11,367.00	2.32%	4.9 lakh Crore
4	General Atlantic	6,598.38	1.34%	4.9 lakh Crore
5	KKR	11,367.00	2.32%	4.9 lakh Crore
6	Mubadala	9,093.60	1.85%	4.9 lakh Crore
7	Silver Lake	4,546.80	0.93%	4.9 lakh Crore
8	Abu Dhabi Investment Authority	5,683.50	1.16%	4.9 lakh Crore
9	TPG	4,546.80	0.93%	4.9 lakh Crore
10	L Catterton	1,894.50	0.39%	4.9 lakh Crore
11	PIF	11,367.00	2.32%	4.9 lakh Crore
12	Intel	1,894.50	0.39%	4.9 lakh Crore
A	Funds raised by Stake Sale	1,17,588.45	25.09%	
B	Funds raised by RIL through Right Issue	53,124.00		
A+B	Total funds raised	170,712.45		

Focus on exit of strategic investors

- *Mr. Ambani in his AGM speech mentioned “We have received strong interest from strategic and financial investors in our consumer businesses, Jio and Reliance Retail. We will induct leading global partners in these businesses in the next few quarters and move towards listing of both these companies within the next five years. With these initiatives, I have no doubt that your company will have one of the strongest balance sheets in the world”. The statement is self-explanatory which implies that the Jio Platforms will be providing an exit to these strategic investors by bringing the Initial Public Offer (IPO) i.e. the new retail investors replacing the existing investors.*

Strategic Points considered when raised Rs. 53,124 Crore at Holding Company level through a Right Issue

- **Timing for bringing a right issue at Holding Company level**
With an Enterprise Valuation of JPL of more than 4.5 Lakh Crore, the Company just had to dilute 25.09% of its own initial investment and raise 1.17 lakh crore by a secondary stake sale. With such a high valuation of one of its subsidiaries and

profits on account of dilution flowing in the holding company, the Company strategically also brought a right issue in May 2020 to raise 53,124 Crore amid the COVID pandemic. The right issue of Rs. 10 face value of share was also priced at a premium of Rs. 1247 per share.

- **Borrow as much you need**

The right issue was a partly paid up which implied that the shareholders were required to pay 25% of the price i.e. Rs 314.25 (face value of Rs 2.5 + premium Rs 311.75) per rights equity share for subscribing to Right Issue and the balance to be paid in tranches as decided by the board based on its requirement to deploy funds as idle cash in itself is a cost to a company.

Hence, RIL was able to bring requisite cash flows in its books through sale of stake in its subsidiaries and raising capital from existing shareholders.

Net Impact

Since, RIL became a net debt free Company, S&P Global Ratings recently stated that it expects the credit quality of RIL to improve over the next two-three years, despite the earnings being less than expectations.

To conclude, the road to this debt free journey of RIL can be summed up with this famous quote

‘All you need is the plan, the road map and the courage to press on your destination’

By Earl Nightingale



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