

THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA

(SET UP BY AN ACT OF PARLIAMENT)



E-NEWSLETTER APRIL 2025

HYDERABAD BRANCH (SIRC)

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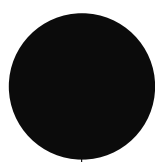


CA. Mandava Sunil Kumar
(Member - SIRC)



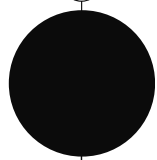
CA. Yarra Tirupathaiah
(Member - SIRC)

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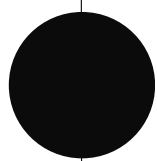
CHAIRMAN COMMUNIQUE

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FROM THE CHAIRMAN

Dear Professional Colleagues,

As Swami Vivekananda wisely said,
"Take up one idea, make that one idea your life. Think of it, dream of it, live on that idea. Let the brain, muscles, nerves, every part of your body be full of that idea, and just leave every other idea alone. This is the way to success."

With this inspiration, I extend my best wishes for a happy and prosperous Financial New Year! April 1, 2025, brings with it a mix of emotions - a sense of pride for our achievements and anticipation for the opportunities ahead.

Events & Activities – March 2025:

◆ International Women's Day Celebration – March 8, 2025:

On the eve of International Women's Day, a special programme was organized exclusively for women Chartered Accountants. The event witnessed participation from over 100 women CAs who engaged in enriching sessions. Their enthusiasm and active involvement made it a highly valuable learning experience.

◆ Seminar on Challenges in Income Tax for Charitable Organizations – March 12, 2025:

This seminar provided deep insights into the complexities of income tax regulations for charitable organizations. The discussions were insightful and contributed significantly to the knowledge of participants.

◆ Seminar on Bank Branch Audit – March 18, 2025:

It gives me immense pleasure to share that the Hyderabad Branch of SIRC of ICAI successfully hosted a Seminar on Bank Branch Audit, organized under the aegis of the Auditing & Assurance Standards Board. This event was a grand success, with over 800 Chartered Accountants in attendance.



CA. A CHINNA SITA RAMI REDDY
CHAIRMAN

The inaugural session was graced by **CA. Prasanna Kumar D.**, Vice President of ICAI, as the Chief Guest. In his address, he emphasized the approval of a new building grant for the Hyderabad Branch, under the leadership of CA. Dayaniwas Sharma & CA. Muppala Sridhar. This initiative aims to enhance facilities for members, students, and stakeholders.

I sincerely thank all the resource persons who shared their expertise and contributed to making this seminar a great success.

◆ Other Seminars:

We also conducted insightful sessions on:

- ✓ Audit of Journal Entries
- ✓ Financial Instruments

◆ Student Seminar on Branch Audit:

A special Seminar on Branch Audit was organized for students, receiving an overwhelming response from over 300 participants. I extend my heartfelt gratitude to the resource persons for sharing their knowledge and guiding our students.

As we step into a new financial year, let us continue to strive for excellence, embrace

We look forward to your participation and support in making these initiatives a success. Let's work together for the growth of our profession and the Hyderabad Branch of SIRC of ICAI.

As we step into the month of April, we are blessed to celebrate the festivals.

Shree Rama Navami (April 06, 2025)

May the virtues of Lord Ram inspire you to walk the path of righteousness and compassion. Happy Ram Navami!

Hanuman Janmotsav (April 10, 2025)

On this auspicious day of Hanuman Jayanti, may Lord Hanuman bless you with strength, wisdom, and courage. May you overcome every obstacle with devotion and determination! Jai Bajrang Bali!

Mahavir Jayanti (April 10, 2025)

May the teachings of Lord Mahavir inspire you to live a life of truth, peace, and non-violence. Wishing you a blessed and peaceful Mahavir Jayanti!

Baisakhi (April 13, 2025)

Wishing you a joyous Baisakhi! May this harvest festival bring prosperity, success, and happiness to your home. Let's celebrate new beginnings and the blessings of the land!

Good Friday (April 18, 2025)

On this sacred day, may we remember the sacrifice of Jesus Christ and embrace love, kindness, and forgiveness in our lives. Wishing you a peaceful Good Friday.

Let us celebrate these festivals with gratitude, unity, and renewed enthusiasm to serve our profession with dedication.

Easter Sunday (April 20, 2025)

May the spirit of Easter bring renewal, hope, and happiness to your life. May this day remind you of love, faith, and new beginnings. Happy Easter!

To conclude this month's communication, I may draw the golden words of Albert Einstein on Human Values:

Try not to become a man of success, but a man of value. Look around at how people want to get more out of life than they put in. A man of value will give more than he receives. Be creative, but make sure that what you create is not a curse for mankind.

Best regards,

CA Chinna Sita Rami Reddy A
Chairman, Hyderabad Branch of SIRC of ICAI
Jai Hind, Jai ICAI

KNOW YOUR “CA INDIA LOGO”

Guidelines (2023)

for using the new CA India logo
for CA members



- The logo consists of the letters 'CA' in blue colour with a tri colour tick mark (upside down) with white background. The blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability, and depth. The upside-down tick mark, typically used by Chartered Accountants, has been included to symbolise the wisdom and value of the professional.

'India' is also added in the logo, as it epitomizes the Institute's connection to India First approach and commitment to the serve the Indian economy in public interest.

- There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.

- The colour palette is



- Do not change the design and colours including the white background.
- Refrain from rotating or tilting the logo clockwise and anti-clockwise.
- The logo should not be shrunk or distorted changing the original proportion.
- While members are encouraged to use the new CA India Logo as published on letterheads, visiting cards, website etc, a transition time of one year has been provided to use existing stationary/signage replacement etc.

*Effective from 24th November, 2023.

Correct Logo



Do not change background



Do not change the colours



Do not Rotate



Do not Rotate

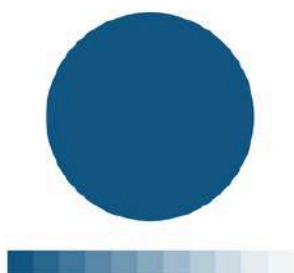


Do not crop



Do not shrink, shear or distort





Incorporation of Tricolor:

The incorporation of the tricolor into the logo is a powerful symbol of the Institute's connection to India. The three colors of the Indian flag represent unity, diversity, and sovereignty, and they reflect the brand's commitment to serving the people of India and contributing to the nation's development. The tricolor has been used in such a fashion that it hints at motion, a flight, and a journey toward progress, showcasing the Institute's forward-thinking approach.

Significance of blue color:

The primary color of the new logo is blue, which has been culled from the ICAI logo. Blue is a color that is associated with divinity, immortality, bravery, and determination. It reflects vastness, being the colour of the sky and ocean, and has been an integral part of the Indian cultural, political, and social landscape over the years. Blue is also culturally significant, as it has been a part of the Indian tradition for more than 5,000 years.



Adaptability on all platforms:

The new logo can be adapted for use on all platforms, digital and analog, which is essential for a modern brand. This versatility ensures that the Institute's brand is consistent across all channels, helping to strengthen its identity and credibility. The adaptability of the new logo also makes it more accessible to the Institute's stakeholders, including members, students, and the general public.

In a nutshell:

The new logo of CA India reflects the brand's connection to India while retaining its existing identity. The incorporation of the tricolor, the significance of the blue color, and adaptability on all platforms are all essential elements of the new logo. The design is intended to be aesthetically pleasing and culturally significant, making it a strong representation of the Institute's values and commitment to serving the people of India.



WOMEN'S DAY SEMINAR (ASPIRE ADAPT ACHIEVE - PIONEERING CHANGE, SETTING TRENDS)

HELD ON
08-03-2025



CA A. Chinna Sita Rami Reddy, Chairman of ICAI Hyderabad (SIRC), along with the Managing Committee Members and Resource Persons, inaugurating the Women's Day celebration by lighting the ceremonial lamp.





RESOURCE PERSONS:
CA. APARNA S, CA. LAKSHMI NALLAMILLI, CA. MADHUMATHI SURESH, MS. NEHA REDDY, DR. NIKHILA REDDY, DR. SAI SREE AND MS. PUSHPA

SICASA INTERNATIONAL WOMEN'S DAY CELEBRATIONS FOR CA STUDENTS

HELD ON
09TH MARCH 2025



CHALLENGES OF INCOME TAX ISSUES FOR CHARITABLE ORGANIZATIONS: INSIGHTS FROM THE NEW INCOME TAX BILL, 2025

HELD ON
12TH MARCH, 2025



RESOURCE PERSON: CA. SANKA VENUGOPAL

SEMINAR ON BANK BRANCH AUDIT

HELD ON
18TH MARCH 2025



SEMINAR ON BANK BRANCH AUDIT

HELD ON
18TH MARCH 2025



SEMINAR ON BANK BRANCH AUDIT

HELD ON
18TH MARCH 2025



RESOURCE PERSONS:

CA. PREMNATH D, CA. JANAKINATH D, CA. NIRANJAN JOSHI, CA. VIJAY SRINIVAS, CA. SARAN KUMAR U

**FELICITATION FOR ALL INDIA 1ST RANKER OF
CA INTERMEDIATE JAN 2025 MS. DEEPANSHI
AGARWAL**



**FELICITATION FOR ALL INDIA 1ST RANKER OF
CA FINAL NOVEMBER 2024 MR. HERAMB
MAHESWARI**



OC & MCS VALEDICTORY SESSION

HELD ON
20TH MARCH 2025



SEMINAR ON AUDIT OF JOURNAL ENTRIES

HELD ON
26TH MARCH 2025



RESOURCE PERSON:
CA. ARPAN JAIN

SEMINAR ON FINANCIAL INSTRUMENT

HELD ON
27TH MARCH 2025



RESOURCE PERSON:
CA. AMRIT AGRAWAL



CA SHAILESH KHANDELWAL

FREE ZONES IN THE UAE & COMPANY SETUP PROCESS IN IFZA (UAE)

The United Arab Emirates (UAE) has established itself as a global business hub, attracting entrepreneurs and corporations due to its strategic location, investor-friendly policies, and economic stability. One of the key features of the UAE's business environment is the presence of Free Zones, which offer various benefits, including foreign ownership, tax incentives, and ease of doing business. Among these, the International Free Zone Authority (IFZA) is a prominent option for company incorporation. Additionally, businesses can also operate in the Mainland, which offers a different set of advantages and regulatory frameworks.

Understanding Free Zones and Mainland in the UAE:

The UAE has more than 40 Free Zones, each designed to cater to specific industries such as trade, technology, media, healthcare, and logistics. Free Zones operate under independent regulatory frameworks, providing flexibility to businesses looking to establish a presence in the region. On the other hand, the Mainland business setup is regulated by the Department of Economic Development (DED) of each emirate, allowing companies to operate across the UAE market without geographical restrictions.

Key Features of UAE Free Zones:

- **100% Foreign Ownership:** Investors can fully own their companies without the need for a local partner.
- **Tax Incentives:** Free Zones generally offer 0% corporate and personal income tax (subject to corporate tax regulations where applicable).
- **Customs and Trade Benefits:** Many Free Zones provide exemptions from import and export duties.
- **Repatriation of Profits:** Businesses can repatriate capital and profits without restrictions.
- **Ease of Incorporation:** Free Zones typically have streamlined registration and licensing processes.
- **No Currency Restrictions:** Companies can operate using multiple currencies.
- **Sector-Specific Focus:** Some Free Zones cater to specific industries, providing tailored regulatory support and infrastructure.

Key Features of UAE Mainland Businesses:

- **Ability to Trade Across the UAE:** Unlike Free Zones, Mainland companies can conduct business anywhere in the UAE without limitations.

- **Government Contracts:** Mainland businesses can bid for lucrative UAE government contracts and projects.
- **No Geographic Restrictions:** Companies can establish offices anywhere in the UAE.
- **Corporate Tax Considerations:** While tax regulations apply to both setups, Mainland companies are subject to corporate tax as per UAE laws.
- **Regulated by the DED:** Business licensing and registration are overseen by the Department of Economic Development (DED) of each emirate.
- **Ownership Requirements:** Depending on the business activity, some sectors may require a UAE national to hold a stake in the company.

Mainland vs. Free Zone: Key Differences

Aspect	Free Zone	Mainland
Ownership	100% foreign ownership	100% foreign ownership for most activities, but some require a UAE partner
Business Scope	Can operate only within the Free Zone or internationally	Can conduct business anywhere in the UAE
Government Contracts	Limited access to government projects	Eligible for UAE government contracts
Office Requirements	Flexibility with virtual and shared offices	Physical office space required
Corporate Tax	Generally tax-free (subject to UAE corporate tax laws)	Subject to UAE corporate tax laws
Regulatory Authority	Independent Free Zone authorities	Department of Economic Development (DED)

Overview of the International Free Zone Authority (IFZA):

IFZA is one of the many Free Zones in the UAE that offers business incorporation services. Located in Dubai, IFZA provides a range of business license options suitable for various industries. While IFZA is known for its flexible business setup solutions, it is important for investors to compare its offerings with other Free Zones to determine the best fit for their needs.

Types of Licenses Offered in IFZA:

1. **Consultancy License** – Suitable for businesses providing professional advisory services.
2. **Service License** – For service-based businesses such as IT, legal, and marketing firms.
3. **Trading License** – For companies engaged in the buying and selling of goods.
4. **Holding License** – For companies managing assets or shares in other firms.

COMPANY INCORPORATION PROCESS IN IFZA:

Setting up a company in IFZA follows a structured process, similar to other Free Zones:

Step 1: Select Business Activity and License Type

Entrepreneurs must define their business activity and choose an appropriate license type based on their intended operations.

Step 2: Choose a Company Structure

IFZA, like other Free Zones, offers various business structures, including:

- Free Zone Establishment (FZE): A company with a single shareholder.
- Free Zone Company (FZC): A company with multiple shareholders.
- Branch of an Existing Company: A foreign or local company can establish a branch within IFZA.

Step 3: File Application & Documentation

- Required documents typically include Passport copy of shareholders and directors and Passport-size photograph.

Step 4: Obtain Business License

Upon approval, the Free Zone issues the business license, allowing operations to commence.

Step 5: Open a Corporate Bank Account

Companies must open a corporate bank account to facilitate financial transactions.



Step 6: Secure Office Space (If Required)

IFZA and other Free Zones provide various office space options, including virtual offices, shared workspaces, and private offices, depending on the business requirements.

Comparing IFZA with Other Free Zones

While IFZA is one of the many options available for business setup in the UAE, investors should evaluate its benefits in comparison to other Free Zones such as:

- Jebel Ali Free Zone (JAFZA): Known for logistics and industrial businesses.
- Dubai Multi Commodities Centre (DMCC): Popular for commodities trading and financial services.
- Sharjah Media City (SHAMS): Ideal for media and creative industries.
- Ras Al Khaimah Economic Zone (RAKEZ): Cost-effective solutions for industrial and commercial businesses.

Each Free Zone has unique advantages, and businesses should assess factors such as cost, location, regulatory environment, and industry focus before making a decision.

Conclusion

UAE Free Zones offer a range of business opportunities with investor-friendly policies. IFZA is one such option that provides a simplified incorporation process, but businesses should conduct due diligence and compare different Free Zones to select the most suitable jurisdiction for their needs. Additionally, businesses looking for unrestricted UAE market access or government contracts may consider setting up in the Mainland. Engaging with legal and business advisory experts can help entrepreneurs make informed decisions when setting up a company in the UAE.

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shailesh@skauditors.com



CA NIKSHIT HEMENDRA SHAH

DUE DILIGENCE: A TOOL FOR INFORMED DECISION-MAKING

Literal meaning:

Being diligent means being careful and serious in your work or when work is done in a careful and determined way it is called diligent work. The takeaways from the definition or literal meaning of the word is doing some work with a keen eye and keeping a log of the work, findings and conclusion.

Due Diligence (DD) in Business world:

Typically, DD is either performed for testing or improving internal processes of a business entity or in case of mergers & acquisitions (M&As) it is a value addition process that allows buyers to fully understand target companies.

For confidentiality purposes, companies do not disclose every detail of their operations to every company that expresses an interest. Thus, the due diligence process allows the buyer to gain more insight into the company, its people, and how it operates.

Process of DD:

Due diligence is a detailed review/audit of an entity, usually undertaken to test internal processes or before an investment, merger or acquisition. The aim is to ensure that any decision taken regarding the entity in question is an informed one, maximizing your chances of adding value in an investment transaction.

Role of a CA in Due Diligence (DD)

The DD process throws up lots of information on the target company, across all of its operational areas. The goal of the DD review is to piece together all of this information into a coherent story which will help stake holders make an informed decision.

This usually involves the people in charge of the DD process convening and deciding if there's anything that was disclosed in the process that changes their initial opinion on a deal.

For example:

- are implemented controls effective?
- can the deal still go ahead?
- should the initial price remain same or needs further negotiations?
- should it go ahead with a certain set of covenants?
- what concerns should be raised with the target company?
- are there any major regulatory non compliances?
- These are typical of the questions that will arise during the DD review.

Types of Due Diligence (DD)

Typically, there are four major types of due diligence, each serving a distinct purpose in evaluating various aspects.

- **Financial due diligence:** Focusing on the financial performance of the entity until the present date and ensuring that the numbers presented in the financial statements are accurate and sustainable.
- **Legal due diligence:** Focusing on all legal aspects of the entity and its relationships with its stakeholders. Areas typically analyzed include licences, regulatory issues, contracts, and any legal liabilities that may be pending.
- **Operational due diligence:** Focusing on the entity's operations - essentially looking at how the entity turns inputs into outputs. This is generally considered to be the most forward looking type of due diligence.
- **Statutory due diligence:** Focusing on all of the entity's statutory affairs and ensuring that its statutory liabilities are paid in full to date. Due diligence of regulatory compliance also looks at how a merger would affect the tax liabilities of the new entity created by the transaction and other statutory obligations.

Importance of Due Diligence (DD)

When a business wants to get its house in order or when the management is not sure if the processes are properly implemented to ensure business is operated efficiently, a thorough DD will give a complete picture of the internal controls and compliance position of an entity.

For example, a merger or acquisition is the biggest corporate transaction that any business will undertake. DD enables companies to undertake these transactions from an informed standpoint. It can add significant value for the buyer by showing where the target company's weaknesses (or red flags) are as well as identifying some opportunities within the target company that it previously wasn't aware that existed.

How to conduct Due Diligence (DD)

DD means to thoroughly analyse a commercial business and internal processes applied by the entity. It may be done by a potential buyer prior to business transactions or a vendor before supplying goods or banker before extending loan. How to conduct DD of a company differs from transaction to transaction. However, there are certain steps that are common to each deal. Following are common areas to be reviewed in a DD:

- Income statements
- Balance sheets
- Cash flow statements
- Partnership agreements
- Vendor agreements
- Existing contracts
- Profit/loss records
- Annual reports
- Tax & statutory filings
- Business and operational practices

Due Diligence Process:



Due diligence is a lengthy and intimidating process that involves multiple parties and phases. Listed in picture are general due diligence process steps.

Challenges of Due Diligence (DD)

Gaining an in-depth understanding of a company can be a highly specialized process beyond most people without experience in the field. There tend to be a myriad of challenges, but the following are usually among the most commonly encountered:

- Not knowing what questions to ask: It is vitally important to know in advance what the issues are and what diligence questions need to be asked to investigate them properly.
- Slowness of execution: Asking sellers to acquire documentation or information can take time, often with the consequence of delaying the transaction's closing.
- Lack of communication: Sellers, even willing sellers, tend to regard due diligence as a hassle, leading to impatience, poor communication, and even friction.
- Lack of expertise: There is a good chance that you'll have to bring in some hired hands for at least some parts of the due diligence process (e.g., an IP expert).
- Cost challenges: Due diligence can be expensive, running into months and extensive specialist hours, making many erroneously think that they can cut corners.

Typical Due Diligence process of Mergers & Acquisitions (M&A):

1. Evaluate Goals of the Project:

As with any project, the first step is delineating corporate goals. This helps pinpoint resources required, what you need to glean, and ultimately assure alignment with the firm's overarching strategy. This involves introspective questions revolving around what you need to gain from this investigation.

2. Analyze of Business Financials:

This step is an exhaustive audit of financial records. It ensures that documents depicted in the Confidentiality Information Memorandum (CIM) were not fluffed. Additionally, it helps

gauge the company's asset health, assess overall financial performance and stability, and detect any red flags. Some of the items inspected here include:

- Balance sheets and income statements
- Inventory schedules
- Future forecasts and projections
- Revenue, profit, and growth trends
- Stock history and options
- Short and long-term debts
- Tax forms and documents
- Valuation multiples and ratios in comparison to competitors and industry benchmarks

3. Thorough Inspection of Documents

This DD step begins as a two-way conversation between buyer and seller. The buyer asks for respective documents to audit, conducts interviews or surveys with the seller, and goes on site visits. Responsiveness and organization on the seller's end are key to expedite this process. Otherwise, it may create a gruelling experience for the buyer.



Following, the buyer examines the information collected to ensure proper business practices as well as legal and environmental compliances. This is the major part of DD process. Overall, the buyer gains a better understanding of the firm as a whole and can better appraise long term value.

4. Business Plan and Model Analysis

Here, the buyer looks specifically at the target company's business plans and model. This is to assess whether it is viable and how well the firm's model would integrate with theirs.

5. Final Offering Formation

After information and documents are gathered and examined, individuals and teams collaborate to share and evaluate their findings. Analysts utilize information collected to perform valuation techniques and methods. This substantiates the final amount you are willing to offer during negotiation.

6. Risk Management

Risk management is looking at the target company holistically and forecasting risks that may be associated with the transaction.

Period of Due Diligence (DD)

While road mapping, it may seem difficult to forecast how much DD is enough. Despite its comprehensive nature, the DD process should only last between 30 and 60 days. This is achievable if planned well. Ultimate goal is to close the deal as soon as possible, while also being thorough.

But, in reality, it is impossible to uncover all issues and potential complications during the investigation. Some items will not be uncovered until integration. However, the same idea applies to potential benefits. This reinforces the importance to be energetic and efficient while maintaining quality to meet the due diligence period deadline.

Due Diligence (DD) Requirements for M&A

Below is a typical DD folder when reviewing a Mergers & Acquisitions (M&A) transaction:

1. Transaction related Documents
2. Corporate Documents
3. Contracts and Agreements
4. Customers, Sales, and Marketing
5. Procurement (Suppliers)
6. Property and Equipment

7. Environmental approvals and impact

8. Legal, Litigation, and Regulatory compliances

9. Intellectual Property

10. Financial compliances

11. Human Resources practices

12. Tax impact and analysis

13. Operations

14. Information Technology

15. Industry specific requirements

Due Diligence (DD) of a Private Company

Each company incorporates its own character of size, business owner and leadership personalities, culture, and industry to create a unique transaction. One factor that makes transactions more complex and DD process more complicated is when a company is privately held.

Investors cannot easily buy shares unless they are founders, employed there, or have invested via venture capital or private equity firms. Aside from it being more difficult to invest in private companies, they are not obligated to publicly disclose as much information. Compared to private companies, public companies are held to stricter business and accounting practice standards.

Detailed here are some best practices for the private equity DD process:

- Understand Your Financial Situation - Before even researching companies or drafting out a Letter of Intent (LOI), you need to look at your own books. Do you have enough resources to complete the transaction and bounce back if it does not work out? If not, maybe consider a smaller scale investment or wait a little while.
- Accounting Procedures and Financial Statements - Publicly held companies must abide by Indian Accounting Standards prescribed and are audited regularly to ensure compliance. Regulations on privately held companies are not as strict. This allows them to use

different accounting procedures or even practices off the beaten path.

- **Size** - Private companies are mostly smaller than public companies. This doesn't only mean fewer employees and less office space, but also likely smaller revenues.
- **Human Resources Practices** - Smaller, younger businesses may not have standardized HR processes. Here, you want to check out items such as questionable terminations, harassment charges, hiring practices, and if/what workplace policies exist.
- **Legal** - The last thing you want from any investment is to soon find that it is riddled with legal issues. Some details to consider here are tax compliance, any past or outstanding lawsuits, and overall obedience to applicable jurisdictions.
- **Valuation** - Valuation methodologies are the same between private and public companies. However, you have to adjust for lack of liquidity and publicly available market value of tradable shares.
- **Management and Leadership** - You will want to meet and get to know management to determine if there is any hostility associated with the transaction.
- **The Business** - Overall, do you believe in the company, their strategy, and mission? Is this something you see as truly being successful?

Right Way to do Due Diligence



Conducting proper DD is an important, yet tedious process. Here are a few helpful tips:

1. **Start Early** - The diligence process can be extremely time-consuming. It's best to get started early in an organized manner.
2. **Utilize Checklists** - Create an organized checklist before starting the work. For example, process can be broken down into different stages of diligence. Users can efficiently check items off as they are completed.
3. **Address Potential Risks Throughout the Process** - If potential bottlenecks and risks arise during DD process, teams should address them promptly.
4. **Employ Experts** - Hiring professionals with expertise in specific fields such as chartered accountants, advocates or investment bankers make the DD process more efficient. Teams would have experience with conducting DD and know the necessary steps to take.

Final Thoughts

The due diligence process is not standard i.e., "one size fits all", but that doesn't mean it has to be inefficient and disorganized. With proper planning, professional team, appropriate tools and workflows in place, diligence can be straightforward and productive.

After all, the information that is discovered during diligence is critical to efficiency of a business' internal controls and systems or a deal's success in case of M&A transactions

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CA NAG MUNAGAPATI

SME IPO PROCESS AND OPPORTUNITIES FOR CHARTERED ACCOUNTANTS

India's SME IPO platform, launched in 2012, began with ₹568 crore raised by 66 companies in its inaugural year. Over a decade later, this segment has burgeoned, with ₹9,251 crore mobilized in 2024 alone—nearly 16x the initial figure - underscoring its explosive growth. In contrast, mainboard IPOs prioritise scale, yet SMEs now contribute 40% of industrial output, highlighting their systemic importance. With 11.4 million SMEs driving 7% of GDP, less than 0.02% have tapped public markets, signalling vast unmet funding needs. As capital markets evolve, bridging this gap becomes pivotal to unlocking India's \$5 trillion economy vision, empowering SMEs to transition from informal enterprises to globally competitive entities. And now we can visualise how vast this opportunity is going to be for CAs.

It's high time that budding Chartered Accountants explore new opportunities such as capital markets, fundraising, and other emerging avenues. This will not only make their practice more engaging but also enhance its financial viability.

The Small and Medium Enterprises (SME) Initial Public Offering (IPO) has emerged as a crucial financial tool for small businesses to raise capital, enhance their market presence, and achieve sustainable growth. SME IPOs enable companies to access public funding while adhering to regulatory frameworks tailored for smaller entities. For Chartered Accountants (CAs), this process represents a significant opportunity to provide specialized services and contribute to the success of SMEs in India's dynamic capital markets.

UNDERSTANDING THE SME IPO PROCESS

The SME IPO process is a structured journey requiring compliance with regulatory norms, strategic planning, and execution. Below is an in-depth overview of the process:

Eligibility Criteria

SMEs seeking to list on SME exchanges must

meet certain financial, operational, and structural requirements:

1. Financial Requirements:

- Minimum net worth: ₹1 crore for the past two years.
- Net tangible assets exceeding ₹3 crores.
- Positive EBITDA in at least two of the last three years.
- Debt-to-equity ratio not exceeding 3:1.

2. Corporate Structure:

- Registered under the Companies Act.
- Post-IPO paid-up capital below ₹25 crores.
- Minimum public offering of 26.5%.

3. Operational Track Record:

- At least three years of operational history.
- Positive cash accruals from operations.
- Stable management with no promoter changes in the past year.



4. Digital Compliance:

- Maintain an active company website.
- Meet regulatory disclosure requirements.

TIMELINE:

The SME IPO process typically spans 187 days, divided into four key phases:

1. Initial Setup (Day X to X+30):

- Conversion to a public limited company.
- ROC filings and formation of committees.

2. Documentation & Infrastructure (X+31 to X+70):

- Development of a company website.
- ISIN allocation and submission of the Draft Red Herring Prospectus (DRHP).

3. Regulatory Clearance (X+71 to X+170):

- Exchange approvals.
- Capital lock-in arrangements and finalization of the prospectus.

4. Public Issue & Listing (X+175 to X+187):

- Opening and closing of the issue.
- Share allotment and exchange listing.

Key Regulatory Aspects

The Securities and Exchange Board of India (SEBI) has relaxed several norms for SMEs under its Issue of Capital and Disclosure Requirements (ICDR) regulations:

- Simplified prospectus review by exchanges instead of SEBI.
- No requirement for IPO grading or quarterly reporting; half-yearly reporting suffices.
- Mandatory underwriting for 100% of the IPO by merchant bankers.
- Seamless migration to main boards after two years of listing.

BENEFITS OF SME IPOs:

SME IPOs offer distinct advantages for businesses, investors, and professionals involved in the process:

For SMEs:

1. **Growth & Expansion:** Access to public funding enables SMEs to scale operations, invest in infrastructure, and expand market reach.
2. **Visibility & Credibility:** Listing on an exchange enhances brand image, credibility, and market presence.
3. **Liquidity Creation:** Provides exit opportunities for promoters and investors while attracting new stakeholders.
4. **ESOPs & Talent Acquisition:** Equity options help attract and retain top talent, fostering long-term organizational growth.

For Investors:

Investing in SME IPOs can yield high returns due to the growth potential of smaller companies. For instance, Bondada Engineering Limited delivered over 4,800% returns since its IPO in 2023.

OPPORTUNITIES FOR CHARTERED ACCOUNTANTS

Chartered Accountants play a pivotal role in facilitating SME IPOs by offering expertise across various domains:

Key Roles:

1. **Due Diligence:** CAs conduct thorough financial reviews to identify risks, ensure transparency, and prepare companies for investor scrutiny.
2. **Tax Planning:** Structuring tax frameworks that comply with regulations while optimizing liabilities is a critical aspect handled by CAs.
3. **Valuation Services:** Determining business value based on quantitative factors like earnings per share (EPS), turnover, profit after tax (PAT), peer valuations, and qualitative aspects such as corporate governance quality.
4. **Financial Statement Preparation:** Restating financial statements in line with regulatory requirements ensures compliance during pre-IPO preparations.

Advisory Opportunities:

CAs can act as strategic advisors throughout the IPO journey by offering services such as:

- Pre-IPO funding strategies tailored to business needs.
- Advising on fund utilization plans post-listing.
- Supporting migration from SME platforms to main boards after eligibility criteria are met.

Integrated Advisory Approach:

CAs often collaborate with merchant bankers, legal advisors, and compliance teams to ensure seamless execution of the IPO process. Their ability to coordinate across functions makes them indispensable in achieving successful listings.

CHALLENGES IN SME IPOs:

While SME IPOs present lucrative opportunities, they also come with challenges that require careful navigation:

1. Promoter Conviction: Promoters may lack confidence in transitioning their private company into a publicly listed entity. CAs can address this by showcasing detailed growth roadmaps and ensuring transparent financial reporting.

2. Objects Clause & Fund Utilization:

Ensuring proper allocation of funds raised during the IPO is critical. CAs can create comprehensive fund allocation matrices and implement tracking systems to monitor progress.

3. Compliance Hurdles:

Navigating regulatory requirements can be daunting for SMEs unfamiliar with SEBI norms. CAs can partner with specialized consultants or implement automated compliance tracking systems.

4. Valuation Expectations:

Balancing optimistic projections with realistic

market conditions is essential for sustainable post-listing performance. CAs can develop data-driven valuation models aligned with industry benchmarks.

Migration from SME Platforms to Main Boards

After being listed on an SME platform for at least three years, companies can migrate to main boards under specific conditions such as meeting SEBI LODR requirements or obtaining special resolution approval from shareholders. Early migration may also be possible under certain circumstances if justified by increased capital needs or market conditions.

Examples of successful migrations include companies like E2E Networks (NSE), Servotech Power Systems (NSE), and Thejo Engineering (NSE), which have delivered substantial returns post-migration.

CONCLUSION

The SME IPO ecosystem is transforming India's financial landscape by empowering small businesses with access to public funding while creating investment opportunities for stakeholders across sectors. Chartered Accountants are uniquely positioned to play a vital role in this ecosystem by leveraging their expertise in financial management, valuation services, compliance advisory, and strategic planning.

By addressing challenges such as promoter conviction issues, compliance hurdles, fund utilization tracking, and valuation expectations, CAs can ensure successful listings that benefit both SMEs and investors alike. As India's economy continues its upward trajectory, the demand for skilled professionals in facilitating SME IPOs will only grow—offering immense opportunities for CAs.

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A GLIMPSE OF VALUATION: PERSPECTIVES FOR CHARTERED ACCOUNTANTS

The concept of valuation permeates both our daily lives and professional environments. This powerful financial tool has created and destroyed investor wealth, while terminology has evolved from traditional metrics like Market Capitalization, Float, and Dividend Payout to contemporary concepts such as Unicorns, Exit Strategies, and Growth Multiples. With globalization and the adoption of fair value accounting standards, valuation practices have become indispensable for reliable financial reporting.

According to Bain and Company's 2024 report, venture capital investments in India surged by 43% to \$13.7 billion. The same year witnessed significant investor interest in SME IPOs. These investment trends revolve around the fundamental concept of valuation—essentially, the value at which informed investors transact for shares or companies.

As Chartered Accountants, our work frequently involves valuing Securities, Financial Assets, and entire businesses. This article provides a comprehensive overview of valuation fundamentals, approaches, regulatory requirements, challenges, and the

critical importance of independence in the valuation process.

Foundational Concepts

Value vs. Cost:

Value represents the estimated monetary worth of an asset to an individual, while cost refers to the price paid to acquire it. These figures often differ depending on the specific requirements of the transacting parties.

Premise of Valuation refers to the circumstances under which the valuation is being executed - a vital consideration at the outset of any valuation process. The two primary premises are:

- **Going Concern Valuation:** Based on the assumption that a business will continue operations into perpetuity, yielding a higher valuation than liquidation value.
- **Liquidation Valuation:** The net amount realizable if the business ceases operations, which may be **Orderly** (over a reasonable timeframe) or **Forced** (as quickly as possible).

Valuation Standards and Regulatory Framework

The Central Government has not yet notified specific Valuation Standards. In the interim, valuers must follow:

- Internationally accepted Valuation Standards
- Valuation Standards adopted by any Registered Valuers Organization (RVO)¹

Mandatory Valuation Certificates: Regulatory Perspective

The requirement for Registered Valuers to issue valuation certificates addresses several needs:

- **Standardization and Transparency:** Ensuring consistency in financial reporting across organizations.
- **Stakeholder Protection:** Safeguarding the interests of shareholders, creditors, and investors.
- **Dispute Minimization:** Providing clear, objective bases for decision-making in transactions and legal proceedings.

This regulatory framework aims to resolve historical issues where non-standardized valuations led to disputes, tax irregularities, and erosion of stakeholder trust.

Statutory Requirements for Valuation:

Valuation is mandated under various legislation, including:

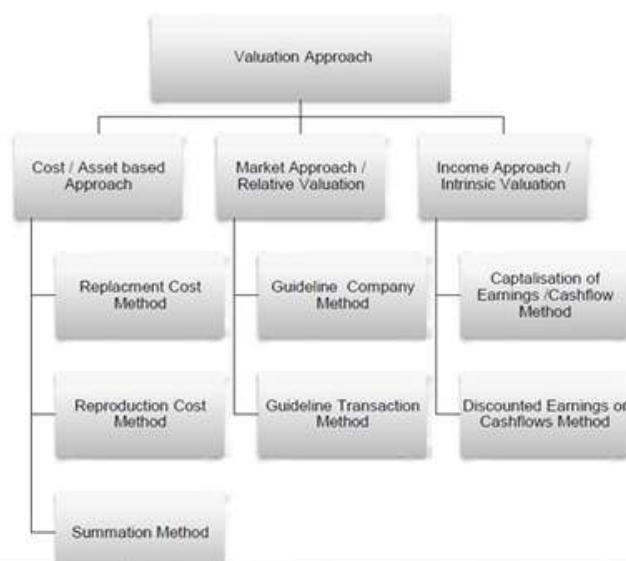
- **Companies Act, 2013** Sections 247 and 230 require valuation for mergers, demergers, share issuances, and related corporate actions.
- **SEBI Regulations** Valuations are required for IPOs, FPOs, buybacks, delistings, and related-party transactions.
- **Income Tax Act, 1961** Applicable for determining fair market value for capital gains, transfer pricing, and dispute resolution.
- **Insolvency and Bankruptcy Code, 2016** Two independent Registered Valuers must assess both fair value and liquidation value of assets.

Indian Accounting Standards

- Impairment of Assets (Ind AS 36)
- Financial Instruments (Ind AS 109)
- Business Combinations (Ind AS 103)
- Fair Value Measurement (Ind AS 113)

VALUATION APPROACHES:

Three primary approaches guide the valuation of assets and liabilities, each with distinct methodologies:



1. Cost Approach

The Cost Approach determines value by quantifying the amount required to replace an asset's future service capability. In simpler terms, it calculates the actual cost of rebuilding an asset and provides a control-level value.

This approach is particularly applicable when:

- The subject company is not directly income-generating, or income/market approaches are not feasible.
- The valuation basis depends on cost factors (e.g., replacement or liquidation value).
- Verifying the reasonableness of values derived from other approaches.

Advantages:

- Straightforward application
- Easily comprehensible methodology
- Relatively accessible data requirements

Limitations:

- Disregards future earnings potential
- May undervalue going concerns
- Historical cost may not reflect current value
- Valuation of intangible assets introduces complexity and subjectivity

2. Market Approach

The Market Approach determines business value by comparing the company's financial ratios with those of similar entities. This approach estimates share value based on current price relative to significant variables such as earnings, cash flow, book value, or sales of comparable businesses.

This approach is appropriate when:

- The subject asset or similar assets are actively traded publicly.
- The subject asset or substantially similar assets have been sold in relevant transactions.
- Recent or frequent transactions in substantially similar assets exist.

Advantages:

- Simple implementation without complex modeling
- Based on actual market data and

transactions, minimizing assumptions

- Includes all operating assets, both tangible and intangible
- Requires fewer assumptions than income-based approaches

Limitations:

- Truly comparable companies are often difficult to identify
- May not account for unique operating characteristics that could yield higher margins
- Growth rates between subject and comparative companies may differ significantly

3. Income Approach

The Income Approach is predicated on the principle that an asset's value depends on its ability to generate future economic benefits. This approach discounts or capitalizes future economic benefits to determine present value. It represents the most widely used and accepted approach in business valuation.

Advantages:

- Considers varying operating environments over projected periods, accommodating different business lifecycle stages
- Applicable to firms without market comparables

Limitations:

- Relies heavily on assumptions that may be subjective
- Complex implementation requiring more time and resources
- Highly sensitive to discount and capitalization rates—small changes can significantly impact estimated value

There are numerous methodologies under each of the approaches for various assets which we will discuss in the next article.

Risks and Challenges in Valuation

1. Information Asymmetry: Incomplete or inaccurate financial data can lead to significant misjudgments.
2. Market Volatility: Rapid economic fluctuations can quickly render valuations obsolete.
3. Subjectivity: Models like Discounted Cash Flow involve inherently subjective assumptions.

Valuers face these inherent risks in every engagement. The most effective risk mitigation strategy involves comprehensive documentation of inputs, assumptions, methodologies, results, and opinion bases.

Independence and Ethical Considerations

Independence requirements for valuers largely mirror those for statutory auditors. A professional cannot undertake valuation assignments for companies with which they have had relationships during the previous three years, nor for three years following the conclusion of an assignment.

The Insolvency and Bankruptcy Board of India (IBBI) strictly enforces independence requirements. Valuers with potential independence concerns due to any relationship should disclose these factors in their reports.

¹ As of publication, only the ICAI RVO (Institute of Chartered Accountants of India Registered Valuers Organisation) has adopted formal Valuation Standards.



Conclusion

While valuation is often characterized as "an art rather than a science," practitioners must understand and address the inherent risks. As Chartered Accountants, we must exercise professional judgment in evaluating parameters, assumptions, and resultant valuations to protect investor interests.

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WHAT'S THE BIG DEAL ABOUT IPOs? A GATEWAY TO TRANSFORMATION

Initial Public Offerings (IPO) mark a transformative milestone in a company's journey, transitioning it from a privately held entity to a publicly traded one. Far more than a financial event, an IPO is a strategic leap that propels businesses toward sustained growth, enhanced credibility, and long-term value creation. Here's why IPO are a game-changer for ambitious enterprises.

Valuation Transparency: Let the Market Value

One of the biggest advantages of an IPO is the clarity it brings to a company's value. Unlike private valuations, a market-driven valuation reflects real-time investor sentiment and business potential. It builds trust, boosts credibility, and gives all stakeholders—investors, employees, and partners—a clear, confident benchmark for future decisions.

Capital for Expansion: Fueling Ambitious Growth

An IPO provides access to a substantial pool of interest-free capital, a powerful resource for fueling growth initiatives. Whether it's expanding into new markets, modernizing infrastructure, investing in R&D, or pursuing

acquisitions, IPO proceeds offer unparalleled financial flexibility. Unlike debt financing, which comes with repayment obligations and interest burden, equity capital enhances a company's financial agility, enabling it to pursue long-term growth without the constraints of debt.

Corporate Governance: A Competitive Edge

Corporate governance isn't just a regulatory necessity—it's a real competitive edge. What often feels like compliance pressure is, in fact, the foundation of trust, resilience, and long-term value. A strong governance framework fosters transparency, reduces risk, and boosts investor confidence. For a publicly listed company, it's not just about ticking boxes—it's about building credibility, attracting institutional capital, and standing out in a market that increasingly values ethical and sustainable practices.

Reinforcing Business Ecosystems

Going public enhances a company's credibility across its entire value chain. Suppliers, customers, and business partners are more likely to trust and engage with a publicly governed entity, knowing it adheres to

stringent regulatory standards and transparent reporting practices.

This credibility often translates into tangible benefits, such as better credit terms, stronger partnerships, and increased customer loyalty, creating a virtuous cycle of mutual growth.

Brand Elevation and Market Visibility

An IPO doesn't just put numbers on the board. It puts your brand on the map. The visibility that comes with listing—media coverage, analyst attention, and investor interest—gives the company a powerful presence in the market. The tag of a listed company carries prestige, opens doors, and builds lasting brand value, often becoming a key differentiator in a competitive landscape. It allows the brand to command greater influence, recognition, and trust in the eyes of the world.

Empowering Employees Through Equity Participation

Publicly listed companies can offer Employee Stock Ownership Plans (ESOPs), backed by market liquidity. By transforming employees into stakeholders, ESOPs align their efforts with the company's long-term goals, fostering a shared sense of ownership and commitment. Equity incentives deepen employee engagement, boost retention rates, and create a motivated workforce—key drivers of organizational success.

From Passion to Professionalism

The transition to a publicly listed company often drives a cultural shift within the organization. Public markets demand a high level of internal discipline, transparency, and accountability, leading to the professionalization of operations. Structured processes, merit-based leadership, and periodic disclosures foster a culture of excellence and accountability. This transformation not only attracts top talent but also embeds institutional rigor, positioning the company for sustained growth.

Conclusion: A Gateway to New Horizons

An IPO is not the finish line—it's a bold leap into the future. It's where ambition meets scale, and a local dream begins its national and global journey.

It's a transition—from entrepreneur-led hustle to institution-led excellence, from close-knit teams to public trust. More than raising capital, it's about raising the bar.

Capital markets reward more than numbers. They celebrate vision, values, and the courage to grow.

For every entrepreneur

An IPO is not the end of a story—it's the start of something far greater.



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LIABILITY OF DIRECTORS OF PRIVATE LIMITED COMPANIES UNDER SECTION 179

A private limited company is a separate legal entity and separate from its members. The liabilities of its members are limited to the extent of subscribed share capital. But the operations of a company are managed by natural persons, called directors. Therefore, the directors are responsible for management of the affairs of the company as they are the true mind behind all decisions taken by the company.

Section 179 of the Income Tax Act, 1961: Liability of directors of private company

1. The provisions of Section 179 of the Income Tax Act, 1961 provides that any tax due from a private company, in respect of any income of any previous year or from any other company in respect of any income of any previous year during which such other company was a private company cannot be recovered then, every person who was a director of the private company at any time during the relevant previous year shall be jointly and severally liable for the payment of such tax unless he proves that non-recovery cannot be attributed to any gross neglect misfeasance or breach of duty on his part in relation to the affairs of the company.

2. Where a private company is converted into a public company and the tax assessee in respect of any income of any previous year during which such company was a private company cannot be recovered then, nothing contained in sub-section (1) shall apply to any person who was a director of such private company in relation to any tax due in respect of any income of such private company assessable for assessment year commencing before the 1st day of April, 1962. For the purpose this section, the expression "Tax Due", includes penalty, interest or any other sum payable under the Act, 1961.

Breakdown of the liability of directors under Section 179:

1. Liability of Directors:

- Section 179 makes the directors jointly and severally liable for the tax dues of the company if the company fails to pay its taxes (like income tax, wealth tax, etc.)
- This liability is restricted to the directors who were in office during the period when the tax was due.

2. Conditions for Liability:

The director can only be held liable if the tax remains unpaid and the company is unable to

its outstanding dues.

- The director's liability arises when there has been gross negligence, mismanagement, or wilful default in the company's failure to pay taxes.

3. Scope of Liability:

- The director's personal assets can be used to recover the dues if the company cannot pay.
- However, the liability does not extend to directors who were not involved in the management during the relevant period when the tax default occurred.

4. Exemptions:

- A director will not be held liable if the non-payment of taxes is due to reasons beyond their control, such as:
- If the company's financial records were falsified.

If the director can prove they were not in charge of or responsible for the management of tax matters.

5. Defences:

- A director can defend themselves by proving that they had no knowledge of the tax default and that they were not in control of the management of the company during the relevant period.

6. Recovery Process:

- If the director does not pay the dues voluntarily, the income tax authorities can take legal action to recover the tax amount from the director personally.

This provision is designed to ensure that directors of private companies take their tax obligations seriously and avoid tax evasion or defaults due to mismanagement.

Case Laws:



1. S. Basant Singh (Decd.) And Ors. ... vs Tax Recovery Officer and Ors [1998]233ITR508(P&H); Date of Ruling 29.07.1997

Judgment:

- The court examined the provisions of Sections 156 and 220(4) of the Income-tax Act, specifically the requirement of issuing a demand notice before a person can be considered a defaulter.
- The court ruled that under Section 179 of the Income-tax Act, once the directors' liability for the tax arrears of the company was established, they were treated as defaulters under Section 220(4) of the Act, and thus there was no need to issue a fresh demand notice to them.
- The court emphasized that the directors, once held liable under Section 179, were in the same position as the company would have been had it not been liquidated. Therefore, the tax liability of the company was to be recovered from the directors, who were deemed assesses in default without the necessity of a fresh demand notice.
- The court rejected the appellants' argument, affirming that the directors could not escape their liability simply because they were not individually served with a demand notice under Section 156.

2. M.R. Sundararaman vs Commissioner Of Income-Tax and Anr [1995]215ITR9(MAD); Date of Ruling: 05.01.1995

Judgment:

- The primary issue was whether M.R. Sundararaman, a former director, could be held personally liable for the company's (General Commercial Corporation (P.) Ltd.) income tax arrears under Section 179 of the Income-tax Act. The court ruled against the petitioner, M.R. Sundararaman, and upheld the Income-tax Officer's decision to adjust his personal tax refunds towards the company's tax arrears.
- The court determined that Section 179 of the Income-tax Act of 1961 applies to tax liabilities arising before April 1, 1962, the date the Act came into force.
- The Court refuted the argument that section 179 was only to be applied prospectively.
- The court also determined that the burden of proof, to show that the non recovery of tax was not due to the directors' negligence, fell upon the directors.

3. Sanjiv Kumar Mittal vs Deputy Commissioner AIRONLINE 2020 DEL 1484; Date of Ruling: 06.11.2020

Judgment:

- Section 179 of the Income Tax Act, 1961 creates a framework for holding directors of private companies liable for the tax dues of their company when the company is unable to pay the tax, provided the directors' actions (or lack thereof) led to the non-recovery. This provision is a critical mechanism for ensuring that tax dues are paid, even when a company is in financial distress or liquidation.
- The passage highlights the personal liability of directors across various laws (like the Finance Act, Central Excise Act, and Central Sales Tax Act) for the payment of tax dues, emphasizing the similar legal provisions designed to ensure tax recovery in cases of company default.

4. S. Basant Singh vs Tax Recovery Officer [1998]233ITR508(P&H); Date of Ruling: 29.07.1997

Judgment:

- The court found that once the liability under Section 179 of the Income Tax Act was determined, the directors were deemed to be "defaulting assesseees." They were responsible for the company's unpaid taxes, and no fresh demand notice under Section 156 was required for recovery from the directors. Once the liability was fastened on the directors, the tax recovery proceedings could proceed directly against them.
- The court referred to the earlier Supreme Court decision in S. Hardip Singh v. ITO (1979) to underline that the directors were jointly and severally liable for the tax dues, and thus, there was no need for any fresh notice to be issued to them after the initial order under Section 179 of the Act.

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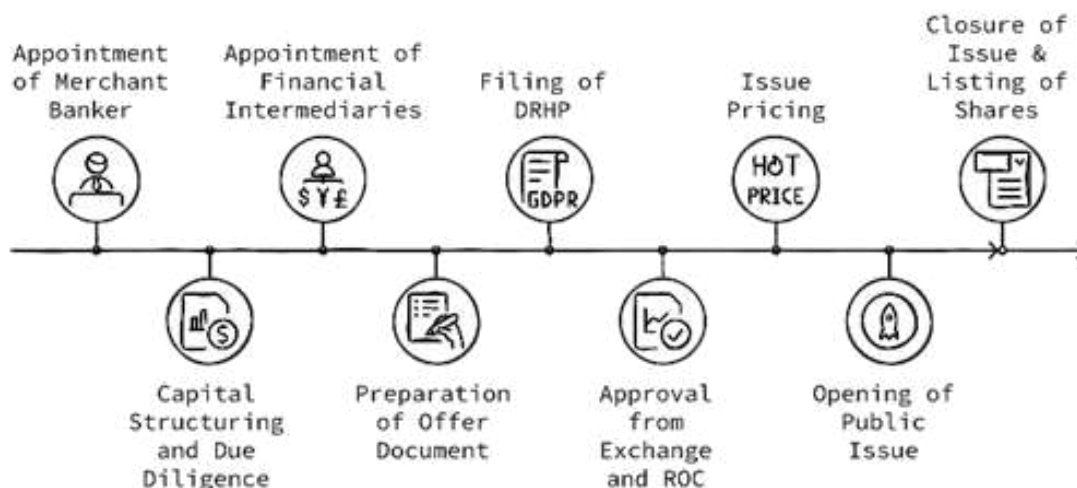
SME IPO AND LISTING – AN OPPORTUNITY FOR SMES TO RAISE CAPITAL

I. Introduction to SME :

The Small, and Medium Enterprises (SME) sector plays a pivotal role in India's Economic Development, significantly contributing around 29% to GDP and 45% to exports. Recognizing its importance, the Indian government has introduced various credit schemes such as CGTMSE and GECL to enhance production and financial accessibility.

Despite banks being the primary lenders, SMEs often face hurdles like high interest rates, stringent eligibility criteria, and substantial collateral requirements, limiting their access to timely financing. In this context, capital markets provide a crucial alternative, enabling businesses to raise funds. By reducing dependence on traditional lenders, capital markets empower SMEs with greater financial flexibility, fostering growth, innovation, and sustained business expansion.

IPO Process for SME Exchange



II. Eligibility for SME IPO:

The eligibility criteria for an SME enterprise to undertake an IPO are determined by SEBI and the stock exchanges. The criteria are tabulated below:

SEBI	NSE	BSE
<p>Operating Profit Criteria: Minimum EBITDA of ₹1 crore in at least two of the last three years.</p> <p>Minimum Existence Requirement: A converted entity (from proprietorship, partnership, or LLP) must exist for at least one full financial year before filing the draft offer document.</p> <p>Financial Statements: Must comply with Schedule III of the Companies Act, 2013, post-conversion.</p>	<p>Financials:</p> <ul style="list-style-type: none">• Operating profit of ₹1 crore in at least two of the last three years.• Positive net worth and Free Cash Flow to Equity (FCFE) in at least two of the last three years. <p>Track Record: Minimum three years for the applicant, its promoters, or a converted entity (proprietorship/partnership to company).</p>	<p>EBITDA:</p> <ul style="list-style-type: none">• Positive operating profit in at least two of the last three years.• For institutionally funded projects, EBITDA must be positive in the last financial year. <p>Track Record:</p> <ul style="list-style-type: none">• Minimum three-year track record, including acquired proprietorship, partnership, or LLP.• If less than three years, project appraisal and funding by NABARD, SIDBI, banks (excluding cooperative banks), or financial institutions are required.• At least one full financial year of operations with audited financials is mandatory. <p>Leverage Ratio: Not exceeding 3:1 (with relaxation for finance companies). Net Worth: Minimum ₹1 crore for the last two financial years. Net Tangible Assets: At least ₹3 crores in the last financial year.</p>

The company is free to choose the stock exchange on which it wants its shares to be listed.

III. Other Requirements:

SEBI	NSE	BSE
<p>Minimum Application Size: Set at above ₹2 lakhs for SME IPOs.</p> <p>Allotment Procedure:</p> <ul style="list-style-type: none"> 1/3rd reserved for applicants investing between two lots and ₹10 lakhs. 2/3rd reserved for applicants investing above ₹10 lakhs. Unsubscribed portions can be reallocated. <p>Promoter Lock-in:</p> <ul style="list-style-type: none"> 50% of excess holding locked in for two years. Remaining 50% locked in for one year. <p>Monitoring Agency Requirement:</p> <ul style="list-style-type: none"> Mandatory for issue sizes of ₹50 crores or more. Below ₹50 crores, quarterly fund utilization certification by the statutory auditor. General Corporate Purpose (GCP) Limit: 15% of the issue size or ₹10 crores, whichever is lower. <p>Loan Repayment Restriction: IPO proceeds cannot be used to repay loans from promoters, promoter groups, or related parties.</p> <p>Offer for Sale (OFS) Cap: Limited to 20% of the total issue size, restricting large shareholder exits.</p>	<p>Post-Issue Paid-Up Capital: Should not exceed ₹25 crores (face value)</p> <p>Offer for Sale (OFS): Limited to 20% of the total issue size, with selling shareholders restricted to 50% of their holding.</p> <p>Regulatory Compliance:</p> <ul style="list-style-type: none"> No pending IBC proceedings, NCLT winding-up petitions, or major regulatory actions in the past three years. No prior rejection of the draft offer document by the exchange in the last six months. IPO proceeds cannot be used to repay loans to promoters, promoter groups, or related parties. 	<p>Post-Issue Paid-Up Capital: Not exceeding ₹25 crores.</p> <p>Regulatory & Disciplinary Compliance:</p> <ul style="list-style-type: none"> No regulatory suspension of trading against promoters or their promoted companies. Promoters/directors must not be associated with compulsorily delisted or non-compliant companies. Directors must not be disqualified or debarred by regulatory authorities. <p>Default Restrictions: No pending defaults in interest/principal payments to debenture/bond/fixed deposit holders. Name Change Rule: If changed in the last year, at least 50% of revenue must come from the activity indicated by its new name.</p> <p>Sector-Specific Criteria:</p> <ul style="list-style-type: none"> Broking Companies: ₹5 crores net worth + ₹5 crores PBT in 2 of 3 years or ₹25 crores net worth in any 3 of 5 years. Microfinance Companies: AUM of ₹100 crores, 10,000+ clients, and no public deposits. <p>Other Requirements:</p> <ul style="list-style-type: none"> Functional website mandatory. 100% promoter shareholding in demat form. Demat trading enabled with agreements with both depositories. No promoter changes in the last year. Board composition per Companies Act, 2013. Net worth as per SEBI (ICDR) Regulations. No NCLT referrals under IBC or winding-up petitions. Six-month cooling-off if the issue was withdrawn/rejected by SEBI or Exchanges.

IV. Pros & Cons of SME IPO and listing on Stock Exchange Platforms:

Pros	Cons
<p>1. Raising Capital: Enables substantial capital infusion via IPO and funding rounds for operations, growth, R&D, marketing, and capex.</p> <p>2. Marketing & Branding: Enhances brand visibility, credibility, and attracts customers and partners.</p> <p>3. Debt Reduction: Lowers interest costs and improves cash flow by retiring debt through IPO proceeds.</p> <p>4. Corporate Identity: Preserves brand name and independence instead of acquisition.</p> <p>5. Employee Attraction: Stock grants help attract talent, benefiting both risk-averse employees and early-stage investors.</p>	<p>1. Documentation: Requires extensive regulatory compliance; foreign entity documents may need translation and apostille.</p> <p>2. Business Distraction: IPO workload increases, requiring additional staffing.</p> <p>3. Managing Financial Results: Listed firms must meet short-term estimates; missing them affects stock prices.</p> <p>4. Public Scrutiny: Companies must disclose financials, losing confidentiality.</p>

V. Data & Trends

SME IPO Trend (2021 - 2025)



The SME IPO market has witnessed significant activity over the past two years, with notable variations in the number of public issues, funds raised, and SME-to-Mainboard migrations.

The number of SME IPOs has shown a strong

upward trend, rising from 55 in 2021 to a peak of 245 in 2024. The decline in 2025, with only 44 listings, is attributed to partial-year data.

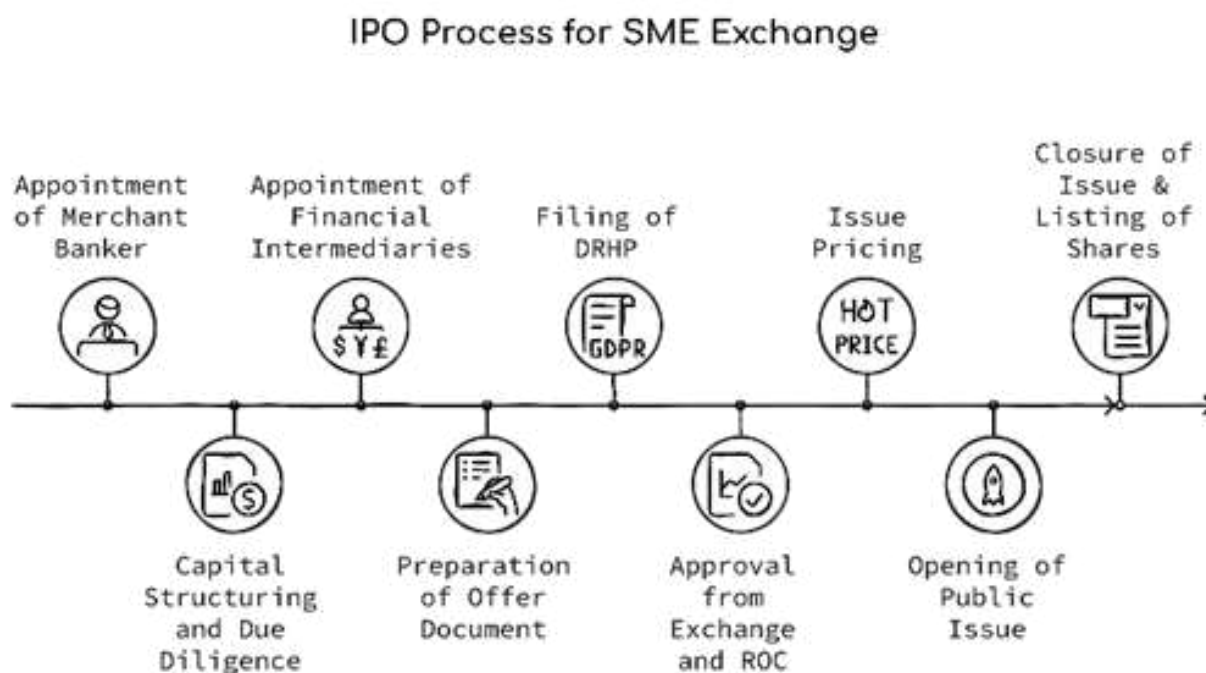
There has been a significant surge in funds raised, from ₹766.72 crore in 2021 to ₹9395.6 crore in 2024, reflecting increasing investor participation. The dip in 2025 is attributed to partial-year data.

The consistent rise in SME listings and capital raised highlights growing investor confidence and the increasing reliance on capital markets for funding small businesses.

This trend underscores the capital market's role in reducing dependence on traditional lenders and fostering entrepreneurial growth.

VI. Process of SME IPO:

The IPO process primarily consists of three key phases: Pre-Issue, Marketing, and Issue.



Pre-Issue Phase:

This phase involves the appointment of a SEBI-registered Merchant Banker and financial advisors, along with other intermediaries such as registrars, underwriters, bankers, and peer review auditors for financial statements. The process includes conducting due diligence, preparing and filing the Draft Red Herring Prospectus (DRHP) with the stock exchange, and incorporating feedback received from SME exchanges. During this stage, the merchant banker oversees regulatory approvals and ensures compliance with all applicable guidelines.

Marketing Phase:

In this phase, the issuer, along with the merchant banker and other intermediaries, conducts roadshows and investor meetings to generate interest and promote the capital issue. Based on market conditions, the IPO price band is determined, and the Red Herring Prospectus (RHP) is filed with the Registrar of Companies (ROC).

Issue Phase:

Once the public issue is opened for subscription, investors can submit their bids. After the closure of the issue, shares are allotted to investors, and the necessary regulatory filings are completed. Finally, the company's shares are listed and traded on the SME exchange, facilitating public participation and enabling market-driven price discovery.

This structured approach ensures a smooth and compliant IPO process, enhancing transparency and investor confidence.

Key Agencies Involved in an IPO Process:

The IPO process involves several key agencies, each playing a crucial role in ensuring a successful listing. Merchant Bankers (Lead Managers) oversee the entire IPO process, including due diligence, pricing, regulatory compliance, and investor outreach. Registrars manage share allotment, investor records, and refund processing, while Bankers handle IPO escrow accounts and application fund collection. Underwriters mitigate risk by ensuring full subscription, boosting investor confidence.



Legal Counsel provides guidance on regulatory compliance and contract drafting, while Auditors verify financial statements and ensure adherence to accounting standards. Industry Experts offer insights on valuations and sectoral trends, and Investor Relations Firms help communicate the company's value proposition to potential investors. Regulatory Bodies like SEBI, Stock Exchanges, and the Registrar of Companies (ROC) enforce compliance and listing governance. Monitoring Agencies track the utilization of IPO proceeds, ensuring they align with stated objectives. Only SEBI registered credit rating agencies can be appointed as Monitoring Agencies. Public Relations Firms manage media coverage and market sentiment, enhancing investor perception pre- and post-listing.

VII.Scope for services by Chartered Accountants:

Assisting SMEs in the selection of a merchant banker, the IPO process ensures smooth execution, regulatory approvals, and compliance with SME Exchange norms. Capital structuring guidance helps optimize the balance between equity and debt for financial stability; while fundraising advisory evaluates market conditions to determine the right timing and need for pre-IPO funding.

Stake sale and ownership planning support structured stake dilution and equity infusion strategies. A well-defined fund utilization strategy ensures IPO proceeds are effectively deployed for



business expansion, technology upgrades, and working capital. Due diligence and compliance ensure adherence to SEBI, BSE SME/NSE Emerge, and other statutory regulations. Transitioning to Ind AS accounting standards is essential for main board listings. Providing DRHP and offer document certifications ensures regulatory readiness. Investor awareness and roadshows help attract institutional and retail investors, enhancing IPO success. Finally, post-IPO compliance and reporting maintain corporate governance, regulatory filings, and investor relations after listing.

VIII. SEBI's Order on the fund Diversion (Refer to Trafiksol ITS Technologies Limited):

While the SME platform provides a great opportunity for companies to raise capital and for investors with risk appetite to grow their wealth, there have been some hiccups in the recent past. In one instance, a company raising funds through an SME IPO was found to have raised money with the intent to divert it. However, due to the timely intervention of SEBI, the capital market regulator, this was prevented. The brief facts of the case are given below.

Trafiksol ITS Technologies Limited filed its Draft Red Herring Prospectus (DRHP) with the Bombay Stock Exchange (BSE) on May 31, 2024, signifying its intent to go public. The company's Initial Public Offering (IPO) was oversubscribed by 345.65 times.

Findings Regarding Vendor Company – Oasis Corpcare Private Limited:

Financial Statements: The financial statements of the vendor company for FY 2022, 2023, and 2024 were all signed on the same date before their submission to the BSE by the Merchant Banker (MB).

- **GST Registration:** Oasis Corpcare Private Limited is registered under GST as a retail trader, not as a software developer.
- **SEBI's Observation:** SEBI raised concerns that the vendor company may be a shell company.
- **Office Inspection:** During an inspection by SEBI, the vendor's office was found to be closed.

SEBI's Order:

- **Refund to Investors:** Trafiksol ITS Technologies Limited is to directed refund the money to all investors who were allotted shares in the IPO.
- **Transfer of Shares:** Once the refund is credited to investors' bank accounts, depositories are instructed to transfer the allotted shares to a separate demat account in the company's name.
- **Cancellation of Shares:** The company must take appropriate steps to cancel the shares transferred to the designated demat account.

This order underscores SEBI's commitment to protecting investors and maintaining transparency in the capital markets.

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SERVICES & GOODS LIABLE TO REVERSE CHARGE UNDER CGST ACT

We often get a call or when addressing a gathering the question frequently asked is “What is liable to Reverse Charge in GST,” it is difficult to list out all the goods and services which are liable to Reverse Charge in GST in short span of time. Hence, this article focusses in brief on list of services and goods liable to Reverse Charge under the provisions of Central Goods & Services Tax Act, 2017 & State Goods & Services Tax Act, 2017 on Intra State Supplies.

Section 9(3) and 9(4) of Central Goods & Services Tax Act, 2017 (CGST Act) empowers the Government to levy GST under Reverse Charge as per the recommendations of the GST Council, in this regard the Government / Central Board of Indirect Taxes & Customs (CBIC) has issue Central Tax Rate Notification 13/2017, Dt: 28-06-2017 notifying the Services which fall under reverse charge and Central Tax Rate Notification 04/2017, Dt: 28-06-2017 notifying the Goods fall under reverse charge. Services notification is amended fourteen times and Goods notification is amended six times. Considering all the amendments, Services & Goods applicable to reverse charge as on 25-03-2025 are provided in this article.

As per the definition of “reverse charge” in Section 2(98) of CGST Act, reverse charge means *“the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of section 9, or under sub- section (3) or sub- section (4) of section 5 of the Integrated Goods and Services Tax Act”*, a similar definition is given in all the State GST Acts. In simple words the responsibility for payment of tax on the notified services or goods is shifted from supplier to recipient.

Arguments exist in saying that, when the recipient is paying the tax under reverse charge and availing the same as Input Tax Credit (ITC), reverse charge compliance is revenue neutral. The moot aspect to consider for this argument is, when the recipient is liable to pay GST on reverse charge on goods or services and the same is not eligible as ITC, reverse charge compliance is no more revenue neutral.

We have made an attempt to list out all the services and goods in a tabular format which are liable to reverse charge under the provisions of CGST Act as below with respect to Intra State Supplies.

List of Services liable to Reverse Charge under CGST Act & SGST Acts:

Goods Transport Agency (GTA):

Supplier of Services	Goods Transport Agency (GTA)
Recipient of Services	Any Factory, Any Society, Any Co-operative Society, any person registered under GST, any body corporate, any Partnership Firm & any casual taxable person
Rate of Tax	5%
This entry not applicable to	i. The supplier has taken registration under CGST Act and opted for forward charge, and ii. the supplier has issued tax invoice to the recipient charging Central Tax at the applicable rates and has made a declaration as prescribed in Annexure – III on such invoice issued by him.

Individual Advocate or Firm of Advocates (Legal Services):

Supplier of Services	An individual advocate including senior advocate or firm of advocates
Recipient of Services	Any business entity located in the taxable territory
Rate of Tax	18%
Conditions	NIL

Services supplied by an arbitral tribunal to a business entity.

Supplier of Services	Any Arbitral Tribunal
Recipient of Services	Any business entity located in the taxable territory.
Rate of Tax	18%
Conditions	NIL

Services provided by way of sponsorship to any body corporate or partnership firm.

Supplier of Services	Any person other than a body corporate
Recipient of Services	Any body corporate or partnership firm located in the taxable territory.
Rate of Tax	18%
Conditions	NIL

Services supplied by the Central Government, State Government, Union territory or local authority to a business entity

Supplier of Services	Central Government, State Government, Union territory or local authority
Recipient of Services	Any business entity located in the taxable territory.
Rate of Tax	Applicable Rate of tax
This entry not applicable to	The following service provided by CG/SG/LA are excluded for this entry 1. Renting of immovable property 2. following specified services (i) Services by the Department of Post and the Ministry of Railways. (ii) Services in relation to an aircraft or a vessel, inside or outside the precincts of a port of an airport (iii) transport of goods or passengers.

Services supplied by the central Government excluding the Ministry of Railways, State Government, Union Territory or Local authority by way of renting of immovable property to a person registered under CGST Act.

Supplier of Services	CG / SG / UT / LA
Recipient of Services	Any Registered person under CGST Act
Rate of Tax	18%
Conditions	NIL

Services by way of renting of residential dwelling to a registered person.

Supplier of Services	Any person
Recipient of Services	Any registered person
Rate of Tax	18%
Conditions	NIL

Services by way of renting of any immovable property other than residential dwelling

Supplier of Services	Any unregistered person
Recipient of Services	Any registered person other than a person who has opted to pay tax under composition levy
Rate of Tax	18%
Conditions	NIL

Services supplied by any person by way of transfer of development rights or Floor Space Index (FSI) (including additional FSI) for construction of a project by a promoter.

Supplier of Services	Any person
Recipient of Services	Promoter
Rate of Tax	Applicable Rate
Conditions	NIL

Long term lease of land (30 years or more) by any person against consideration in the form of upfront amount (called as premium, salami, cost, price, development charges or by any other name) and/or periodic rent for construction of a project by a promoter.

Supplier of Services	Any person
Recipient of Services	Promoter
Rate of Tax	18%
Conditions	NIL

Services supplied by a director of a company or a body corporate to the said company or the body corporate.

Supplier of Services	A director of a company or a body corporate
Recipient of Services	The Company or a body corporate located in the taxable territory
Rate of Tax	18%
Conditions	NIL

Services supplied by an insurance agent to any person carrying on insurance business.

Supplier of Services	Any insurance agent
Recipient of Services	Any person carrying on insurance business, located in the taxable territory
Rate of Tax	18%
Conditions	NIL

Services supplied by a recovery agent to a banking company or a financial institution or a non-banking financial company.

Supplier of Services	A recovery agent
Recipient of Services	A banking company or a financial institution or a non-banking financial company, located in the taxable territory.
Rate of Tax	18%
Conditions	NIL

Supply of services by a music composer, photographer, artist or the like by way of transfer or permitting the use or enjoyment of a copyright covered under clause (a) of sub-section (1) of section 13 of the Copyright Act, 1957 relating to original dramatic, musical or artistic works to a music company, producer or the like.

Supplier of Services	Music composer, photographer, artist, or the like
Recipient of Services	Music company, producer or the like, located in the taxable territory
Rate of Tax	18%
Conditions	NIL

Supply of services by an author by way of transfer or permitting the use or enjoyment of a copyright covered under clause (a) of sub-section (1) of section 13 of the Copyright Act, 1957 relating to original literary works to a publisher.

Supplier of Services	Author
Recipient of Services	Publisher located in the taxable territory
Rate of Tax	18%
This entry not applicable to	(i) The author has taken registration under CGST Act and filed a declaration, in the form at Annexure-I, within time limit prescribed therein, with the jurisdictional CGST or SGST Commissioner, as the case may be, that he exercises the option to pay central tax in the services specified in column (2), under forward charge in accordance with section 9(1) of the CGST Act under forward charge, and to comply with all the provisions of CGST Act as they apply to a person liable for paying the tax in relation to the supply of any goods or services or both and that he shall not withdraw the said option within a period of 1 year from the date of exercising such option. (ii) the author makes a declaration, as prescribed in Annexure – II on the invoice issued by him in form GST Inv-I to the publisher.

Supply of services by the members of Overseeing Committee of Reserve Bank of India.

Supplier of Services	Members of Over-seeing Committee constituted by the RBI
Recipient of Services	Reserve Bank of India
Rate of Tax	18%
Conditions	NIL

Services supplied by individual Direct Selling Agents (DSAs) other than a body corporate, partnership or limited liability partnership firm to bank or non-banking financial company (NBFCs).

Supplier of Services	Individual DSA other than a body corporate, partnership or LLP
Recipient of Services	A Banking company or a non-banking financial company, located in the taxable territory.
Rate of Tax	18%
Conditions	NIL

Services provided by business facilitator (BF) to a Banking company

Supplier of Services	Business facilitator (BF)
Recipient of Services	A banking company, located in the taxable territory
Rate of Tax	NIL Rated
Conditions	NIL

Services provided by an agent of business correspondent (BC) to business correspondent (BC)

Supplier of Services	An agent of business correspondent (BC)
Recipient of Services	A business correspondent, located in the taxable territory
Rate of Tax	NIL Rated
Conditions	NIL

Security services (services provided by way of supply of security personnel) provided to a registered person:

Supplier of Services	Any person other than a body corporate
Recipient of Services	A registered person, located in the taxable territory
Rate of Tax	18%
This entry not applicable to	(i)(a) a department or establishment of the Central Government or State Government or Union Territory; or (b) Local authority, or (c) Governmental Agency which has taken registration under the CGST Act only for the purpose of deducted tax under section 51 of CGST Act and not for making a taxable supply of goods or services; or (ii) a registered person paying tax under composition levy.

Services provided by way of renting of any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged from the service recipient, provided to a body corporate.

Supplier of Services	Any person other than a body corporate who supplies the services to a body corporate and does not issue an invoice charging central tax at the rate of 6% to the service recipient
Recipient of Services	Any body corporate located in the taxable territory
Rate of Tax	12%
Conditions	NIL

Services of lending of securities under Securities Lending Scheme, 1997 ("Scheme") of Securities and Exchange Board of India ("SEBI"), as amended.

Supplier of Services	Lender i.e., a person who deposits the securities registered in his name or in the name of any other person duly authorised on his behalf with an approved intermediary for the purpose of lending under the scheme of SEBI.
Recipient of Services	Borrower i.e., a person who borrows the securities under the Scheme through an approved intermediary of SEBI
Rate of Tax	18%
Conditions	NIL

List of Goods liable to Reverse Charge under CGST Act & SGST Acts:

Cashew nuts, not shelled or peeled (HSN – 0801)

Supplier of Goods	Agriculturist
Recipient of Goods	Any registered person
Rate of Tax	5%
Conditions	NIL

Bidi wrapper leaves (tendu) (HSN – 14049010)

Supplier of Goods	Agriculturist
Recipient of Goods	Any registered person
Rate of Tax	18%
Conditions	NIL

Tobacco leaves (HSN – 2401)

Supplier of Goods	Agriculturist
Recipient of Goods	Any registered person
Rate of Tax	5%
Conditions	NIL

Essential oils other than those of citrus fruit namely (a) of peppermint(b) of other mints: Spearmint oil, water mint-oil, Horsemint oil, Bergament Oil, Mentha arvensis (HSN – 33012400, 33012510, 33012520, 33012530, 33012540, 33012590)

Supplier of Goods	Any unregistered person
Recipient of Goods	Any registered person
Rate of Tax	12% for 33012400 and 33012510 & 18% for rest
Conditions	NIL

Silk yarn (HSN – 5004 to 5006)

Supplier of Goods	Any person who manufactures silk yarn from raw silk or silk worm cocoons from supply of silk yarn
Recipient of Goods	Any registered person
Rate of Tax	5%
Conditions	NIL

Raw cotton (HSN – 5201)

Supplier of Goods	Agriculturist
Recipient of Goods	Any registered person
Rate of Tax	5%
Conditions	NIL

Supply of lottery

Supplier of Goods	State Government, Union Territory or any local authority
Recipient of Goods	Lottery distributor or selling agent
Rate of Tax	28%
Conditions	NIL

Used vehicles, seized and confiscated goods, old and used goods, waste and scrap (HSN – Any Chapter)

Supplier of Goods	Central Government, State Government, Union Territory or a local authority
Recipient of Goods	Any registered person
Rate of Tax	Applicable rate
This entry not applicable to	Ministry of Railways (Indian Railways)

Priority Sector Lending Certificates (HSN – Any chapter)

Supplier of Goods	Any registered person
Recipient of Goods	Any registered person
Rate of Tax	Applicable Rate
Conditions	NIL

Metal scrap (HSN CHAPTER– 72, 73, 74, 75, 76, 77, 78, 79, 80 OR 81)

Supplier of Goods	Any unregistered person
Recipient of Goods	Any registered person
Rate of Tax	Applicable rate
Conditions	NIL

Integrated Tax Rate Notifications for RCM on Goods & Services:

Integrated Tax Rate Notification No: 04/2017, Dt: 28-06-2017 and as amended from time-to-time deals with Goods liable to Reverse Charge under IGST Act, 2017. Integrated Tax Rate Notification No: 10/2017, Dt: 28-06-2017 as amended from time-to-time deals with Services liable to Reverse Charge under IGST Act, 2017. These two notifications applicable in case of Inter-State supply of Goods or Services.

Compliance:

Any person who is a recipient as per the above entries is required to discharge tax liability under reverse charge from Electronic Cash Ledger as per Time of Supply applicable to Goods & Services in the monthly GSTR-3B Returns. The recipient to take Input Tax Credit of the same in the same month in which tax liability is discharged provided the recipient is eligible for the same. In case the tax liability is not discharged as per time of supply, recipient is liable for Interest U/s. 50 of CGST Act and if the same is discovered by the Department in their proceedings, recipient is further liable for penalties in addition to Interest. In case of delay in availing Input Tax Credit beyond the time lines prescribed in Section 16(4) of CGST Act, recipient even may lose the right to avail Input Tax Credit.

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INDIRECT TAXATION

Case law 1 - ITC Cannot Be Denied For Inadvertent Error In Invoice By The Supplier

M/s. B. Braun Medical India Pvt Ltd. Vs Union of India & ORS. 2025 (3) TMI 774 – Delhi High Court

Facts:

- Petitioner is engaged in the sale of pharmaceutical products and medical devices.
- Petitioner has purchased a large quantity of products from M/s. Ahlcon Pvt. Ltd. (Supplier).
- The invoices issued by the Supplier inadvertently reflected the Bombay address and GSTIN instead of Delhi address and GSTIN.

Consideration by the Court:

- Petitioner's name is correctly mentioned in the invoices. Mistake is only w.r.t. GST number.
- Department also admits that no other entity has claimed the ITC for these purchases.
- The only basis for rejecting ITC is the mention of the Bombay office GSTN instead of the Delhi office GSTN.
- Substantial loss would be caused to the Petitioner if the credit is not granted for such a small error on behalf of the supplier.

Decision:

- Impugned Order in Original rejecting the ITC is set aside.
- Petitioner is permitted to avail of the Input Tax Credit denied merely due to wrong GST number mentioned in the invoice issued by the Supplier.

Comments

The Tribunals and Courts have been liberal under the erstwhile law as well i.e. under the CENVAT regime, while deciding the eligibility of credit in cases where there have been inadvertent errors in invoicing. One of the important aspects in these cases to be eligible for a favourable order is, to prove that there is no loss to Government/Exchequer in case the credit is granted despite the inadvertent errors.

ITC, being a statutory right conferred and not a constitutional right, is governed by the various conditions and restrictions imposed in the Statute. However, small errors, more specifically those that are not in the control of the person availing the credit to rectify, should be given a lenient view and be allowed.



Case law 2 - Import Of Services Would Not Be Liable To Igst Again Under The Guise Of A Tax On Import Of Goods

Interglobe Aviation Ltd vs. Principal Commissioner of Customs - 2025-TIOL-372-HC-DEL-CUS

Facts

- Interglobe Aviation Ltd had re-imported aircraft parts after sending them abroad for repair.
- IGST is paid on this repair transaction under RCM by the applicant by treating it as an import of services as per the provisions of the IGST Act.
- At the time the repaired goods entered India, the customs authorities levied, Integrated Goods and Services Tax (IGST) on the repair cost, including insurance and freight as per Notification No. 45/2017-Customs as amended by notification 36/2021-Cus.
- Basic Customs Duty on such import of goods is exempt as per notification 50/2017-Cus.
- The challenge is of the IGST levy at the time the repaired goods are imported, arguing that it amounted to double taxation, as IGST was already being paid on the supply of repair services.
- The customs authorities justified the IGST levy based on legislative intent, arguing that the notifications clearly imposed IGST on such imports.

Court held that

- a. IGST sought to be collected under CTA is only on goods
 1. Neither the Customs Act nor the Customs Tariff Act (CTA) at any point of time envisioned a levy of duty on services per se.
 2. IGST is imposable on the import of goods as well as on services albeit on a reverse charge basis.
 3. The Constitution empowered Parliament to classify and categorise supplies as either constituting a supply of goods, services or both.
 4. The classification of a supply in accordance with and under the Schedule to the CGST constitutes the basis for its treatment under the IGST.
 5. It would be fundamentally impermissible and contrary to the underlying scheme of the statutes under consideration, to treat a singular transaction of repair as embodying an element of supply of goods as well as services.
 6. The levy and collection of a tax under Section 3 of the CTA would only apply to imported goods and would have no application whatsoever to the import of services.
 7. Moreover, if the contention of the department were to be accepted to levy IGST at the time of import, for the transaction that is actually a supply of services, it would travel far beyond the ambit of Entry 83 of List I in the Constitution.

b. CTA is only collection mechanism and not for levy of IGST

1. IGST on import of goods is a tax imposable by virtue of Section 5(1) of the IGST Act and shall be collected in accordance with Section 3 of the CTA.
2. It would be wholly incorrect to view or recognise Section 3(7) of CTA as contemplating an additional levy on the import of services which have already suffered taxation by virtue of Section 5(1) of the IGST Act.

c. Transaction is that of supply of services

1. The repair transaction is conferred the character of a supply of services under Entry 3 of Schedule II of the CGST.
2. It would be wholly impermissible for the department to either review or revisit the characterization of the subject transaction which in any case is conferred a finality. This aspect stands conclusively answered by the Supreme Court itself in the case of Mohit Minerals - 2022-TIOL-49-SC-GST-LB.
3. The rendering of repair services is embedded in the reimported goods and thus there being no dichotomy which could have been possibly introduced.

d. Aspect theory

1. The aspect theory is dependent on whether the transaction could be said to involve two or more taxable events.
2. The transaction under consideration remained that of supply of services in the shape of repair or refurbishment. It clearly did not constitute a supply of goods.
3. If the contention of the department is to be accepted then it would lead to the levy of Customs duty on supply of services which would not be constitutionally permissible.

Decision

1. IGST on the import of services can only be imposed under Section 5(1) of the IGST Act.
2. The IGST which is spoken of in Section 3(7) of the CTA can only be recognised as being a reference to the IGST leviable under the IGST Act. Section 3(7) ibid is not an independent levy.
3. The amendment by Notification 36/2021-Cus. and the clarification by way of Circular No.16/2021 dated 19 July 2021 is clearly ultra vires and liable to be declared as an intent to levy an impost which is without authority of law.
4. The levy of an additional duty even after the transaction has been subjected to the imposition of IGST treating it to be a supply of service, would be clearly unconstitutional and cannot be sustained.

Comments

The law governing levy and collection of Customs duty is authorised to tax only transaction of import and export of

goods. These provisions do not have the authority to tax services.

For any cross-border transaction having multiple components, first identify whether it is a supply of goods or supply of services by applying the principles of the GST law i.e. Schedule II to the CGST Act, composite supply and mixed supply.

A transaction can either be supply of goods or supply of services. In case the transaction under consideration is regarded as being a supply of services for the purposes of GST and hence governed by the provisions of IGST Act, then there cannot again be a levy of IGST by treating it as a supply of goods, even if goods are being physically imported in relation to the said transaction.

In light of the above, it is advised to re-look all cross-border transactions having both supply of goods as well as services. Then identify as per the provisions of the GST law whether the said transaction is one of supply of services.

If it is a supply of services, evaluate the possibility of refund of IGST paid at the time of import of the goods involved in such transaction, in case the said tax has become a cost or is not capable of being utilized for any reason.

Since the taxing provision introduced in this regard is held to be unconstitutional by the Court, the time limit to claim refund of IGST already paid on similar transactions will not be governed by the provisions of IGST Act and will be governed by the General Clauses Act. Hence, even if payment of such IGST is made more than 2 years ago, now refunds can be applied for.



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