

Preparing for the Big Deal

October 2022

SINGHVI
DEV & UNNI LLP
CHARTERED ACCOUNTANTS
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Agenda

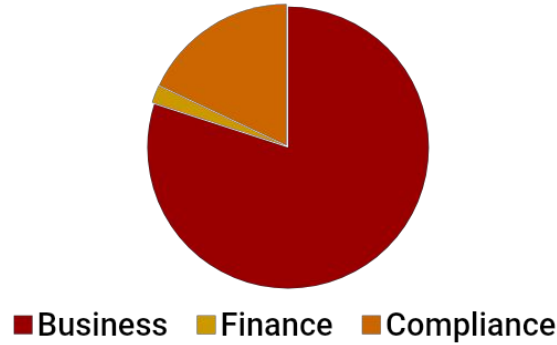
1. Striking the balance
2. The Process
 - Gearing up
 - Busting a few myths
 - Hitting the Road
3. Challenges
 - Ownership (Shareholding pattern and others)
 - Accounting
 - Compliance
4. Key Metrics

Striking the balance

Deal Off



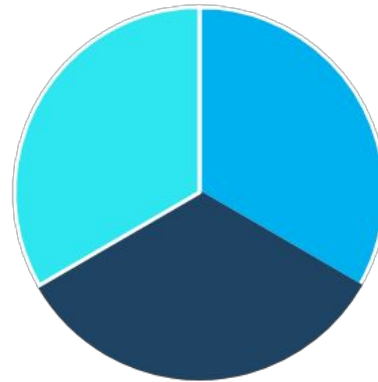
Deal Off



Deal Off

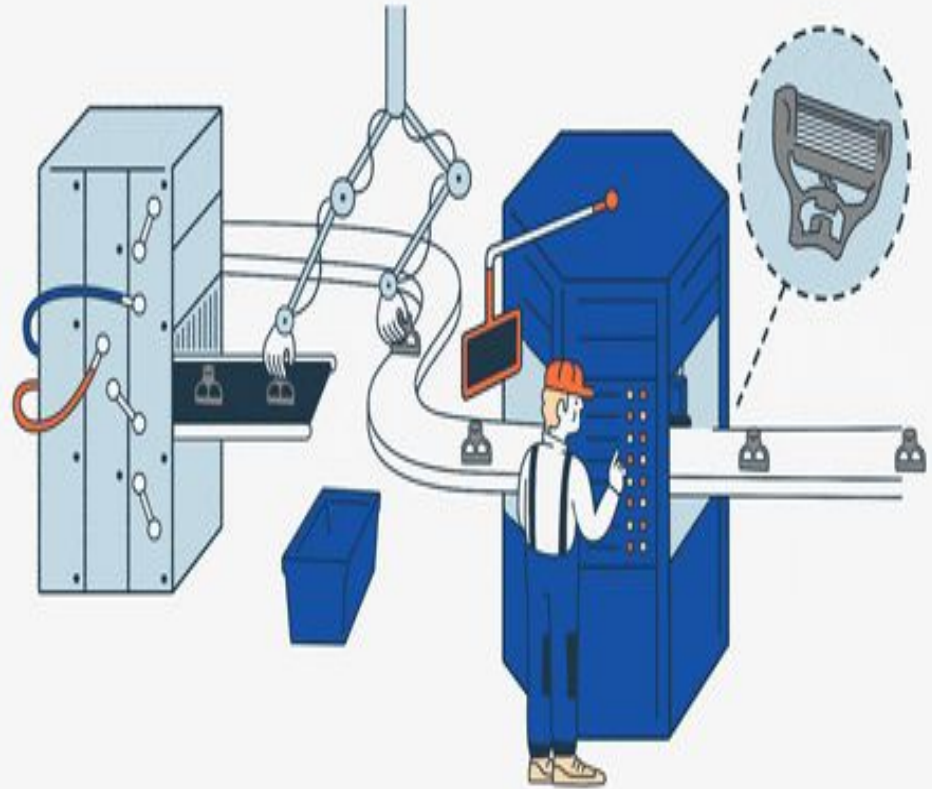


Deal on



Business Finance Compliance

The Process



Gearing up

- Planning and streamlining the business, financial and compliance activities
 - *way before we hit the road*
- Appointing an efficient finance team; alternatively, work with specialists
 - *to ensure timely and accurate maintenance of the finance and accounting systems.*
- Importance of fairness, governance and transparency
 - *Keeping the stakeholders interest intact*
 - *Financials reflect the business – it's your Window to the World*
- Pre-diligence and periodic health checks for a efficient functioning system
- Time to change the gear – *not yet on top speed!*

Busting a few myths

- My accountants owns the number
...if not you, who else?
- Its not on my 'to-do' list
...why not?
- We did not have the budget
...but does it cost you so much ?
- Excel worksheets are reliable accounting systems
...recipe for disaster
- I own the Company
...only as a caretaker
- Chasing valuation
...automatically creates value
- Profits is not cash
...cash is king, and save for a rainy day/s



Preparation

- **The Intent** – Knowing why you need it
- **The Path** - Transparency and accuracy
- **The Objective** - Forthcoming in providing information (collaborative and open mindset)
- **The Fall backs** - preparing for contingencies and exigencies
- **The Wisdom** - Accepting shortfalls
- **The Nature** - Willingness to change and early
- **The Ask** - Cost in terms of time and resources

Hitting the Road

- Are we ready to globalize – (re)align the design
- Getting the timing right
- Know your worth and the ask
- Business plan and way forward
- Elevator pitch
- Information memorandum
- Investment Banker, Legal counsel, advisor, consultants

...Ready to hit top gear!



Consequences

...of being unorganised and non-compliant

- Mistrust and lack of confidence of stakeholders
- Discontinuity of the business
- Penalties and other unexpected losses



Key Metrics



Key Metrics

- Cash burn analysis
- Quality of Earnings:
 - Governance .
 - Durability.
 - customer concentration .
 - Repeat customers/ customer attrition.
 - Contract Management (standardization).
 - Leads to customer conversion ratio.

Key Metrics

- Working Capital Management.
- Normalized EBITDA .
- Customer acquisition cost .
- Annual Recurring Revenue/Monthly Recurring Revenue.
- CAC Ratio – The ratio between the Average revenue contributed by a customer and the cost to acquire the customer.
- Projections vs Actuals – extent to which Management has been able to achieve the projected numbers.
- Reasonability of future projection computation made by the investee company.



Key Diligence Issues



Ownership

Accounting (lack thereof)	Consequences	Challenge
Share Holding Pattern	Dilution of Equity	Empowering ownership
Organisation Structure	Undefined Powers and responsibilities	<ul style="list-style-type: none">a. Establishing governance and establishing controls.b. Streamlining Vision, mission and goals
Patents, Trademarks and Copyrights.	<ul style="list-style-type: none">a. Infringement	<ul style="list-style-type: none">a. Recovery of R&D costsb. Early competition.

Accounting

Accounting (lack thereof)	Consequences	Challenges
Proper classification of ledgers	<ul style="list-style-type: none"> a. Improper Accounting leads to improper taxation. b. Pervasive effect –might trigger breach of multiple laws c. Incorrect financials 	<ul style="list-style-type: none"> a. Reclassification. b. Qualification of Audit reports – possibility of being picked up for assessment
Capitalisation of intangibles	Improper Classification	Reversing the expensed effect and restating the Financials
Fixed Asset Register	<ul style="list-style-type: none"> a. Higher or lower claim of depreciation. b. Incomplete register. 	<ul style="list-style-type: none"> a. Reclassification is a challenge as a block continues. b. Ensuring ALL Additions and deletions of assets are recorded.



Accounting

Accounting (lack thereof)	Consequences	Challenges
Related Party Transactions	<ul style="list-style-type: none">a. Undisclosed financial commitments.b. Inter – departments transfers part of Purchase or sales.c. Transfer Pricing, where applicable.	<ul style="list-style-type: none">a. Disclosures.b. Restated fund flows.



Controls

Controls (lack thereof)	Consequences	Challenges
To ensure sufficient and appropriate controls across the organisation	Disruption in the business loopholes in the organisation structure.	It is difficult to fix a problems- a. Than preventing it. b. When its difficult to determine what went wrong
Internal Financial Controls	Corporate Governance Failure.	Lengthy and time consuming if not practiced from the start
Keeping professional and personal transactions separate in the books	Disallowances as business expenditure. Books not providing the true picture of the business	Indicative of risks – provokes deeper analysis of intent, possibility of evasion of taxes and related party transactions

Compliances

- **Consequences:** Penalties, restriction in carry forward of losses, claiming of deductions.
- **Challenge:** Timely deduction and payment of taxes and filing returns.
- **Requirements:**

a. Income Tax:

- Timely and accurate deduction and payment of tax deducted at source and advance tax.
- Conduct of Tax Audit, filing of returns.

b. GST:

- LUT registrations for export;
- Mismatch between GSTR 1 and GSTR 3B and GSTR 3B and GSTR 2B;
- Selection of appropriate HSN Codes.



Compliances

c. FEMA:

- Compliance with ODI Regulations
- In case of foreign investors – filing of FCGPR, FCTRS and FLA returns.

e. Labour Laws :

- Timely remittance and filing of returns for laws under Professional Tax, LWF, EPF and ESI.
- Proper accounting of provisions for leave encashment , bonus and gratuity as per Actuarial Valuation reports.
- POSH policy to be put in place, Committee to be formed and returns to be filed.



Compliances

e. Companies Act, 2013:

- Share allotments and Board meetings, AGMs, EGMs to be conducted as per the prescribed clauses in the Act.
- Loans from directors to be as per the Deposit Rules.
- MCA related filings.

f. Related Party Transactions:

- Maintenance of register in MBP-4
- Rounding tripping of funds

g. ESOPs :

- Periodic Valuation reports and related perquisite taxation.
- Track who can be considered an employee under Companies Act.

Thank You

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