

## CURRENT ISSUE FEATURES

News Room

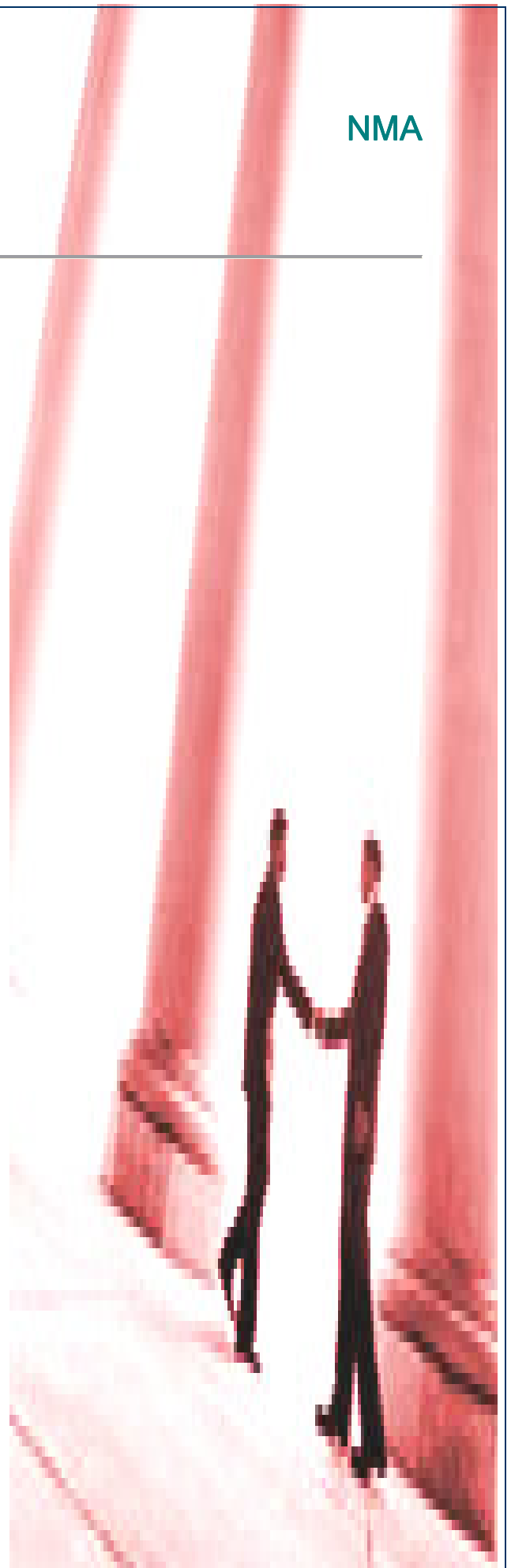
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## NEWS ROOM

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- Chitra Bharucha is the first woman and first Asian to be the chairperson of the British Broadcasting Corporation.
  - Fortune Magazine names India's Sunil Mittal as Asia's Businessman of the Year.
  - As per SEBI, all entities transacting in debt securities issued by banks, public sector undertakings, municipal corporations, corporate bodies and companies to report the trades on the BSE platform.
  - TCS: the first Indian IT company to clock \$1 billion in revenues in a single quarter & cross the \$3-billion mark in the first three quarters alone.
  - Income Tax Department to adopt the benchmark World Bank governance model, christened Sarvottam, in its offices.
  - The MP government to launch a new ancillary development scheme for Small and Medium Enterprises (SMEs), amend Land Allotment Rules 1974 (amended in 1999) for industries (SMEs) and follow the 45 day payment rule for SMEs.
  - US and India to work on an India-US SME forum to promote linkages between small and medium businesses in the two countries.
  - Value added tax system came into force in Tamil Nadu in the New year.
  - Central sales tax (CST) to be cut from 4% to 3% from April 1, 2007. In lieu of compensation, states would tax 44 new services, an additional 33 services being taxed by the Centre. States to get the right to levy VAT on tobacco, hitherto taxed by the Centre.
  - Textile Committee cess on ready-made garments to be abolished. Central Warehousing Corporation (CWC) to form a subsidiary to develop rail side warehousing complexes and multi-modal logistics hub.
  - Commodity market members and clients to be debarred from trading on any exchange from April 1 on failure to provide PAN.
  - The Vijay Mallya-controlled United Breweries group to acquire Glasgow-based distillers Whyte & Mackay for nearly £500 million. This will be the largest buyout by an Indian company abroad.
  - Government to launch a major vocational education and training plan to increase the existing capacity of skilled manpower six-fold over the next five years.
  - Bharti Airtel receives permission from Sri Lankan authorities to offer cellular mobile services in the island nation.
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# FROM THE JUDICIARY

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## RECENT SUPREME COURT DECISIONS

### **Suchitra Components Ltd. Appellant v Commissioner of Central Excise**

A beneficial circular has to be applied retrospectively while an oppressive circular has to be applied prospectively. Thus, when a circular is against the assessee, he has the right to claim enforcement of the same prospectively.

### **Commissioner of Income Tax, Bhopal v Ralson Industries Limited**

Held, initiation of a proceeding under s. 263 of the Act cannot be held to have become bad in law only because an order of rectification was passed.

### **S.A. Builders Limited v Commissioner of Income Tax Another**

Held, the transfer of the borrowed funds to a sister concern has to be seen from the point of view of commercial expediency and not from the point of view whether the amount was advanced for earning profits. Where it is obvious that a holding company has a deep interest in its subsidiary, and hence if the holding company advances borrowed money to a subsidiary and the same is used by the subsidiary for some business purposes, the assessee would ordinarily be entitled to deduction of interest on its borrowed loans.

### **T.A. Quereshi v Commissioner of Income Tax**

Held, once it is found that the heroin seized formed part of the stock in trade of the assessee, it follows that the seizure and confiscation of such stock in trade has to be allowed as a business loss.

### **Enterprising Enterprises v Deputy Commissioner of Income Tax**

Held, distinction lies between cases where royalty or rent is being paid and where the entire amount of lease is paid (either at a time or in installments) - In the former case it would be revenue expenditure whereas in the latter it would be a capital expenditure.

## IMPORTANT DATES

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<b>Due Date</b>	<b>Assessee Covered</b>	<b>Obligation</b>
25th January	PF Applicable Units	EPF Monthly Return.
28th January	VAT	-if Turnover>5 crore, Monthly Return. Payment of December 2006 VAT .  -Other quarterly Return ending December 06. Payment of October 2006 to December 2006.
28th January	VAT	For the assessee having turnover above Rs 40 Lacs to submit audited Financial Statement with Audit Report to VAT Department.
31st January	Income Tax Assessee	Issuance of TDS Certificate for tax deducted in previous month.
5th February	Service Tax Assessee	In respect of payment received towards the value of taxable services in January 2007 for Corporate Assessee.
7th February	Income Tax Assessee	Deposit of TDS/TCS deducted during the month of January.

# VALUE CREATION

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## TDS on Service Tax

### **Background**

Tax Deducted at Source has taken the front seat in the Finance ministry's agenda. The penalties levied for not following the provisions of TDS are vast and can make even a loss making entity pay tax due to certain disallowances under Section 40(a). Thus it is in interest of all the entities to follow the provisions of TDS.

However a question on which clarity is still desired by the finance professionals is regarding the deduction of tax on the amount of service tax charged by the service provider.

### **Schools of Thought**

There are two separate schools of thought on this and no clarification circular or notification has been issued by the department till date.

The first school states that tax should be deducted on the full amount including service tax.

CBDT in circular no. 715 has clarified that Section 194 C and 194 J refer to "any sum paid" and obviously reimbursement cannot be deducted out of bill amount for the purpose of TDS. Therefore, considering the above circular and the amount to be debited in books as expenditure, the tax has to be deducted on the

- entire amount of bill inclusive of service tax. (Source: Chartered Accountants Association Ahmedabad)
- Reference may be made to Circular No.93 dated 26.09.72 issued by the IT Dept., which states that, TDS is to be deducted with reference to the amount of payment itself and not 'Income comprised in the payment'. It is suggested to deduct TDS on total bill amount inclusive of service tax.

But the second school believes that TDS should be deducted only on the service fees component and not on the service tax amount. The arguments in favour of this view are:

- There can be no tax on tax.
- The before mentioned circular was issued at a time when Service Tax was not recoverable by the Service Providers. Now, Service Tax is required to be collected by the Service Providers from the various departments to whom they provide their services. The amount so collected by them is required to be fully deposited by them with the Government. In case TDS is deducted on the Service Tax Component as well it will result in lesser payment of Service Tax portion of the invoice amount to the Service Providers, but they will have to deposit the full amount with the government which may lead to increased litigations. It is therefore clarified that Circular No. 93 dated 26.9.1972 is not relevant in such cases.

### **Conclusion**

After weighing the arguments of the two schools, it is very difficult to conclude on any one. However in our view, the assessee should always follow a conservative approach and should deduct tax at source on the total amount billed which includes service tax as well.

# CORPORATE WATCH

## RANBAXY LABORATORIES LIMITED

### Background

Incorporated in Jun.'61 as a private limited company, Ranbaxy Laboratories (RLL) manufactures and markets pharmaceutical dosage forms (for human health care), animal health care products, bulk drugs and intermediates, diagnostics, laboratory chemicals and reagents. It is the largest exporter of bulk drugs and pharmaceutical dosage forms in India. RLL has many successful overseas joint ventures which include countries like Nigeria, Malaysia, China, Thailand etc.

In October 1973, shares of the Company were offered for sale to the public with the public issue of 63,535 equity shares of Rs 10 each of the Company at par.

### Recent News on the Company

Ranbaxy profit zooms 167 % in Q4

1/19/2007

Riding on increased sales at home and in the United States, the nation's largest pharmaceutical company, Ranbaxy Laboratories Ltd, reported a whopping 167 per cent jump in net profit on Thursday to Rs 185.9 crore in the fourth quarter which ended in December 2006, compared to Rs 69.5 crore in the corresponding period of the previous year.

(Amount in Rs. Crore)

Particulars	Dec 05	Sept 06	Dec 06
Sales Turnover	864.90	1,090.31	1,005.85
Other Income	95.04	(14.55)	126.36
Total Income	959.94	1,075.76	1,132.21
Total Expenses	828.63	920.31	927.84
Operating Profit	36.27	170.00	78.01
Profit On Sale Of Assets	49.10	Nil	Nil
Other Extraordinary Income/Expenses	Nil	(23)	Nil
Total Extraordinary Income/Expenses	49	(23)	Nil
Tax On Extraordinary Items	Nil	2	Nil
Net Extra Ordinary Income/Expenses	49	(20)	Nil
<b>Gross Profit</b>	<b>131</b>	<b>155</b>	<b>204</b>
Interest	7	18	14
PBDT	125	138	191
Depreciation	27	29	25
PBT	98	109	165
Tax	(0)	11	26
Net Profit	98	97	139
Dividend (%)		50%	
Earnings Per Share	3	3	4
Book Value	Nil	Nil	Nil
Equity	186	186	186
Face Value	5	5	5

**Chairman of the Company**

Tejendra Khanna

**Market Price Movement**

52 week high

Rs. 530

52 week Low

Rs. 317

**Top 3 shareholdings in the Company (in Percentage)**

Total Promoters	Total Foreign	Total Public & Others
34.87	25.87	20.09

**Top 3 Mutual Fund Holding**

Scheme Name	SBI Blue Chip Fund (G)	UTI Contra Fund (G)	UTI Equity Fund (G)
<b>No. of shares</b>	1,393,099	1,278,297	873,855

**Comparative Data of Ranbaxy with its Peer Companies**

Company Name	Last Traded Price	EPS (TTM)	PE Ratio	Face Value of Share	Market Capitalization
Ranbaxy	400.60	8.49	47.18	5	14,942.89
Sun Pharma	1055.05	28.46	37.07	5	19,813.84
Cipla	254.40	9.22	27.58	2	19,773.24
Dr. Reddy's Labs	776.00	27.19	28.54	5	11,913.15

*The above-mentioned details are based on Market data as on 23<sup>rd</sup> January 2007.*

## BUSINESS GAGS

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### How you made money

*A young man asked an old rich man how he made his money. The old guy fingered his worsted wool vest and said, "Well, son, it was 1932, the depth of the Great Depression. I was down to my last nickel. "I invested that nickel in an apple. I spent the entire day polishing the apple and, at the end of the day, I sold the apple for ten cent". "The next morning, I invested those ten cents in two apples. I spent the entire day polishing them and sold them at 5:00 pm for 20 cents. I continued this system for a month, by the end of which I'd accumulated a fortune of \$1.37."*

*"And that's how you built an empire?" the boy asked, astonished.*

*"Heavens, no!" the man replied. "Then my wife's father died and left us two million dollars."*

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