

Yes, Governance Matters.

July 13, 2023

FINANCIAL MISCONDUCT AND GOVERNANCE LAPSES: WHY IT'S A WAKE-UP CALL FOR INDIAN STARTUPS

This article was first published by ET on 13 July 2023.

THE ECONOMIC TIMES

SUMMARY

Accurate reporting of financial statements is a pivotal responsibility of a startup and its founders. But the low tide of funding has exposed the dark underbelly of the startup ecosystem in India and often promoter greed and investor appetite for higher valuation are leading to governance failures and bringing companies down.

Some adjectives go well with startups – dynamic, innovative, etc. But startups also face unique challenges. Financial mismanagement and unexpected market shifts can shake up a startup's stability and growth potential. With proactive measures and strategic decision-making, their founders and stakeholders can prevent this well ahead of time.

In recent times, multiple instances have come to light wherein a company inaccurately reported and filed financial statements with the concerned authorities. The low tide of funding has exposed the dark underbelly of the startup ecosystem in India — financial irregularities, glaring absence of corporate governance, and acts of omission and commission. Some companies typically report their financial figures inaccurately to deceive investors, leading them to believe that their performance and profitability exceed actual levels.

Since 2022, India Inc has thrown up quite a few cases of corporate governance lapses in startups, such as BharatPe, Broker Network, Trell, and Zilingo, wherein the companies were accused of inaccurately reporting the financials. Another illustration of financial fraud was seen in the beginning of 2023, when the founders of GoMechanic admitted to committing financial fraud by inaccurately reporting their financial statements. The surprising, yet common, thread that was emanating across each instance was the fact that each of these companies was at an advanced stage of their growth journey and had every opportunity to have significantly better internal controls in place.

Please click [here](#) for our detailed article.

– Sapna Kataria, Maulin Salvi & Sahil Kanuga

You can direct your queries or comments to the authors

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

Handbook on New Labour Codes

April 29, 2024

Compendium of Research Papers

April 11, 2024

Third-Party Funding for Dispute Resolution in India

April 02, 2024

Research Articles

Private Client Insights - Sustainable Success: How Family Constitutions can Shape Corporate Governance, Business Succession and Familial Legacy

January 25, 2024

Private Equity and M&A in India: What to Expect in 2024?

January 23, 2024

Emerging Legal Issues with use of Generative AI

October 27, 2023

Audio

Third-Party Funding: India & the World

April 27, 2024

IBC allows automatic release of ED attachments: Bombay HC reaffirms

April 15, 2024

The Midnight Clause

February 29, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Q&A 2024 Protocol to the Mauritius India Tax Treaty

April 22, 2024

Boost to India's Space Potential: India Liberalizes Foreign Direct

