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CMAs' INDUSTRY BULLETIN

DECEMBER 2018

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Behind every successful business decision, there is always a CMA

MISSION STATEMENT

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

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PRESIDENT'S MESSAGE

CMA Amit Anand Apte
President
The Institute of Cost Accountants of India

Greetings!!!

I am happy to note that the Members in Industry Committee of the Institute is bringing out its e-Journal, '*CMAs'* Industry Bulletin' on monthly basis for the members of Institute and other stakeholders. Cost and Management Accountants have the key role of facilitating organizations to achieve cost competitiveness and excellence in operations. This requires them to keep abreast the latest developments in various Industries and other business domains. We are focused on building valuable capacity of the CMA professional and to educate, engage and execute newer and desirable approaches to sustainable growth through research, publications, seminars and conferences involving diverse domain experts.

I hope the Members in Industry Committee would meet up to the expectations of the members and other stakeholders of the Institute and support the Institute to take the CMA profession at greater heights.

My best wishes to members and their families on the occasions of Christmas and New Year.

With Warm Regards,

CMA Amit Anand Apte
15^{th} December, 2018

VICE-PRESIDENT'S MESSAGE

CMA Balwinder Singh
Vice President
The Institute of Cost Accountants of India

I am pleased to note that the Members in Industry Committee of the Institute is bringing out a monthly e-Journal, '*CMAs'* Industry Bulletin' for the readers. I hope this publication of the Members in Industry Committee will enrich the readers about the different segments of our economy providing the current updates and through value added articles from industry experts.

I congratulate CMA Biswarup Basu, Chairman – Members in Industry Committee for bringing out this electronic journal and for taking a very good initiative which shall go a long way. I also congratulate other members of this Committee of the Institute for their efforts and valuable inputs to support the objective of the Members in Industry Committee. My best wishes to Members in Industry Committee for its future initiatives for development of the CMA profession.

I extend my best wishes to the members and their families on the occasions of Christmas and New Year.

Warm regards,

CMA Balwinder Singh
15th December, 2018

CHAIRMAN'S MESSAGE

CMA Biswarup Basu
Chairman
Members in Industry Committee

Greetings!!!

I express my heartfelt thanks to the President, Vice President and the Council for giving me this great opportunity to serve the Institute as Chairman of the Members in Industry Committee (2018-19).

In our continuous endeavour to improve the services to the members, it is my great pleasure and privilege to place before you the e-journal, '*CMAs'* Industry Bulletin'. This is a publication of the Members in Industry Committee of the Institute of Cost Accountants of India, and through this publication, we would provide readers valuable articles, interviews of corporate leaders and various economic updates. Contribution from distinguished industry experts and authors would be a media of knowledgeable resource and value addition for the readers.

I request continuous support from every corner in the quest for value creation through the activities of this Committee. I am also very much confident that the Members of this Committee will provide their valuable assistance and best efforts undoubtedly and commit for the betterment of the Institute.

Through this e-journal we would be providing articles from industry experts and update the members on various economic matters in the country. We would also be informing the members about the forthcoming Webinars and Seminars for value addition to our profession. I fervently request the members of the Institute to participate in the Webinars and Seminars in large numbers to make them successful.

Keeping in view the objective of developing a professional body of members and play a vital role in the context of providing leadership, the Committee would be embarking on programmes of sharing, disseminating and providing to various industries the valuable role of CMAs.

I once again thank all my colleagues in the Council and staff for their wholehearted support to this Committee in its endeavours in the growth of our noble profession.

I wish prosperity and happiness to everyone and pray for the success in all of your endeavours.

With Warm Regards,

CMA Biswarup Basu
15th December, 2018

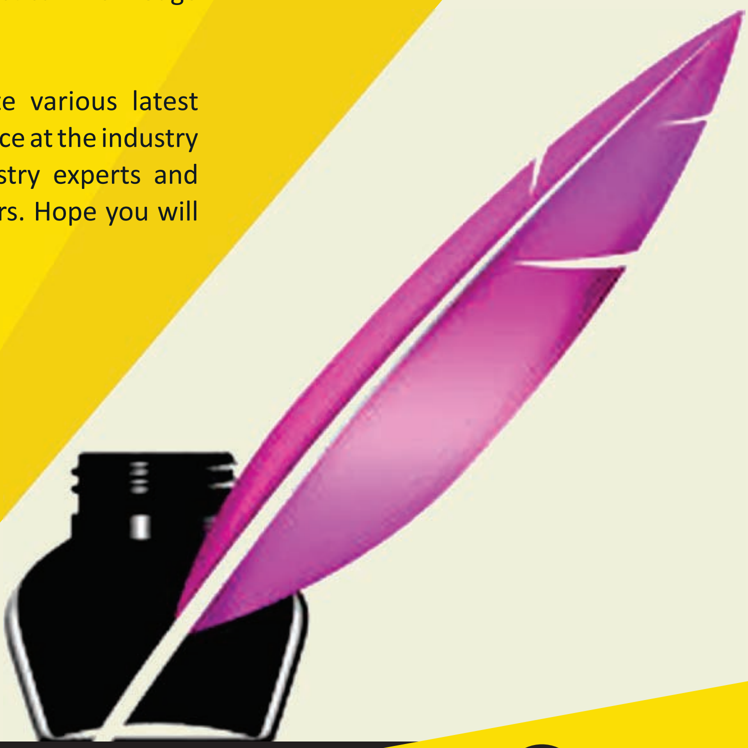
EDITORIAL PREFACE

Greetings!!!

We are pleased to initiate an electronic journal, the '*CMAs'* Industry Bulletin' from the Members in Industry Committee for our esteemed readers. Today, technology is being a major game changer of the modern economics of industries. The ongoing manufacturing revolution is not only increasing productivity and shifting economics, but also fostering industrial growth, and modifying the profile of the workforce, ultimately changing the competitiveness of companies and regions. The rise of new digital industrial technology, known as Industry 4.0, is a transformation that makes it possible to gather and analyze data across machines, enabling faster, more flexible, and more efficient processes to produce higher-quality goods at reduced costs.

Organizations today face formidable challenges in the adoption of new technologies for their business processes. For developing a sustainable system, they need to broaden and deepen their practical knowledge about digital technologies and the related usage.

In this electronic journal, we hope to incorporate various latest developments and transformations that are taking place at the industry level, publish 'Guest Column' for views from industry experts and provide related matters for the benefit of the readers. Hope you will enjoy reading this issue of '*CMAs'* Industry Bulletin'.



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NEW REVENUE RECOGNITION STANDARD – IND AS 115 AN OVERVIEW

CMA Deepak Kumar Sen
Executive Vice President and CFO
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Ministry of Corporate Affairs vide notification dated 28th March 2018 issued a new Revenue Recognition Standard namely, Ind *AS 115 – Revenue from Contracts with Customers*. The new Standard is applicable for all Ind AS companies and is mandatory in nature starting from financial year beginning 1st April 2018 or thereafter. This is a single model for revenue recognition for contracts with customers which aims to promote consistency and comparability across Industries. This is a bold step taken by MCA towards aligning the new Revenue Recognition Standard with that of global best practises. The implementation of new revenue recognition standard may have significant effect on Revenue for many industries. Therefore, entities are required to critically assess the impact of the New Standard in their respective organizations, which requires sufficient time and efforts to analyse and implement successfully. This article attempts to provide a glimpse of new Ind AS 115 and its effects in Revenues.

Applicability

Ind AS 115 is applicable for all Ind AS compliant entities w.e.f the financial year on or after 1st April 2018. The new Standard replaces Ind AS 18 (Revenues) and Ind AS 11 (Construction Contracts). Like newly introduced GST Act, Ind AS 115 deals with both sale of goods as well as rendering services and hence there is now only one Standard for revenue recognition.

Revenue

Revenue (it is called also called in different name such as– Top Line, Turnover, Sales etc.) is defined as "Income arising in the course of any entity's ordinary activities". Revenue is one of the most important financial parameter for any entity, the promoters, the creditors, the lenders, the analysts, the employees, the tax and other government authorities. Probably the first item in a financial statement looked at by any reader is Revenue, which is analysed in various perspectives such as compared with previous years Revenue, Peers, Industry, computation of ratios etc. Therefore, its importance is well acknowledged and all financial and management professionals should have expert knowledge on the new Standard.

The objective of Ind AS 115, as stated in its opening para, is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from contract with customers.

The core principle is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitles in exchange for those goods or services.

The 5 Step Model

Ind AS 115 prescribes 5 step models for Revenue Recognition. In order to recognize revenue, all these 5 steps need to be satisfied. These steps are as below:

Step 1 – Identify the contract(s) with customer

Step 2 – Identify the separate performance obligation in the Contract

Step 3 – Determine the transaction price

Step 4 – Allocate the transaction price to separate performance obligation

Step 5 – Recognize Revenue as or when the entity satisfies a performance obligation.

Let us now study briefly the above steps one by one.

Step 1 – Identify the contract(s) with Customer

As per Ind AS 115, a Contract is "an agreement between two or more parties that creates enforceable rights and obligation'. The Standard requires that:

a. The parties to the contract have approved contract(s), which may be in writing, oral or in accordance with customary business practises. The essence is that there has to be a commitment to perform their respective obligation.
b. Each parties right regarding the goods or services to be transferred must be ascertainable.
c. The payment terms for the goods and services can be identified.
d. The Contract must have Commercial Substance
e. It is probable that the entity will collect the consideration as per the contract.

The above criteria are assessed at the inception of the contract and if all these criteria are met, then there is no need to review these criteria again unless there is an indication that a significant change of facts and circumstances has happened. For example, if it is observed that the customer's financial stability has significantly deteriorated and that the collection can become doubtful, the above criteria has to be reassessed by the entity and Revenue cannot be recognised under this Standard, if collection is found to be highly doubtful.

If each party to the contract has unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party, then the Contract does not exists and revenue cannot be recognized under this Standard.

Illustration – *A Company is engaged in providing Music App. To promote its sales, the Company offers one month free subscription. The customer, after one month of free trial, has the option to either subscribe the Apps by agreeing to pay the contractual subscription amount or opt to discontinue after the free trial period.*

Thus, in above case, there is no contract as the customer has not committed to subscribe the Apps. Hence Revenue cannot be recognised in free trial period. The revenue should be recognised on prospective basis, when and if the customer agrees to the contract offered by the company.

An entity shall recognise the consideration received from customer as a liability in Balance Sheet unless all the conditions under this clause (a to e above) are met. For example, if an entity receives advances for future supplies of goods and services, the advances should be disclosed as Liability till the promised goods and services are supplied as per contract. Once the performance obligation is over (goods and services supplied), the advance (liability) can be removed and Revenue can be recognised.

Combining Contracts – Generally, entities will apply the principle to individual contracts with customers. However, entities may also combine one or more contracts entered into at or near the same time with the same customer if they meet any of the following criteria:

a) The contracts are negotiated together with a single commercial objective.
b) The consideration to be paid for one contract is dependent on the price or performance of another Contract.
c) The goods or services promised in the contract are a single performance obligation.

Step 2 – Identify the separate Performance Obligation in the Contract

After identification of a contract, the next step is to identify the performance obligation within that contract. A performance obligation is a promise in a contract with a customer to transfer either (i) goods or services or a bundle of goods or services that is *distinct* or (ii) a *series of distinct* goods or services that substantially same and that have same pattern of transfer to customer.

Under Ind AS 115, an entity has to assess the criteria that promised goods and services (or a bundle of goods and services) are distinct. It will be distinct if the customer is benefitted from the goods and services on its own or together with other readily available resources. If the promised goods and services are not distinct, the entity is required to combine that goods or services with other promised goods and services until it identifies a bundle of goods and services that together, is distinct.

The goods or services promised to a customer are distinct if both the criteria are met:

a) The customer can benefit from the goods or services either on its own or together with other resources that are readily available to the customer ; and
b) The entity's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract.

Examples of distinct goods or services are:

a) Sale of goods manufactured or reselling (including trading – retail/wholesale etc)
b) Resale of rights to goods or services (example – agency contracts)
c) Construction, manufacturing or developing an asset on behalf of a customer (example – Constructing a power plant or a bridge on behalf of a customer).
d) Granting licenses (example – software licenses, motion picture, music, patents, trade mark, copyrights etc)
e) Acting as a agent of another party, etc.

Performance obligation is normally specified in the contract (example – manufacturing and supplying of a specified pump to customer, repair and repainting a factory building etc). This can include promises implied by an entity's customary business practises, published policies or specified statement that goods or services will be transferred under the contract.

The timing of revenue recognition will depend upon satisfactory performance obligation rather than the contract as a whole. Earlier Accounting Standards, including Ind AS 18 and Ind ASA 11, lacks in providing such guidance.

Illustration – *A Gas Turbine manufacturing company enters into a contract with a customer to manufacture and supply a gas turbine set and also erection and commissioning of the gas turbine integrating with main power supply system. Further, it enters into a contract to operate and maintain the plant for three years. The last two items can be performed by any other contractor/s independent of supply of the gas turbine. Thus, the entity can conclude that supply of gas turbine set is a distinct activity as the customer can benefit directly from supply of the gas turbine set. The customer can engage the same entity or any other entity for carrying out the erection and commissioning and operations and maintenance contract. On the basis of this assessment, the entity can identity three different performance obligations, viz, supply of gas turbine set, erection and commissioning and operations and maintenance.*

Step 3 – Determine the Transaction Price

After the entity satisfies performance obligation as per contract, the entity shall determine the transaction price. *The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods and services to a customer, excluding amounts collected on behalf of third parties (such as GST).* The transaction price may be fixed or variable or both.

When determining the transaction price, an entity shall consider the effect of all of the following:

a) Variable considerations
b) Constraining estimates of variable consideration
c) Existence of significant financing component
d) Non cash consideration
e) Consideration payable to a customer.

Variable Consideration – The consideration can vary because of discount, rebate, refund, incentives, performance bonus, penalties etc. For example, if the contract stipulates that any delivery of goods or services beyond 90 days from the date of contract will levy 5% penalty, the transaction price will be 95% of contract value, if delivery is made beyond 90 days. However, if the delivery occurs within 90 days, the transaction price will be 100%.

The entity shall estimate an amount of variable consideration by using following two methods:

I) The expected value – that is the sum of probability – weighted amount in a range of possible consideration amount.

Illustration – *An entity enters into a contract to receive performance bonus upto Rs 1,00,000 if the performance targets are fully met. The entity estimates all possible outcomes to receive the bonus and its probability. According to the estimate, the entity determines the weighted average amount of performance bonus of Rs 92,000 as below:*

Possible outcome	*Probability*	*Performance Bonus*
Rs.		*Rs.*
1,00,000 (100% target met)	*60%*	*60,000*
90,000 (90% target met)	*30%*	*24,000*
80,000 (80% target met)	*10%*	*8,000*

Probability – Weighted Amount 92,000

ii) Most Likely amount – Entities will determine the most likely amount of variable consideration using the single most likely amount in a range of possible consideration amount. This method may be applied when the entity expects to be entitled to one of the two possible outcome. For example, the entity expects to receive either full Rs. 1,00,000 as performance bonus or none.

Constraining estimates of variable consideration – An entity shall include variable consideration in transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainly associated with the variable consideration is subsequently resolved.

Right to return**–** In certain contracts, the customer may be granted an option to return the goods if not satisfied, after the purchase. Such right to return affect transaction price. The entity has to measure the Revenue at gross transaction price less expected level of returns. (Example – If the rate of return of goods sold by a retail entity is found to be 5% average in last 3 years, the entity may recognize 95% of Revenue at the inception). The Standard provides guidance on estimating variable consideration and constraints.

Significant financial component – This applies to credit sales where generally, extended credit term is applicable in the contract or a significant Advance payment is paid as per contract. When the customer pays in arrears, the entity is effectively providing finance to the customer. Conversely, when the customer pays in advance, the entity has effectively received finance. The objective in adjusting the transaction price for the time value of money is to reflect an amount for the selling price as though the customer had paid cash for the goods and services when they were transferred.

The objective is to recognise revenue at an amount that reflects the price that the customer would have paid cash for those goods and services. The entity shall use the discount rate reflecting the credit characteristic of the party receiving the finance of the contracts. The entity will recognise revenue after applying the discounting rate and the significant financial component so calculated will be recognised as interest income/expense.

Illustration – *An OEM enters into a contract to produce and sell an equipment at Rs. 10,00,000 to be paid at the time of delivery after 2 years. However, the customer has also has an option to pay Rs. 8,00,000 upfront at the time of signing the contract. If the OEM opted for first option, there is no significant financial component. If the second option is chosen, the implicit interest is Rs. 2,00,000 (rate of interest 11.8%). If the OEM's incremental borrowing rate is 6%, then discounting has to be done @ 6% (not 11.8%). In such case, Interest will work out to be Rs. 98,880 (that is 8,00,000 * 106% ^2 -8,00,000). Accordingly, revenue recognised will be Rs. 8,00,000 + 98,880 = Rs. 898,880 and Interest expenses will be Rs. 98,880. Rs. 98,880 is significant financial component which is grossed up in revenue and accounted separately as interest expense.*

Non cash Considerations – When an entity receives non cash consideration, (such as in exchange of property, plant or financial instruments), the *fair value* of non-cash consideration is considered as transaction price. (For understanding of fair value, refer to Ind AS 113)

Consideration payable to a customer – Often an entity may pay cash or expects to pay cash to customer. Such consideration payable to a customer also includes credits or other items, such as a coupon or voucher that can be applied against amount owed to the entity. An entity shall account such consideration payable to customer as a reduction of the transaction price from the customer.

Step 4 – Allocate the transaction price to separate performance obligation

Ind AS mandates to allocate transaction price to each performance obligation (that is to each distinct goods or services). The object is to depict the amount of consideration to which the entity expects to be entitled in exchange of transferring the promised goods and services to the customer. If the contracts is for sell of a single product (such as sell of a book or a cycle by a retailer), allocation of transaction price is not applicable being only one performance obligation.

In other cases, the entity shall allocate the transaction price to each performance obligation identified in the contract on a *relative standalone selling price.*

Standalone selling price is the price which an entity would sell a promised goods and services separately to a customer. The best evidence of a standalone selling price is observable price of goods and services when the entity sells those goods or services separately in similar circumstances to similar customers. If standalone observable price is not easily available, an entity has to apply other conditions, such as market condition, entity specific factor that is reasonably available to the entity.

Ind AS 115 does not prescribe or prohibit any particular method of estimating standalone selling price as long as the method results in an estimate that faithfully represents the price an entity would charges for the goods or services if they are sold separately.

The Standard requires an entity to allocate the transaction price to performance obligation in proportion to their standalone prices so that the revenue is recorded at the right time and at the right amount.

Illustration – *An entity enters into a contract with a customer for a packaged deal to sell a customized machinery along with its installation and commission as well as one year maintenance for Rs. 10,00,000. Technically it is possible that the installation and commission as well as maintenance contract can be undertaken by other entities, however, there are constraints to obtain reasonable standalone price being customized machinery. Hence, the entity applied % allocation based on estimated cost involved, as below.*

Performance obligation of the contract.	% Allocated based on standalone price	Allocation of Transaction price
Supply of Machinery	80%	8,00,000
Erection and Commissioning	15%	1,50,000
Maintenance Contract	5%	50,000
Total		**10,00,000**

Allocating discounts– Often entities sell bundle of goods and services at a price less than standalone selling price. In such case discount is to be allocated in the same proportion of standalone price to all separate performance obligation. However, if the entity does not extend discount in a particular item, then the discount to be allocated only to the remaining goods or services.

Illustration – *An entity enters into a contract with a customer to sell a TV, a voltage stabilizer and TV stand together at a price of Rs. 50,000. The standalone selling prices are "TV Rs. 40,000, voltage stabilizer Rs. 10,000 and TV stand Rs. 5,000. In this case, the discount for the bundled sell is Rs. 5,000 (Rs. 55,000 – Rs. 50,000). However, the entity does not provide any discount of TV stand on standalone basis. Hence, the discount of Rs. 5,000 is to be allocated between TV and voltage stabilizer only. Hence the transaction price is allocated as follows:*

TV and Voltage stabilizer	*- Rs. 45,000 (discount allocated)*
TV stand	*- Rs. 5,000 (discount not allocated)*
Total	*- Rs. 50,000*

Step 5 – Recognize Revenue as or when the entity satisfies a performance obligation

Finally, an entity recognises revenue as and when it transfers promised goods and services as per contract to a customer. A transfer occurs when the customer obtains control over goods and services so transferred. The control is obtained when it can direct the use of and obtain substantially all remaining benefit from it.

Transfer of control of goods and services can happen either *(i) At a point of time or (ii) Over time.*

At a point of time – Where control over goods or services are transferred at a single point of time, an entity recognises revenue by evaluating when customer obtains control over the goods or services. Customer will obtain control over goods or services when:

a) The entity has a right to receive payment for the goods.
b) The customer has legal title of goods or services.
c) The customer has physical possession of the goods or services.
d) Significant risk and reward has been passed on the customer.
e) The customer has accepted the goods and services.

Thus when an entity enters into a contract with a customer to sell one motor pump for Rs. 10,000 on ex works basis, the entity will recognise revenue of Rs. 10,000 when the customer accepts and takes delivery of the pump from the premises of entity and promised to pay the amount, say in the same day or within 7 days, as per contract.

Over time – Control is considered to be transferred over time if one of the following conditions exists. :

a) The entity creates or enhances an asset that the customer controls as it is created or enhanced.
b) The customer receives and consumes the benefits of the entity's performance as the entity performs. A customer receives a benefit from an entity's performance as the entity performs if another entity does not have to substantially redo the work completed to date if it is stepped in to complete the remaining obligation under the contract.
c) The entity's performance creates or enhances an asset (goods or services) that has no alternative use to the entity and the entity has the right to receive payment for the work done to date.

'Over time' criteria apply where the customer controls the work in progress as the entity manufactures goods or provides services. Example of such contracts is construction of an airport or research and development where the customer owns the finding in progressive manner and the entity have the right to receive the payment as the work progress and transferred.

Illustration – *An entity enters into a contract with a customer to construct a power plant and customer's land. The technical specification is provided by the customer and can be changed by the customer as the work progress. The work in progress belongs to the customer and in case the contract is cancelled, the customer is not bound to return the work in progress. Thus, the customer controls the asset as it is created or enhances.*

On the contrary, in a simple construction contract, if the entity has right to obtain return of work in progress in case where the customer cancels the contract during construction and the same work in progress can be sold by the entity to other customer with or without significant modification, over time criteria will not satisfy.

Ind AS 115 provides two methods to measure progress towards completion of performance obligation:

a) Output method
b) Input method

Under output method, revenue is recognised by directly measuring the value of the goods and services transferred to date to the customer. These are generally measured by conducting Surveys of work done till date, contractual milestones reached or units produced etc.

Under input method, revenue is recognised based on extent of efforts or inputs towards satisfying a performance obligation compared to the expected total efforts or output needed. This can be measured by quantum of resources consumed, cost incurred, labour hours expanded, machine hours used, time lapsed etc compared to total such estimated resources required to complete the contract.

Disclosures

Apart from the 5 step revenue recognition model, Ind AS 115 mandates exhaustive disclosure requirements as compared to current Standards. The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flow from contacts with customers. Accordingly, an entity should disclose the following:

- Disaggregation of revenue
- Contract balances
- Performance obligation
- Significant judgements
- Cost to obtain or fulfilment of contracts

Conclusion

From the above discussion, it can be observed that the approach or revenue recognition under Ind As 115 significantly differs from existing Indian GAAP. Certain industries such as Real Estate, Telecommunication, Software and Cloud, and Contraction industry may face initial challenges to apply in AS 115 and the revenue may significantly differ than the previous standards. Whereas in a simple retail transactions with no freebies or sales promotion schemes, the revenues may remain same as under earlier accounting standards, though the approach of revenue recognition may be different. Nevertheless, all companies needs to carefully evaluate and assess the implication and impact of Ind AS 115 in their financial results. Several entities may have to modify their ERP/accounting software to comply with Ind AS 115 standards.

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INDUSTRY FOCUS - CEMENT INDUSTRY

Introduction

India is the second largest producer of cement in the world. No wonder, India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly. Ever since it was deregulated in 1982, the Indian cement industry has attracted huge investments, both from Indian as well as foreign investors.

India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major initiatives such as development of 98 smart cities are expected to provide a major boost to the sector.

Expecting such developments in the country and aided by suitable government foreign policies, several foreign players such as Lafarge-Holcim, Heidelberg Cement, and Vicat have invested in the country in the recent past. A significant factor which aids the growth of this sector is the ready availability of the raw materials for making cement, such as limestone and coal.

Market Size

The housing and real estate sector is the biggest demand driver of cement, accounting for about 65 per cent of the total consumption in India. The other major consumers of cement include public infrastructure at 20 per cent and industrial development at 15 per cent.

India's total cement production capacity is nearly 455 million tonnes, as of 2017-18. Cement consumption is expected to grow by 4.5 per cent in FY19 supported by pick-up in the housing segment and higher infrastructure spending. The industry is currently producing 280 MT for meetings its domestic demand and 5 MT for exports requirement.

The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70 per cent of the total cement production of the country. A total of 210 large cement plants account for a cumulative installed capacity of over 350 million tonnes, with 350 small plants accounting for the rest. Of these 210 large cement plants, 77 are located in the states of Andhra Pradesh, Rajasthan and Tamil Nadu.

Investments

On the back of growing demand, due to increased construction and infrastructural activities, the cement sector in India has seen many investments and developments in recent times.

According to data released by the Department of Industrial Policy and Promotion (DIPP), cement and gypsum products attracted Foreign Direct Investment (FDI) worth US$ 5.26 billion between April 2000 and June 2018.

Some of the major investments in Indian cement industry are as follows:

- As of August 2018, Vicat Group is planning to invest Rs 1,735 crore (US$ 258.80 million) to expand its cement production capacity in India by 50 per cent to 13 million tonnes by 2021. The expansion will strengthen its presence in the southern and western markets of India.
- During 2017-18, Ultratech commissioned a greenfield clinker plant with a capacity of 2.5 MTPA and a cement grinding facility with 1.75 MTPA capacity in Dhar, Madhya Pradesh. The company is expecting to complete a 1.75 MTPA cement grinding facility and a 13 MW waste heat recovery system by September 2018 at the same location.
- In May 2018, Ultratech Cement decided to acquire the 13.4 MTPA capacity cement business of Century Textiles and Industries.
- JK Cement is planning to invest Rs 1,500 crore (US$ 231.7 million) over the next 3 to 4 years to increase its production capacity at its Mangrol plant from 10.5 MTPA to 14 MTPA.

Government Initiatives

In order to help the private sector companies thrive in the industry, the government has been approving their investment schemes. Some such initiatives by the government in the recent past are as follows:

In Budget 2018-19, Government of India announced setting up of an Affordable Housing Fund of Rs 25,000 crore (US$ 3.86 billion) under the National Housing Bank (NHB) which will be utilised for easing credit to homebuyers. The move is expected to boost the demand of cement from the housing segment.

Road Ahead

The eastern states of India are likely to be the newer and virgin markets for cement companies and could contribute to their bottom line in future. In the next 10 years, India could become the main exporter of clinker and gray cement to the Middle East, Africa, and other developing nations of the world. Cement plants near the ports, for instance the plants in Gujarat and Visakhapatnam, will have an added advantage for exports and will logistically be well armed to face stiff competition from cement plants in the interior of the country.

Due to the increasing demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by the year 2025.

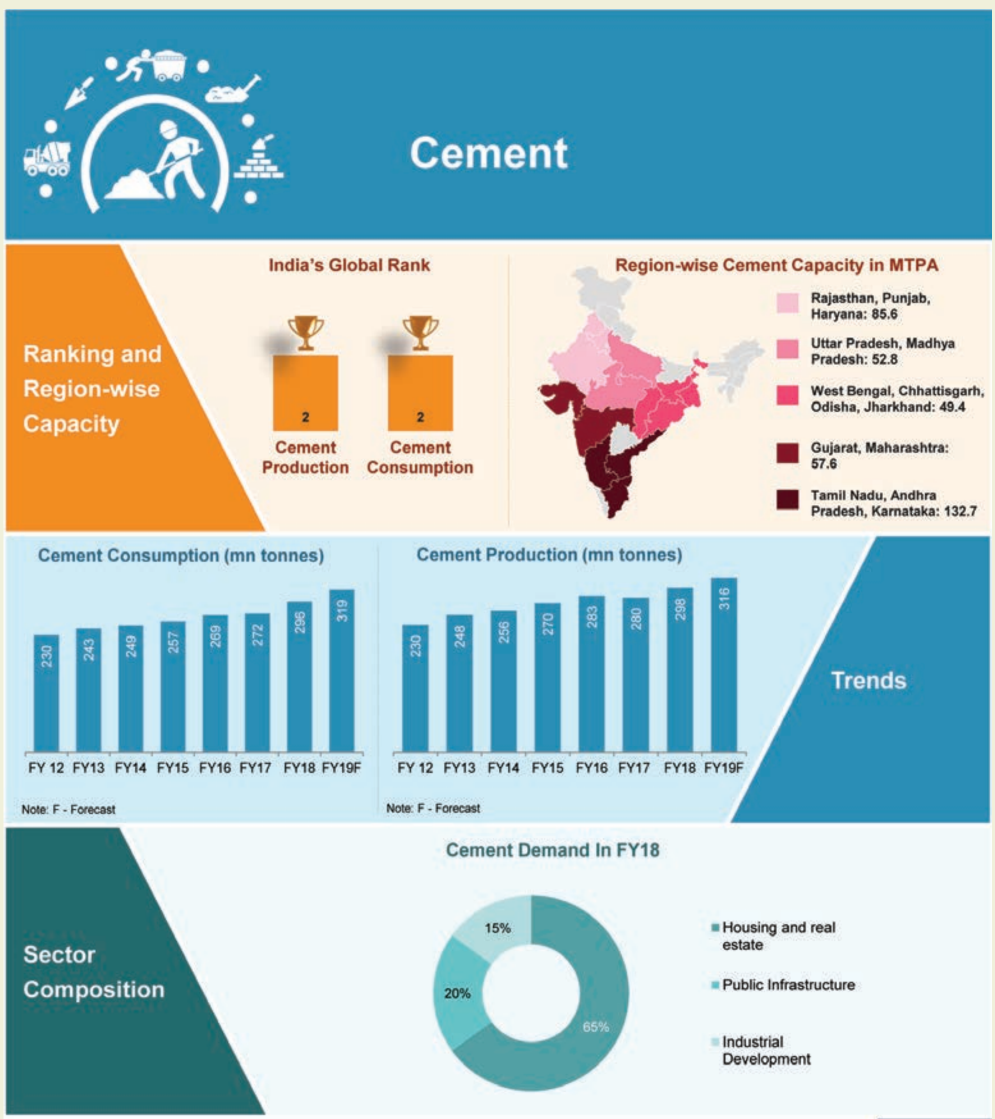
A large number of foreign players are also expected to enter the cement sector, owing to the profit margins and steady demand. In future, domestic cement companies could go for global listings either through the FCCB route or the GDR route.

With help from the government in terms of friendlier laws, lower taxation, and increased infrastructure spending, the sector will grow and take India's economy forward along with it.

Exchange Rate Used: INR 1 = US$ 0.0149 as of Q1 Fy19.

References*: Media Reports, Press releases, IBEF, Union Budget 2018-19, Edelweiss Securities Ltd.*

Disclaimer: *This information has been collected through secondary research and the Institute is not responsible for any errors in the same.*



INDUSTRY FOCUS - TEXTILE INDUSTRY

Introduction

India's textiles sector is one of the oldest industries in Indian economy dating back several centuries. India's overall textile exports during FY 2017-18 stood at US$ 39.2 billion.

The Indian textiles industry is extremely varied, with the hand-spun and hand-woven textiles sectors at one end of the spectrum, while the capital intensive sophisticated mills sector at the other end of the spectrum. The decentralised power looms/ hosiery and knitting sector form the largest component of the textiles sector. The close linkage of the textile industry to agriculture (for raw materials such as cotton) and the ancient culture and traditions of the country in terms of textiles make the Indian textiles sector unique in comparison to the industries of other countries. The Indian textile industry has the capacity to produce a wide variety of products suitable to different market segments, both within India and across the world.

Market Size

The Indian textiles industry, currently estimated at around US$ 150 billion, is expected to reach US$ 250 billion by 2019. India's textiles industry contributed seven per cent of the industry output (in value terms) of India in 2017-18.It contributed two per cent to the GDP of India and employs more than 45 million people in 2017-18.The sector contributed 15 per cent to the export earnings of India in 2017-18.

The production of raw cotton in India is estimated to have reached 34.9 million bales in Fy18^.

Investment

The textiles sector has witnessed a spurt in investment during the last five years. The industry (including dyed and printed) attracted Foreign Direct Investment (FDI) worth US$ 2.97 billion during April 2000 to June 2018.

Some of the major investments in the Indian textiles industry are as follows:

- The Cabinet Committee on Economic Affairs (CCEA), Government of India has approved a new skill development scheme named 'Scheme for Capacity Building in Textile Sector (SCBTS)' with an outlay of Rs. 1,300 crore (US$ 202.9 million) from 2017-18 to 2019-20.

- In May 2018, textiles sector recorded investments worth Rs. 27,000 crore (US$ 4.19 billion) since June 2017.

Government Initiatives

The Indian government has come up with a number of export promotion policies for the textiles sector. It has also allowed 100 per cent FDI in the Indian textiles sector under the automatic route.

Initiatives taken by Government of India are:

- The Textile Ministry of India earmarked Rs 690 crore (US$ 106.58 million) for setting up 21 readymade garment manufacturing units in seven states for development and modernisation of Indian Textile Sector.
- The Directorate General of Foreign Trade (DGFT) has revised rates for incentives under the Merchandise Exports from India Scheme (MEIS) for two subsectors of Textiles Industry - Readymade garments and Made ups - from 2 per cent to 4 per cent.
- As of August 2018, the Government of India has increased the basic custom duty to 20 per cent from 10 per cent on 501 textile products, to boost Make in India and indigenous production.
- The Government of India announced a Special Package to boost exports by US$ 31 billion, create one crore job opportunity and attract investments worth Rs 80,000 crore (US$ 11.93 billion) during 2018-2020. As of August 2018 it generated additional investments worth Rs 25,345 crore (US$ 3.78 billion) and exports worth Rs 57.28 billion (US$ 854.42 million).
- The Government of India has taken several measures including Amended Technology Up-gradation Fund Scheme (A-TUFS), scheme is estimated to create employment for 35 lakh people and enable investments worth Rs 95,000 crore (US$ 14.17 billion) by 2022.

Road Ahead

The future for the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market.

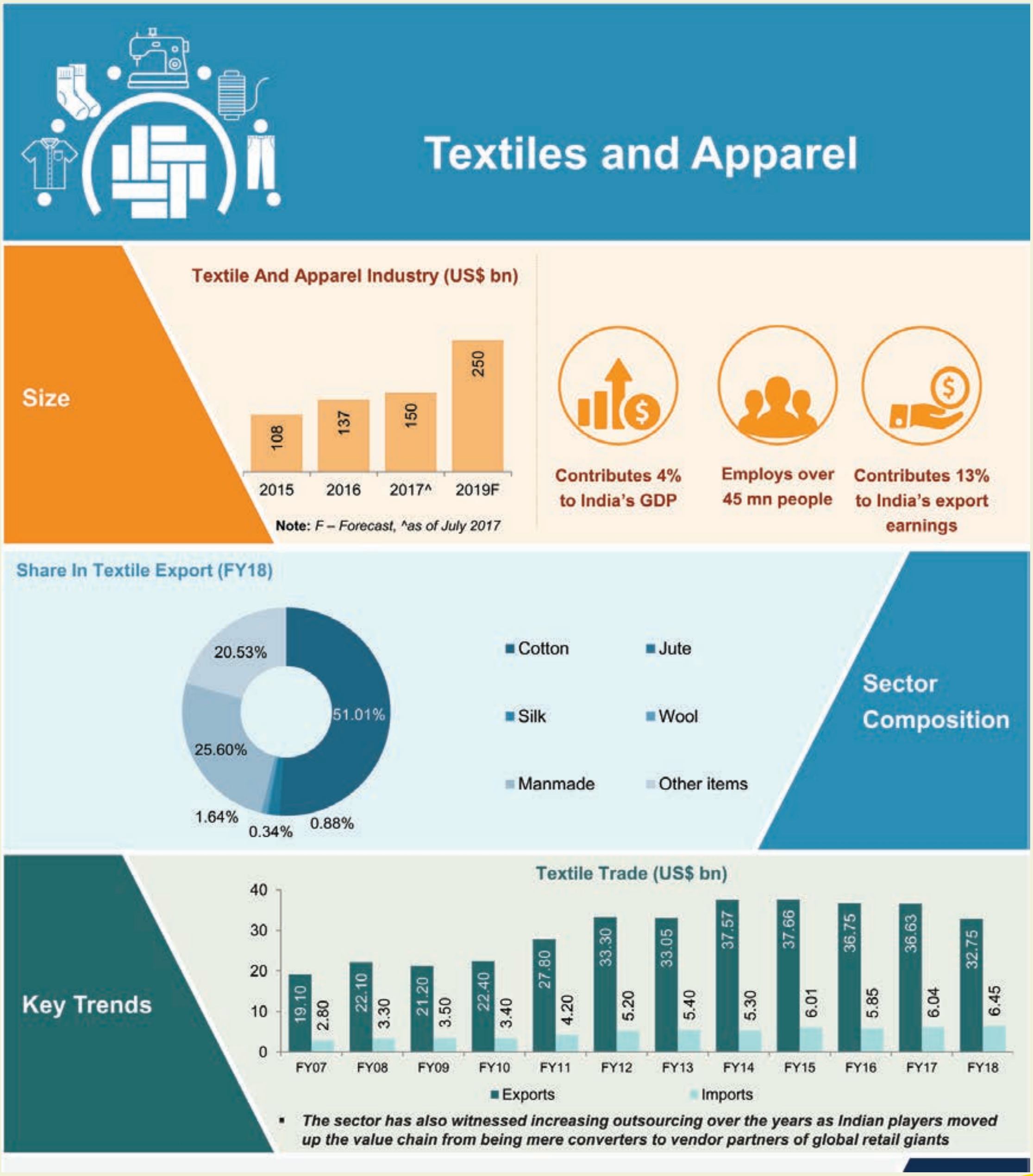
High economic growth has resulted in higher disposable income. This has led to rise in demand for products creating a huge domestic market.

Exchange Rate Used: INR 1 = US$ 0.0149 as of Q1 FY19.

References: *Ministry of Textiles, IBEF, Indian Textile Journal, Department of Industrial Policy and Promotion, Press Information Bureau*

Note: *^ - Third advance estimates for FY18 of 170 kgs each*

Disclaimer: *This information has been collected through secondary research and the Institute is not responsible for any errors in the same.*



INDUSTRY FOCUS - REAL ESTATE INDUSTRY

Introduction

The real estate sector is one of the most globally recognized sectors. Real estate sector comprises four sub sectors - housing, retail, hospitality, and commercial. The growth of this sector is well complemented by the growth of the corporate environment and the demand for office space as well as urban and semi-urban accommodations. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

It is also expected that this sector will incur more non-resident Indian (NRI) investments in both the short term and the long term. Bengaluru is expected to be the most favoured property investment destination for NRIs, followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

Market Size

Real estate sector in India is expected to reach a market size of US$ US$ 1 trillion by 2030 from US$ 120 billion in 2017 and contribute 13 per cent of the country's GDP by 2025. Retail, hospitality and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs.

Sectors such as IT and ITeS, retail, consulting and e-commerce have registered high demand for office space in recent times. Commercial office stock in India is expected to cross 600 million square feet by 2018 end while office space leasing in the top eight cities is expected to cross 100 million square feet during 2018-20. Grade-A office space absorption is expected to cross 700 million square feet by 2022, with Delhi-NCR contributing the most to this demand.

Investments/Developments

The Indian real estate sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. Private equity investments in real estate are estimated to grow to US$ 100 billion by 2026 with tier 1 and 2 cities being the prime beneficiaries. Private Equity and Venture Capital investments in the sector reached US$ 2.99 billion during January-August 2018.

According to data released by Department of Industrial Policy and Promotion (DIPP), the construction development sector in India has received Foreign Direct Investment (FDI) equity inflows to the tune of US$ 24.87 billion in the period April 2000-June 2018.

Some of the major investments in this sector are as follows:

- In September 2018, Embassy Office Parks announced that it would raise around Rs. 52 billion (US$ 775.66 million) through India's first Real Estate Investment Trust (REIT) listing.
- New housing launches across top seven cities in India increased 50 per cent quarter-on-quarter in April - June 2018.
- In May 2018, Blackstone Group acquired One Indiabulls in Chennai from Indiabulls Real Estate for around Rs. 900 crore (US$ 136.9 million).
- In February 2018, DLF bought 11.76 acres of land for Rs. 15 billion (US$ 231.7 million) for its expansion in Gurugram, Haryana.

Government Initiatives

The Government of India along with the governments of the respective states has taken several initiatives to encourage the development in the sector. The Smart City Project, where there is a plan to build 100 smart cities, is a prime opportunity for the real estate companies. Below are some of the other major Government Initiatives:

- Under the Pradhan Mantri Awas Yojana (PMAY) Urban, 6,028,608 houses have been sanctioned up to September 2018.
- In February 2018, creation of National Urban Housing Fund was approved with an outlay of Rs. 60,000 crore (US$ 9.27 billion).
- Under the Pradhan Mantri Awas Yojana (PMAY) Urban 1,427,486 houses have been sanctioned in 2017-18. In March 2018, construction of additional 3,21,567 affordable houses was sanctioned under the scheme.

Road Ahead

The Securities and Exchange Board of India (SEBI) has given its approval for the Real Estate Investment Trust (REIT) platform which will help in allowing all kinds of investors to invest in the Indian real estate market. It would create an opportunity worth Rs 1.25 trillion (US$ 19.65 billion) in the Indian market over the years. Responding to an increasingly well-informed consumer base and, bearing in mind the aspect of globalisation, Indian real estate developers have shifted gears and accepted fresh challenges. The most marked change has been the shift from family owned businesses to that of professionally managed ones. Real estate developers, in meeting the growing need for managing multiple projects across cities, are also investing in centralised processes to source material and organise manpower and hiring qualified professionals in areas like project management, architecture and engineering.

The growing flow of FDI into Indian real estate is encouraging increased transparency. Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.

References: *Media Reports, Press releases, IBEF, Knight Frank India, VCCEdge, JLL Research, CREDAI-JL*

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ECONOMY UPDATES

Industrial output grows 8.1% year on year in October

October's growth was almost double that of a downwardly revised 4.47 percent year-on-year increase in September, the data showed. India's industrial output in October grew a stronger-than-expected 8.1 percent from a year earlier, government data shows. A Reuters poll of economists had forecast 5.7 percent growth in October. October's growth was almost double that of a downwardly revised 4.47 percent year-on-year increase in September, the data showed.

MEA stepped up efforts to address trade related issues of textiles industry: Textiles Minister

While addressing a CII conference, the textiles minister said the domestic market also holds enormous potential for textiles industry. She further said the External Affairs Ministry has stepped up efforts to help the domestic industry facing trade-related challenges, including non-compliance of treaties by certain countries. The minister also stressed that the government recognises the need to have a WTO-compliant structure where the industry can be supported by it.

435 infrastructure, road projects stuck due to land acquisition and other issues

As many as 435 infrastructure and highway projects are stuck across the country on account of various factors, including delay in land acquisition and regulatory clearances, Parliament informed. Other factors behind delay of projects include road over bridges and under bridges issues with Railways, public agitation for additional facilities, arbitration /contractual disputes with contractors etc. These projects are likely to be completed by October 2020, sources say.

Lower oil prices help grease economic activity: IEA

There has been intense concern about a slowdown in China, which has been the motor for growth in the global economy in recent times. There has been intense concern about a slowdown in China, which has been the motor for growth in the global economy in recent times, but the IEA said in a report that demand for oil there remains robust. The IEA last month lowered its forecast for growth of global oil demand for 2018 and 2019, citing high prices, trade tensions and a less favourable economic outlook. But oil prices, which struck USD 86 per barrel in October, then tumbled to USD 58 last month, prompting the OPEC oil cartel and Russia to agree on new production cuts to stabilise prices.

No proposal to change existing FDI policy in multi-brand retail trade: DIPP Secy.

While replying to a question whether the government is looking at increasing FDI cap to 100 per cent in the sector, a politically sensitive segment, the Department of Industrial Policy and Promotion (DIPP) Secretary said "You know the multi-brand retail policy that exists today. There is no proposal for change". The government has no proposal to change the existing foreign direct investment (FDI) policy in the multi-brand retail trading sector, a top official said.

Govt working on four-pronged strategy to revive Air India

The government is working on a four-pronged strategy to revive Air India after a failed attempt to sell off a 76 percent stake in the national carrier, reports The Economic Times. The strategy involves providing a financial package, organisational and governance reforms, brand refresh activities and strengthening the workforce. The brand refresh strategy for Maharajah Direct includes a plan to get long-haul planes, slots, and trained people from outside to run the airline. Aviation ministry is talking to the Department of Public Enterprise and the finance ministry to secure approvals to allow the airline to hire outsiders in management positions.

The government has also announced the transfer of loans of Rs 29,000 crore from Air India's balance sheet as part of the revival strategy. This will help reduce Air India's interest burden by about Rs 2,700 crore from Rs 4,400 crore per annum. There is also a fresh equity component in the financial package.

Private life insurers post 23% growth; LIC down 8%

The life insurance segment collected new premiums of Rs 1.23 lakh crore between April-November 2018. India is the second-most underinsured country in the world with an insurance gap of $27 billion (approximately Rs 1.98 lakh crore). A survey by specialist insurance and reinsurance market Lloyd's said while India's overall level of insurance penetration (total insurance premiums as a percentage of the gross domestic product) has increased 0.2 percent since 2012, it continues to have one of the highest underinsurance levels globally.

Factory output grows 8.1% in October

Factory output, measured by the Index of Industrial Production (IIP), is the closest approximation for measuring economic activity in the country's business landscape. India's industrial production (IIP) grew 8.1 percent in October as against 4.5 percent in September, aided by a favourable base effect and robust output in all key sectors—manufacturing, electricity and mining, data released by the statistics office showed. IIP grew at barely 1.8 percent in October, 2017.

According to ratings agency ICRA, the pickup in industrial growth in October is likely to be temporary, as portended by a considerable deterioration in the performance of indicators such as auto production, electricity generation and Coal India's output during November.

India is slowly catching up with the world to use 3D printing in building products

For decades, companies used additive manufacturing to make prototypes of parts and systems in industries such as automobile to validate designs before beginning full-scale manufacturing. However, with the cost of electronics coming down and 3D printer sizes becoming smaller, there has been massive adoption of plastic 3D printing. However, metal 3D printing is still evolving. In aerospace, the global adoption is around a decade old. It has to be economical that competes in costs with our current processes, there are organisations with individual strengths such as in design, process, making the right alloy, or manufacturing.

Standard Chartered cuts India headcount as digital alternatives gain steam

The downsizing is majorly in retail vertical, largely due to the reduced need for people manning operations in face of the cheaper digital alternatives. In banks, 85 per cent of the banks payment transactions, over 80 per cent of the overall banking transactions by the 24-35 age group and 83 per cent of the application on boarding is presently being done digitally. As the number of roles go down, the bank is working closely on existing opportunities, fair separation packages and offering outplacement services, he said. The bank joins a string of foreign lender peers which have either cut business presence in the country or laid off employees.

Financial and agri-sector challenges to impact India's growth

All emerging market countries are going to be caught in the whole point about services exports, manufacturing exports, which are going to be affected by the international environment. So in terms of the globalisation backlash, India need to overcome with supportive and better policies at home. We are at a stage in the political calendar where there is going to be some uncertainty. There will be electoral pressures on both sides.

Decoding GST's future course in India

GST has been a major structural reform of the current government. Replacing multiple taxes and cesses of state and central governments into a single tax has been a major relief to trade and industry. At the same time reduction in overall tax incidence has brought relief to the end-consumers. The IT driven tax filing system of GST has made it difficult for intermediaries in the value added chain to evade taxes. The movement of goods across the country has become faster and less cumbersome with the help of a single e-way bill carried by the transporter, and because of abolition of state check posts. GST has given a big boost to the manufacturing sector as a whole, which will accelerate the growth of the economy.

Small sellers on Amazon, Flipkart seek PMO intervention to safeguard interest

All India Online Vendors' Association (AIOVA) has accused ecommerce marketplaces of following unregulated and anti-competitive business model even as the Indian arm of Amazon is hosting a 'Small Business Day' online shopping event next weekend to promote small and mid-size enterprises. A group of small and medium online retailers selling on Amazon and Flipkart platforms has written to the Prime Minister's Office, alleging that the ecommerce majors are exploiting small sellers, and seeking PMO's intervention to safeguard their interests.

The updates are as on 14th December, 2018

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