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The Journal for CMAs

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New Pricing Models

CMA Manas Kumar Thakur, Council Member of the Institute of Cost Accountants of India, Mr. Aravind K.S., AVP, Tally Solutions Pvt. Ltd, P. K. Jain Chairman of ASSOCHAM National Council for SMEs, Mr. Vivek Sharma Sr. Vice President at Rediff.com and Mr. Ranjan Bose Chief Manager State Bank of India, at the 6th SME Sanmelan held in Mumbai.

CMA Rakesh Singh, President of the Institute, CMA M. Gopalakrishnan, immediate past President of the Institute welcoming Mr. Gulzari Lal Babber, President of Chartered Institute of Management Accountant (CIMA), UK.

Signing of MOU on 10 January, 2013 at GIFT Project (Gujarat International Finance Tec-City Co. Ltd.), Gandhinagar in presence of Honorable Chief Minister of Gujarat Shri Narendra Modi. Photo inset CMA Kaushik Banerjee, Additional Secretary of the Institute and Shri Ramakant Jha, Director, GIFT project.

CMA TCA Srinivasa Prasad, Council member and Chairman (Training & Students facilities), in an interactive session on Time and Productivity Management at BHEL. The session was attended by members of Thiruchirapalli chapter also.

CMA Rakesh Singh, President of the Institute, CMA S. C. Mohanty, Vice President of the Institute, CMA P.V. Bhattad Council Member presenting the best chapter award in category A to Cuttack Bhubaneswar chapter on 30.12.12 at Ghaziabad.

Visit of CIMA President to the Institute for re-iteration of the partnership between CIMA, UK and Institute by re-signing the MOU between the two bodies, first signed in December 2008.

CMA Agneswar Sen, Jt. Director General of DGFT, Ministry of Commerce, Shri Debmallya Chatterjee Co-chairman of Eastern India Development Council of ASSOCHAM, in presence of CMA Rakesh Singh, President of the Institute, CMA Ashok Mukherjee, Chairman of EIRC at the inauguration of National Seminar of Cost & Management Accountants arranged by Howrah Chapter.

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The Management Accountant

Official Organ of the Institute of Cost Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)

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IDEALS THE INSTITUTE STANDS FOR

❑ to develop the Cost and Management Accountancy profession ❑ to develop the body of members and properly equip them for functions ❑ to ensure sound professional ethics ❑ to keep abreast of new developments.

MISSION STATEMENT

" The Institute of Cost Accountants of India 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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Editorial

Greetings!

Pricing is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. The other three aspects are product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centers. Pricing is the automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others.

Pricing objectives or goals give direction to the whole pricing process. When deciding on pricing objectives, one must consider: (a) the overall financial, marketing, and strategic objectives of the company; (b) the objectives of the product or brand; (c) consumer price elasticity and price points; and (d) the available resources.

There are two basic pricing options prevail in the market. The first option is List Pricing, which is used predominantly for price structures and contracts which are fixed. The second option is Formula Based Pricing, which is used when sales pricing is determined by calculations e.g. cost and mark-up, or foreign purchase price/current exchange rate. Price codes are used to determine price structures. Product price groups are used to group similar products for pricing purposes, while Customer price groups are used to group similar customers for pricing purposes.

The most profitable pricing policy is complete price discrimination, where each unit is priced at the benefit that the unit provides to its buyer. To implement this policy, the seller must know each potential buyer's individual demand curve and be able to set different prices for every unit of the product. The next most profitable pricing policy is direct segment discrimination. For implementing this policy, the seller must be able to directly identify the various segments. The third most profitable policy is indirect segment discrimination. This involves structuring a set of choices around some variables to which the various segments are differentially sensitive. Uniform pricing is the least profitable way to set a price.

After independence, India's initial price policy could be characterized as serving the interests of the consumers, particularly where food grains were concerned. Indian vendors offer a wide range of pricing models, such as pay per unit, fixed rate, variable rate, cost plus profit, profit and risk, performance based and bundling. While some pricing models are best suited for maintenance work or product support, there are other payment structures that are beneficial for long term projects or changing business objectives.

In a developing economy a certain rise in prices is inevitable for at least three major reasons. First, the programmes of economic development generate larger employment and money incomes and this increases the demand for basic consumer goods and services. The new incomes are not proportionately reflected in savings because a majority of the beneficiaries have to spend most of the additional money they get on satisfying unfulfilled needs. Secondly, the same programmes of economic development as they generate the new money incomes push-up the demand for certain goods wanted by the consumer, such as agricultural products, fuel, housing materials and the like. The third reason, of which the first two may be looked upon as special cases, is the large increase in currency in emulation and the operation of the law of supply and demand. Unless the production of basic consumer goods keeps pace with the increase in currency, prices are bound to rise even of the production of consumer goods is maintained at the old level.

We hope the papers selected will be a source of useful results of Pricing Models and provide a direction for future thoughts in this area. We are grateful to all the contributors of this issue for their valued work. Hope the articles of this issue will enrich you to a great extent.

Happy reading!

Don't worry when you are not recognized, but strive to be worthy of recognition.

—Abraham Lincoln

CMA Rakesh Singh, President

Dear Professional Colleagues,

The economic growth of any country has a significant impact on the lives of its citizens. It determines the standard of living of its people. India's rate of economic growth was not remarkable last year. The reasons are mainly high inflation, huge fiscal deficit and slow industrial productivity.

Indian economy can improve through effective cost and time management. We CMAs have an important role in the economic development of our country. The economic growth hinges on how resources are judiciously managed and multiplied. We should look at the revenue maximisation through innovative strategy in the industry. We should always advice the entrepreneurs to invest in the business that suits their core competencies.

I appreciate the government for taking timely measures like allowing FDI in retail sector and curtailing the subsidy on petroleum products considering the present economic scenario. These steps are necessary for accelerating the rate of economic growth.

The Institute has organised its 54th National Cost Convention 2013 at Ahmedabad on the theme "India's Cost Competitiveness - Imperatives for CMAs" where the role of CMAs in managing the scarce resources judicially was thoroughly discussed. The convention addressed that the time has come for CMAs to upgrade their skills so that the benefits of economic development reach out to the common people at the bottom of the pyramid.

It was further deliberated that for any organization, 'Performance', 'Productivity' and 'Efficiency' are the buzz words today. An organisation can become competitive in the market through "Thought and Cost Leadership". This is an area of core competence of CMAs and we have to promote good corporate governance practices in the organisations to provide them an edge over their competitors.

It was also emphasized during the convention that CMA's must get themselves ready and updated with the changes being brought out by the Ministry of Corporate Affairs and gear up themselves to grab the opportunities. New Companies Bill has opened up new avenues for the CMA professionals and they should reap the benefits out of it.

I take this opportunity to thank the members for sparing time to come all the way to Ahmedabad to attend the National Cost Convention and making it a grand success.

To apprise all the members of the activities / initiatives undertaken by the Departments / Directorates of the Institute, I now present a brief summary of the activities.

Professional Development Directorate

I am happy to inform the members that the Institute in its 54th National Cost Convention-2013 held on 18th - 19th January 2013 at Ahmedabad released the following publications of the Institute:

Guidance Note on Performance Appraisal Report (Form III)

The printed version of Guidance Note on Performance Appraisal Report (Form-III), released in the 54th National Cost Convention-2013 is available at the Institute headquarters, Delhi Office and all regional councils for sale. The members may also download the softcopy of this Guidance Note from the Institute's website.

Revised edition of Members' Handbook

The Institute has also released revised edition of Members' Handbook in the 54th National Cost Convention. The handbook covers career opportunities available to CMAs in employment and practicing fields for CMAs under various Ministries, Central & State Government Departments and Statutory & non-statutory fields under various authorities. The revision in the handbook was necessary to incorporate the changes in view of series of notifications / circulars issued by the Ministry of Corporate Affairs on "Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011" including necessary clarifications thereon. It also covers authorization by DGFT, Ministry of Commerce & Industry to CMAs in practice to certify forms and statements at par with other professional institutes under EXIM Policy of Foreign Trade Policy and Procedures 2009-14; the Reporting System under Accounting Separation Regulations, 2012 of the Telecom Regulatory Authority of India (TRAI), the system of "Retention Price Subsidy Scheme" of the Fertilizer Industry Coordination Committee (FICC) and modification in the light of other changes in the regulatory framework.

Technical Directorate

I am happy to inform the members that the Council of the Institute in its meeting held on 17th January approved issuance of Cost Audit and Assurance Standard on Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Standards on Auditing (CAAS 103) and Cost Audit and Assurance Standard on Knowledge of Business, its Processes and the Business Environment (CAAS 104).

The Council of the Institute has also approved the issuance of Cost Accounting Standard on Selling and Distribution Overheads (CAS 15) and Guidance Note on Cost Accounting Standard on Administrative Overheads (CAS-11).

Programme Directorate

CEP-1 Directorate

The CEP-1 Directorate has organized an in-house training programme for Punjab State Power Corporation Limited on `Finance for Non-Finance Executives' during 6-12 January, 2013 at Delhi NCR. We have concluded the 4th batch of Punjab State Power Corporation Limited Induction Training program for AOs, Revenue Accountants and Divisional Accountants on 5th January, 2013 at Delhi NCR.

The Institute has organised a programme on `Updates on Corporate Governance and IFRS' on 24th December, 2012 at Madurai under the aegis of National Foundation for Corporate Governance (NFCG).

The Institute organised two programmes on `Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI' and `Advance Tax, TDS and Tax Planning' during 8-11 January, 2013 at Hyderabad.

CEP-2 Directorate

A webinar was conducted on "Live demo on filing process in XBRL Cost Taxonomy" wherein queries related to difficulties faced by the members in filing of Cost Audit Report and Compliance Report was discussed. A programme on "Filing Process in XBRL Cost Taxonomy" was conducted at Hyderabad Centre of Excellence.

During the month, other programmes of professional relevance were also organized by the Regional Councils and Chapters to update the members at large.

President's Communique

I feel proud and happy to see the overwhelming response by our members through their active participation in the CEP programmes, which is a positive sign of growth of our profession.

IT Department

The redesigned website of the Institute was launched on January 01, 2013 on the new domain name ***http://www.icmai.in*** in-line with the name change of the Institute in 2012. The revamped website offers quick and easy access to essential information and is a part of the Institute's ongoing efforts to enhance the quality and availability of information to members, students and other stakeholders.

A CD-based compendium of all notifications, rules, CAS, CAAS, guidance notes related to Cost Accounting Records Rules 2011 & Cost Audit Report Rules 2011 was developed by the Institute and distributed as part of knowledge Pack among the participants of the National Cost Convention 2013.

The Online Registration for Student Admissions in IEPS for the December 2013 Term by Regional Councils and chapters has also commenced after closing admission to June 2013 Term in the month of December 2012.

Hyderabad Centre for Excellence

As a part of awareness programme for the members, a workshop on Costing - XBRL Process was conducted at HCE on 12th January 2013. CMA Kunal Banerjee was the speaker and a good number of participants attended the programme.

Research Directorate

Partnership with ASSOCHAM

The Institute was associated with ASSOCHAM as "Knowledge Partner" and published a research based knowledge study for the seminar "6th SME Sammelan – Driving SMEs to Growth" on 23rd January, 2013 in Mumbai. CMA Manas Kumar Thakur, Chairman, Research & Publications Committee, ICAI shared the stage as theme presenter with other eminent dignitaries from Industries, Banks, Stock Exchange and Chambers of Commerce. The knowledge study prepared by ICAI was highly acclaimed by the industry and the Government circle.

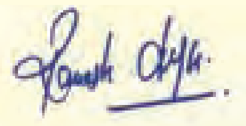
International Affairs

I attended the 25th SAFA Board meeting and 76th SAFA Assembly held at Dhaka, Bangladesh on 12th January 2013. SAFA Assembly ratified the appointment of Mr. Abdul Mannan, FCMA, and Mr. Subodh Kumar Agrawal, FCA as the President and Vice-President respectively of South Asian Federation of Accountants (SAFA) for the year 2013.

Mr Gulzari Lal Babber, President, CIMA-UK visited the Delhi office of the Institute along with other officials of CIMA on 28th January 2013. One of the agenda items for the meeting was re-signing the MoU between the two Institutes in view of the changes in the nomenclature of the Institute. The earlier MoU was signed in December 2008. The MoU was signed by me and President, CIMA in the presence of CMA AS Durga Prasad, CMA Sanjay Gupta and other officials of the Institute.

I wish all the members and their family on the occasion of 'Basant Panchmi' and 'Ravidas Jayanti'.

With warm regards,



(CMA Rakesh Singh)
President
Institute of Cost Accountants of India
1st February 2013

Pricing Models: Some Old, Some Not-So-Old, And Others New

Dr. P. Chattopadhyay
FCMA, Ph.D

The Evolutionary Issues

For a long time, the Cost and Management Accountants throughout the world used to proceed with the dictum that while pricing was a matter of policy, outside the span of focus of Cost and Management Accountants, costing was a matter of fact - truthful, realistic and sticking to the defined tenets of the alternative methods listed and, one or more of them, actually followed in practice as would be found relevant to different situations. Different industries, different countries and different organizations followed one or more of the listed methods for their practical dispensation. This proposition ruled the roost for a long time and the umpteen methods of costing were believed to have stood the test of time. Analytical tools applied by cost accountants centred on the eternal triangle consisting of cost, volume and profit. Capacity and its utilization acted as the kingbolt of both application of various techniques for measuring efficiency and warding off competitors on counts of sales quantity, quality of products and prices, the last named having been the preserve of management. Such pronounced and pervading exclusivity has ultimately given way to Cost and Management Accountants playing a crucial role even in developing and participating in the identification, development and assessment of alternatives from which management could select the best and/or the most feasible alternatives. Incidentally, a manager decides when at any point in time he selects from the mutually exclusive alternative courses of action. The number of alternatives at the manager's disposal is n+1, n being the number of positive alternatives and 1 denotes decision not to decide. Managers have the option of sitting idle with the going of the present state of things and chuckle with the existing state of affairs as cash cows till they reach their journey's end, called exit in economics. The fundamental error in this context is that a company, unlike a firm, cannot die as it is endowed with the quality of perpetual succession. It is but logical that the company keeps kicking, earning profit and makes its living worth the while. Pricing models tell managers to adopt the most appropriate course of action to ensure its healthy longevity.

The Platter of Alternatives

The arrangement of the platter called for the best of acumen from the cost and management accountants from which management could select one or more for implementation, depending on the resource line- up. Naturally, all this required the best in the CMA to know and judge the alternatives, to analyze each of them and to assign the "pluses" and "minuses". All this also meant that CMAs were required to be more and more acquainted about what was going on in different other disciplines, different related areas of expertise and the deftness embedded among the different functional managers' work, acting as vital limbs in the organization, namely, the human resources belonging to different intellectual disciplines, supply chains, logistics, design and engineering, production and marketing. Apparently all these disciplines have their own typicality but the CMAs, to be worth the calling, have to understand, appreciate and absorb the typicality of each. Almost as a matter of response to requirements of morphological transformation, CMAs are a multi-disciplinary community of people and they have already proved themselves more than equal to the challenges offered by the new and ever changing phenomena confronting creation of utilities. The advent of a large number of services, tradable services for that matter, calling for sensitivity and scientificity in pricing has thrown up an effective challenge that calls for the best applicational spirit among the professionsand the professionals. The pricing of the 2G Spectrum offers an example of the wayward pricing shots fired by the government and the objections raised by the CAG in this behalf. Indeed, it is high time that the inherent issues were subjected to detailed professional focus. Acumination of skills required for deciphering the decisional phenomena, corresponding to both the prevailing macro- and micro-economic contexture and the alternatives available for dealing with the bellicose battleground called the market, has doubtless remained a crying need. This is no small matter by any count, though left largely unattended.

Pricing Models: Some Considerations

If one were to begin at the beginning, model has been defined by Professor Paul A. Samuelson, et al, as a "Formal framework for representing the basic features of a complex system by a few central relationships. Models take the form of graphs, mathematical equations and computer programs." Pricing models. like all models, are but structures of relationships of factors and forces that interact on one another for finding out what is what, in the context of (i) pricing products and services, (ii) numerous themes and variations with which to contend in the market place, (iii) beat competition and (iv) maintain the position of the front-runner. Models offer parameters to managers concerned (a) to appreciate the confronted phenomenon; (b) to know and judge how to combat the adversaries; and (c) to both respond to, and initiate, changes in the markets on the basis of the collected data and information for improving prospects in one or more market segment(s) within the country and abroad. All this implies playing the game of chess, where every move by one player in the game is likely to be countered by a countermove, by the other contestant(s). Since profits arise virtually in the marketplace, as Professor Peter F. Drucker underscored, it is but relevant that pricing models remain not only market-sensitive, but also customer-sensitive and competitor-sensitive, depending on whether customers are channels of distribution, or individuals, or organizations. Further complications are added when one considers the nature of products classified as industrial or consumer products, and within each, different classifications as to variety of industrial classes and umpteen items for specific consumer uses. In many of these cases, numerous individual products and their substitutes vie with each other for wooing customers and in many others, value maximization, rather than cheapness, becomes the effective, *de facto* ruling mantra. Consumer surplus has acquired a new significance in the malls in different cities, frequented by the *nouveau riche* in the main. Pricing has acquired several new, subtle nuances that ramify in the marketplace which do not always come in the open, nor do they remain so overtly, or permanently, pervasive change being the key phrase.

Vexatious Issues

The vexed issues of demand and supply, and the multiple variants in each, add further complications. The picture gets a. lmost beyond one's grasp when one brings in the tenets and techniques of pricing services which have in fact challenged the vogue techniques and models because of the numerous ways of pricing put into play. Many of these services are one time over, while many others are continuing, over a length of time. Whether the prices charged are based on scientific methods or whether these are premised on simple mutuality of relationships are yet rather unanswered questions. From arm's length pricing, the practices have in many cases segued into some systematic approaches, albeit *sans* scientificity in many a case. One does of course underline in this context that growing competition in this world of services compels the ushering in of regular and systematic methods responsive to the typicality of each service. This is a Herculean task by any count. The almost-forgotten concept of *standard hour* warrants rethinking and reassessment of practical dimensions, for more effectively responding to the peculiarity of each. Standard hour, it may be stressed, is a quantitative measure which figures in the *Costing Terminology*, formulated by CIMA, London. Considering that the pricing of the products in activities like IT and ITES has left a lot to be desired. It may be recalled that work measurement is a primary requirement for scientific pricing of products and services. Thus, it needs stress that the same considerations do not command the same effectiveness in all cases, or even over time. It is necessary to appreciate that period expenses, taken as costs, hardly do justice to the matching needs for sophistication in fixing prices in the homoeostatic world of demand and supply. A few of the models dealt with in the following paragraphs seek to reflect the ruling consideration of the practical reality, taking into view the fact that consumers of different descriptions of both tangible *products* and services, of to-day and tomorrow, would actually call the shots, as indeed they have been doing all this while, within the country and abroad.

Pricing Models: From the Simple to the Complex

The earliest pricing models were based on the maxim, *cost plus profit equals to price*. On a more formal plane this simple approach would look like the following:

> Cost + Profit = Price; more formally it would be like, VC + FC = Total Cost + An agreed percentage of Profit, the percentage could vary depending on circumstances.

Incidentally, this age-old method is still followed in Government purchases through the D.G.S & D. In a number of cases, even the large public sector enterprises like the State Electricity Boards, the State Transport Corporations and others make their purchases on this basis, called the Cost+ basis by Cost and Management Accountants. Often escalation clauses are also added for accommodating the statutory price increases, caused by increase in indirect taxes, levied by the Centre and the States. In the long-term contracts for supplies of transformers, for example, related to the former, this appears practical, often even logical. It is not that the buyers and sellers of such heavy items look for one-time gain; both of them look for long term, mutually sustainable, buying-supplying relationship. Cost, however, is a protean word; it changes its meaning and significance in differing circumstances, like gestation cost in the capital intensive industries, heavy storage costs of materials and semi-finished products vis-a-vis costs implied in *just in time* supplies in appropriate cases and other considerations that are relevant in companies in different industries. On the other hand, even in regard to overtly simple looking cost, if one were to consider activity-based costing, especially time-related activity-based costs, the simple looking expression, *cost*, may become highly complicated. The lesson offered is that long standing or modern, cost remains the crux of the matter, in whatever way one looks at it.

Decisions Related to Pricing and Output

For a certain quantum of output depending on the utilization of established capacity and economics of operations of a company, marketing management would aim at fixing a price as high as possible, depending on the demand curve putting a bar on how high that price can be. Determination of the sales quantum would in practice be dependent on the price it can charge from its demand curve. Determination of the optimal output would depend on the interplay of marginal revenue and marginal cost, signifying how change in cost or revenue occurs per change in output. Quoting from Besanko, et al, *Economics of Strategy*, 'where the change in revenue, cost and profit from changing output by ^ Q units where ^Q can either represent either an increase in output or a decrease in output'. Put otherwise, it may look like:

Change in Total Revenue = MR x ^Q
Change in Total Cost = MC x ^Q
Change in Total Profit = (MR – MC) x ^Q

The company would like to enhance profit maybe in one of the following ways:

If MR > MC, the company can enhance profit by selling more (^Q > 0) by lowering price;
If MR < MC, the company, the company can increase profit by selling less (^Q < 0), and to do so, it should raise its price; and
If MR = MC, profit cannot be enhanced either by increasing or decreasing output. It follows that output and price must be at their optimal levels.

Some Relevant Issues

Models apart, a company often faces the problematic situation as to having to lower its price whenever the price elasticity of demand exceeds the reciprocal of the percentage and the contribution margin on the additional units it would sell by lowering its price. On the contrary, the company could raise its price when the price elasticity of demand is less than the reciprocal of the percentage contribution margin of the units it would not sell by raising its price. It requires mention in this context that a given product's price elasticity of demand may not be the same at all price levels. If the price is so high that the quantity demanded is close to zero, even small absolute increases in quantity can translate into huge percentage increases, The aforesaid comments are all quite practical though the concerned managers may use different terms signifying the same or similar approaches. These observations are based primarily on deductive logic. The CMAs are well acquainted with most of the terms used in the afore-said model. However, proximity to the real-life problems with respect to pricing could create a mix-up in the approaches adopted. CMAs, above all seek to maximize the value of the products under focus, continually assessing, teaming up with the marketing and production managers the possibilities towards segmentation of markets within the country and abroad, aiming at alternative products on the basis of what Lord Wilfred Brown termed *Product Analysis Pricing*, seeking to price products on the basis of the input differentials meant for discrete uses. Many an Indian company belonging to different industry groups, and to both Government and non-Government sectors as also covering almost all States in the country, has adopted pricing models and methods seeking to gain customers on a continuing basis and initiating changes in products in response to, and in anticipation of, perceptual variations among customers. Pricing in a competitive market does not always conform to a rational and lasting frame of factor-relationships. Developing intimacy with customers has thus been a key factor in determining managerial excellence in conditions in which many customers envision new products and/or substitutes of existing products and confide in marketing managers of an individual company. In typical situations in practice, marketing managers invariably take the analytical promptings of CMAs so that the decisions taken do not miss out on relevant assessments and considerations. This paper digresses from the usual prescriptions on the subject because healthy, profitable existence of a company spells the need for constantly remaining on toes so that it can cash in on the opportunities available and also create them by its operational dynamism.

Predatory Pricing

Predatory pricing practices, it must be mentioned at the outset, may not be acceptable in all countries or as related to individual products because such practices aim at setting a price with the objective of driving new entrants or even existing companies out of business. While this kind of practices appears obnoxious, many companies take to such practices either for tiding over a raging problem of limited market for the products within the country or for retaining, exploring or expanding foreign markets. Since liberalization, rapid expansion of the automobiles market in India has witnessed the play predatory pricing in different forms such as the reduction in the prices of cars with similar or even better features than in other higher priced cars, kilometres run per litre of petrol or diesel, conformance to different standards laid down in terms of emission of gas or easiness or comfort in driving. A more glaring example at hand is the recent country-wide agitation against FDI in Retail markets figuring among others the ill-reputed Wal-Mart, which is known to have practised for long the predatory pricing techniques at the beginning to drive out the smaller retailers and then shows the real form after it has made its ground. It does not require any analytical sophistication to underline such a practice is utterly unacceptable as has been endorsed by analysts in different countries.

Enhancing Consumer Surplus

However, charging high price while still retaining large margins of *consumer surplus* may not be clubbed into the category of predatory pricing. In fact, charging a low price in cases of works of art, odd but likeable and informative or well-researched books are priced on the higher side as these are supposed to break new grounds. The paintings of M. F. Hussain commanded high price in auctions not only in this country but also abroad. It has been indicated earlier that there are several products which tend to remain beyond the perimeters set by models but the parameters of pricing models do tend to accommodate many a consideration grasped by such models that seek to bring various factors of reality into them. What the market can bear, what enhances prestige value to customers, what adds to the distinctiveness of products, what is off the beaten track and what is odd, like a defective coin or an oddly printed stamp, are all quite obviously relevant and pertinent considerations in the context of pricing because of the uncommonness that individual items may command. Pricing models immediately related to accommodating all these variants are highly complicated. In practice, those concerned with pricing decisions in organizations dealing with capital and consumer goods experience changing factor-relationships *pre-facto* and *post-facto*. Recurrence and uniqueness with regard to different products tend to determine the practices concerned with price differentiation.

Pricing Models: The Finale

Pricing models are only as good as they grasp the nuances of the practical reality as regards the variety of goods and services in conditions in which the consumers call the shots. With the opening up of the economies of the world and the numerous players vying with one another to get the best of the situation, models have run after the players to find the rationale behind the pricing practices. In particular, the varying outcomes from the contextual differences and the impulses they have created have offered many lessons as to the challenges and responses bearing on the quality, quantity and price of many different goods and services on offer from the multiple participants. Models based on *post-facto* analysis have shown factor-relationships not always sustainable product-wise, market-wise or seller or user-wise. In such situations, the models have shown broad indicators taken only as by-way guides for reference. Field studies and experience have brought to the fore the casualness with which models are treated by managers in price-fixing and generating surpluses. But for generation of the appropriate impulses among managers, these models do have their worth and relevance.

RETIREMENT

CMA J.P. Singh has retired from the services of the Institute as Additional Secretary on 31st January, 2013. The Institute places on record our appreciation for his long and distinguished service and wishes him a very happy, fruitful and healthy life ahead.

Advance Pricing Agreements—A Mechanism to Reduce Litigation

Sangeeta Jain
B. Com, ACMA

Introduction

With the globalisation of business environment, international dealings between related parties have increased over the past decade. The Revenue authorities have taken an aggressive view of the transfer pricing policies and regulations thereby resulting in expanding the tax base. Also, the nature of transactions has become more and more complex which has increased the transfer pricing litigation in India. Hence, keeping the current transfer pricing scenario in mind, the Government introduced the Advance Pricing Agreement (APA/agreement) provisions in Finance Act, 2012 which have been introduced from 1 July, 2012. The introduction of APA is expected to reduce the transfer pricing litigation and provide certainty.

An APA is an arrangement between the tax administration and the tax payer on the pricing of future intercompany transactions. Under this mechanism, both the tax payer and the tax authority agree on a transfer pricing methodology wherein the tax return is submitted to the tax authorities in accordance with the agreed APA conditions for the covered years. The tax administration accepts the tax outcome as being the arm's length price for the covered years and would refrain from auditing the tax payer's international transactions.

APAs have been elaborately discussed in the OECD "Transfer pricing guidelines for multinational enterprises and tax administration" (OECD Guidelines). The guidelines define APA

"…..as an arrangement that determines, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time…."

Therefore, APAs are intended to supplement the traditional administrative and judicial mechanisms for resolving transfer pricing disputes. These methods are more useful when the traditional mechanism fail or are difficult to apply.

An APA is formally initiated by a taxpayer and requires negotiations between the taxpayers and the tax authorities. It may cover all the transfer pricing issues of a taxpayer or may provide flexibility to the taxpayers to limit them to specified enterprises or specified transactions. Though, the APA would apply to prospective years, it can also be applied to open transfer pricing issues pertaining to prior years. However, this would require the consent of the tax administration.

APAs can be of three types:

- A Unilateral APA is entered between the taxpayer and the relevant Government authorities.
- A Bilateral APA is entered between the tax payer and both the jurisdictional Government authorities with respect to a proposed transaction.
- A Multi-lateral APA is undertaken for complex transactions and involves the Government authorities of more than two countries.

The implementation of a unilateral APA is considered to be simplest form of APAs. However, there may be inherent risks as unilateral APAs are not recognised by the foreign authorities so that there may be risk of double taxation. As per the OECD Guidelines, the bilateral or a multilateral approach ensures that the arrangements

- reduce the risk of double taxation;
- they will be equitable to all tax administrations and taxpayers involved, and
- will provide greater certainty to the taxpayers concerned.

Onset of APAs under Indian Law

The mechanism of APA was initially introduced in India under section 118 of the Direct Taxes Code, 2010 (DTC). The DTC was referred to the Standing Committee on Finance ('the Committee') constituted by the Parliament and the Committee Report on DTC made certain recommendations that the determination of arm's length price should be entrusted to an independent agency appointed by the Central Board of Direct Taxes ('CBDT/ Board') consisting of technical and judicial members. The Committee recommended that the APA should be concluded in a time bound manner and procedural safeguards should be in place to protect the interest of the applicants. Double tax avoidance agreements ('DTAA') should also be suitably amended to include APAs.

Since the DTC was deferred, the APA provisions were introduced in India by the Finance Act, 2012 to take effect from 1 July, 2012. The Finance Act inserted new sections 92CC and 92CD were inserted in the Income tax Act, 1961 ('the Act'). The features of the APA mechanism are summarised below:

- The CBDT, with the approval of the Central Government, may enter into an APA with any person, determining the arm's length price in relation to an international transaction to be entered into by that person.
- The arm's length price may be determined with respect to methods referred in section 92C(1) of the Act or any other method with necessary adjustments or variations.
- When an APA has been entered, then the arm's length price of the international transaction may be determined with respect to the APA only.
- The APA would be valid for the period specified in the APA but cannot exceed five consecutive previous years.
- The APA would be binding on the tax payer and the revenue authorities till the time there is no change in the law or facts which were the basis of the APA.
- The APA will cease to be binding on the taxpayer or the revenue authorities in the event of any change in law, having an influence on the agreement entered into.
- Where an APA has been obtained through fraud or misrepresentation then the APA may be declared as void and all the provisions of the Act would apply as if such APA had never been entered.
- The CBDT may with the approval of the Central Government pass an order declaring the agreement to be *void ab initio* where it finds that the agreement has been obtained through fraud or misrepresentation of facts.
- Once the APA has been declared void then all the provisions of the Act shall apply to the taxpayer as if no such agreement had been entered into.
- For the purpose of the application of the normal provisions of the Act, the period of limitation would be calculated after excluding the period beginning with the date of such agreement and ending on the date on which the agreement was declared to be void. However, where immediately after the exclusion of the aforesaid period, the period of limitation referred under the Act was less than 60 days then such remaining period would be extended to 60 days.
- Where an application is made by a person for entering into an APA the proceedings against that person would be deemed to be pending for the purposes of the Act.

Implementation of the APAs in India

Section 92CC(9) of the Act empowers the CBDT to prescribe a Scheme specifying the manner, form and procedure in respect of APAs. On 30 August 2012, the Board issued a notification[1] providing the rules for the APA process. The notification introduces Rules 10F to 10T and Rule 44GA. These rules are called the Income tax (Amendment) Rules, 2012 ('Amendment rules').

A brief overview of Rules 10F to 10T include the definitions of various expressions with respect to APAs, procedure for making an APA application, the forms and information required to be submitted, procedure for processing of the application, the terms of agreement, circumstances in which an application may be withdrawn and post compliance procedures for APAs such as annual compliance report, revision, cancellation and renewal of agreement. Rule 44GA relates to the requests for procedure for bilateral and multilateral APAs. The salient features of the Amendment rules are as follows:

- **Eligibility to apply:**

As per Rule 10G of the Amendment rules, any person who has undertaken an international transaction or is contemplating to enter into an international transaction is eligible to enter into an APA.

- **Pre-filing consultation**

The process of entering into an APA commences with the pre-filing consultation covered under Rule 10H of Amendment rules. The process regarding the pre-filing consultation is as follows:

  - Every person shall make an application in writing for a pre-filing consultation to the Director General of Income tax (International Taxation) (DIT) in Form 3CEC.
  - In case of bilateral and multilateral agreement, the competent authority[2] or its representative would be associated with consultation.

[1] *Notification No. 36 of 2012 dated 30 August 2012*

[2] *"Competent Authority in India" means an officer authorised by the Central Government for the purpose of discharging functions as such for matters in respect of any agreement entered into under section 90 or 90A of the Act.*

- The main objective of this exercise is to get acquainted with the scope of the agreement, the transfer pricing issues, the suitability of the transaction and the broad terms of agreement.
- The process, at this stage, is not binding either on the tax authorities or revenue. At this stage the taxpayer also has an option to make a request on anonymous basis.

- **Application for APA**

After the pre-filing meeting, if the tax payer is desirous of going ahead with the process of entering into APA, then an application may be furnished under Rule 10I of the Amendment Rules. Some of the salient features of filing an application are as follows:

- The application is furnished in Form 3CED, alongwith the requisite fees, to the DIT in case of unilateral agreement and to the Competent authority in case of bilateral and multilateral agreements.
- The application is required to be furnished before the first day of the previous year relating to relevant assessment year where the dealings are of continuous nature or before entering into isolated transaction.
- The Amendment rules specify the fee payable with respect to the amount of international transactions entered as follows:

Amount of international transactions entered into or proposed to be entered into during the period of agreement	Fee (INR)
Amount not exceeding 100 crores	10 lacs
Amount not exceeding 200 crores	15 lacs
Amount exceeding 200 crores	20 lacs

- Under Rule 10J of the Amendment rules, the applicant may withdraw the application before finalisation in Form 3CEE.

- **Processing of application**
  - As per Rule 10K of the Amendment rules, every application filed in Form 3CED has to be complete and is required to be accompanied by the requisite documents. If any defect is noticed in the application, the applicant would be served with a deficiency letter before the expiry of one month from the date of receipt of application.
  - The deficiency has to be resolved by the applicant within 15 days which may be extended for another 15 days. The authorities may reject the application only after giving the applicant an opportunity of and being heard.
  - The DIT or the Competent Authority in India shall pass an order that the application would not be allowed to be proceeded if is defective and the defect has been removed. However, no order shall be passed without giving an opportunity of being heard to the applicant.
  - Where an order is passed for rejection of application then the fee paid by the applicant would be refunded.

- **Finalisation of application**
  - Once the application has been accepted, the APA team processes the same in consultation with the applicant.
  - For this purpose the APA team may hold meetings with the applicant, call for additional information, and make site inquiries or such other inquiries as may be considered necessary by the APA team. The applicant may also be required to furnish documentation and information to the income tax team or competent authority processing the application.
  - On the completion of the above process, the DIT or the competent authority and the applicant are required to prepare a draft agreement enumerating the result of the process. This draft report would be forwarded to the DIT or the Competent authority.
  - Where the applicant has made a request for bilateral or multilateral agreements then the procedure provided in Rule 44GA of the Amendment rules may be invoked.
  - The final agreement would be entered between the Board and the applicant with the approval of the Central Government and a copy of the same is sent to the jurisdictional Commissioner of Income tax.

- **Terms of agreement**
  - An APA would include the following:
    - the international transactions covered by the agreement;
    - the agreed transfer pricing methodology;
    - characteristics that determine the arm's length price;
    - definitions of relevant terms used in the APA; and
    - important /critical assumptions.
  - The agreement is not binding on the authorities or the assessee where there is a change in the critical assumptions or there is a failure to meet any of the conditions contained in the agreement.
  - In case there is a change in the critical assumptions, the agreement may either be revised or can even be cancelled.
  - In this regard, the assessee is required to give a notice in writing of any change in the critical assumptions as soon as practicable.

- ○ The applicant can also request an amendment to the application, as per Rule 10N of the Amendment Rules, before the finalisation of the procedure, accompanied by an additional fee. However, the amendment cannot have the effect of altering the essential nature of the application originally filed.

- **Annual Compliance Report**
  - ○ As per Rule 10O of the Amendment rules, the assessee shall be required to furnish an annual compliance report to the DIT for each year covered in the APA in Form 3CEF.
  - ○ The report is required to be furnished in quadruplicate within 30 days of the filing of the return of income or within 90 days of entering into APA, whichever is later.
  - ○ The DIT shall send one copy each to the Commissioner of Income Tax (CIT) and the Transfer pricing officer (TPO) having jurisdiction over the assessee.
  - ○ Further, under Rule 10P of the Amendment rules, the TPO having jurisdiction over the assessee may require the assessee to substantiate compliance of the terms of the agreement.
  - ○ Based on the information or substantiated compliance by the assessee, the TPO has to submit a compliance report to the DIT or competent authority as the case may be.
  - ○ Where an APA exists, regular audit of the covered transactions is not expected to be undertaken by the TPO.
  - ○ The compliance audit report shall be furnished by the TPO within six months from the end of the month in which the annual compliance report is received by the TPO.

- **Procedure for bilateral or multilateral APA**
  - ○ Rule 44GA lays down the rules for bilateral or multilateral APAs. The negotiation between the competent authority in India and the competent authority in the other countries is required to be carried out in accordance with the tax treaties between India and the other country or countries.

A bilateral or multilateral APA would not be initiated unless the associated enterprises situated outside India have initiated the APA process in such other country. The competent authority in India is also required to ascertain the willingness and enter into negotiation to reach acceptable terms.

- ○ In case of agreement after consultation, the competent authority in India is required to formalise a mutual agreement procedure with the competent authority of other country. However, in case of failure to reach any agreement the applicant would have to be informed by competent authority. During the entire process the applicant is not entitled to be a part of the discussion between the competent authorities of the India and such other countries.
- ○ Where the terms of the APA is not acceptable to the applicant, the applicant may continue with the process of entering into APA without the benefit of mutual agreement procedure or the applicant may even withdraw the APA application.

- **Other provisions**

The rules prescribed by the Government also include the provisions relating to cancellation and the renewal of APA.

An agreement may be cancelled where the assessee has failed to comply with the terms of the agreement or has failed to file the annual compliance report. The Board is required to give an opportunity of being heard to the assessee before proceeding for cancellation. In case of bilateral and multilateral agreements, the competent authority in India is required to communicate with the competent authority of the other country / countries and provide reasons for cancellation of the agreement. The order of cancellation has to made in writing and has to specify the date on which the cancellation would become effective. It is required to be intimated to the AO and the TPO having jurisdiction over the assessee.

APAs in other Countries[3]

The APA regime is in its nascent state in India, however, a number of countries such as Canada, USA, Japan, Australia and other European countries commenced the APA programme nearly two decades ago. There has been an increasing trend in the number of APAs year-on-year. A brief overview of the APA programme followed by some of the other countries is given below:

- **Australia**

The APA programme is well established in Australia and has been in operation for approximately two decades. Transfer pricing remains a key focus of the Australian Tax Office (ATO) and has completed or renewed more than 150 APAs since its inception. The ATO has also released detailed Guidance[4] on Australia's APA program. The Guidance outlines a number of major initiatives such as development of three types of APAs–

- ○ **Simplified APA:** A simplified programme is one which is shorter, less costly and less time consuming process designed for low value, low risk dealings.
- ○ **Standard APA:** A standard APA programme can be undertaken for unilateral and bilateral APA and may also include taxation issues unrelated to transfer pricing.

[3] *International Transfer Pricing, 2012 and White paper on APA in India, 2011 (PWC publication)*

[4] *Law Administration Practice Statement PS LA 2011/1*

- **Complex APA:** A complex APA programme is suitable for high risk, comlex transactions with limited comparables and a significant amount of money at stake.

The Guidance also outlines the obligations of both the ATO and tax payer in the form of an annual compliance report, and information pertaining to specific related party dealings.

There is also a mechanism of internal review where the ATO does not accept the APA or there is a deadlock in the proceedings. The term of an APA is approximately 5 years.

- **Canada**

Canada was one of the first countries to implement APA programme. The APAs can be unilateral, bilateral and multilateral. This programme is established to help tax payers determine appropriate transfer pricing methodologies. The authorities have issued various Information Circulars[5] outlining the procedures and guidelines for obtaining APAs in Canada. A separate Information Circular[6] has been released which addresses APAs for small businesses for tax payers.

The APA program results in a binding agreement between the Canada Revenue Agency (CRA) and the taxpayer and other authorities as the case may be. Under this programme any tax payer may apply for an APA regardless of the size of the organisation or the type or scope of its operations or the nature of transactions. The term of an APA is usually between three to five years but may vary depending on the facts and circumstances of the case.

- **China**

The APA process has received significant support from China's State Administration of Taxation (SAT). New regulation[7] and the first annual APA report were released in 2010. The SAT has specified tax payer is required to comply with the related party disclosure requirements and contemporaneous documentation. The tax payer is required to file an annual compliance report.

The term for an APA will cover transactions for three to five consecutive years. The current statistics show that there has been a significant increase in the number of APAs.

- **Japan**

Japan's APA programme allows taxpayers to formally request approval of prospective transfer prices on either a unilateral, bilateral, or multilateral basis. Approvals are provided by Japan's National Tax Agency (NTA) after the request is reviewed locally by the Regional Taxation Bureau (RTB) having jurisdiction over the requestor's tax return.

Once a transfer pricing methodology is agreed, then as long as the returns comply with the agreed transfer pricing methodology pricing is regarded by RTB to be at arm's length. The period to be covered by an APA is three to five years.

- **United Kingdom**

The APA program started in UK over two decades ago. UK's general APA legislation provides for both unilateral and bilateral APAs though it normally prefers bilateral agreements since HM Revenue & Customs' (HMRC's) view unilateral APAs can only provide a partial solution of cross-border transfer pricing issues. The scope is set out in section 218(2) of Taxation (International and Other Provisions) Act 2010 ('TIOPA 2010').

An APA may be requested by any UK business, including a partnership, to which the transfer pricing provisions apply, any non-resident trading in the UK through a permanent establishment, any UK resident trading through a permanent establishment outside the UK.

All applications are required to be supported by information relating to identification of the parties, the transfer pricing issues, organisational structure, ownership and business operation of a group etc. The APA executed between the tax payer and the HMRC determines the transfer pricing issues for a specified period of time.

- **United States of America**

The USA programme on APA is one of the largest programmes. This programme was developed with the intent to curtail complex, lengthy transfer pricing disputes. USA was the first to issue a formal and comprehensive set of procedures. Under these procedures, the tax payer proposes a transfer pricing method and the related data supporting his claim including a set of critical assumptions relating to third parties, industry business conditions, etc. The Internal Revenue Service (IRS) evaluates the APA request by analysing the data submitted and a written agreement is signed between the IRS and the tax payer.

As per the USA rules, the tax payer must propose an initial term and taxable year from which the APA would be effective. The tax payer is also required to file an annual compliance report for the duration of APA.

The tax payers are encouraged to enter into bilateral or multilateral APAs since a unilateral APA may hinder the ability of the US Competent Authority to reach a mutual agreement which will provide relief from double taxation. APA program is also accessible to small businesses. APAs are signed for a minimum period of 5 years though the time limit may be decreased as per the mutual agreement between the tax payer and IRS.

Conclusion

As per the OECD Guidelines, an APA programme can assist taxpayers by eliminating uncertainty through enhancing the predictability of tax treatment in international

[5] *Information Circular 94-4R dated 16 March 2001*

[6] *Information Circular 94-4RSR (Special Release)*

[7] *Circular Guoshuifa [2009] No. 2*

transactions. Provided the critical assumptions are met, an APA can provide the taxpayers involved with certainty in the tax treatment of the transfer pricing issues covered by the APA for a specified period of time.

An APA mechanism may thus eliminate the need for an audit, deliver particular tax outcomes and result in reduction of costs associated with compliance. It can therefore bring about a vital change in the Indian transfer pricing setup by introducing greater certainty and reducing lengthy litigations. It can act as an effective tool for better and efficient tax administration and implementation of transfer pricing laws.

India's adoption of the APA program as an alternative dispute resolution mechanism is a welcome development for all the stakeholders. However, the potential success would depend on the implementation of the program. Going forward, the Indian tax authorities may take into account the broad experience of their counterparts on how the program may be effectively implemented in practice.

Disclaimer

The information contained in this article is general in nature and based on authorities that are subject to change. Applicability of the information to specific situations should be applied through consultation with the tax advisor. The article represents views of the authors and does not represent the views of Pricewaterhouse Coopers in India.

INSTITUTE NOTIFICATION

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959, REGISTRATION NUMBERS CANCELLED FOR JUNE-2013 EXAMINATION UPTO

ERS/005647

NRS/008440 (except 7891-8300, 8326-8425)

SRS/017423 WRS/010901 RSW/079879 RAF/005877

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 31st December-2005) as above but desire to take the Institute's Examination in June-2013 must apply for DE-NOVO Registration and on being Registered **DE-NOVO**, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed From (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of THE INSTITUTE OF COST ACCOUNTANTS OF INDIA, payable at KOLKATA.

Wishing you a very Happy and Prosperous New Year.

Date : 18th December, 2012

R.N. PAL
SR. DIRECTOR OF STUDIES

The Management Accountant — March, 2013 will be a special issue on

'RETURN ON TALENT'

Articles, views and opinions on the topic are solicited from readers/authors along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to **editor@icwai.org**, followed by hard copy to the Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8th February, 2013.

The Management Accountant — April, 2013 will be a special issue on

'COST COMPETITIVENESS – ROLE OF CMAs'

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Customer Satisfaction Index Based Pricing Model

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Satisfaction is a person's feeling of pleasure or disappointment that result from comparing a product's perceived performance to their expectations. A satisfied customer will be ready to pay more for a product or service. With the evolution of IT, customers are now more educated and informed that ever before and they have the tools to verify companies' claims and seek out superior alternatives. If they feel that the companies are charging more prices in comparison with the satisfaction arisen from consuming these goods or services, than they will switch over to other similar goods or services. Earlier the businessman were not pay due attention to the customer satisfaction and fix the prices of its products and services with the only motive of profit maximization. Several techniques of pricing like cost plus or mark up, skimming pricing, marginal cost pricing and penetration pricing methods were used by the producers which was commensurate with their goal of profit maximization. With the increase in competition; the producer starts giving emphasis on consumer satisfaction. They recognize the importance of consumer needs and satisfaction. However no attention was given towards fixation of the price of goods according to satisfaction delivered by these goods and services. The businessman should recognize the concept of customer perceived value while fixing the price. Customer perceived value is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives. Total customer benefit is the perceived monetary value of the bundle of economic, functional and psychological benefits, customers expect from a given market offering because of the products, services, personnel and image involved. Total customer cost is the perceived bundle of costs, customers expect to incur in evaluating, obtaining, using and disposing of the given market offering including monetary, time, energy and psychological costs. Customer perceived value is thus based on the difference between what the customer gets and what he or she gives for different possible choices. The customer gets benefits and assumes costs.

In today's world, the products are easily copied and also they are quite easily created as well. Uniqueness of the product or services comes from their traits and one trait is pricing model we use. The goal of satisfaction-based pricing strategy is to alleviate customer uncertainty regarding product or services. To achieve the goal of satisfaction-based pricing, some satisfaction index is necessary to develop for measurement of the satisfaction in quantifiable terms. The satisfaction should be measured at-least at industry and company level to make comparison between products and services of different companies in a particular industry. The customers will be indifferent and their prices will be identical if the specifications and quality of different products or services of an industry are significantly identical. But if there is difference between the specifications of two products and services then only the difference may exist in price. A rational consumer will tries to maximize his total utility with the available resources and the consumer will be in the situation of equilibrium if the marginal utility of using a product is equal to the marginal utility of money spent for purchase of product. Hence, a rational customer will not pay more for a product giving less satisfaction. The prices of products and services should be discounted or increased according to the satisfaction index of products or services in comparison with the average of satisfaction index of other products and services in that particular category.

Hence, what is necessary for this type of analysis is Customer Satisfaction Index. In some countries the Customer Satisfaction Index is available whereas some countries are developing it. Till now, nation-level CSIs have Swedish Customer Satisfaction Barometer (SCSB), Swiss Index of Customer satisfaction (SWICS), American Customer Satisfaction Index (ACSI), German Barometer,

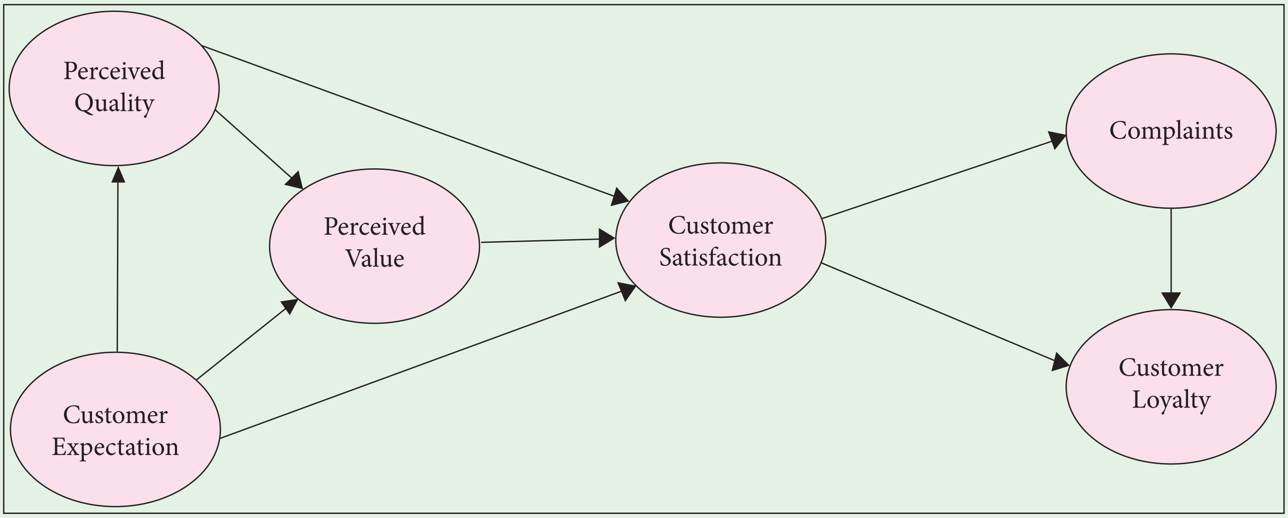

Figure: 1 **The measurement model for American Customer Satisfaction Index**

Korean Customer Satisfaction Index (KCSI), Norwegian Customer Satisfaction Barometer (NCSB), Malaysian Customer Satisfaction Index (MCSI) etc. In addition, Brazil, Argentina, Mexico, Canada, Australia, Hong Kong and some regions like Taiwan, are striving to build their own CSI systems. All the indexes mentioned above have almost the same variables with little difference to calculate the Customer Satisfaction Index. A brief discussion on the ACSI and SCSB is given below to understand the general view of CSI.

American Customer Satisfaction Index (ACSI)

The ACSI is independent national benchmark of Customer Satisfaction Score representing aggregate customer satisfaction across a broad swath of the U.S. economy. It serves as a key macroeconomic indicator of the health on a scale of 0 to 100. Recent addition to the list of countries that have adopted the ACSI Model includes U.K., Indonesia, Barbados, Turkey, Singapur, Colombia and Maxico. Research Groups, Quality Associations and various other Groups in several additional countries are in various stages of project implementation as well. The development of an international system of customer satisfaction measurement based on a common methodology permits comprehensive cross-national satisfaction benchmarking, something that will grow more significant as economic globalization advances. The ACSI produces customer satisfaction benchmark on four levels: National, Sectoral, Industry and Company/Agency. The ACSI also benchmarks customer satisfaction for 10 economic sectors, 47 industries (including E-Commerce and E-Business), more than 230 companies and over 100 Federal and Local Government Services. Smaller companies are grouped together in 'all other' category for each industry. The major sectors include Energy Utilities, Manufacturing/Non-Durable Goods, Information, Public Administration/Government, Health Care and Social Assistance, Transportation, Accommodation and Food Services, Retail Trade, Finance & Insurance, Manufacturing/Durable Goods plus E-Business and E-Commerce. The National Customer Satisfaction benchmark or National ACSI Score is an aggregation of results for all sectors and industries measured by the ACSI. Each industry level customer satisfaction benchmark consists of the average of that industry's company score, weighted by company revenue. Likewise, each sector-level customer satisfaction benchmark consists of the average of that sector's industry score, weighted by industry revenue.

The ACSI uses customer interview as input to a multi equation econometric model developed by University of Michigan's Ross School of Business. The ACSI model is a cause and effect model with indices for drivers of satisfaction on the left side (Customer expectation, Perceived Quality and Perceived Value), Satisfaction in centre and outcomes of satisfaction on the right side.

Swedish Customer Satisfaction Barometer

First national customer satisfaction index was developed in Sweden in 1989. It was designed in such a manner, that it enabled for estimating satisfaction index on the level of company and total industry. As a result, it enabled to make comparisons of satisfaction measurement results between companies and also at industry level. The SCSB provide data on both customer satisfaction and price tolerance useful for estimating the effect of customer satisfaction on price tolerance limits. The SCBS provide coverage of a major portion of the Swedish economy. The data on each firm are collected via a computer-assisted telephone survey that is national in scope.

Price Fixation Using CSI and Price Tolerance Limits

The price tolerance limit shows the range of price within which a customer is ready to purchase a particular product or service and will not switch over to other alternative. **If other things like income, competition level in product category and loyalty of customer remain same, then increase in customer satisfaction will increase the price tolerance limits.** Also increase in competition will lower the price tolerance limits because due to increased level of competition, close alternatives will become available in the market and customer can switch over to other products due to increase in price. Similarly increase in customer satisfaction is likely to reduce price elasticity of products or services. As a satisfied customer will become loyal to company and tolerate price change upto a certain extent. In table 1, price tolerance limits are calculated and the company may fix their prices within these limits to retain the customers. However, these prices may be further adjusted for the degree of competition which is inverse of degree of concentration. One measure for calculating the degree of concentration is the inverse of number of firms holding about 70 percent market share of the product. The degree of competition has negative association with the price tolerance. Increase in degree of competition will reduce the price tolerance limits because the increased level of competition will facilitate the customers to switch over to other close substitutes if the price of product is increased.

Table: 1

Sr. No.	Product	Customer Satisfaction Index (0 to 100 point scale)	Price fixed by Company (Rs.)	Maximum Limit of Price based on Customer Satisfaction Index (in Rs.)
1	W	82	650000	650000*82/75 = 710667
2	X	75	575000	575000*75/75 = 575000
3	Y	70	550000	550000*70/75 = 513333
4	Z	73	600000	600000*73/75 = 584000
	Total	**300**		
	Average S.I.	**= 300/4 = 75**		

The Table 1 shows the relationship between the Customer Satisfaction Index and Price charged by the companies for its products. It shows that Product 'W' have the CSI above the Average CSI of all products in its category. The company has charged a price of Rs. 6,50,000 for product 'W'. Since, the CSI is higher than the average score; the company can charge more price within the range of Rs. 6,50,000 to Rs. 7,10,667. As soon as company will charge higher price than the waiting line if any will come to an end and at price of Rs. 7,10,667, no waiting period will exist as the satisfaction and price will equals and in absence of any surplus, customer can switch over to other products. Similarly, the satisfaction from product 'X' is equal to its price. In this case there will be no price tolerance and a slight change in price will compel the customers to switch over to other products. The satisfaction from 'Y' is less than its price and company should either increase the level of satisfaction by giving them extra facility or reduce its price to match with the level of competition. The price tolerance not only depends upon satisfaction but also on competition in the market and elasticity of the product. Hence, while fixing the price these factors should also be considered and this is further area of research to find the relationship between consumer satisfaction, degree of competition and price tolerance.

Conclusion

From the above discussion, it is clear that price of goods and services should be fixed on the basis of customer satisfaction and level of competition in the particular product category. Positive association exists between increase in satisfaction and price tolerance limits whereas negative association may exist between level of satisfaction and price tolerance in the presence of competition as the customer will switch over to other close substitutes in a highly competitive market with a small increase in price. Hence, price limits may be fixed on the basis of Customer Satisfaction Index and actual price may be fixed taking into consideration the degree of competition and elasticity of demand in the particular product or service segment.

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Transfer Price Regulations

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Finance act 2001 substituted the old sections of 92 of income tax act by sections 92, 92A to 92 F, the provisions laid down that the income arising from an international transaction between Associated enterprises shall be computed having regard to the Arm Length price.

The regime of transforming the legal provisions continued with the expansion in the scope (specifically extending to certain domestic transactions) of taxing the transactions with the various amendments coming through the introduction of FINANCE BILL 2012 in parliament.

Approximately 60% economic transactions in the commercial world are done across different tax jurisdictions among related and non related parties. The increase in the number of transactions entered among the multinational groups including between two or more enterprises belonging to same multinational groups, have indeed given rise to complexity in the issues involved such as assessment of profits derived, prices charged & paid in such intra group transactions, evasion/avoidance of tax etc.

Transfer pricing until now was applicable to companies having cross border transactions with their associated enterprises. However Finance Bill 2012 in light of the supreme court ruling in case of CIT vs. M/s Glaxo Smithkline Asia (P) Ltd expanded the ambit of transfer pricing to specified domestic transactions w.e.f. April 2013.

The statutory framework governing taxation laws in India has enacted Transfer Pricing provisions to provide unambiguous, reasonable, equitable and fair accountability of the prices charged and profits derived.

Basically TRANSFER PRICE means the price or value at which transactions take place amongst related parties. It means the price at which an enterprise transfers physical goods and intangible property and provide services to associated enterprises.

The Finance Bill has brought into the picture various modifications in the existing transfer pricing provisions such as-

1. Enlargement of definition of International Transactions
2. Applicability of transfer pricing to certain domestic transactions
3. Availability of +/-5 % as a standard deduction
4. Introduction of Advance Pricing Agreements
5. Penalty Provisions increased
6. Other administrative changes

1. Enlargement of Definition of International Transaction Sec 92B

EARLIER DEFINITION	FURTHER INCLUSIONS	W.E.F.
Transactions between two or more associated enterprises of which either both or one is a non resident Transactions* covered- ▪ Purchase/sale/ lease ▪ Provision of service ▪ Leasing or borrowing	Specifically the following will be included- ◦ Guarantees ◦ Any debt arising during the course of business ◦ Business reorganizations or restructuring, irrespective of its effect on current year's profits, income, losses or assets ◦ Intangible properties	FY-2001–02 (retrospectively from 01/04/2012)

**for the sake of simplicity transactions have been clubbed*

2. Applicability of Transfer Pricing Provisions to Certain Domestic Transactions

Since the introduction of Transfer pricing provisions in Finance Act 2001, the applicability was restricted to the ambit of international transactions. But this year the regulations have widened their scope by covering certain specified domestic transactions also.

However the provisions will apply only if the aggregate value of all the transaction entered into by the assessee in a year with its domestic associated enterprise exceeds Rs. 5 crores.

1. Any expenditure in respect of which payment is made or is to be made to a person referred to in Section 40A(2)(b) of the IT Act;
2. Any transaction that is referred to in Section 80A;
3. Any transfer of goods or services referred to in Section 80-IA(8) i.e. applicable to companies operating as industrial undertaking or enterprises engaged in infrastructure development;
4. Any business transacted between the assessee and other person as referred to in section 80-IA(10);
5. Any transaction, referred to in any other section under Chapter VI-A or section 10AA, to which provisions of sub-section (8) or sub-section (10) of section 80-IA are applicable;
6. Any other transaction, as may be prescribed by the board.

3. Availibility of +/-5% as A Standard Deduction-Tolerance Limit Band for Arm's Length Price

Arm's Length Price means a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises, in uncontrolled conditions.

As per Sec 92C the arms length price for an international transaction can be determined by any of the following methods-

1. Comparative uncontrolled price method
2. Resale price method
3. Cost plus method
4. Profit split method
5. Transactional Net Margin method
6. Such other method as prescribed by the board

The following amendments have been brought by the Finance Bill 2012

EARLIER SCOPE	FURTHER INCLUSIONS	W.E.F.
If the variation between the arm's length price so determined and price at which the international transaction has actually been undertaken does not exceed 5% of the latter, the price at which the international transaction has been entered shall be deemed to be arm's length price.	The Finance Bill 2012 has provided an upper ceiling of 3% as the tolerance range for the determination of ALP.	FY- 2012–13 onwards. (from 01/04/2013)

(However the proposed legislative changes have not clarified the variation rates for FY 2011–12 if any).

4. Introduction of Advance Pricing Agreements Sec 92CC & 92CD

With a view to reduce transfer pricing disputes the Govt. has introduced Advance Pricing Agreements w.e.f. 01/07/2012 which will allow companies to seek guidance on pricing of goods & services.

Salient Features

1. A person who has undertaken an international transaction or is contemplating one can enter into an agreement with CBDT.
2. A person desired to enter into an agreement may furnish an application in Form No. 3 CED alongwith the requisite fee.
3. The application shall be furnished to Director General of Income Tax (International Taxation) in case of unilateral agreement and to the competent authority in India in case of bilateral or multilateral agreement.
4. The agreement entered into will be between the tax payer and the tax authorities for specifying the manner in which the ALP is to determined in relation to an International Transaction.
5. The validity of the agreement entered into will be for consecutively 5 years unless any modification in the provisions beraing any impact on transactions took place.
6. Modified returns have to be filed by the assessee based on agreement entered, if the return has already been filed for the transactions covered in the agreement.
7. Terms of the agreement-

   i. the international transactions covered by the agreement;
   ii. the agreed transfer pricing methodology, if any;
   iii. determination of arm's length price, if any;
   iv. definition of any relevant term to be used

v. critical assumptions;
vi. the conditions if any other than provided in the Act or these rules.

5. Penalty Provisions Increased

The amendments made below will also apply to Specific Domestic Transactions as well.

EARLIER SCOPE	FURTHER INCLUSIONS	W.E.F.
Penalty @2% on the value of the international transaction is to levied on the tax payer if the non compliance amounts to non maintenance of prescribed documents or information.(sec 271 AA)	Extension in the scope of levy of penalty provisions on the following non compliances- i failure to report an international transaction ii maintains or furnishes incorrect documents/ information.	01/07/2012

6. Other Administrative Changes

IN RELATION TO	AMENDMENTS
1. Powers of the Transfer Pricing Officer	TPO now can examine even those international transactions identified by him for which accountant's report has not been furnished. **(retrospective amendment from 01/06/2002)**
2. Deemed Escapement of Income	Non inclusion/ reporting of any international transaction in the report under sec 92 E would amount to Deemed escapement of income under sec 147. **(amendment from 01/07/2012)**
3. Dispute Resolution Panel	Matters to be undertaken may also include the proceedings related to draft assessment orders whether made by eligible tax payers or not. **(retrospective amendment from 01/04/2009)**

Implication of Such Amendments by Finance Act 2012

The foremost effect of introducing domestic transactions under the sphere of transfer pricing have included the following transactions/persons under taxation net-

1. transactions entered into by the taxpayers operating in Special Economic Zones ('SEZs)
2. taxpayers entering into transactions with certain related parties specified under section 40A(2)
3. all the taxpayers claiming profit based deductions for undertaking specified business activities (under section 80A, 80-IA, etc.)

which would further effect the industries operating in operating in SEZs, infrastructure developers and / or infrastructure operators telecom services industries industrial park developers power generations or transmission, etc.

The introduction of Advance pricing agreements shall also provide an early or no dispute mechanism between the tax payers and the judiciary of the country, therefore it can be taken as a welcome step towards dispute resolution mechanism.

Some Un-answered questions

- No clarity given on procedures to be opted by the concerns having both type of transactions-The law has not clarified the procedures to be opted by the companies who are having both international and domestic transactions i.e. whether the limit of Rs. 5 crores have to be taken in totality for both types of transactions or separate tolerance limits would be applicable?
- Litigation removal procedure-Further how would company report the transactions in such scenarios to avoid litigations with the department?

Undoubtedly the Finance Bill 2012 has brought expansion in the scope of levy of rules of transfer pricing in every sphere which could have far reaching impact on the practices followed by the various multinational giants in the country. However the basic intention of the revenue should not restrict itself to the collection of funds but concentration should be given to the development of transparent and unambiguous judiciary in India.

Pricing Strategies—A tool for Customer Retention And Value Optimization an Evaluation

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"Price is always not a sole stimulator of demand"

Introduction

Pricing—A strategic challenge rather than a mere functional activity

Pricing for any organization is considered today as a strategic activity, as it is always challenging for them to assess the price that can be charged to the customer, as most of the times the organization will have to check their competitiveness in transferring their products to the end customers by keeping their share of value intact. In the process of creating and sustaining a competitive market positions, they look for determining a price that can ensure each and every member in the value chain or the delivery channel with a fair economic reward for their initiatives.

An integrated marketing approach, where each and every stake holder in the value chain or channel of delivery tries to optimize his share of profit, and create barriers for penetration into his established market share by the competitors develops a number of strategies, which can facilitate him in accomplishing his objectives. A number of promotional and pricing strategies are designed, structured and implemented by the organization and their channel members (wholesalers, agents and retailers in particular) that can provide them with a win-win orientation. A brief summary of few of very important pricing strategies adopted with a brief description is presented below

Pricing Strategies Adopted by Retailers

Nature of Pricing	Strategies adopted
Vertical Pricing	Similar Prices at Multiple Channels - at different lines of the channel
Horizontal Pricing	Homogeneous Prices by all retailers - carry no risk of customer shift influenced by competitors low cost move price
Predatory pricing	Bench Mark pricing to drive away competitors
Discount Pricing	Price which is the least in the market - when the competition is intense and vendor doesn't carry any relative advantage over others
Every day low Price (EDLP)	MRP is fixed using different promotional tools - when the offer is perceived by the market to be relatively very low
High Low price (HL Price)	Price more than Competitors EDLP, charge differential pricing using promotional tools ex. Life Style Stores
Loss Leader Pricing	Attract with low price products and position high value products during their transactional exchange (presence) at the store
Skimming Price	Multi stage pricing – charge premium price at initial stages of inception based on product differentiation advantage, and later play on volumes when the product becomes relatively old
Value based pricing	Determine the value added by each member on the line and the member on the channel carrying indigenous right to charge a price in commensuration to the value that he adds at the point of delivery
Differential Pricing	Charging different price to different product categories to different customer groups at different market

Source: http://www.docstoc.com/docs/16069952/Retail-Pricing-Strategy, 24/1/2012, 12.15 p.m

One or more of the above strategies might be adopted by the market and its participants i.e. marketers and their channel members based on their strategic competencies and the nature of the market (in terms of competitive positions prevailing in the market) and the objective of the organization. Each such strategy adopted and the level of efficiency realized by the channel members in urban areas and the tier-III cities are discussed and analyzed little later.

Pricing Strategies—role in creating strategic competencies, and the current research gap

There are a number of research works which have identified the important pricing strategies adopted by the channel members and its impact on consumer behaviour, the same has been summarized and presented below, very briefly

Chen Xu et al (2012)[1] in their study show how the organizations can go for differential pricing to their diverse group of retailers and check what quantum of value they can deliver, based upon their cost of selling, supply chain management and profits, and conclude that, for the manufacturer it is always profitable to follow strategy of setting different price to different retailers based upon their cost of selling as there should be a symmetrical relationship between sales cost incurred by different channel members/ retailers, and when the cost of sales are asymmetrical between different retailers, it is always advisable to set the same price to all the retailers based on their average sales cost as set by the industry.

Olavarrieta, Sergio et al (2012)[2] in their study observed how variations in level of knowledge of the customers towards in-store prices and available products in each category, influence the retail managers pricing strategies. As most of the times the knowledge of prices charged on different products by the retailers will act as an important driver for their choice. Further, the study also identify how shoppers' in-store price knowledge for packaged food products, and their self-report of price-comparison activity, non-purchase of bundle products (packs), in-store and out-store price signs, and item's price, show a positive correlations with consumers' in-store price knowledge and conclude that variations in in-store price knowledge acts as a antecedent by segment in particular. The study shows that the effect of price signs is seen more significantly among the female shoppers, while the effect of shopping frequency is seen significant among the male shoppers.

Allender, William J and Richards, Timothy J (2012)[3] in their study identify the relationship between brand loyalty and retail pricing strategies, and show that, such relationship is not well defined, and for developing promotional strategies any retailer requires the extent to which the prices can be reduced and the frequency with which their product lines are to be promoted. This can help them to critically evaluate the probable risk they carry in the market in terms of their customers switching to a new brand or retailer, when they are offered temporary or time bound price reduction, and should also evaluate in such situation how many customer continue to hold to them and remain loyal, as the promotional strategy of the retailers depends upon the nature and extent of loyalty portrayed by their existing customers.

Ai, Xingzheng et al (2012)[4] in their study examine how decisions of retailers and manufacturers in their mutually competing supply chains (exposed to risk of demand uncertainty and thereby under realization of expected value) will look for either optimal pricing or clearance pricing. Further, the study also finds that full returns policies carry a different implication in presence of chain-to-chain competition, as compared to the case of a monopoly supply chain.

Kucuk, S Umit and Timmermans, Harry J P (2012)[5] in their study identify the importance of Resale Price Maintenance (RPM) as it attempts to control the controversial pricing strategies adopted by upstream suppliers (often manufacturers) and the selling prices to their customers (often retailers or wholesaler). Used as a regulatory mechanism for eliminating the unfair trade practices by the distribution channels by U.S.A and the EU, the markets continue to be skeptic that, if it is good for competition which is legal then what is unfair trade practice, as every business center strives for survival. In this background the study develops few alternative strategies to create effective competitive environment and develops roadmaps as to how RPM could be utilized as a strategy by marketing patricians, and the regulators.

Tsui-yiishih (2012)[6] in his study examined the effects of price and brand endorsements adopted from point of view of customers, to support the manufacturers brand building initiatives, so as to support their high pricing initiatives and boost those vivid impressions which are drivers for engendering consumer loyalty in the market. A careful evaluation of the brand-endorsing strategy is very essential before implementing the same, as failure on part of designing effective endorsement will prove to be detrimental, as the cost incurred in designing such strategy would fail to stimulate the expected sale. Any strategy adopted by the manufacturer to promote his products will add to cost of sale and has to be absorbed by selling volumes, and failure on part of the promotional strategy to stimulate additional/marginal sales would impact their profits and most of the times the existing profit margins might get evaporated.

Jhamb, Deepika and Kiran, Ravi (2012)[7] in their study identified the relationship that exists between the choice of retail formats by the customer and the attributes of the retail such as product attributes, consumers' demography and retailers promotional strategies, and concluded that the consumers' choice of modern retail formats varied based on their income level increases, age (youth getting more attracted than old age people), improved product quality, variety of brands and assortment of merchandise at the store, and from the infrastructural end attributes such as, parking facility, trained sales personnel and security measures store are found having significant impact on customer retail format choice. Further, few other critical strategies that are found influencing are, the retention strategies (using CRM tools), promotional strategies, growth and improvement strategies, ***pricing strategies,*** and the competitive strategies are seen having a major impact on the growth of organized retailing in terms of volumes as well as in terms of value.

Iyer, Ganesh and Kuksov, Dmitri (2012)[8] in their study analyzed the role of competitive structures of the retail markets, and show how a retailer's intending to take advantage of providing consumer shopping experience can attain an equilibrium price depending on their advertising strategies, and the cost they incur for the same. This is very important as the consumers' valuation of a shopping experience when is sufficiently low, will affect the retailers' strategy. Hence, the retailers will have to eschew from their product based pricing and look for value based pricing.

Chan, C -C Henry et al (2011)[9] in their study identify the major challenge faced by the organization who are selling the products online, here the researchers are of the opinion that the advent of Internet and web technologies has enabled the prosperity of virtual stores, which has greatly reduced the customers' search costs and the retailers' overhead expenditure. The major challenges here is the fragmentation of online stores which are greatly evaporating the profits, in the process of establishing price and promotion strategies that can help them to enhance their profitability. The pricing decision hence is based on the concept of customer relationship management, where a greater margin of price concession is given to customers who are more valuable to the shop.

Williams, Nathan et al (2011)[10] in their study identify a strategic setting, where the broader issues of the retailers such as their channel structures, the extent of monopoly/ duopoly enjoyed by them and the level of impact the manufacturer's optimal new product design can have on their profitability, are identified. The study concludes that a strategic framework incorporating effective product design, channel strategies, channel structures (including retail and wholesale pricing – either to follow vertical or horizontal pricing strategy), competitors product attributes would help the manufacture to establish optimal promotion designs and help them to precisely target the market, and help them to see that their profits would be less sensitive to change in their prices.

Wang, Z et al (2011)[11] in their study examine how competing manufacturing firms and retail channels, can significantly influence the demand and profit of a new product. The researchers with the help of an analytical framework study how the market would be in seldom equilibrium especially when there is high degree of uncertainty and the manufacturers/retailers/wholesalers follow fixed strategies. In this background, the study proposes an agent based approach which could help the organization to design a marketing system that could account for learning behaviours of the market players, especially under uncertainties and provides for designing strategic actions and pricing decisions which can help them to effectively respond to the competitors move both in the short and long term horizons.

A close observation of the above literature helps us to understand that for any organization or its channel members to create profitable avenues it becomes essential for them to identify the need to develop promotional strategies and pricing strategies that can help them to realize their objectives. Further, the other major challenge that the organization faces is to strike a balance between the value that they want to realize and value that want to offer to the customers, in the process most of the time the organization would end up in a situation where to deliver optimal value to their customers they see that their profits gets evaporated. On close observation it can be observed that no comprehensive study has been undertaken to evaluate how various pricing strategies adopted by the channel members (distributors/wholesalers/retailers) are facilitating them to realize their objective. Hence, this study aims at identifying the issues and concerns of these channel members operating in urban and tier-III cities and develops a pricing strategy that can help them to realize optimal value for their operations.

Sources of Data and Sample Size

The required and relevant data are collected from primary sources by administering the questionnaire and schedule to wholesalers, retailers operating in urban and tier-III cities. The questionnaire was designed to study various pricing strategies adopted by the channel members, the level of efficiency realized, and its impact on the customers' responses at the point of their purchase. For the purpose of the present study, 100 respondents (50 from urban areas and 50 respondents from Tier-III cities) were selected using simple random sampling technique.

Objective of the study

The study was undertaken to accomplish the following objectives.

1. To study various pricing strategies adopted by the channel members operating in urban and tier-III cities
2. To evaluate the level of efficiency realized by adopting such pricing strategies and study its impact on the consumers behaviour.
3. To develop a model or pricing strategies that can help the respondents (channel members) to realize ensuring the delivery of optimal value to their customers intact.

Statistical Tools used for Data Analysis

The responses obtained from the respondents are tabulated using SPSS and are processed using Excel. To analyse the data and to interpret the analysis, Simple Percentage, weighted averages and descriptive statistics is used. For the purpose of testing the hypothesis of significance of variance in factors qualified as influencers of customers' responses, F test is used. With these details about the objectives and methodology, an analysis is made in the following paragraphs to evaluate the efficiency of pricing strategies and value delivered to the organization by adopting the same.

Demographic Profile of the respondents

Some of the important aspects relating to the demographics of the respondents are tabulated and presented below (Table – 1).

Table 1: Demographics Of The Sample Surveyed

Age	Frequency	Nature of Operations	Frequency
		Organized Retailers	54
		Unorganized Retailers	32
20-25yrs	22	Distribution Agents	14
26-35yrs	8	Total	100
36-45yrs	28	Gender	Frequency
46 & above	42	Male	74
Total	100	Female	26
Education	Frequency	Total	100
		Nature of Ownership Pattern	Frequency
SSLC	10	Private Limited	12
PUC/JOC	12	Sole Proprietorship	56
Degree/ Diploma	52	Partnership	32
Post Graduation	26		
Total	100	Total	100

Source: Primary Data

The respondents were found performing heterogeneous activities i.e. distribution and channel management, organized retailing, unorganized retails, etc. delivering diverse products to diverse groups of customers. The nature of ownership patterns where respondents operate were found to be, greater in sole proprietorship (56) carrying single ownership (where it was seen a fair number of representatives were women), partnership patterns (where educated unemployed youth were found to take up entrepreneurial activities undertaking to work as distributors or agents for branded companies, starting retail chains such as WANA, FSQUARE, Automobile Showrooms, LIFESTYLE stores etc. – 52 respondents were graduates and 26 postgraduates falling major portion of this sample group), and private limited (chains such as BIGBAZAR, MORE, TANISQ group, TITAN outlets etc. 12 respondents), which was selected to study the behaviour of diverse groups of customers to the pricing strategies adopted by respondent groups, while the customers were buying diverse pools of products from them. With an objective of understanding the nature of pricing strategies adopted by the respondents and its impact on their consumers behaviour the responses were compiled, analyzed and, are presented in the following paragraphs, followed by a brief analysis.

Table 2: Nature Of Activities Performed By Respondent Organization

Nature of activities	Total number of Respondent
Electronic Appliances	22
FMCG and House holds	58
Lifestyle Stores	20
Total	100

Source: Primary data

From the above table it can be observed that larger respondent group were found selling FMCG and house hold products i.e. 58 respondents, 22 were selling Electrical and Electronic Appliances and, 20 were selling life style products, these groups of respondents were selected because consumers of these products are normally experienced by the market to be very sensitive to price changes in the market. This was also with an objective to identify the nature of pricing strategies that are selected by these respondents and explore their experience of consumers responses towards their initiatives.

The nature of pricing strategy followed by the respondents and the level of Efficiency realized by adopting such strategy is summarized and presented below in table – 3 followed by a brief evaluation

Table 3: Nature of efficiency realized against the pricing strategy adopted

Sl. No	Nature of Pricing	Very Efficient	Efficient	Not so efficient	Inefficient	Weighted Values	Weighted Average values
01	Vertical Pricing	12	36	40	12	136	1.36
02	Horizontal Pricing	7	33	36	24	99	0.99
03	Predatory pricing	15	42	32	11	150	1.50

04	Discount Pricing	18	20	38	24	108	1.08
05	Every day low Price	32	40	18	10	184	1.84
06	High Low price	48	22	30	0	218	2.18
07	Loss Leader Pricing	52	18	24	6	210	2.10
08	Skimming Price	47	31	9	13	199	1.99
09	Value based pricing	59	17	6	18	199	1.99
10.	Differential Pricing	21	39	12	28	125	1.25

Source: Field Survey

Weights Assigned: Very efficient= 3, Efficient = 2, Not So Efficient = 1, Inefficient = -1 From the above table it becomes very obvious that

1. The channel members on adoption of strategies such as, Every Day Low Price, High Low Price, Loss Leader Pricing, Skimming Price, Value Based Pricing with a weighted average mean score between 1.51 and 2.50 are found be efficient by the respondents (integrated channel members) in realizing their intended objectives, by creating effective value delivering mechanism, and helping them to provide for optimal value to the end customers and thereby enhance their equity in the market.
2. Whereas, pricing strategies such as, Vertical Pricing, Horizontal Pricing, Predatory pricing, Discount Pricing, and Differential Pricing with a weighted average mean score between 1.0 and 1.5 are found to be not so efficient, as most of the times by adopting integrated market approach, a clutter is created in the minds of the channel members as how they can attain their objective of following a shared values systems in case of vertical pricing and predatory pricing. At the same time, when the channel follows horizontal pricing, each and every member carrying out their operation in parallel lines will have to forgo their share of profits/value, in the process of creating their own customer base in the market. On the other hand, in such process following a discount pricing or differential pricing though would provide value in the short run will not help them to sustain the same position in the long run, this is especially true especially when the markets are getting more and more fragmented, and vendors of majority of the products in the category of FMCGs, Lifestyle products, and Electronic appliances today are looking for either price standardization or differential pricing for different groups of customers, and different product categories.

Further, for the purpose of understanding the behaviour/responses of the customers towards the pricing strategy adopted by the channel members, they were asked to respond to the responses they observe, on initiation of the pricing strategies by them, and the same is summarized and presented in table – 4 below followed by a brief analysis

Table 4: Nature of pricing strategy adopted and its impact on business prospects

Sl. No	Nature of Pricing	Impact on Business Prospects					
		Attracts Customers	Enhances Equity	Creates Loyalty	Evaporates Profits	Value in Long run	Drives out Competition
01.	Vertical Pricing	23	89	73	98	89	100
02.	Horizontal Pricing	45	98	85	100	68	95
03.	Predatory pricing	75	64	52	12	100	82
04.	Discount Pricing	92	65	72	100	45	54
05.	Every day low Price	64	76	45	65	82	72
06.	High Low price	84	64	72	42	67	92
07.	Loss Leader Pricing	92	72	94	27	95	64
08.	Skimming Price	21	42	24	12	54	12
09.	Value based pricing	84	92	95	42	98	82
10.	Differential Pricing	27	42	21	64	84	82

Source: Primary Data

Note: Multiple Responses Allowed

From the above table, the following can be evidenced;

1. By adopting vertical pricing the channel members find that though it evaporates profits in the short run, it enhances value in the long run by creating loyalty which in turn helps them to drive out competition in the market place, but cannot be considered as very efficient to attract customers towards them.
2. In case of horizontal pricing adopted, it is always experienced that it induces them to lose their potential profits in process of competing for their share of market space, and their inability to charge different prices than that of the other retailers, but at the same time helps them to enhance the brand equity and thereby drive out competition. Failure to attract new customers towards their offers would make it detrimental to lose value in the long run.
3. Utilizing predatory pricing strategy it is found that the marketer undertake to develop measures that can help them to protect their value, and thereby drive out competition in the market. It is also realized that the marketers find it effective in attracting their customers and enhance their equity. In the process of protecting their profits share or their value they fail to create loyalty among their customers, especially when the customers perceive that there moves are with predatory intent.
4. Adopting Discount pricing strategy the channel members most of the times will have be forced to forego a major share of their profits. Tough this strategy helps them to attract more and more customers towards them it will not be in a position to create value in the long run, as the channel members themselves strongly believe that the customers who get driven towards them are those who are highly price sensitive and with an objective to optimize their value would easily switch brands, the same is also true in case of adopting skimming price where such strategy holds good only for the innovative market segments and not to generic customer groups in the markets.
5. By adopting EDLP price and HL price it is experienced that these strategies help them to protect their profits, at the same time help them to earn greater amount of value in the long run, by attracting new customers towards them, enhancing the loyalty and thereby equity in the market place, but these strategies are found not creating strategic assets in the market place, which is greatly realized by the channel members by adopting Loss leader pricing, and value based pricing, which no doubt attracts greater pool of customer towards them, and keeping the customers in isolation helps them in protecting their profits and also help in creating value in the long run
6. By adopting differential pricing, though they are in a position to create customized offers for the customers, not many customers are seen getting attracted towards such offers and show loyalty towards them. Competing in lesser market space it will certainly help them to drive out competitors and thereby help them in creating value in long run, and some time in such process, they also see that their potential profits gets evaporated as the focus shifts from mass markets to smaller customers groups.

Further, to evaluate the sensitivity of customers towards price fluctuations influenced by a number of factors, the respondents were asked to respond how their customer respond to their dynamic pricing strategies, their responses classified into responses from channel members operating in urban areas and tier-III cites are summarized, evaluated and presented below in table – 5, followed by a brief analysis

Table 5: Factors That Influences Pricing And Strategic Value Creation For The Organizations

Sl. No	Factors	Area of their Operations	
		Tier-III cities	Urban
01	Customer purchase is most of the times sensitive to prices charged to the customer	34	39
02	Customer in the market opt to buy new products/brands when there is unwarranted increase in the prices of the existing products	27	36
03	Customer move out of shops when they find that the prices charged to the customer is much more than what they are willing to pay	39	29
04	When it comes to branded products the customer are found less sensitive to price charged by the vendors	33	43
05	Customer evaluate the products they are willing to buy by comparing number of brands available	17	42

06	Quality of products are linked to the price charged and most of the times the customer choose to buy a high priced product than a low priced one especially which falls into the category of life style	29	37
07	Pricing strategies adopted by the unorganized retails becomes the bench mark for pricing strategies adopted by organized retailers	38	24
08	Increased price volatility most of the times evaporates the profit shares held by the retail outlets	45	39
09	Pricing most of the times would be market based rather than cost based which gets the intended profits evaporated in the process of retaining the existing customer base	48	41
10	Multi stage pricing model will help in determining the value created at each level of strategic process or channel used for delivering the products to the end customers	41	45
11	Pricing strategy adopted to transfer a notional value of the same towards social value creation or social infrastructure development yields greater rewards in terms of increased sales of such products	42	37
12	Absorption of operational value into the end pricing at the point of delivery is more challenging which avoids to enter into conservative mode of fixed pricing strategy to win in the market place	32	43

Source: Primary data

Though the factors listed above are self explanatory, the following analysis becomes essential

1. There is no significant difference between the Customers responsiveness towards prices charged to customers in Tier-III cities and urban customers, whereas availability of opportunities in the market to switch, the customers in Tier-III cities tend to move towards low priced brands than that of urban customers, who associate quality of the products to the price they pay, and perceive that products that are of high value are highly qualitative and vice-versa.
2. In case of branded products the urban customers are seen more sensitive than the customers in Tier-III cities, who most of the times, with an objective of value optimization either switch to an alternative product or to an alternative brand, which is not commonly observed among the customers in Tier-III cities. Customers in Tier-III cities when carry a willingness to buy a branded product would not be very sensitive to price change, which should be very significant to influence.
3. In case of organized retails operating in rural areas, prices charged by their unorganized retail counterparts act as bench mark and in the process see that most of the times induce them to forgo their profit share to attract the customer/retain their existing customers with them, which in case of urban customer is not true. This is especially true because, the targeted group of customers by the retail outlets in urban areas is focused customer groups, who are time sensitive and convenience seeking rather than utility optimizers.
4. Both the respondent groups are found strongly believing that pricing most of the times will have to be market based rather than cost based which gets the intended profits evaporated in the process of retaining the existing customer base, and by adopting ***Multi Stage Pricing Model*** it can help in determining the value created at each level of strategic process or channel utilized by them to deliver the products to the end customers.
5. Further, pricing strategy adopted should be such that it should help them to transfer a notional value of the same towards social value creation or social infrastructure development which the respondents also feel will help them in creating greater rewards in terms of increased sales of such products in future. Absorption of operational value into the end pricing at the point of delivery is expected to be more challenging, as it avoids them to move into conservative mode of fixed pricing strategy and help them to win in the market place, which are getting more and more fragmented in the recent past.

Further, to study the degree of variance existing between the evaluations of customer responses to the pricing strategies adopted by the intermediary (channel members), the following hypothesis was tested;

H_0 = there is no significant difference between the customers responses towards pricing strategies initiated by intermediaries operating in urban areas and intermediaries operating in tier-III cities.

Table 6: Descriptive Statistical Values

Test Statistic's	Geographical Background	
	Tier-III cities	Urban
Mean	35.4167	37.9167
Variance	74.0833	37.1742
F (Annova)	1.992	
$F_{0.05}$ (Standard Value)	2.943	
Result	$F_{0.05} > F_{cal}$	H_0 Accepted

Source: Calculated values, from primary data

From the above table it becomes very obvious that, there is no significant difference between the customers from Tier-III cities and urban masses in qualifying various factors that influence pricing decision for strategic value creation by the channel members, it can be evidenced that (using F statistic, where standard value of F is greater than the derived value) though individually there are differences between the factors qualified by the customers from Tier-III cities and urban masses on a whole, these differences are insignificant, and further checking for the variations between these factors qualified by them, it can also be concluded that the variance among the factors qualified as important value determinants among the customers from Tier-III cities and urban mass is also very insignificant.

In the background of all these findings the study suggests and concludes by proposing a price model of multi stage pricing, which emphasis is to provide for value based pricing

Value based pricing – A real value pricing

Determination of Price for Creating Strategic Competency

Each and every organization with an objective of protecting their customer value – both their existing as well as of their potential customer to be driven in future – organization pricing should incorporate all or the majority of the following factors;

1. Value determination by the organization should be more from the customer perspective rather than strategic and internal value perspective
2. Choice of price should be one that can protect the existing competitive base and can help them to provide for creation of value at all the channels held by them – in the long term perspective
3. Pricing should be such that it should help the organization to transfer some price value towards creation of social value, so as to enhance their social equity and thereby enhance the barriers for competitive intrusions into the existing market base. This should be in turn helping them to easily diversify into any product line or market segment
4. Pricing has to be more a ***multi stage value pricing model,*** so as to protect the organizations economic value intact, and see to it that the internal stake holders value never gets evaporated in the process of discount pricing or cost plus pricing
5. Before setting up any price every organization will have to seek for cost assessment (price cost as well as opportunity cost) at each level of their strategic initiative, in order to check for protection of operation value intact, both in the current market as well as in future market base that they intended to create
6. Focus on product specific pricing rather than competitor based pricing

Incorporation of these factors into the pricing strategies of the channel members/organization is expected to deliver optimal value to the customers on one end and on the other end should help them in creating value to their operations, enhancing the customer base and customer loyalty towards their brands. And hence, *we can conclude that price is not the only driver or stimulant of demand in the market, is the real value what get delivered to the end customer what attracts them towards the market.*

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Tax Titbits

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Contract – Divisible or Indivisible?

Major projects are often undertaken by more than one party joining together as a consortium for a bid with each member of the group contributing either finance or technology or materials, though the contractee recognises only the consortium or association as a single party, responsible for execution of the contract. Members of such association may execute the contract by an arrangement as between them. The immediate reaction of revenue in such cases is to make a joint assessment on the consortium as an Association of Persons (AOP) following the decision of the Supreme Court in ITO v. Ch. Atchaiah (1996) 218 ITR 239 (SC), which has decided, that where a business is carried on by an association, payment of tax by the members on their respective shares is not permitted in law, since an Association of Persons (AOP) or Body of Individuals (BOI) is an independent taxable entity. But this is not an inflexible rule, where each member of such association undertakes the risk in the part of the contract executed independently by him either by way of production-sharing or dividing the work when it is capable of division or ascertaining their respective profits on sharing the contract receipts with each bearing the cost for their contributions for finance, materials or technology. Such an arrangement is common in turnkey contracts and many supply and installation contracts as well.

Even where there are two separate contracts with the contractee, it does not always follow that it is divisible, when the work undertaken is not capable of such divisibility. In a converse case, even where there is single contract, it could be divisible. Where there is divisibility, there cannot be an assessment as AOP. It was this law, to justify separate assessments on members is recognised by the Supreme Court in Ishikawajima-Harima Heavy Industries Ltd. v. DIT (2007) 288 ITR 408 (SC) and CIT v. Hyundai Heavy Industries Co. Ltd. (2007) 291 ITR 482 (SC). Such divisibility has it own consequence, where for example, one of the parties to the contract is a non-resident making offshore supply of material, there is no liability. In Ishikawajima-Harima Heavy Industries Ltd's case (supra), even supply of technology from abroad was held to be not taxable in India in terms of the definition to technical fees under Double Taxation Avoidance Agreements between India and Japan. Separate assessments were also recognised by the Authority for Advance Rulings in Rotem Co. In re (2005) 279 ITR 165 (AAR), by the High Court in CIT v. Mitsui Engineering and Ship Building Co. Ltd. (2003) 259 ITR 248 (Del) and VDO Tachometer Werke, West Germany v. CIT (1979) 117 ITR 804 (Karn).

But then, there are contrary rulings by the Authority for Advance Rulings in Alstom Transport SA In re (2012) 349 ITR 292 (AAR) in respect of a metro rail project executed by a consortium with assessee having specified and identifiable role. Surprisingly the decision in Vodafone International Holdings B.V. v. UOI (2012) 341 ITR 1 (SC) was relied upon for the inference, that an agreement has to be read as a whole and not dissected for purposes of taxation, when there is a common venture being a "commercial arrangement of convenience". An indivisible contract even where there were two separate agreements in a contract for supply and installation and the input for installation work was understood as technical service liable to tax in India with balance of income relating to supply depending upon the existence of permanent establishment or otherwise in Hess ACC Systems B.V. In re (2012) 349 ITR 529 (AAR). These adverse rulings would need review.

Where each party bears his own risk, there can be no collective assessment, where the arrangement spells divisibility. Any other view will distort liability as between the members of the association and would also make one member responsible for liability of another.

Banks – Application of Section 14A/ Rule 8D

Rule 8D, requires the adoption of rule of proportion in attributing interest on deposits paid by a bank as between taxable and non taxable income, non-taxable income being from investments in tax free bonds. The investments in bonds whether tax free or taxable are made to satisfy the statutory liquidity ratio (SLR) requirements, while deposits are collected as part of its banking business. Neither the deposits are borrowings in a commercial sense nor the investments are for deriving income therefrom. The purport of banking business is to lend money to customers and not to make investments, the reserves themselves being meant for protection of depositors. Section 14A was meant to guard revenue from the taxpayers passing off expenses relating to exempt income to chargeable income. Neither the letter nor the spirit of section 14A could have application for banks in respect of income from tax free bonds, which has the same character as taxable bonds. Rule 8D was directed against banks as it was introduced to neutralise the decision of the Tribunal in CIT v. Dhanalakshmi Bank Ltd. (2007) 12 SOT 625 (Coch) decided against the application of section 14A for the reason that the law does not provide for the manner of quantification, where it is not possible to make a precise allocation of common expenses. Banks have not raised their voice at that time. But in a recent seminar on "Taxation on Banks" organized by Society of Auditors, Chennai, on 14/15.12.2012, Chairmen of two banks and the executives had expressed their anguish on the effect of application of Rule 8D on banks jacking up their tax liability. Even so, the recommendation of the bankers' association reported in Economic Times dated 7.1.2013 is for reduction in lock-in period from five to three years for deposits recognised for deduction under section 80C. If the occasion to meet the Finance Minister was not taken to press for an exception of banks from application of Rule 8D, probably the banks have to blame themselves for the law, which targets them more than any other class of taxpayers.

Why this Kolaveri?

The last quarter especially the month of March is a period of madness on the part of Income Tax Department. This is evident even in Circular No. 8 of 2006 dated 31st October 2006, when the Board blamed officers for "indiscriminate issue" of nil deduction certificate for tax deduction "as it adversely affects collection of tax at source" and that officers should strictly follow the prescribed procedure by having approval from higher authorities even in exercising the statutory function under section 197 "however genuine and compelling such circumstances may be". The hysteria, which prevails during this period for tax collection had been the subject matter of "Sri. S. Swaminathan Memorial Lecture" delivered on 30th July, 2012 under the paragraph title "Administration of law – A matter of concern" refers to another circular in following words:

> "I am not referring in any detail in this paper as regards administration of our tax laws over burdening tax compliance as well as vicarious liability of others by way of tax deduction at source or the problems arising to the taxpayer as a result of chaotic accounting system with taxpayers often visited with demand for taxes already deducted or paid or refunds inordinately delayed. I am also not referring to the astounding instructions *in terrorem* dated February 7, 2012 issued by Chairman of Central Board of Direct Taxes to all Chief Commissioners, Director Generals, Commissioners and Directors to achieve collection targets (!) at the risk of losing promotion or posting to the place of their choice. Such a law-defying instruction is an insult to the self-respect of law-abiding officers. This instruction was noticed by the High Court as well in *UTI Mutual Fund* v. *ITO* [2012] 345 ITR 71 (Bom). Taxpayers have learnt to live with the actions of the Assessing Officers acting on such instructions with fatalistic resignation."

Apart from the fact that the instruction to the officers have not been withdrawn even after the adverse comment made by the Bombay High Court in UTI Mutual Fund's case (supra), a news item in Economic Times dated 8.1.2013 refers to an instruction issued to central excise authorities to enforce collection of disputed tax pending application for stay. The easier way should be to deal with stay petition promptly one way or the other. This in fact is a statutory duty, which is proposed to be by-passed, because refusal of stay may give room for a writ petition. Technically demand is enforceable unless it is stayed. It is for this reason, it is proposed to recover the tax keeping the stay petition pending. Law is bad enough with many uncertainties. Much of the demand may well be covered in favour of taxpayer, but demand being raised because of pending appeals by the Department. There may be other demands, which are outright frivolous. In the former case, the department is bound to stay demand, while in the latter case, discretion is bound to be exercised. The instructions both by Income Tax and Central Excise authorities is to collect taxes, which may well be refundable. Why this 'kolaveri'? Is the Finance Minister aware of the departmental instructions in disregard of law and propriety merely for reaching targets with refundable tax generally along with interest.

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Tax revelations from the Union Public Finance Statistics Report for 2011–12: Exploring policy choices for Indirect tax reform

Statistical thinking will one day be as necessary a qualification for efficient citizenship as the ability to read and write.
—H. G. Wells

Though it is usual for people to take jibes at the importance and utility of Statistics, there is no denial of the fact that statistics generally reveal underlying reality. It is upto people to study the truth of the statistics. Of course, statistics can be manipulated and can often be falsified also. That still does not take away from the essential utility of most statistics. The significance of Statistics in the Tax Arena is as important as the policy wisdom behind the Taxation. Indeed Tax statistics can tell us whether the wisdom of Tax policy is enduring or not. In our country, there is a general lack of statistical thinking and the salience of statistical research is often absent in the Tax policy debates. Despite the lack of popular interest in what the Tax Statistics reveal and may foretell, the Government has been dutifully collecting important Statistics in the Tax Arena. It goes to the credit of the Union Government that the Department of Economic Affairs of the Ministry of Finance has been compiling and publishing *inter alia* useful Tax Statistics pertaining to both the Central and State Governments. The *'Indian Public Finance Statistics'* is an annual publication prepared by the Economic Division of the Department of Economic Affairs, Ministry of Finance, which provides a comprehensive outlook on budgetary transactions of the Central and State Governments and contains valuable information relating to Annual Plan Outlays, Financing Patterns, Trends on Domestic Saving and Investment, Trends in Net Domestic Product of States, Tax Revenue as proportion of the GDP, etc. The Statistical Issue dated July 2012 provides information from 2003–04 to 2011–12 with 1990–91 and 2000–01 as reference years. In this Article, we discuss and analyse the above Union publication of the collection of Revenues under various heads by both the Union and the State Governments, the burden and share of each tax and the Tax-GDP Ratios. The results will be startling for the insights that they provide and for the wisdom that they may offer for the coming new tax regime of Goods and Services Tax (GST).

While it is well known that the share of Indirect Taxation on Commodities and Services has been quite marked in the National tax collection, what has not caught sufficient attention is the fact that despite the phenomenal increase in National wealth since the loosening of controls and dismantling of the Licence Raj from the watershed year of 1991 and the boom years of the Reform from 2005 to 2008, the Income Taxes have risen, but not to the extent where the Direct Taxes could have been expected to replace the regressive Indirect Taxes as a primary sovereign resource for the Union Government. The Statistics reveal that the tax chariot is still pulled heavily by the Indirect Tax Revenue. This and other significant insights will be manifest in the following paragraphs.

The Indirect Taxes

Description of the Tax	Revenue in the year 2010–11 (as per Revised Estimates)	Revenue in the year 2011–12 (as per Budget Estimates)
	Rupees in Crores	
Customs	131800	151700.00
Union Excise Duties	137262.52	163549.66
Service Tax	69400	82000.00
State Excise Duty	60311.76	73115.85
Stamp and Registration Fees	53771.67	64739.81
General Sales Tax	296240.13	350874.15
Tax on Vehicles	23556.81	28954.42
Entertainment Tax	1181.56	1577.92
Tax on Goods and Passengers	11300.74	11667.63
Tax and Duty on Electricity	16564.68	16083.57

Description of the Tax	Revenue in the year 2010–11 (as per Revised Estimates)	Revenue in the year 2011–12 (as per Budget Estimates)
Taxes on Purchase of Sugarcane (including Cess on Sugarcane).	361.69	380.69
Others	11424	11771.39
Total Revenue	**813175.58**	**956415.09**

Direct Taxes

Description of the Tax	Revenue in the year 2010–11 (as per Revised Estimates)	Revenue in the year 2011–12 (as per Budget Estimates)
	Rupees in Crores	
Corporation Tax	296377	359990.00
Tax on Income	141569	164529.11
Estate Duty	--	--
Interest Tax	--	--
Wealth Tax	557	635.00
Gift Tax	--	--
Land Revenue	6868.79	7639.65
Agricultural Tax	134.36	142.77
Hotel Receipt Tax	47.74	60.31
Expenditure Tax	--	---
Others	4539.01	5086.24
Total Revenue	**450092.90**	**538083.08**

General Implications

From an analysis of the data relating to Direct and Indirect Taxes it may be seen that of the Total Tax Revenue of Rs.14,94,498.17 crores during 2011–12 (Budget Estimates), **the share of Indirect taxes** alone comes to Rs.9,56,415.09 crores constituting nearly **64% of the Total Tax Revenue.** The fact that a lion's share of the Tax Revenue for the Nation as a whole comes from Indirect Taxes should be a cause for concern since the Indirect Taxes are generally considered as regressive, as compared to Direct Taxes which are socially more progressive. The burden on the Indirect Taxes to contribute to the national tax treasury continues unabated despite manifold growth in national wealth and the rising collections of Direct Taxes. The high share of Indirect Taxes shows that there is a limit to further raising of the tax rates in the Indirect Tax Arena.

Union Government Vs. State Governments:

Another unappreciated fact which has so far been little discussed is that the State Governments collectively gather more *Indirect Taxes* in absolute and relative terms than the Union Government. The Union collected less than Rs.4 lakh crores out of the Combined national tax Receipts aggregating to Rs.9.56 lakh crores. This uneven split in the Tax collection should be an important factor in determining the collective GST rate as well as the GST rate split between Central GST and States GST. The skewed picture of national Revenue Collection in Indirect taxes in favour of the States persists even if we were to account out the State Excise Duty collection on Alcoholic substances.

Indirect Taxes Collected Outside the Valued Added Tax System

The above stated unevenness between the Centre and the States in the matter of Revenue Receipts from Indirect Taxation should also be analyzed from the point of view of Value Added Tax System. There are still a number of Indirect Taxes in the above Table which are not tax-creditable and are outside the purview of Value Added Taxation Systems. The unpalatable implication for the Business and Industry is that the non-Vatable Indirect Taxes are a net cost. Let us have a look at the extent of such *cost-enhancing* Indirect Taxes collected by the Union and the Central Governments.

The Union Government

Of the Indirect Taxes of Customs, Central Excise and Service Tax collected by the Central Government, only Custom Revenue aggregating to Rs.1,51,700.00 crores during 2011–12 (Budget Estimates) remains outside the CENVAT system. However, it is not as if the entire Customs Revenues have been kept out of the reach of CENVAT Credits. The countervailing duty and the Special Additional Customs Duty in lieu of VAT on Imports will be available as Tax Credits to eligible Manufacturers/ Service providers. At present there is no precise published data on the extent of such Customs Duties availed as CENVAT Credit. Still it may be fair to assume that about 20% of the aggregate Customs Revenues representing the above Additional Customs Duties could have been CENVAT Credited. It is also possible that some portion of the Customs Revenue would have been offset against Duty Draw Back Benefits. That might still leave a large proportion of about Rs. One lakh crores of Customs Revenue being a net cost to Business and Industry.

Even in respect of Union Excise Duties and Service Tax, there has been a Net additional cost to the Business and Industry as a result of the tightening of CENVAT Credits in Policy Changes and field-level Enforcement rigidity since 2010.

State Governments

Of the nearly Rs.5.6 lakh crores (for the year 2011–12 as per Budget Estimates) of various Indirect Taxes collected by the State Governments as a whole, only the General

Sales Tax Revenues aggregating to Rs.3.5 lakh crores (for the year 2011–12 as per Budget Estimates) has been under Value Added Tax System affording relief to the tax payers in the form of Tax Credit and elimination of the tax cascade. Thus a substantial portion of the Indirect Taxes, especially relating to Business / Industrial Consumption of Goods and Services remains outside the Tax Credit Arena and thus represent a Net Cost to the Business and Industry. There is a strong case for bringing Stamp Duty and Registration Fees involving Commercial and Industrial Construction under VAT principles in order to boost the Construction sector for years to come and improve the quality and maintenance of physical infrastructure in Business and Industry.

Now let us look at an old bromide of the economists when it comes to tax statistics. It is the traditional lament that the Indian Tax-GDP ratio is very low. This ratio has two sides–the tax revenue collected and the size of the GDP. One cannot be discussed without the other. This distinction is not always kept in balance. The bogey of tax evasion and the ubiquitous black money generation in our country have been the favorite whipping boys in the campaign against the low tax-GDP ratio. Since nothing much is being done about curbing black money and the tax evasion it entails, this argument has been used as a sounding board for justifying increases in taxation, particularly the expected GST. Now let us look at the hard data:

Tax-GDP Ratio for the Nation as a Whole

Year	Direct Taxes	Indirect Taxes	Total
	In terms of Percent		
2010–11 (Revised Estimates)	5.87	10.6	16.47
2011–12 (Budget Estimates)	5.99	10.65	16.64

As can be seen from the above Table, the Indirect Taxes bear two-thirds of the burden of TAX-GDP Ratio pointing to the significance of the Indirect Taxes in the national tax collection. Economists have repeatedly expressed concern that India's Tax-GDP Ratio is quite low as compared to advanced/European countries, where these are in the region of 25% to 48%, as the following table extracted from the OCED iLibrary shows:

Total Tax Revenue as a Percentage of Gross Domestic Product

Country	2004	2005	2006	2007	2008	2009	2010	2011
Australia	30.3	30.0	29.6	29.7	27.1	25.8	25.6	
Austria	43.0	42.1	41.5	41.8	42.8	42.5	42.0	42.1
Belgium	44.4	44.5	44.1	43.6	43.9	43.1	43.5	44.0
Canada	33.3	33.2	33.4	33.1	32.3	32.1	31.0	31.0
Chile	19.1	20.7	22.0	22.8	21.4	17.1	19.6	21.4
Czech Republic	36.3	36.1	35.6	35.9	35.0	33.9	34.2	35.3
Denmark	49.0	50.8	49.6	48.9	47.8	47.7	47.6	48.1
Estonia	30.6	30.6	30.7	31.4	31.7	35.7	34.2	32.8
Finland	43.5	43.9	43.8	43.0	42.9	42.8	42.5	43.4
France	43.6	44.1	44.4	43.7	43.5	42.5	42.9	44.2
Germany	35.0	35.0	35.7	36.1	36.5	37.3	36.1	37.1
Greece	31.5	32.1	31.6	32.5	32.1	30.4	30.9	31.2
Hungary	37.7	37.3	37.3	40.3	40.1	39.9	37.9	35.7
Iceland	37.9	40.7	41.5	40.6	36.7	33.9	35.2	36.0
Ireland	29.6	30.1	31.5	30.9	29.1	27.7	27.6	
Israel	35.5	35.6	36.0	36.3	33.8	31.4	32.4	32.6
Italy	40.8	40.6	42.1	43.2	43.0	43.0	42.9	42.9
Japan	26.1	27.3	28.1	28.5	28.5	27.0	27.6	
Korea	23.3	24.0	25.0	26.5	26.5	25.5	25.1	25.9
Luxembourg	37.3	37.6	35.9	35.6	35.5	37.7	37.1	37.1
Mexico	17.1	18.1	18.2	17.7	20.9	17.4	18.8	
Netherlands	37.2	38.4	39.1	38.7	39.3	38.2	38.7	
New Zealand	34.8	36.6	36.0	34.7	33.8	31.6	31.5	31.7

Country	2004	2005	2006	2007	2008	2009	2010	2011
Norway	43.1	43.2	43.5	42.9	42.1	42.4	42.9	43.2
Poland	31.7	33.0	34.0	34.8	34.2	31.7	31.7	
Portugal	30.3	31.1	31.8	32.4	32.5	30.7	31.3	
Slovak Republic	31.7	31.5	29.4	29.5	29.5	29.1	28.3	28.8
Slovenia	38.1	38.6	38.3	37.7	37.1	37.1	37.5	36.8
Spain	34.9	36.0	36.9	37.3	33.1	30.9	32.3	31.6
Sweden	48.1	48.9	48.3	47.4	46.4	46.6	45.5	44.5
Switzerland	27.8	28.1	27.9	27.7	28.1	28.7	28.1	28.5
Turkey	24.1	24.3	24.5	24.1	24.2	24.6	25.7	25.0
United Kingdom	34.9	35.4	36.3	35.8	35.8	34.2	34.9	35.5
United States	25.7	27.1	27.9	27.9	26.3	24.2	24.8	25.1
OECD-Total	34.3	34.9	35.0	35.1	34.5	33.7	33.8	

Last updated: 25 October 2012;

The scenario in OCED/EU is different from our country for a variety of reasons. The ratio cannot be viewed as a holy grail. We should note that these economies have reached a stage where the Tax-GDP ratio has remained more or less flat over the past few years which offers us a lesson to study. One reason why we have a much lesser tax-GDP ratio is that the participation of large segments of the population in the national tax burden is quite abysmal in India given the depressingly large number of households that live on the margins of sub-optimal economic existence which leaves little scope for enduring additional incomes that could contribute to shoring up of the direct tax collections as well as bolster even the indirect tax kitty by inducing aspirational consumption. The appreciable rise in the National Income since the Reform of 1991 and the boom years of 2005–2008 does not seem to have spread the economic cake far and wide for the millions of marginal households to contribute to national taxation. This perhaps explains the unwelcome fact that despite having 120 crore people, the country has only a few million Income-Tax payers. There is little scope to boost the Tax-GDP ratio by increasing the burden of Indirect Taxes, which are already at inelastic levels. The GST may boost Tax-GDP by 2% to 4% points to 18% to 20% by its Net Tax Addition Effect. That is about all. The trigger for achieving a higher Tax-GDP Ratio should now come from Direct Taxes. As can be seen from the Table on Direct Taxes, the low collections of Wealth Tax of just 635 crores during 2011–12 (Budget estimates) and an equally abysmal collection of Agricultural Tax of around Rs.142 crores (Budget estimates) during the same period, are among causes of serious concern. In addition to spreading the national economic cake so that more households rise above the stultifying margins of bare economic existence, thus getting into a position to contribute to tax, there is every need to re-look the provisions relating to Wealth Tax and Agricultural Tax. The collections from these two Taxes alone could be ratcheted up many times the current figure. Parallel with curbing Black money generation, such measures could easily lift the proportion of Direct Taxes in the National tax receipts to well beyond the range of 50% to 60%. Therefore, Policy Debates concerning the raising of Tax-GDP Ratio should devote greater attention to finding and expanding sources of revenue from Direct Taxation. The limits to how much the Governments can obtain money from Indirect Taxation should be recognized. The role of GST as an enhancer of Tax-GDP Ratio should be seen to be incidental and should not be unduly hyped up. The GST is a welcome tax for the principal idea of converting India into a Tax Common Market that will ensure clarity and durability of Indirect taxation and to prevent the Indirect taxation from being a competitive and distorting influence in the hands of states.

Conclusion

This analysis of the Union Public Finance Statistics for the FY 2011–12 reveals significant data and trends at direct and indirect taxation levels over the years. The statistics say a lot. Plenty of wisdom can be gathered from the statistics and the trends. These should add to the inputs informing the design of the coming GST in our country. The GST as a tax unifier of the country and its collection by a shared tax administration are the goals by which the efficacy and the desirability of the GDP model may be measured. The issue of low Tax-GDP ratio in our country has the double aspect of taxation and GDP growth and both factors need to work abreast to pull the tax chariot forward. WE should avoid knee-jerk solutions to boost the ratio in an unscientific manner. May be we should look for a policy direction in the forthcoming 2013 Budget and wait for what it will bring. But then, as A.A. Latimer once quipped, the Budget could become a mathematical confirmation of your suspicions.

Impact of Brokerage Cost on Market Returns in India

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1. Introduction

Academically, **transaction cost** is described as the cost of making an economic exchange. In the financial markets, the measurable costs of an economic exchange can be characterized by a combination of explicit and implicit costs. Explicit transaction costs are generally considered easy to estimate. These explicit transaction costs consist of commissions paid to brokers for trading services and fees or taxes paid to exchanges and regulatory agencies.

Investors usually understand the financial impact of explicit transaction costs before the actual transaction takes place. Implicit transaction costs, on the other hand can be much trickier to estimate. Implicit transaction costs, commonly described by the investment community as 'market impact', are the additional costs of actually implementing an investment idea, essentially in the simple act of buying or selling a security. Market impact costs are different from explicit costs to the extent that market impact is not a cost actually levied by a broker or governing body, but by the supply and demand forces of the market itself. Impact cost represents the cost of executing a transaction in a given stock, for a specific predefined order size, at any given point of time. Market impact is usually not known before the transaction occurs and difficult to predict.

1.1 Need for measuring transaction costs

Ideally, transaction costs are measured in an effort to improve the investment returns; however the intensity of detail and motivation behind a transaction cost study can vary depending on the audience. Originally, the idea of transaction cost analysis gathered widespread appeal with fund managers and later these days, transaction cost analysis has become universal amongst asset management firms and is very quickly becoming common within institutional brokerage houses. While the basic philosophy of transaction cost measurement can be applied to trades involving any type of financial instrument, the actual practice of transaction cost analysis is most pervasive in the equity markets, where fundamental analysis would be used that would allow the first technical analyst to earn substantial excess returns by using all elements of predictability present in stock price series, leaving only those that cannot be exploited due to transaction costs.

An essential element of any realistic investment portfolio selection is the consideration of transaction costs. In India securities transaction tax, intermediary charges (Brokerage), service tax on brokerage, DP annual charges, DP transaction charges are few transaction costs that one has to incur while dealing with buying and selling of shares. Hence testing of profitability of selected trading strategies before and after assuming prevailing transaction costs (brokerage) has been done to get true picture of impact of brokerage on stock returns in this study.

2. Market Transformation and Reduction in Transaction Cost in India

The Indian securities market has grown exponentially. The number of investors and issuers has increased many times. A wide range of instruments are available. The market structure and design has undergone a sea change. The extensive reforms and application of IT , introduced over the last few years have enhanced the integrity, transparency and efficiency of the operations of the securities market. The spreads have dropped by a factor of 10 and volumes have risen hundred fold in respect of many shares.

Thus reforms have transformed market practices, sharply lowered transaction costs and improved market efficiency in equity market in India. According to Agarwal, et.al (2006)[1] there has been a huge decline in the transaction costs in the late nineties across many markets including US markets. Due to reduction of transaction costs in the recent past, the results of earlier studies that tested some technical rules with reported lower/negative returns may got improved or otherwise now. There are vast body of literature available on transaction cost analysis notably by Michael J. Barclay et.al (1998)[2] Detry(2001)[3], Harald Hau (2002)[4], Hiroyuki Ono (2005)[5], Anders Amundson (2005)[6], Carsten and Gelman (2010)[7]

3. Transaction Costs in India

The prevailing transaction costs in India as of 2010 are given below. This study has been carried out after assuming the below costs for all profitability analysis.

3.1 Brokerage Charges

The maximum brokerage chargeable by trading member in respect of trades effected in the securities admitted to dealing on the capital market segment of the Exchange is fixed at 2.5% of the contract price, exclusive of statutory levies like, securities transaction tax, SEBI turnover fee, service tax and stamp duty. However lower brokerage charges below 0.5% on delivery based transactions and 0.1% on non delivery based transactions being observed in market. But in case of brokerage charges, its rate varies from one intermediary to another which can be negotiated to a lower level depends on volume, value and frequency of trading by a client.

3.2 Transaction Charges

A member is required to pay the exchange, the transaction charges at the rate of 0.0035% (Rs. 3.5 per Rs. 1 lakh) of the turnover.

3.3 Securities Transaction Tax:

STT is levied on all transactions of sale and / or purchase of equity shares and units of equity oriented fund and sale of derivatives entered into in a recognized stock exchange. (From 2004)

For Capital Market Segment

S No	Transaction	STT rate and payable by
1	Purchase of an equity share in a company or a unit of an equity oriented fund, where(a) the transaction of such purchase is entered into in a recognized stock exchange; and (b) The contract for the purchase of such share or unit is settled by the **actual delivery** or transfer of such share or unit.	0.125 % Purchaser.
2	Sale of an equity share in a company or a unit of an equity oriented fund, where – (a) The transaction of such sale is entered into in a recognized stock exchange; and (b) the contract for the sale of such share or unit is settled by the **actual delivery** or transfer of such share or unit.	0.125 % Seller

For F&O segment

Securities Transaction Tax

The trading members are also required to pay securities transaction tax (STT) on **non delivery** transactions at the rate of 0.017 (payable by the seller) for derivatives w.e.f. June 1, 2008.

Taxable securities transaction	Rate (%)	Taxable Value	Payable by
Sale of an option in securities	0.017	Option premium	Seller
Sale of an option in securities, where option is exercised	0.125	Settlement Price	Purchaser
Sale of a futures in securities	0.017	Sale Price	Seller

Value of taxable securities transaction relating to an "option in securities" will be the option premium, in case of sale of an option in securities. Value of taxable securities transaction relating to an "option in securities" will be the settlement price, in case of sale of an option in securities, where option is exercised.

3.4 Transaction Charges

A member is required to pay the exchange transaction charges at the rate of 0.002% (Rs. 2 per Rs. 1 lakh) of the turnover in F&O segment.

4. Trading Through Own Intermediary and its Profitability

Investors in Indian stock market are classified into five categories viz Retail investors, Non Resident Indians (NRIs), Foreign Institutional Investors (FII), Proprietary Traders (Dealers) and Domestic Institutional Investors (Mutual Fund and others). The Stipulated statutory charges like Transaction charges, STT, service tax on brokerage etc are mandatory irrespective of class of investors and their size of trade.

But in case of brokerage charges, its rate varies from one intermediary to another which can be negotiated to a lower level depends on volume, value and frequency of trading by a client. Many mutual funds, banks and institutional investors are having their own broker firms with membership with both BSE and NSE so as to avoid brokerage cost in their heavy value transactions in India. There is lot of sense in having own brokerage firm/membership and going for proprietary trade for many market players. This gives some advantage position among different class of investors and there is a possibility of earning more returns for markets players through their own brokerage firm than who do not. This anomaly breaks the level playing field among different class of investors.

4.1 Pros and cons of own brokerage firm:

Becoming a member of NSE and BSE involves considerable financial commitments for eg. For NSE membership

Rs 1crore is to be deposited on various deposit accounts and annual membership fee of Rs.1 lakh besides other eligibility criterion. BSE now reduce the same to Rs 10 lakh so as to increase three fold in their membership and all over India penetration. On any count one has to make huge financial commitment and have required educational & other qualifications which are not required for a normal investor. This cost of having own trading firm/membership in BSE/NSE is to be compared with the cost of brokerage payable in stock trading so as to decide to go for own brokerage firm or not.

5. Impact of Brokerage Cost on Stock Returns

Let us study the impact of brokerage on stock returns in India under select technical rules. First problem is to find out the profitability of various trading strategies (with and with out brokerage cost) and to get the rate of impact of brokerage cost on stock returns to deicide up on going for proprietary trade.

5.1 Objectives of This Study

The study has the following prime objectives

1. To study profitability of select time based trading rules
2. To study profitability of select price based trading rules
3. To study impact of brokerage on the returns of the trading rules studied to decide upon going for proprietary trade.

5.2 The sources of data, period and limitations of the Study

The Indian stock market indices over a period of 13.5 years from July 1997 to December 2010 are considered in this study. The bench mark index of BSE the *SENSEX* and NSEs *NIFTY* was taken from 01/07/1997 to 31/12/2010. All limitations applicable to these secondary data also applicable to this study. There is a possibility of error in the nature of omissions and commissions, human and system error which might have inadvertently affected the results. Adjustment for dividend, bonus shares, etc is not made in calculations. The difference in using high frequency data (tick by tick data) and daily close data is always there for which no provision is made in this study. The limitations applicable to the respective trading rules are also applicable to this study. These results are only indicative and may vary on actual live market conditions and other period.

5.3 Trading pattern or Frequency of Trade and its profitability

Of the transaction costs, statutory costs could not be avoided but brokerage fee can be either reduced or avoided by becoming member of a stock exchange. The absence and presence of brokerage cost and its impact on profitability of the following simple technical rules are studied.

5.4 Time Based Trading Rules (12 Rules)

a. Yearly trade
b. Monthly trade
c. Weekly trade
d. Daily trade
   i. Long and Short squaring off
   ii. Short and Long squaring off
e. Systematic Investment Plans- Yearly (SIP 5 rules)
   1. Yearly SIP
   2. 2 year SIP
   3. 3 Year SIP'
   4. 4 year SIP
   5. 5 year SIP

5.5 Price Based Trading Rules (25 Rules)

I. Filter Rules (10 Filters from 0.2% to 0.9%)

II. Standard Moving Average Convergent and Divergent Rules

a. MACD(9,26,9)
b. MACD(12,26,12)

III. Other MACD rules

a. MACD (19,39,9)
b. MACD (50,200,50)

IV. Modified MACD rules

a. SPMACD(1,50)
b. SPMACD(1,100)
c. SPMACD (1,150)
d. SPMACD (1,200)

V. The TRBO rules tested:

i. Standard TRBO rules

a. Trade Range Break Out Rule 50 (TRBO-50)
b. Trade Range Break Out Rule 100 (TRBO-100)
c. Trade Range Break Out Rule 150 (TRBO-150)
d. Trade Range Break Out Rule 200 (TRBO-200)

ii. Modified TRBO rules

e. Trade Range Break Out Rule (200,50) (TRBO 200-50)
f. Trade Range Break Out Rule (50,150) (TRBO 50-150)
g. Trade Range Break Out Rule (50,200) (TRBO 50-200)

5.6 Rate of impact:

The impact of transaction cost can be felt by the difference in average rate of returns on various holding period and other technical tests considering brokerage and without considering brokerage. The impact of brokerage is

$$\Delta r = \text{Mean } r_{ebn} - \text{Mean } r_{cbn}$$

Where

Δr = the impact rate of brokerage on average returns

r_{ebn} = return ex brokerage,

r_{cbn} = return cum brokerage

5.7 Application of ΔR

If the Δr of the investment is higher than actual cost of membership(K=I****kb***) for avoiding brokerage then it is wise to be a member of a trading exchange or otherwise trade through some intermediary for better profitability.

6. Impact of Brokerage on Calendar Returns

6.1 Impact of Brokerage on Calendar Returns

The stocks were assumed to be bought at the beginning of predetermined period i.e yearly, monthly, weekly and daily and sold at the end of the period. The net yearly result is calculated and the same is taken for calculating return on average investment made during the year. The profitability of time based / calendar returns with and with out brokerage cost is presented below

The Profit from investment is arrived at

$$R=(P_1-P_0)-(P_0+P_1)*stt-(P_0+P_1)*brk$$

Where R is net profit after a pre determined period P_0 *and* P_1 *is the price of the stock at the beginning and at the end of the each period respectively Stt= securities transaction tax*

STT is @0.125% for delivery based transactions and 0.017% for non delivery based transactions. Brk= brokerage in percentage BRK is @0.5% for delivery based transactions and 0.1% for non delivery based transactions in prevailing market conditions[8]

The profitability of the investment is arrived by

$$r = R/I$$

r is the rate of return as percentage

R is net profit/(loss) during the period

I initial/average investment made during the year

The net impact of brokerage cost on calendar returns during the study period are

Table No.1 Impact of Brokerage on Calendar Returns

Exchange	Yearly	Monthly	Weekly	Daily long and short	Daily-short and long
Sensex	1.10 %	11.98%	50.77 %	56.04%	47.08%
Nifty	1.10 %	12.04%	55.54 %	51.61%	50.36%

Source: computed All figures are return as % of investment

The average return on yearly trading on sensex with brokerage is 19.40% during the study period and without brokerage is 20.50% .Thus the brokerage makes 1.1% difference on yearly trade in sensex companies. The average return on yearly trading on nifty from 1997 to 2010 with brokerage cost is 19.74%. The average return on yearly trading without brokerage cost is 20.84% thus the brokerage cost on the return is 1.10%

From this one can decide to have own brokerage firm/ membership in respective exchanges. The cost of having own trading firm is to be calculated and expected savings of 1.1% of investments is to be compared. If the 1.1% of the investment is more than the actual cost of having own brokerage firm/membership in respective exchanges then it is wise to have the own trading firm or otherwise deal trough other intermediaries for better returns.

6.2 Impact of Brokerage on Monthly Returns

The impact of brokerage on monthly returns of sensex investment is 11.98 % of the monthly investment made during the study period between 1997 to 2009 in sensex companies. Absence of brokerage improves 11.98 % of return on an average. The difference in average monthly returns of NSE stocks due brokerage effect is 12.04%. It is wise to have own brokerage firm if cost of brokerage firm is less than 12.04% of the monthly investment in nifty and 11.98% in sensex.

6.3 Impact of Brokerage on Weekly Returns

Weekly returns are calculated from the profit/loss on buying and selling of stock with in a week time. Since the transaction is for more than one day, delivery has to be taken and made with in a week as per prevailing rules. As stated earlier the stocks of respective exchanges were assumed be bought on Monday or at the beginning of the week and sold off at the end of the week. Thus the number of transactions in a year is 52. The profitability of weekly trading on Sensex and Nifty stocks are presented in the following table. The yearly return on weekly average investment with brokerage and with out brokerage is given separately

The net return on weekly trade on sensex stocks is not encouraging one as there was an average loss of –66.81 % including brokerage cost. The absence of brokerage cost resulted in improvement of return by 50.77% on an average but still in landed at the loss of – 16.04% returns on weekly trade. Though it is not wise to trade mechanically every week but the brokerage impact is much higher than that of yearly and monthly returns in sensex stocks.

The net return on weekly trade on NIFTY stocks is also not encouraging one as there was an average loss of – 43.25 % when includes brokerage cost The absence of brokerage cost resulted in improvement of return by 55.54% on an average i.e the loss of 43.25 % is made to a profit of 12.29% on weekly trade. The Nifty give positive returns on proprietary trade where as Sensex reports loss during the period of study.

6.4 Impact of Brokerage on Daily Returns

The daily returns of equity stock has been arrived from two trading strategies viz buy at day open and sell at day close and another one is sell at open and buy at close. Day trading has two advantages with reference to transaction costs. The brokerage is 80% less at 0.01% of traded value and the security transaction tax also very low at 0.0017% (86% less over 0.125%). In rupee term STT is Rs 17 per lakh and brokerage is Rs 100 per lakh for non delivery based transactions. Since day trading ends with in a day itself, it enjoys the benefits of low transaction cost. This has been considered in arriving the daily return calculations appropriately. With the advantages of lower STT and Lower brokerage cost that day trading enjoys, the returns of two mechanical day trading strategies are given in the following table. The two day trading strategies are

a. Buy at day open and sell day close(Go long at open and short squaring off at close)
b. Sell at day open and buy at close (Go short on open and long squaring off at close)

6. 4.1 Impact of Brokerage on Daily Returns In Sensex

The daily sensex price has been taken and it is assumed as the stock price of BSE. Since day trading has two strategies, the return calculation also made for both the strategies. The daily trading results are not encouraging. The trading technique of buying at open and selling at close results in loss of 84.25% , the absence of brokerage resulted in again a loss of 36.73% with impact rate of 47.52% on sensex. The second strategy of sell at open and buy close is also resulted in loss of 26.42 but lower than first strategy. When same strategy is adopted with out brokerage cost, it results in average positive return of 20.42% in sensex the net impact is 46.84%

6.4.2 Impact of Brokerage on Daily Returns In Nifty

The first strategy of buy at open and sell at close in NIFTY stock on daily basis resulted in loss of 56.77% and the absence of brokerage results in loss of 5.06% on an average. The brokerage impact is 51.61%. The results of second strategy of sell at open and buy at close has brokerage impact of 50.36% that ended with loss of 66.82% with brokerage cost and lower loss of –16.46% with out brokerage cost. Thus to have own brokerage firm one has to evaluate the cost of own firm and it should be lower than 50.36% committed investment in NIFTY stocks.

6.5 Impact of Brokerage on SIP Plans:

Systematic investment plan is one of the successful investment strategy employed by many fund houses around the world. Under SIP, investments are to be made at regular intervals and sold under FIFO/average cost method. Recently mutual funds started encouraging people for regular investing under SIP. This is modified version of long term investments. The profitability of one year, 2 year,3 year, 4 year and 5 year SIP are tested on Sensex and Nifty during the period of study.

The following table shows the returns of annual SIP with and without brokerage in Sensex and Nifty

Table No.II Impact of Brokerage on Annual SIP In Sensex and Nifty

Impact Of Brokerage On Annual returns of SIP In Sensex				Impact of brokerage on annual returns of SIP in Nifty		
Year	With Brokerage	With Out Brokerage	Impact	With brokerage	Without brokerage	Impact
1	19.40%	20.50%	1.10%	19.74%	20.84%	1.10%
2	18.25%	18.93%	0.69%	17.99%	18.67%	0.68%
3	20.32%	20.75%	0.43%	19.98%	20.42%	0.43%
4	21.14%	21.49%	0.36%	20.22%	20.58%	0.35%
5	21.55%	21.85%	0.31%	20.57%	20.87%	0.30%

Source: computed All figures are return as % of investment

The impact of brokerage on average returns of various annual SIP plans is presented in the above table. It is observed that the rate of impact is getting reduced on longer SIP returns. The impact on one year SIP is 1.10% where as in five year SIP it is just 0.31%. The impact of brokerage on average annual SIP return is nifty shows that it is minimum at 0.3% in five year SIP and high at 1.10% in one year SIP. It is observed that the rate of impact is getting reduced on longer SIP returns as in the case on Sensex.

7. Impact of Brokerage on Equity Returns on Price Based Trading Rules

7.1 Alexander Filter Rules - On BSE and NSE

Filter rules generate signals based on the following logic: *Buy when the price rises by x percent above the most recent trough and sell when the price falls x percent below its most recent peak.* According to filter technique[9] one should buy scrip when the price increase is reported at minimum of a fixed cut off rate over a base price. One could follow the principle that if price increase is noticed again, he can hold the stock without any decision till next fall in prices The increase during the intermediary period is ignored whether it is more or less than the cut off percentage. Simply when price change is noted at X percent over base price, then long or short position being taken based on increase and decrease in stock prices.

Trading logic is as follows

If $P_{hi} = > Sp$

then

$R = Sp-(P_{op}+Sp)(brk+stt)$ *Profit*

Or

$R = - Pop(1+brk+stt)$ *Loss*

The absence of brokerage fee has significant impact on filter test results also. The impact on sensex and nifty stock are presented separately as follows:

Table No.III Impact of brokerage on Equity returns on filter test On BSE and NSE

SENSEX RETURNS				NIFTY RETURNS			
FIlter	Normal Trade	Proprietary Trade	Impact Of Brokerage	Filter	Normal Trade	Proprietary Trade	Impact Of Brokerage
0.20%	-2.54%	25.34%	27.88%	0.20%	0.43%	28.18%	27.75%
0.25%	-0.22%	28.50%	28.72%	0.25%	6.14%	34.25%	28.11%
0.30%	0.06%	29.67%	29.61%	0.30%	10.16%	38.81%	28.65%
0.35%	-0.95%	29.50%	30.45%	0.35%	12.63%	41.72%	29.09%
0.40%	-3.25%	28.00%	31.25%	0.40%	13.83%	43.65%	29.82%
0.50%	-10.31%	22.30%	32.61%	0.50%	13.61%	44.71%	31.10%
0.60%	-24.48%	9.63%	34.11%	0.60%	5.36%	38.29%	32.93%
0.70%	-42.16%	-6.74%	35.42%	0.70%	-7.72%	27.47%	35.19%
0.80%	-65.27%	-28.54%	36.73%	0.80%	-27.04%	11.26%	38.30%
0.90%	-88.75%	-50.95%	37.80%	0.90%	-47.53%	-6.47%	41.06%

Source: computed All figures are return (ROI) as % of investment

It is observed that in sensex stock returns getting improved by a minimum of 27.87% to maximum of 37.80% with average impact of 32.46% in proprietary trade. Based on this one can decide to go for proprietary trade or trade through other intermediary. If actual cost of membership is less than that of impact rate on investment then proprietary trade is advisable. In Nifty also significant improvement in filter returns from proprietary trading is observed. It is found that on an average 32.20% of return got improved due to savings in brokerage cost on various filter rates in NIFTY.

7.2 Impact of Brokerage on Profitability of MACD Rules

The Moving Average Convergence Divergence (MACD), an indicator developed by Gerald Appel (1979)[10] for trading stocks is an excellent trend-following tool allowing traders/investors to measure degrees of mass bullishness or bearishness. Moving average convergence divergence is most used technical analysis tool to identify trading signal The impact of presence and absence of brokerage on returns of tested MACD rules are given below, this present study is aimed at testing the profitability of select MACD rules which may give required investing clues/guidelines for normal investors. The buy and sell signal is triggered at intersection of shorter moving average with longer moving average from bottom and from upper down turn. The signals are

MA(n,t)s>MA(n,t)l = Buy

Or

$$\frac{1}{\text{ns}}\left(\sum_{t=1}^{n}(\text{Pt})\right) > \frac{1}{nl}\left(\sum_{t=1}^{n}(\text{Pt})\right) = \text{buy}$$

The sell signal is

MA(n,t)s < MA(n,t)1=Sell

Or

$$\frac{1}{\text{ns}}\left(\sum_{t=1}^{n}(\text{Pt})\right) > \frac{1}{nl}\left(\sum_{t=1}^{n}(\text{Pt})\right) = \text{sell}$$

If the shorter moving average (MA (s)) is crossing the longer moving average from down to up and hovers more than longer moving average (MA (*L*) the buy signal is given. Likewise sell signal will be based on crossing over of MAs with Longer MA from top to downwards.

ANNUALISED DAILY RETURNS (ADR) AND AVERAGE ANNUALISED DAILY RETURNS (AADR) OF MCAD and TRBO RULES

The returns from each trade are calculated and return are arrived based on number days the investment was held. Cumulative daily returns during the study period are annualized to get Annualised Daily Returns (ADR). The year wise Average Annualized Daily returns (AADR) is again calculated for entire study period which is equal to Return on Investment (yearly) in true finance sense.

The return calculation is

Profit /(loss) from MACD/TRB-O trade signal

- Daily returns Rt= P_1-P_o
- Daily Investment days Vdt= P_0 n
- Cumulative daily investments $\sum_{t=1}^{t} Vdt$ = $(V_{d1}+V_{d2}+\ldots+V_{dt})$
- Cumulative returns $\sum_{t=1}^{t}$ $Rt= (R_1+R_2+R_3+\ldots+R_t)$
- Annualized daily returns ADR= $\frac{\sum Rt}{\sum vdt}$ (365)
- Average annualized daily returns = $\left(\frac{ADR}{N}\right)\sum nt$

Table No.IV Impact Rate of Brokerage On Profitability of MACD Rules in Sensex and Nifty

RULE	IMPACT OF BROKERAGE ON SENSEX		IMPACT OF BROKERAGE ON NIFTY	
	ON ADR	AADR	ON ADR	AADR
SPMACD 1-50	10.31%	5.92%	8.32%	5.33%
SPMACD 1-100	5.80%	3.38%	3.58%	2.13%
SPMACD 1-150	7.35%	4.27%	4.68%	2.94%
SPMACD 1-200	3.31%	2.01%	3.41%	2.12%
MA 9-26	7.72%	4.28%	7.12%	4.20%
MA 12-26	7.23%	4.25%	7.73%	4.52%
MA 19-39	4.74%	2.81%	4.68%	2.77%
MA 50-200	1.01%	0.59%	1.05%	0.61%

Source: computed All figures are return as % of investment

The impact rate is high at 5.92% in case of SPMACD(1-50) rule and low at 0.59% in case of SPMACD(50-200) on AADR in Sensex. Profitability of MACD(12,26), MACD(9,26), SPMACD(1,150) rules are improved by minimum of 4% on proprietary trade in Sensex. The impact rate on returns of MACD rules in nifty shows that the Average Annualised daily returns (AADR) is improved by 5.33% on proprietary trade in SPMACD(1.50) rule. The profitability of MACD(9,26) and MACD(12,26) are improved by 4.20% and 4,52% on proprietary trade. The impact is minimum in MACD (50,200) at 0.61% as in the case of Sensex.

7.4 Impact of Brokerage on Profitability of TRBO Rules in Sensex and Nifty

Under this technical rule (Trading Range Brake Out Rules), trading signals are given based on movement of stock price breaking the trading ranges fixed .The TRB-O generates a buy signal when the price breaks-out above the resistance level and a sell signal when the price breaks below the support level. The resistance/support level is defined as the local maximum/minimum. David Thurston et.al (1996)[11] reported that TRBO rules on Hon Kong Futures markets were profitable. Lai Ming-Ming et.al (2005)[12] found TRB rule is profitable in China, Thailand, Taiwan, Malaysian, Singaporean, and Hong Kong, Korean, and Indonesian stock markets along with moving average rules. On the recent studies, the TRBO strategy has been tested Camilo Lento(2009)[13] on 15 stock markets around the world and found profitable in 11 markets.

The Trading Strategy under TRBO

The basic trading strategy in TRBO rule is 'Buy if price breaks the maximum range upwards and sell if price breaks minimum range downwards". The success lies in the selection of range. The upper limit is determined on the maximum of the reported price during the predetermined period say 50 days or 100 days. Likewise the minimum level is fixed based on minimum price reported during the predetermined period. The following table depicts the impact of brokerage on the profitability of TRBO rules tested in this study.

Table No.V Impact of brokerage on profitability of TRBO rules

SENSEX	IMPACT OF BRK ON SENSEX		IMPACT OF BRK ON NIFTY	
RULE	ON ADR	ON AADR	ON ADR	ON AADR
TRBO 50	5.75%	2.1%	2.73%	1.45%
TRBO 100	2.18%	0.83%	1.6%	0.88%
TRBO 150	0.88%	0.53%	0.94%	0.56%
TRBO 200	0.88%	0.51%	0.85%	0.49%
TRBO 200-50	2.8%	1.02%	3.16%	1.06%
TRBO 50-150	1.01%	0.73%	1.07%	0.77%
TRBO 50-200	1.00%	0.72%	1.06%	0.76%

Source: computed All figures are return as % of investment

The impact on the profitability of various TRBO rules reported at lower than other rules. This may be due to low frequency of trade signals in TRBO rules. The maximum impact rate is 2.1% on Average Annualised Daily Returns of TRBO 50 rule in sensex. The above table shows the impact of presence and absence of brokerage on profitability of TRBO rules tested in Nifty. The impact rate is lesser than Sensex and the highest impact under TRBO 50 rule on AADR is at 1.45%.

8. The Application of Impact Rate

From the analysis of impact of brokerage cost on market returns in India it is observed that the average return on investment is found to be getting increased by the *x* % of investment for different trading rules in the absence of brokerage cost. By becoming member of exchange ,one can avoid brokerage charges but having own trading firm also involves huge investment as well as other operating costs. From the study of impact of brokerage on stock returns of different trading rules, one can decide for trading through own broker firm or not. In Sensex for annual trading in stocks , if the cost of own trading firm is less than 1.1% of total proposed investments then having own trading firm is wise. Like wise for monthly traders the rate is 24.85% , for weekly traders 50.67% ,daily traders option no 1 , 47.52% and for option 2 day traders 46.84 % of investment shall be ceiling for the cost of owning a trading firm. For filter rules the impact rate is 32.46% in Sensex and 32.20 % in Nifty . The AADR is improved by 5.92% in sensex and 5.33% in nifty under MACD rules. Under TRBO rule the impact rate is 2.1% in sensex and 1.45% in nifty. The total expected cost of own trading firm and the reported impact rates on investment can be compared and if own firm cost is less than impacted returns, then having own firm is wise. Thus the study on impact rate of brokerage on profitability of various rules indentified can be used for for maximizing market returns by deciding up on going to proprietary trade or trading through other intermediary for each trading rule separately.

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Annexure

Table No.1 Impact of Brokerage on Holding Period Returns – Yearly Trade (ROI%)

Year	SENSEX			NIFTY		
	With brokerage	With out brokerage	Impact	With brokerage	With out brokerage	impact
2010	16.01%	17.10%	1.09%	16.59%	17.68%	1.09%
2009	77.92%	79.31%	1.39%	17.87%	75.16%	1.37%
2008	-53.46%	-52.72%	0.74%	-19.18%	-51.97%	0.74%
2007	45.17%	46.39%	1.22%	65.28%	54.44%	1.26%
2006	44.78%	46.00%	1.22%	-15.91%	39.51%	1.19%
2005	40.31%	41.51%	1.20%	-17.33%	36.07%	1.17%
2004	11.11%	12.16%	1.05%	2.00%	10.37%	1.04%
2003	70.85%	72.20%	1.35%	70.19%	71.54%	1.35%
2002	2.26%	3.27%	1.01%	9.33%	3.01%	1.01%
2001	-19.39%	-18.48%	0.91%	34.90%	-16.42%	0.91%
2000	-24.85%	-23.98%	0.87%	38.32%	-14.99%	0.92%
1999	61.68%	62.99%	1.31%	53.18%	66.61%	1.33%
1998	-17.63%	-16.72%	0.91%	-52.71%	-18.28%	0.90%
1997	16.80%	17.88%	1.08%	73.79%	18.96%	1.09%
Average	19.40%	20.50%	1.10%	19.74%	20.84%	1.10%

Source: computed All figures are return as % of investment

Table No.2 Impact of Brokerage on Monthly Returns

	SENSEX			NIFTY		
Year	With Brokerage	Without Brokerage	Difference	With Brokerage	With Out Brokerage	Difference
2010	-0.13%	12.00%	11.87%	9.06%	21.78%	12.72%
2009	38.43%	50.61%	12.18%	40.19%	52.38%	12.19%
2008	-90.36%	-78.82%	11.54%	-87.76%	-76.21%	11.55%
2007	23.55%	35.66%	12.11%	32.75%	44.91%	12.16%
2006	18.53%	30.62%	12.09%	22.53%	34.63%	12.10%
2005	19.93%	32.02%	12.09%	18.66%	30.74%	12.08%
2004	-5.28%	6.69%	11.97%	-2.74%	9.24%	11.98%
2003	46.35%	58.57%	12.22%	50.32%	62.56%	12.24%
2002	-15.11%	-3.19%	11.92%	-11.84%	0.10%	11.94%
2001	-34.41%	-22.59%	11.82%	-33.29%	-21.47%	11.82%
2000	-48.26%	-36.51%	11.75%	-31.72%	-19.89%	11.83%
1999	21.23%	33.33%	12.10%	34.74%	46.90%	12.16%
1998	-32.35%	-20.52%	11.83%	-34.81%	-22.99%	11.82%
1997	-0.88%	11.11%	11.99%	-2.50%	9.48%	11.98%
Average	**-4.20%**	**7.78%**	11.98%	0.26%	12.30%	12.04%

Source: computed All figures are return as % of investment

Table No.3 Impact of Brokerage on Weekly Returns

	SENSEX			NIFTY		
Year	With Brokerage	Without Brokerage	Impact rate	With Brokerage	With Out Brokerage	Impact rate
2010	-53.29%	-1.23%	52.06%	-51.31%	-2.34%	48.97%
2009	-29.91%	23.43%	53.34%	-11.68%	39.65%	51.33%
2008	-137.38%	-87.61%	49.77%	-135.13%	-83.57%	51.56%
2007	-40.02%	13.73%	53.75%	-22.52%	85.18%	107.70%
2006	-38.50%	14.09%	52.59%	-41.61%	10.54%	52.15%
2005	-37.47%	15.28%	52.75%	-35.90%	16.28%	52.18%
2004	-58.62%	-6.04%	52.58%	-57.68%	-5.64%	52.04%
2003	-10.85%	42.73%	53.58%	-0.77%	51.64%	52.41%
2002	-79.56%	-26.97%	52.59%	-35.74%	-6.74%	29.00%
2001	-79.68%	-27.58%	52.10%	-53.24%	12.81%	66.05%
2000	-139.90%	-87.96%	51.94%	-38.27%	17.78%	56.05%
1999	-69.70%	-16.16%	53.54%	-52.78%	3.27%	56.05%
1998	-110.36%	-58.55%	51.81%	-34.89%	21.16%	56.05%
1997	-50.11%	-21.77%	28.34%	-33.96%	12.09%	46.05%
Average	**-66.81%**	**-16.04%**	**50.77%**	-43.25%	12.29%	**55.54%**

Source: computed All figures are return as % of investment

Table No.4 Impact of Brokerage on Daily Returns in Sensex

	Long and short square off at close			Short and long square off at close		
Year	With brokerage	With out brokerage	Difference	With brokerage	With out brokerage	Difference
2010	-108.50%	-58.29	50.21%	-117.40%	-67.21%	50.19%
2009	-38.61%	14.15%	52.76%	-74.22%	-30.34%	43.88%
2008	-136.05%	-87.33%	48.72%	22.04%	70.76%	48.72%
2007	-66.58%	-16.79%	49.79%	-49.93%	-0.14%	49.79%
2006	-71.68%	-24.44%	47.24%	-38.85%	8.38%	47.23%
2005	-54.47%	-4.66%	49.81%	-62.07%	-12.27%	49.80%
2004	-81.70%	-31.45%	50.25%	-35.88%	14.37%	50.25%
2003	-48.79%	-0.24%	48.55%	-68.47%	-19.93%	48.54%
2002	-89.44%	-39.67%	49.77%	-27.02%	22.75%	49.77%
2001	-77.25%	-27.87%	49.38%	-38.30%	11.08%	49.38%
2000	-166.79%	-117.50%	49.29%	51.45%	100.74%	49.29%
1999	-119.09%	-70.15%	48.94%	4.58%	53.52%	48.94%
1998	-102.76%	-54.21%	48.55%	-10.85%	37.70%	48.55%
1997	-42.04%	-17.26%	24.78%	-15.96%	8.83%	24.79%
Average	**-85.98%**	**-29.94**	**56.04%**	**-32.92%**	**14.16%**	**47.08%**

Source: computed All figures are return as % of investment

Table No.5 Impact of Brokerage on Daily Returns in Nifty

	Long and short square off at close			Short and Long square off at close		
Year	With brokerage	With out brokerage	Difference	With brokerage	With out brokerage	Difference
2010	-98.65%	-47.79%	50.86%	-113.79%	-54.76%	59.03%
2009	-5.49%	42.96%	48.45%	-107.88%	-59.43%	48.45%
2008	-137.72%	-88.60%	49.12%	22.78%	71.90%	49.12%
2007	-14.59%	35.25%	49.84%	-102.05%	-52.20%	49.85%
2006	-26.72%	23.32%	50.04%	-90.36%	-40.33%	50.03%
2005	-29.37%	20.86%	50.23%	-88.16%	-37.93%	50.23%
2004	-55.93%	-5.12%	50.81%	-62.95%	-12.15%	50.80%
2003	-4.46%	46.39%	50.85%	-114.54%	-63.68%	50.86%
2002	-57.30%	-7.10%	50.20%	-60.17%	-9.97%	50.20%
2001	-76.49%	-26.91%	49.58%	-39.53%	10.05%	49.58%
2000	-83.71%	-33.74%	49.97%	-33.23%	16.75%	49.98%
1999	-50.97%	-0.16%	50.81%	-67.92%	-17.11%	50.81%
1998	-84.77%	-34.80%	49.97%	-32.17%	17.81%	49.98%
1997	-68.60%	-3.86%	64.74%	-45.56%	0.63%	46.19%
Average	-56.77%	-05.06%	**51.61%**	-66.82%	-16.46%	50.36%

Source: computed All figures are return as % of investment

Table No.6 Impact Rate of Brokerage On Profitability Of MACD Rules In Sensex

	RETURNS WITH BROKERAGE		RETURNS WITH OUT BROKERAGE		IMPACT OF BRK	
RULE	ADR	AADR	ADR	AADR	ON ADR	AADR
SPMACD 1-50	42.83%	24.62%	53.14%	30.54%	10.31%	5.92%
SPMACD 1-100	45.13%	26.20%	50.93%	29.58%	5.80%	3.38%
SPMACD 1-150	37.10%	21.52%	44.45%	25.79%	7.35%	4.27%
SPMACD 1-200	37.60%	22.88%	40.91%	24.89%	3.31%	2.01%
MA 9-26	16.23%	9.00%	23.95%	13.28%	7.72%	4.28%
MA 12-26	14.18%	8.34%	21.41%	12.59%	7.23%	4.25%
MA 19-39	10.60%	6.28%	15.34%	9.09%	4.74%	2.81%
MA 50-200	30.41%	17.79%	31.42%	18.38%	1.01%	0.59%

Source: computed All figures are return as % of investment

Table No.7 Impact Of Brokerage On MACD Returns in Nifty

	RETURNS WITH BROKERAGE		RETURNS WITH OUT BROKERAGE		IMPACT OF BRK	
RULE	ADR	AADR	ADR	AADR	ON ADR	AADR
SPMACD 1-50	40.92%	26.19%	49.24%	31.52%	8.32%	5.33%
SPMACD 1-100	43.48%	25.92%	47.06%	28.05%	3.58%	2.13%
SPMACD 1-150	35.87%	22.48%	40.55%	25.42%	4.68%	2.94%
SPMACD 1-200	34.80%	21.71%	38.21%	23.83%	3.41%	2.12%
MA 9-26	15.66%	9.24%	22.77%	13.44%	7.12%	4.20%
MA 12-26	12.76%	7.45%	20.49%	11.97%	7.73%	4.52%
MA 19-39	10.40%	6.16%	15.08%	8.93%	4.68%	2.77%
MA 50-200	24.71%	14.41%	25.76%	15.03%	1.05%	0.61%

Source: computed All figures are return as % of investment

Table No.8 Impact of brokerage on profitability of TRBO rules in Sensex

IMPACT OF BROKERAGE ON TRBO RETURNS IN SENSEX						
SENSEX	RETURNS WITH BROKERAGE		RETURNS WITH OUT BROKERAGE		IMPACT OF BRK	
RULE	ADR	AADR	ADR	AADR	ON ADR	ON AADR
TRBO 50	33.33	15.15	39.08	17.25	5.75	2.1
TRBO 100	24.19	14.05	26.37	14.88	2.18	0.83
TRBO 150	27.42	16.57	28.3	17.1	0.88	0.53
TRBO 200	33.05	19.18	33.93	19.69	0.88	0.51
TRBO 200-50	19.17	7.01	21.97	8.03	2.8	1.02
TRBO 50-150	37.9	27.5	38.91	28.23	1.01	0.73
TRBO 50-200	48.64	35.17	49.64	35.89	1	0.72

Source: computed All figures are return as % of investment

Table No.9 Impact of brokerage on profitability of TRBO rules in Nifty

IMPACT OF BROKERAGE ON TRBO RETURNS IN NIFTY						
NIFTY	RETURNS WITH BROKERAGE		RETURNS WITH OUT BROKERAGE		IMPACT OF BRK	
RULE	ADR	AADR	ADR	AADR	ON ADR	ON AADR
TRBO 50	32.46	17.28	35.19	18.73	2.73	1.45
TRBO 100	24	13.22	25.6	14.1	1.6	0.88
TRBO 150	24.68	14.81	25.62	15.37	0.94	0.56
TRBO 200	31.89	18.55	32.74	19.04	0.85	0.49
TRBO 200-50	15.34	5.55	18.5	6.61	3.16	1.06
TRBO 50-150	35.9	25.7	36.97	26.47	1.07	0.77
TRBO 50-200	44.78	31.96	45.84	32.72	1.06	0.76

Source: computed All figures are return as % of investment

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Wealth Maximization: an Empirical Analysis of Bonus Issues

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Abstract

In financial management wealth is defined as value of the shareholder's equity. It is generally agreed in theory that financial goal of the firm should be shareholders wealth maximization as reflected in the market value of the firm's shares. The financial manager must know or at least assume the factors that influence the market price of shares; otherwise he would find himself unable to maximize the market value of the company's shares. The paper is a study on the bonus issues which is one of the important factors for maximizing shareholder's wealth. So the basic objective of the study is to know the relationship of Bonus issues made by the company with EPS and MPS of its stocks. The results depicts that bonus issues does not make significant difference on EPS and MPS of stocks. Further moderate degree of correlation was found between the variables. Also negative correlation was established between MPS and bonus issue on the contrary EPS illustrated a positive value of correlation with Bonus issues.

I. Introduction

Relationship between Bonus issues (also known as stock issues and scrip issues) and share prices has been the subject of much empirical discussion within the finance literature. Empirical research has shown that market generally reacts positively to the announcement of a bonus issue/stock dividend (see for example, US - Foster and Vickrey (1978), Woolridge (1983), Grinblatt et al (1984), and McNichols and Dravid (1990); Canada – Masse et al (1997); Sweden – Lijleblom (1989). The hypothesis that has received strongest support in explaining the positive market reaction to bonus issue announcements is signaling hypothesis, which suggests that 'the announcement of a bonus issue conveys new information to the market in instances where managers have asymmetric information.

The firm's investment and financing decisions are unavoidable and continuous. In order to make them rationally, the firm must have a goal. It is generally agreed in theory that financial goal of the firm should be shareholders wealth maximization as reflected in the market value of the firm's shares. The financial manager must know or at least assume the factors that influence the market price of shares; otherwise he would find himself unable to maximize the market value of the company's shares.

A company issue shares in lieu for cash or sometimes against transfer of physical or intellectual property to the company's hands. However, bonus shares are issued to the existing shareholders by converting free reserves or share premium account to equity capital without taking any consideration from investors. Bonus shares do not directly affect a company's performance.

Since 1978 Australian companies have offered their shareholders alternatives to receiving a cash dividend. Initially these were Bonus Share Plans (BSPs) which allowed shareholders to take bonus shares in lieu of the dividend. Dividend Reinvestment Plans (DRPs), similar to those offered in the United States, were introduced to Australia in 1981. The DRP allowed shareholders to have cash dividends reinvested in the company and instead receive an issue of new shares, Skully (1982). Early adopters of these plans merely offered one type of plan but as more companies followed, some began to offer both types.

Bonus issue has following major effects.

1. Share capital gets increased according to the bonus issue ratio.
2. Liquidity in the stock increases.
3. Effective Earnings per share, Book Value and other per share values stand reduced
4. Markets take the action usually as a favorable act.
5. Market price gets adjusted on issue of bonus shares.
6. Accumulated profits get reduced.

The majority of existing DRP participation research was undertaken in the United States, which has no equivalent to the BSP. This paper's main contribution is to study the impact of bonus issue on Earning per share and market price of shares. It studies the impact before and after declaration of bonus issue by the companies.

Most of the existing DRP participation research was conducted in the US, where DRPs offer a wider range of features than in Australia. One major difference is that early American DRPs used treasury shares, purchased on-market, for reinvestment. However, today US DRP companies may use new issue, treasury or combined sources. As Australian companies cannot hold treasury shares, all DRP and BSP issues are new shares. The other main difference is the extensive use of additional cash contributions in the US. Only a few Australian companies have allowed small cash contributions, often to top-up an allocation to a marketable parcel.

An early survey of US companies offering new capital DRPs by Fredman and Nichols (1982) reported median participation of 8% of shares and 16% of shareholders. They did not investigate the factors affecting participation but did find that managers expected participation rates to grow. Managers believed features such as discounts and allowing partial reinvestment was likely to attract greater participation.

Research on bonus issues has dealt with two main sets of issues: (a) the bonus policy and the post bonus dividend policy of companies, and (b) the efficiency with which the stock market assimilates information about bonus issues. This present paper extends the earlier work done by various researchers to current period by investigating the impacts on prices of shares around record dates using daily return in India. This study considers companies, which issued bonus shares during 2010-2011. The contribution of this study is that, it evaluates the daily returns and daily market adjusted excess returns of each stock price on event window. This study makes extensive use of the linear regression Model. Further, it investigates the impact of bonus issue on earning per share of the companies.

II. Review of Literature

Past academic researches show significant increase in the stock prices towards the announcements of Bonus Issues. As George, V., Raphael investigated impacts on prices of bonus issues around announcement dates using daily return in India with the help of Market Adjusted Excess Return Model. It also investigates the impact of bonus ratio on price behavior so as to find whether large size bonus issues have more information content than small size issues. This is an area not yet explored in India. Their study is limited to Indian companies, which offered bonus shares from January 2004 to March 2005. Employing market adjusted return model, it found support for signaling theory, that the declaration of bonus issues convey favorable information about the future earnings to the investors. We found a cumulative abnormal return of 5.9 per cent (mean MAER 1.97 per cent) around three days of bonus announcement. Price analysis based on industry and supported by ANOVA shows that industry does not influence short-term price behavior and it may influence long-term price behavior. But analysis of influence of ratio of buy back on share price behavior found that either the ratio of bonus issue does not convey any signal about future performance of firms to investors or investors do not consider it as a factor to be considered.

Ball and Brown (1992) concluded that information on earnings of the companies effect share prices. Better earnings than expected increase share price and worse decrease it. The interesting result was that about 85 per cent of the informational content of the annual earnings announcements were reflected in the stock price prior to the release of the actual annual earnings figure indicating insider information and inefficiency. Foster and Vickrey (1978) were among the earliest to examine the signaling hypothesis using daily returns data and in their examination of the information content of 82 stock dividend announcements, they found significant positive abnormal returns around the announcement dates.

Woolridge (1983) found 0.986 percent positive average abnormal ex date returns for a sample of 317 stock dividend and postulated that the ex date effect could arise from market imperfections such as taxes and odd lot transaction cost. Grinblatt, Masulis and Titman (1984) provide empirical evidence among US firms indicating that stock prices, on average, react positively to stock dividend and stock split announcements. Mc Nicholas and Dravid (1990) find a positive relationship between stock dividend factor and the announcement related abnormal return providing evidence that is consistent with a signaling explanation for stock dividends. A Canadian study by Masse et al (1997), investigated the impact of Stock Dividend announcements on the value of firms listed on the Toronto Stock Exchange, found significant and positive abnormal returns around the announcement date.

Litzenberger and McNally (1999) stock price earnings report tested the semi-strong form of the efficient market hypothesis. The result was in contradiction to the semi-strong form as it was found that the favorable information contained in the published earnings reports was not instantaneously reflected in the stock prices.

Mishra (2005) documents the market behavior around the bonus issue announcement date for the forty-six stocks listed in the National Stock Exchange of India over the period from 1994 to 2004 using standard market model event study methodology covering a period of twenty days before and after the event. One of the interesting findings was that on an average, the stock starts showing positive abnormal returns eight to nine days before the announcement date. This could be due to the leakage of the informational content. This paper lends support to the hypothesis that Indian stock market is semi-strong efficient.

Ramachandran (1985) examined the impact of bonus announcements on stock prices and found mixed evidences of the semi-strong form of the efficiency in Indian market. Obaidullah (1992) documents positive stock market reaction to the equity bonus announcements. He found evidence to support the semi-strong form of the EMH. Rao and Geetha (1996) analyzed bonus issue announcement and found that one could not make excess money in the stock market by studying the patterns of abnormal returns of the announcements made earlier. Srinivasan (1993) found extremely large positive abnormal returns on ex-bonus and ex-rights dates for the equity stocks. Rao (1994) estimated the cumulative abnormal returns of 6.31 per cent around three days of the announcement date. He reported that the Indian stock market responds in an expected direction to corporate announcements and it supported the semi-strong form of the EMH for the Indian stock market. A study by Budhraja et al. (2004) on BSE suggests that abnormal returns in stock prices around the bonus issue announcement date over three day trading period starting one day before the announcement is significant at 95 per cent confidence level. It also says that much of the information in the bonus announcement gets impounded into stock by the time of the announcement of the bonus issue. Most researchers have lent support to the fact that Indian markets are semi-strong efficient.

Doran and Nachtmann (1988) using a sample of 879 firms which issued bonus shares and 898 firms that announced stock splits between 1971 and 1982 found that immediately after the announcement of a bonus issue there was a significant positive revision in earnings expectations similar to attention getting hypothesis. Lijleblom (1989) investigated the signaling hypothesis by examining stock price reaction to stock dividend for firms that also released simultaneous releases of past earnings. Findings indicated significantly greater positive price reaction for the stock dividend-paying group than for the control group, which was interpreted as support for the signaling hypothesis in the presence of contaminating announcements.

III. Objectives of the Study

The study has been undertaken with the following objectives:

1. To examine the impact of bonus issue on earning per share of Companies
2. To examine the impact of bonus issue on market price of share of Companies.

IV. Research Methodology

The study is analytical in nature and used secondary data analysis to attain its objectives. The study incorporated all the companies who have issued bonus shares during July 2010 to March 2011 and are listed in National stock exchange. But due to the constraint of the non availability of data only 39 companies formed the sample as per convenient sampling technique. The data used for the study are for the period from July 2010- March 2011. Closing Market Price of shares and basic earning per share before extra ordinary income has been taken for analysis. Market price before one day of record date of bonus shares and after seven days of trading of record date of bonus shares has been taken for analysis. Percentage Method, Karl Pearson Coefficient of Correlation, difference t-test has been used for measure the change in EPS and MPS with bonus issue.

Following hypothesis was formed for analysis:

Ho1 = There is no significant difference between earning price per share before and after issue of bonus shares.

Ho2 = There is no significant difference between market price per share before and after issue of bonus shares.

V. Results and Discussions

From the table I & II it can be monitored that out of 39 listed companies 30 companies demonstrated decline of EPS because of enlarge numbers of shares. It could be discovered from the table that companies like National Aluminum, Hindustan Zinc, Hexaware Technologies, Polyplex Corporation, Elgi Equipments, Hitech Gears, Zee Entertainment, Savera Industries, Jindal Polyfilms, Havells India, Info Edge, Bajaj Auto, Dabur India, TVS Motor Company, Kabra Extrusion, NRB Bearings, Cera sanitaryware, Edelweiss capital, Hindustan Construction, ITC, MMTC, Zensar Technologies & Nesco has allotted bonus shares in proportion 1:1 i.e., 100% shares have been raised but EPS of these companies has fallen only by 70%, 86%, 29%, 9%, 60%, 42%, 46%, 52%, 38%, 47%, 48%, 42%, 30%, 32%, 4%, 42%, 49%, 95%, 78%, 42%, 96% respectively . But B.L. Kashyap & Sons has shown a breathtaking augment in EPS with 630% inspite of issue of bonus share in proportion of 1:1 i.e., 100% but a plunge in its MPS by 16%. Companies like Tilak Nagar Industries and Resurgere Mines & Minerals issued bonus shares in proportion 2:1 i.e., 200% but both are having the EPS in opposite directions where Tilak Nagar industries EPS raised by 19% with drop in MPS by 9% and Resurgere Mines have marked the wilting EPS by 100% and correspondingly MPS by 16%.

Further companies like Birla power and Zenith Birla allotted bonus shares by 20% but their EPS marked no change while MPS steep down by 16% and 1% respectively. While Tulsi Extrusions and Selan Exploration allotted 10% bonus shares and their EPS pictured opposite results where Tulsi Extrusions EPS slumped by 100% and MPS by 25% while Selan Exploration have escalated by 10% and MPS drop down to 4%. Astra Microwave, Gillanders, Zodiac Clothing and Eclerx distributed 50% shares as bonus, out of which two companies Astra Microwave and Gillanders shown augmented EPS by 44% & 14% respectively with fall in MPS by 5%, where as Zodiac Clothing and Eclerx EPS has EPS slumped by 19% and 37% and MPS by 5% and 2% respectively. Some companies like SREI Infra Finance, Karur Vyasa, & Aegis logistics allotted shares by 80%, 40%, & 66.66% respectively with the flaccid EPS by 83%, 13% and 37% respectively. Parenteral Drugs allotted shares by 33.33% and a climb of 37% is seen in its EPS and collapse of 2% in its MPS.

From the table I & II it can be observed that out of 39 listed companies 32 companies demonstrated decline of

MPS. It could be revealed from the table that companies like National Alluminium, Hindustan Zinc, Elgi Equipments, Hitech Gears, Zee Entertainment, Savera Industries, Havells India, Info Edge, Bajaj Auto, Dabur India, TVS Motor Company, Kabra Extrusion, NRB Bearings, Cera Sanitaryware, Edelweiss capital, Hindustan Construction, MMTC, Zensar Technologies & Nesco has allotted bonus shares in proportion 1:1 i.e., 100% shares have been raised but MPS of these companies has fallen only by 8%, 3%, 1%, 16%, 4%, 10%, 2%, 48%, 1%, 2%, 7%, 8%, 2%, 7%, 10%, 8%, 19%, 0%, 7% respectively. Hexaware Technologies, Jindal Polyfilms, Polyplex Corporation and ITC have improved MPS by 2%, 9%, 5% and 2% respectively.

At last we can say that as a result of bonus shares EPS and MPS decline but not in that proportion in which bonus shares has been issued, as in the case of B. L. Kashyap who's EPS remarkably rose to 630% inspite of the issue of bonus shares by 100% and also depicted the decline of MPS by 16%. But MPS is still affected by issue of bonus shares though not proportionately.

Table I: Showing Statistics of EPS

Cases	Ratio of Bonus Issue	Record Date of Bonus Issue	EPS before BI	EPS after BI	% Change	Difference	D2
National Aluminum Co.	1:01	16/03/11	3.97	1.18	-70.2771	-2.79	7.78
Hindustan Zinc	1:01	8/03/11	30.52	4.19	-86.2712	-26.33	693.3
Hexaware Technologies	1:01	25/02/11	2.25	1.58	-29.7778	-0.67	0.449
SREI Infra Finance	4:05	11/02/11	1.99	0.32	-83.9196	-1.67	2.789
ONGC	1:01	9/02/11	33.12	3.26	-90.1571	-29.86	891.6
Tulsi Extrusions	1:10	10/01/11	0.07		-100	-0.07	0.005
Selan Exploration Tech	1:10	3/1/2011	4.11	4.54	10.46229	0.43	0.185
Astra Microwave Products	1:02	31/12/10	0.89	1.29	44.94382	0.4	0.16
Polyplex Corporation	1:01	25/12/10	31.17	28.22	-9.46423	-2.95	8.701
Elgi Equipments	1:01	15/12/10	3.42	1.36	-60.234	-2.06	4.244
Hi Tech Gears	1:01	2/12/10	8.72	5.01	-42.5459	-3.71	13.76
Zee Enter Enterprises	1:01	12/11/10	3.22	1.72	-46.5839	-1.5	2.25
Savera Industries	1:01	26/10/10	3.1	1.48	-52.2581	-1.62	2.62
Jindal Poly Films	1:01	25/10/10	78.08	48.02	-38.499	-30.06	903.6
Birla Power Solutions	1:05	21/10/10	0.01	0.01	0	0	0
Havells India	1:01	11/10/10	9.39	4.9	-47.816	-4.49	20.16
B L Kashyap & Sons	1:01	1/10/10	1	7.3	630	6.3	39.69
Tilak Nagar Industries	2:01	30/09/10	0.77	0.92	19.48052	0.15	0.023
Info Edge (India)	1:01	28/09/10	6.33	3.28	-48.1833	-3.05	9.303
Karur Vysya Bank	2:05	18/09/10	15.52	13.46	-13.2732	-2.06	4.244
Resurgere Mines & Min.	2:01	16/09/10	4.27	0.01	-99.7658	-4.26	18.15
Gillanders Arbuthnot Co.	1:02	15/09/10	7.99	9.12	14.14268	1.13	1.277
Parenteral Drugs India	1:03	14/09/10	4.41	6.05	37.188	1.64	2.69
Bajaj Auto	1:01	10/09/10	40.79	23.57	-42.2162	-17.22	296.5
Dabur India	1:01	10/09/10	1.03	0.72	-30.0971	-0.31	0.096
TVS Motor Company	1:01	9/09/10	1.7	1.15	-32.3529	-0.55	0.302
Kabra Extrusion Technik	1:01	7/9/2010	2.77	2.64	-4.69314	-0.13	0.017
NRB Bearings	1:01	6/9/2010	2.5	1.44	-42.4	-1.06	1.124
Cera Sanitaryware	1:01	3/9/2010	9.52	4.81	-49.4748	-4.71	22.18
Zodiac Clothing Company	1:02	24/08/10	5.11	4.09	-19.9609	-1.02	1.040
Aegis Logistics	2:03	20/08/10	4.4	2.77	-37.0454	-1.63	2.657
Zenith Birla (India)	1:05	12/08/10	0.34	0.34	0	0	0
Edelweiss Capital	1:01	11/08/10	2.04	0.09	-95.5882	-1.95	3.802

Hindustan Const. Co.	1:01	11/08/10	0.93	0.2	-78.4946	-0.73	0.533
ITC	1:01	4/08/10	2.80	1.62	-42.1429	-1.18	1.392
MMTC	1:01	30/07/10	11.05	0.41	-96.2896	-10.64	113.2
eClerx Services	1:02	26/07/10	15.23	9.47	-37.8201	-5.76	33.18
Zensar Technologies	1:01	22/07/10	13.33	4.08	-69.3924	-9.25	85.56
Nesco	1:01	21/07/10	7.11	9.29	30.6610	2.18	4.752

Table II: Showing Statistics of MPS

Case	Ratio of Bonus Issue	Record Date of Bonus Issue	MPS before BI	MPS after BI	% Change	Difference	D2
National Aluminum Co.	1:01	16/03/11	108.2	98.75	-8.7338	-9.45	89.303
Hindustan Zinc	1:01	8/03/11	130.8	126.15	-3.555	-4.65	21.623
Hexaware Technologies	1:01	25/02/11	54.25	55.5	2.3042	1.25	1.5625
SREI Infra Finance	4:05	11/02/11	40.5	41	1.2346	0.5	0.25
ONGC	1:01	9/02/11	282.05	276.05	-2.1273	-6	36
Tulsi Extrusions	1:10	10/01/11	27.85	20.85	-25.135	-7	49
Selan Exploration Tech	1:10	3/1/2011	392.9	377.15	-4.0087	-15.8	248.06
Astra Microwave Products	1:02	31/12/10	46.1	43.45	-5.7484	-2.65	7.0225
Polyplex Corporation	1:01	25/12/10	339.7	359.7	5.8876	20	400
Elgi Equipments	1:01	15/12/10	94	92.3	-1.8085	-1.7	2.89
Hi Tech Gears	1:01	2/12/10	131.05	109.25	-16.635	-21.8	475.24
Zee Enter Enterprises	1:01	12/11/10	147.6	141.35	-4.2344	-6.25	39.063
Savera Industries	1:01	26/10/10	57.4	51.55	-10.192	-5.85	34.223
Jindal Poly Films	1:01	25/10/10	567.05	621.8	9.6552	54.8	2997.6
Birla Power Solutions	1:05	21/10/10	1.85	1.55	-16.216	-0.3	0.09
Havells India	1:01	11/10/10	426.35	416.2	-2.3807	-10.2	103.02
B L Kashyap & Sons	1:01	1/10/10	46.4	38.75	-16.487	-7.65	58.523
Tilak Nagar Industries	2:01	30/09/10	84.5	76.8	-9.1124	-7.7	59.29
Info Edge (India)	1:01	28/09/10	683.7	753.05	-48.183	-3.05	9.3025
Karur Vysya Bank	2:05	18/09/10	579.9	544.1	-6.1735	-35.8	1281.6
Resurgere Mines & Min.	2:01	16/09/10	2.65	2.2	-16.981	-0.45	0.2025
Gillanders Arbuthnot Co.	1:02	15/09/10	117.1	110.7	-5.4654	-6.4	40.96
Parenteral Drugs India	1:03	14/09/10	234.45	229	-2.3246	-5.45	29.703
Bajaj Auto	1:01	10/09/10	1459.4	1,443.3	-1.1032	-16.1	259.21
Dabur India	1:01	10/09/10	108.5	105.8	-2.4885	-2.7	7.29
TVS Motor Company	1:01	9/09/10	77.15	71.2	-7.7122	-5.95	35.403
Kabra Extrusion Technik	1:01	7/9/2010	91.95	83.9	-8.7548	-8.05	64.803
NRB Bearings	1:01	6/9/2010	53.85	52.6	-2.3213	-1.25	1.5625
Cera Sanitaryware	1:01	3/9/2010	178.8	165.65	-7.3546	-13.2	172.92
Zodiac Clothing Company	1:02	24/08/10	351.8	331.7	-5.7135	-20.1	404.01
Aegis Logistics	2:03	20/08/10	316.9	306.5	-3.2818	-10.4	108.16
Zenith Birla (India)	1:05	12/08/10	16.9	17.1	1.1834	0.2	0.04
Edelweiss Capital	1:01	11/08/10	61.05	54.85	-10.156	-6.2	38.44
Hindustan Const. Co.	1:01	11/08/10	71.5	65.3	-8.6713	-6.2	38.44
ITC	1:01	4/08/10	154.4	158.25	2.4935	3.85	14.822
MMTC	1:01	30/07/10	1,841.8	1,478.2	-19.742	-364	132205
eClerx Services	1:02	26/07/10	467.15	477.6	2.237	10.4	109.20
Zensar Technologies	1:01	22/07/10	175.55	175.5	-0.0285	-0.05	0.0025
Nesco	1:01	21/07/10	708.35	656.85	-7.2704	-51.5	2652.3

We also examined Z (refer table III) test to find out the significant difference between the EPS (before and after issuing bonus shares) and MPS (before and after issuing bonus shares). The Z value of EPS is 1.412577599 and MPS is 0.15648806 which is less than the critical value of 1.96 at 5% level of significance so, the null hypothesis (Ho1 &Ho2) are accepted which concludes that bonus shares does not influence to earning per share and market price per share respectively.

The correlation value of Bonus issue (refer table III) with MPS is -0.058087 which is negative i.e. the Bonus issue and MPS are inversely correlated. As the companies issues less no. of bonus shares its market price increases and vice versa. The only possible reason for this could be that only the existing shareholders are being benefited which leads to a dissuasion among the potential investors or the investors seeking to buy the company's shares. The correlation value of Bonus issue with EPS is 0.1519259 which is positive that means company is making huge profits which directly increase the EPS of shareholders.

Table III: Showing Statistics of Correlation and Z test

Variables	Correlation	Z- Value
Bonus Issue and EPS	0.1519259	1.412577599
Bonus Issue and MPS	-0.058087	0.15648806

VI. Conclusion

Shareholder's wealth maximization means maximizing the net present value of a course of action to shareholders. It implies that the market value of company's shares is a function of Earning per Share, which may not be true in many instances. If the market value is not a function of EPS then maximization of the latter will not necessarily result in the highest possible price for the company's shares. Maximization of EPS further implies that the firm should make no dividend payments so long as funds can be invested internally at any positive rate of return, however small. Such a dividend policy may not always be to the shareholders advantage. Hence considering EPS and MPS as two different factors for maximization of shareholders wealth is justified. The results depicts that bonus issues does not make significant difference on EPS and MPS of stocks. Further moderate degree of correlation was found between the variables. Also negative correlation was established between MPS and bonus issue on the contrary EPS illustrated a positive value of correlation with Bonus issues.

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Conditioning of Risks

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Introduction

Conditioning of risks has become extremely challenging to one and all especially the professionals in the corporate world in the recent times. Every day we come across numerous risks, knowing or unknowingly, while carrying out our dailies. Some risks are known to us because the risks are comprehendible, but many others are not perceptible to us although exists. Both kinds of risks influence us directly or indirectly because of their impact and potential to cause harm. As we know, risk exists because of the reaction of a plethora of factors or simply put resultant outcome of future events may not always be favorable. Can we call if there is positive outcome, eventually no risk exists? Again an interesting issue comes to mind, whether risks follow us or we follow the risks. Little analysis of the situations would put us to answer, chick or egg first?

Exposure

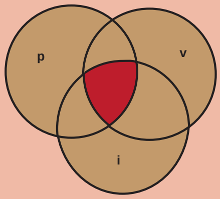
Fore dealing with the idea of conditioning the risks, conceptual understanding of the subject is essential. Risk is a concept that denotes a potential negative impact to some characteristic of value that may arise from a future event. Thus risk constitutes the likely negative impact caused by a future event. In other words, exposure to the consequences of uncertainty constitutes a risk. Sometimes the exposure to the risk is known beforehand, but many times it is unknown. Environment in which the event is likely to occur provides the necessary exposure to the risk.

Impact

Risk is proportionate to the expected losses caused by an event and the probability of its occurrence. Greater the loss and probability of occurrence, greater the overall risk. Thus simply put, risk is a factor of probability of occurrence of an event and loss arising out of it. Risk is considered as a function of three variables:

R = f (p, v, i)

Where,



R = Risk
p = Probability of threat
v = Vulnerability to threat
p = Impact of threat

The intersection space of the three circles (in red) constitutes the risk. All the three elements are necessary to indicate the existence of risk. The diagram shows that probability of occurrence of any threat is the foremost element in the existence of risks. Vulnerability to the threat is second element to know about the exposure followed by the third element i.e. likely impact of the threat. Thus existence of all the three elements is essential to reckon risks. So mathematically, if any of these variables approaches zero, the overall risk becomes zero.

To explain, ***threat*** means the possibility of trouble or danger. Since threat is futuristic, a statistical **probability** of occurrence is assigned to evaluate the risk. *Vulnerability* is the susceptibility to physical or emotional injury or attack. **Vulnerability** is a concept that links the relationship that people or organization, have with their environment. The concept of vulnerability expresses the multidimensionality of disasters by focusing attention on the totality of relationships in a given situation, which constitutes a condition that, in combination with environmental forces, produces a disaster. Potential ***impact*** shows the financial implication on occurrence. Thus risk is evaluated in terms of the product of the three variables.

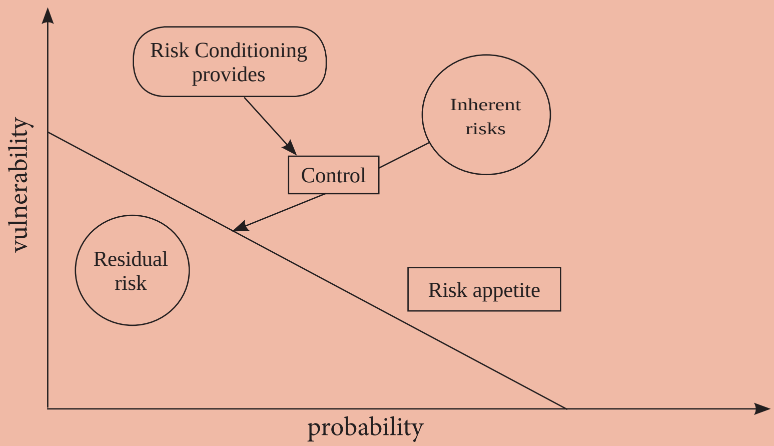
Risk is also used interchangeably with the word uncertainty although, latter is subjective in nature. Uncertainty exists in the business environment due to existence of more than one possibility and measured by assigning a set of probabilities. Risk is a state of uncertainty, where some of the possibilities involve a loss, catastrophe or other undesirable outcome. Therefore risks are quantified to understand the impact.

Let us analyze a simple example, whether exchange rate variation poses risk to a small business unit operating in a rural India? The instant answer would be an obvious 'no' but why? The above three elements shall lead us to the conclusion. As far as the first element of probability of occurrence of event i.e. 'movement in exchange rates' is concerned, there is absolute truth about variations in exchange rates including gyrations at times. But the small business unit operating in a rural India is not vulnerable to the event of variations in exchange rates and the absence of consequential impact. Thus due to absence of second and third elements in the instant case, our conclusion leads us to an obvious one. But if the small business unit is an Export Oriented Unit, then the answer may not be negative. Because, not only the unit is vulnerable to risks, but also there is every likelihood of increase or decrease in the export earnings. Thus existence of all the three elements confirms exposure to risks.

Conditioning

Literal meaning of Conditioning is 'a process in which behavior becomes dependant on the occurrence of a stimulus in its environment'. Here the word 'stimulus' can be equated with the occurrence or likely occurrence of the event and the behavior changes accordingly. Thus conditioning as a process helps to change behavior to suit the environment due to occurrence of event. Conditioning of risks helps in bringing down the risks to a level below the threshold limit, considered as 'acceptable' by an organization. This threshold limit signifies the 'risk appetite' of the organization. Generally, an organization is comfortable to deal with the risks with a magnitude within the risk appetite of the organization.

As we know, risk has a strong relationship with reward. Therefore all business organizations operate facing the prevalent or probable risks in the environment. These are called *inherent risks* to the organization. All the stakeholders of the organization ought to know or perceive about the inherent risks. But complete exposure to inherent risks may not only cause damage but seriously threatens the very existence of an organization. Therefore it is suicidal in nature. The inherent risks in the environment have to be brought down below a level set as per the risk appetite of the organization. Thus the left out risks or residual risks are manageable by the organization. This can be better explained by the following diagram below which shows the relationship between the risk appetite, inherent risks and residual risks.



The line drawn between the axis for probability of occurrence of events and the axis for corresponding vulnerability of the organization indicates the consequential impact. Always the conditioning endeavor aims at keeping the residual risks within the risk appetite of the organization.

Mechanism for Conditioning

Conditioning of risks is a strategic and a comprehensive plan to deal with the potential risks. Broadly, the strategy covers Risk avoidance or elimination, Risk reduction or mitigation, Risk retention and Risk transfer or buying risk insurance. Corporate strategy dealing with risks may encompass one or more such options, independently or simultaneously, to bring down risks within comfort level. Risk elimination deals with avoidance of the activities and the associated rewards too, because the organization is not in a position to bear such risks threatening its existence. Risk retention is holding the risks within the pre conceived comfort level or carrying out with the residual risks. Whereas, corporate depend on external agencies for conditioning risks in case of the other two options i.e. Risk mitigation or transfer. Risk mitigation is otherwise called hedging.

With the development of financial markets, plethora of derivative products like futures, options, money market instruments etc are available to mitigate financial risks. Although not completely unsafe, the hedging products can be very useful, if used with appropriate precautions and clear risk policies. Risk transfer altogether means buying an insurable product from insurance companies as an off the shelf product or tailor made suiting the requirements to cover the risks.

Preparedness for Risks

While conditioning of risks is undoubtedly an important process but preparedness of the organization speaks more about the ability to handle adverse outcomes of unforeseen events. On the basis of preparedness, organizations can be broadly classified into following five categories:

- Risk enabled organizations: Where the condition of risks and internal control are fully embedded in the operations. This is an ideal organization for preparedness point of view.
- Risk managed organizations: Where enterprise-wide approaches to conditioning of risks is fully developed and communicated.
- Risk defined organizations: Where strategies, policies with respect to dealing with risks are in place and communicated. Also risk appetite of the organization is well defined.
- Risk aware organizations: Where the Internal auditors work as a consultant to undertake a risk assessment.
- Risk naïve organizations: Where formal approach is yet to be developed for conditioning of risks.

The preparedness for risks embraces activities covering identification of potential risks, assessment of exposure to such risks and documentation of the same to build up the risk profile of the organization. In the ladder for risk preparedness, risk naive organizations stand at the bottom in the order.

Conclusion

Scientific exploration through Quantum Physics hardly leaves anything without risk perception which explains that *universe is a stunningly interconnected system, where everything is in relationship with-and-affected by everything else*. Therefore, an organization which is prepared to face and condition the risks shall undoubtedly stand on a stronger footing as compared to even lesser prepared ones. The basic reason for the argument could be due to the ability of such organizations to convert the threats into opportunities or reducing the impact of the adversities. In this regard good governance processes and internal control also play equal important roles in laying emphasis for developing a suitable risk culture in the organization by recognizing the need for establishing standards and protocols to overcome such adversities. This type of structured approach helps in assigning responsibility to create common process for assessing and communicating risk issues from different levels to the highest level of decision-making in an organization. Such organizations provide necessary enablers by keeping in place risk policies, processes, trained personnel, effective risk language and technologies to deal with situations. A comprehensive Enterprise Risk Management (ERM) framework facilitates a structured and continuous process across the organization to identify and assess the risks, prepare mitigation plans and report on the opportunities/threats that affect the achievement of its objectives. It calls for a comprehensive oversight of the risk portfolio of the organization by aggregating and integrating all risk conditioning activities in order to achieve maximum risk adjusted returns in line with the corporate objectives.

FDI in Multi-Brand Retail in India–a Cost-Benefit Analysis

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Introduction

The prime objective of a developing economy like India is to improve economic performances by attaining faster balanced growth. Availability of fund is the precondition for that growth. In India, market oriented reforms were undertaken in 1991-92 with a view to attaining faster balanced growth. Growth of Gross Domestic Product (GDP at 1980-81 prices) which had fallen to a mere 0.8 percent in 1991-92 recovered within a year to reach 5.1 percent in 1992-93. GDP growth rate was 9.6 percent in 2006-2007. In 2007-2008 the rate came down slightly to 9.3 per cent. In 2011-2012(Advance estimate) this rate again came down sharply to 6.9 per cent.

It might not be possible to sustain accelerated growth rate because of poor infrastructure, inadequate roads and unsatisfactory power situation and relatively low rate of savings and investment compared with tigers and cubs of Asian-Pacific region. Experiences of east and south-east Asian countries have also shown that during rapid industrialisation and economic growth phase, developing countries require rapidly growing rates of domestic savings and investment. In India, gross domestic savings (GDS) as a percentage of GDP at current market prices was 32.3 per cent in 2010-2011 and Gross fixed capital formation as a percent of GDP was only 30.4 percent. So there is no denying the fact that India needs huge investment from abroad. Apart from that to accelerate the pace of economic growth the true potential of the agricultural sector is to be unlocked to increase its contribution to the national economy and to check the rising prices of food items that pushed the consumer price index (CPI) close to double digit.

It is fact that Indian economy faces serious supply – side constraints, particularly in food retail chain. It is also fact that there has been lack of investments in logistics of retail chain creating inefficiencies in this sector.

According to the findings of *Indian Council for Research on International Economic Relations (ICRIER)*, which submitted its report in 2008 to the Government of India, the unorganized retail sector in India is expected to grow at about 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12. Unorganized retailers with relatively weak financial state and the physical space constraints on their expansion prospects will not be able to meet the growing demand for retail alone. Organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and its share in total retail trade will become 16 per cent by 2011-12.

Under this back drop, Government of India wanted a policy for allowing 51 percent FDI in multi- brand retail as a part of reforms that was initiated in 1991-92.

Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India issued a Circular on 10th April 2012 (amendment made in this regard on 20th September 2012) allowing 51% FDI in multi-brand retail in India. The policy mandates a minimum $ 100 million worth of investments, of which at least 50 % has to be in back-end infrastructure development. The investment will be made not only in urban areas but also in rural areas. It will certainly fuel employment growth in our country. Retail trading by means of e-commerce, would not be permissible, for companies with FDI. Retail sales outlets may be set up only in cities with a population of more than 10 lakh as per 2011 Census and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities.

Retail sector is the largest employer in our economy. Allowing FDI in multi brand retail may, however, jeopardize the existence of the people involved in the retail sector.

Objectives of the study

The study aims to enquire:

1. The necessity of FDI in multi-brand retail in our country

2. The world picture relating to FDI in multi-brand retail
3. The possible impact of the policy from the point of view of different stakeholders

Significance of FDI in Multi-Brand Retail in India

It is being said that the policy change will open up investment opportunities for global retailers. With the entry of foreign retailers, consumers will experience more variety of products at a reasonable price with improved quality and the customers will be the ultimate beneficiary.

Currently lack of adequate storage facilities cause huge losses to farmers. According to the policy at least 50% of total FDI brought in shall be invested in `back-end infrastructure'. 'Back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units. Back-end infrastructure will comprise of investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of back-end infrastructure.

If FDI in multi- brand retail is allowed then the compulsory investment of at least 50 % in back- end infrastructure development will reduce the wastage of vegetables, fruits and other farm products and farmers would be able to get remunerative price. If the MNCs purchase their required products directly from the producers abolishing the middlemen involved in the process, it may also enable the farmers to get remunerative price for their produce. Rural people will, therefore, be benefited from the entry of FDI.

Huge investments in the retail sector will notice gainful employment opportunities in processing, sorting, marketing, logistic management, stoarge and the front-end retail business. According to estimates, there would be employment of one person per 300-400 sq.ft. retail space. Thereby about 1.5 million jobs would be created in the front-end alone in the next five years. If it is assumed that 10 percent extra people are required for the back-end, the direct employment generated by the organised retail sector in our country over the coming five years would be around 1.7 million.

The impact on retail employment and on prices of primary producers for a country like India with its huge population could be considerable.

According to CII, FDI in multi-brand retail would have multifarious advantages to farmers, small and medium enterprises, producers, consumers and government. According to them, allowing FDI in retail will boost the aggregate income of all producers by $ 34- 45 billion every year. The move will also help to generate 3-4 million direct jobs and 4-6 million indirect jobs in logistics, distribution, packaging, security etc.

The Indian economy will gain as these investors will bring technology and management practices to build modern supply chain and connect producers directly to markets. The government will also be able to garner more revenue from the organized retailers.

World Picture

China's retail industry was opened to foreign investors in 1992 and in less than a decade, it brought over $ 22 billion FDI. Presently 40 foreign retailers with hundreds of local retailers make it a $ 1 trillion industry and it is expected that it will become double in five years. In China FDI in multi brand retail was first allowed in 1992 and foreign ownership was limited to 49 %. Today there is no such restriction and 100 % FDI in multi-brand retail is allowed. In between 1996 to 2001, we notice that 600 plus hyper marts were formed. Employment in retail and wholesale sector was 28 million and it rose to 54 million in 2001. An ICICI study of Chinese retailing showed that the industry grew at 19.4 % annually since 1992. Traditional outlets increased from 1.9 million to 2.6 million over a five years period of 1996 to 2001. Retail employment shot up from 4 % to 7 % of the labour force. In China organised retail comprises around 25 % of total retail. In India the figure is only 6.5 percent. Hundreds of Chinese giant retail chains are present in China and they are equally strong as that of MNC retail chain.

In Russia, supermarkets were built up in 2000s after the entrance of FDI in that country. Heavy growth in the retail sector was also registered in that country. Presently 100 percent FDI in multi-retail is allowed in that country.

In Indonesia 100 percent FDI in multi-retail is allowed. Modern retail, however, took off in 1990s.

Thailand is a country where we notice an adverse impact on the local retailers. Presently 100 percent FDI in multi-brand retail is allowed in that country.

Apart from these countries Brazil, Argentina, Singapore and Chile also allow 100 % FDI in retail sector. Taiwan opened up its retail sector to foreigners in 1980s without creating a regulatory environment for the emergence of a strong retail sector. Today foreign companies dominate Taiwan's retail trade.

South Korea and China managed the process of foreign entry gradually encouraging joint venture between domestic and foreign retailers before going for looser regulations on FDI.

Modernisation of retail trade is an essential part of India's growth story. Experience of China, Indonesia and several others countries shows that modern retail and traditional retail can prosper side by side, raising employment along the supply chain , improving farm incomes, reducing spoilage and delivering affordable products to consumers.

Table-1 Share of the organized Retail Sector around the World (%) 2006

Country	Share of the organized sector
USA	85
UK	80
FRANCE	80
GERMANY	80
JAPAN	66
MALAYSIA	55
THAILAND	40
BRAZIL	36
RUSSIA	33
INDIA	04

Source : Planet retail and Technology Advisers Pvt. Ltd & ICRIER

The arguments for and against FDI in retail are, at a generic level, valid on both sides. Now let us analyse the impact of FDI in multi-brand retail in our country from the point of view of different stakeholders.

Retailers' Stand Point

Retailing is about providing the right product at the right price at the right place. In this respect kiran stores offer three major advantages – location, time of delivery and personalised credit. They mainly cater the need of local neighbourhood and in some cases extend credit based on years of mutual trust and interaction. Unorganized retailers, therefore, have significant competitive strengths that include consumer goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings and home delivery.

According to the study of *Center for Policy Alternatives, New Delhi* unorganized small and medium retailers employ over 40 million and there are 11 retail outlets for every 1000 people. It is being said that small retailers or kiranawala will be the worst sufferer if FDI in multi – brand retail is allowed in our country because MNC retailers like Wal-Mart sell goods that are available in Kiran shops. After agriculture, the retail sector is the largest employer in our economy. It is fact that Indian retail industry is still at a nascent stage and modernization of the sector is long overdue. There are around 1.25 crore kiran shops in the country which employ an estimated 4 crore people. If we take into account their families, it means 20 crore people depend on small retail stores. That is why we cannot neglect the interest of these very serious numbers.

But many of the kiran shops are totally safe, as the new foreign multi brand retail stores are allowed to come in cities with a population of one-million plus and 53 cities come in this category.

According to National Accounts Statistics released by the Government of India, the gross domestic product generated by trade was an astonishing Rs. 9.2 lakh crore in 2009-2010. So contribution of this sector to the national economy cannot be denied.

According to the latest report (November 2011 Report No. 537) of *National Sample Survey Organisation (NSSO)* on employment, nearly 3.8 crore persons are employed in trade sector of which 82 % are employed in retail trade, 13 % in wholesale trade and the remaining in sale , repair and maintenance of motor vehicles. Of the 3.1 crore persons employed in retail trade, about 52 % persons work in urban areas. It would translate to over 6.4 crore people dependent on this sector.

Table-2 Employment in Trade

	Rural	Urban	Total
Retail	1.48 Cr (48%)	1.62 Cr (52 %)	3.1 Cr
Wholesale	15 lakh	32 lakh	47 lakh
Motor vehicle related	9 lakh	14 lakh	23 lakh
Total	1.7 Cr (45 %)	2.1 Cr (55 %)	3.8 Cr

Source: NSSO Report 537, November 2011

So any policy change can increase the suffering of so many people involved in trade.

Devid Neumark of the University of California in 2007 concluded that for every job created by big box retail, 1.4 jobs are lost from smaller retail stores in neighborhood. Another study by Emek Basker of Missouri University in 2005 concluded that up to 60 jobs might be lost in every 5-6 years for every Wal-Mart stores that opens. Both the studies were done outside India. But giant retailers like Wal-Mart do not cater to the high end consumers like branded retailer Marks& Spencer. Wal-Mart mostly retails what the numerous small shops provide. Every Wal-Mart will be seen as an entire bazzar or market. High- end luxury brand stores like *Vertu, Christian Loubotin, Armani Junior* might expand the market by creating a new demand, but the Wal-Mart like stores will force the small stores to shut down their door.

It is, however, not only retailer, the wholesale traders and the people associated with the wholesale trade will also be affected tremendously. The number of people associated with wholesale traders is not negligible. As per the report of NSSO (2011), the number of people engaged in wholesale trade in urban area alone was 32 lakh. If we take into account the number of dependable family members, then number of affected people would be massive.

SMEs' Stand Point

The small and micro enterprises have been playing vital role in the economic development of India. They contribute around 45 per cent of the total industrial output and 40 per cent of the total exports of industrial products to various countries of the world. They employed

42 million people of India and create a million of jobs every year. These small and micro enterprises produces around 8000 quality products in the Indian market. They contribute 17 per cent towards the Gross Domestic Products (GDP) and the same is expected to increase to 22 per cent by the end of 2012.

It is being said that FDI in multi- brand retail will help to thieve Small and Micro Enterprises (SMEs) as the policy will force the MNC retailers to procure at least 30 percent of their requirement from SMEs with assets (total investment in plant & machinery) of less than 5 crore (US $ 1.00 million). This valuation refers to the value at the time of installation, without providing for depreciation. The policy change will bring about the development of healthy supply chain integrating the SMEs into modern trade. It will also help the SMEs to get better price for their products.

The bigger fear of Small and Micro Enterprises, however, is that the foreign retailers may import most of their products from cheaper source like China. If we look at the Auto industry, we will see most international firms import most of their products and source just 5-7 % of the auto parts from the domestic enterprises.

Wal-Mart like MNCs potentially could kill the domestic small suppliers of anything by importing 70% of their requirement from China or other cheaper source of supplies. So sourcing only 30 % may not give any boost to the small and micro enterprises, the generators of large number of employments, in our country.

Apart from that, sourcing 30 % of their requirement from micro and small enterprises in India may fall foul of Article III of the General Agreement on Tariff and Trade (GATT) and WTO's Trade Related Investment Measures (TRIMS) Agreement. The point is that India is also a member of the WTO. If it does anything that is noncompliant, then all countries will move the WTO dispute settlement mechanism because local sourcing is prohibited under the Trade Related Investment Measures (TRIMs) Agreement. It was introduced during the Uruguay Round of WTO in 1995. GATT rules mandate that WTO member countries will prescribe same set of rules for domestic and foreign companies when it comes to purchase, sale, transport, distribution and taxation of goods.

Presently small suppliers, even without FDI, are being mercilessly squeezed by middlemen. Their condition may worse further with the entry of FDI in multi- brand retail.

Farmers' Stand Point

As far as FDI is concerned, farmers have welcomed it and they want the government to stand firm because they feel it is in their interest. They say that the policy will remove the middlemen and help them to fetch better price. According to them there will be investments that lead to creation of infrastructure, warehousing, cold storage and will generate employment and they will get better price for their produce.

India is the second largest producer of fruits and vegetables. But there are only 5386 cold storages and these are mainly used for storing potatoes. According to the Confederation of Indian Industries (CII) and Boston Consultancy Group, Indian farmers earn only 30 % of the consumer price. In some developed countries, this varies between 50 to 70 %. According to the *Federation of Indian Chamber of Commerce*, if FDI is allowed, farmers will probably be the biggest gainers. Lack of storage facilities causes heavy losses to farmers. They incur post-harvest losses of over Rs.1 trillion a year and 57 % of this is avoidable wastage. According to the industry estimates 35 – 40 percent of fruits and vegetables and around 10 percent of food grains are rotted annually before they reach to the consumers because of the country's lack of infrastructure, adequate roads and refrigeration facility in our country. The comparative figure for fruits and vegetables for Australia, which has the world's best record in this area, is less than 1 %. There is a logistics experience that India needs to tap to reduce the massive wastage. Poor farm infrastructure transforms into high prices of the farm products. The government says Indian farmers get only a third of the total price a consumer pays as against two-thirds in modern retail. A 2007 World Bank study shows the average price an Indian farmer gets for horticulture produce is barely 12 to 15 percent of what is paid at the retail outlet. FDI in multi-brand retail will bring in investments, technology and efficiency to unlock the true potential of the agricultural sector.

There are 600 million farmers, 1200 million customers and 50 million traders. Farmers' Bodies claim that both the farmers and customers will be benefited by FDI in retail. They, however, want the government to make it mandatory for retailers to buy 75 % of their requirement directly from the farmers. Bharat Kishak Samaj, with more than 75000 members , support the FDI in retail with condition that the direct procurement is made mandatory for stopping the sucking of blood by traders and middlemen. Farmer leaders believe that the middlemen and traders are at the root of rural poverty and India's food inflation. The general thumb rule of price rise from a farmer to consumer in perishable commodities such as fruits and vegetables is 1:2:3:4 that is what a farmer sells for Re.1. is sold at local mandi at Rs 2 and becomes Rs 3 at consumption mundi and becomes Rs 4 when it reaches the consumer. Therefore, they incur a lot of losses in the present mandi system. Generally an Indian farmer gets a third of what the end- consumers pays for his produce. In times of bumper harvests and distress selling, he gets just a sixth. The windfall gains are for a sequence of intermediaries. Organised retail provides the farmers greater security. A study was undertaken by Government of India through *Indian Council for Research on International Economic Relations (ICRIER)* on the subject of *'Impact of organized retailing on Unorganized Sector'* (Indian owned). They found that the average price realization for cauliflower farmers selling directly to organized retailers was around 25 % higher than their proceeds from sale to the regulated government mandi and the profit realization is 60 % higher. But experience from Austrilia and other countries show that it is the big players who determine the price and the type of product that the farmers will have to bring to the market.

Customers' Stand Point

As per the 2011 Census consumers in the 53 most populated cities of the country add up to over 122 million in contrast to 40 million traders. Proponents argue that customers will be biggest gainers if FDI is allowed in our country. Competition will push prices down and improve quality of products.

At present 40 percent of Indian fruits and vegetables is rotted before they reach to the consumers because of the country's lack of infrastructure, adequate roads and refrigeration. Owing to the compulsory investment in back-end infrastructure development, customers will be benefited if there is any reduction in wastage of vegetables and fruits as the increase in supply will push the price down and it will help to control inflation in this segment.

With the entry of foreign retailers, consumers will experience more variety of products at a reasonable price with improved quality. Premium consumer goods, across personal care, packaged food and electronics, could soon be flooding shop shelves and consumers will find before them a better choice. If FDI in multi-brand retail is allowed then 40 million traders are likely to be affected by competition from the organized modern retail, about 122 million consumers stand to benefit from it. So consumers will be biggest gainers from FDI in retail. It is being said that customers will be benefited enormously because of the entry of FDI in multi-brand retail. Presently so many Indian giant retailers are present in the economy but how far they help the economy in controlling inflation during the period of high inflation is a big question. It is fact that MNC retailers will be able to procure goods at a cheaper rate, but it is hard to suppose that they will pass this price benefit to the customers. There may be small price difference for attracting customers but in no way they will pass all the benefits of bulk purchase to the customers. There may also be a big question whether they will pass the benefit to the customers in future after capturing the market.

Apart from that take the case of opening up wholesale cash and carry business. Who has been benefited from opening up this sector? At least the consumers have not been benefited from that. Otherwise food inflation, that increases the woes of the government and common people, could be checked.

Indian Organized Retailers' Stand Point

Indian retail chains are also in favour of allowing FDI in retail chain. According to them they are growing at 25 % to 30 % annually and entry of FDI in retail would have increased the growth rate to 40 to 50 %. Indian companies as a whole are also in favour of allowing FDI in multi-brand retail. According to them FDI in multi-brand retail will benefit India immensely as it will bring investments into the development of complete back-end infrastructure such as cold chain and supply chain. It will further enhance efficiencies in food chain, reduce high levels of wastage and help to control inflation in this segment. Small and medium enterprises (SMEs) will be benefited as foreign retail chains will need to source 30 % of their procurement from those enterprises.

Currently Indian retail giants are working hard for cash flows for generating investment. According to them investments from foreign partners will help them to reach break- even faster. Indian companies feel that FDI in multi-brand retail will help to revive the "cash–strapped' domestic retail industry by attracting funds. They expect that FDI in multi-brand retail will generate three to four million direct jobs and four to six million indirect jobs by 2020. They also feel that the FDI will ensure parallel growth for both large retail chains as well as small kiran stores. According to them it is a virtuous cycle as there is something in it for farmers, SMEs and certainly for government as there is a guarantee of growth for the exchequer. Indian retail chains owned by corporate houses touched a double digit sales growth during the previous fiscal. But with increase in sales, losses of those organisations also increase. Combined sales of those organizations grew 30 % to Rs 5759 crore during financial year 2010-2011 as compared to Rs 4433 crore in the previous year. But retail has a long gestation period before break- even sales.

Table-3 Statement Showing the Performance of the Domestic Giant Retailers

Name of the company	Sales 2009-10 (Rs in Crore)	Sales 2010-11 (Rs in Crore)	Percentage change in sales	Losses 2009-10(Rs in Crore)	Losses 2010-11(Rs in Crore)	Change in Losses
Reliance Retail	2599	3132	21%	177	247	40 %
Aditya Birla Retail	1411	1637	16	541	423	-122 %
Trent Hypermarket	290	520	79	29	51	76 %
Bharti Retail	133	470	253 %	170	266	56 %

Source : The Times of India, Kolkata December 14, 2011

It appears that most of the Indian organized retailers are suffering huge losses and their losses are increasing day by day. They need to invest a lot for making it a profitable business that they are lagging. It may be fact that for the sake of their own business they are in favour of entry of FDI in multi-brand retail because they may be able to sell their business at a premium price to the MNCs and get an exit route to avoid mounting losses that they are suffering.

Summary

The impact on retail employment for a country like India with its huge population is considerable. There are nearly 1.6 crore persons and 32 lakh people who are employed in retail and wholesale trade respectively in urban areas. It would transform to over 6.4 crore people and 1.28 crore people dependent on this sector if we count their families. Therefore so many people in urban areas are worried about possible outcomes of FDI in multi-brand retail chains. The gross domestic product generated by trade was Rs 9.2 lakh crore in 2009-2010. Therefore significance of the trade sector in the national economy cannot be denied.

Customers on the other hand will be benefited because they will find before them a large variety of goods at a reasonable price. High end luxurious goods will also be available in India.

Presently farmers are being heartlessly squeezed by middlemen and traders, who are at the root of rural poverty. Farmers will be benefited because of huge investment in back-end infrastructure development and reduction in wastage and number of middlemen between farmers and customers.

Presently Small and Micro Enterprises are also being mercilessly squeezed by middlemen. The bigger fear of Small and Micro Enterprises, however, is that the foreign retailers may import most of their products from cheaper source worsening their pecuniary condition. Compulsory 30 percent procurement from local source may not save millions of people involved in this sector.

It the context of globalization, it may be impossible for India to keep its doors closed for a long time and as a part of the reforms process initiated in 1991-92, Government of India has already allowed 100 percent FDI in cold chains. But investment flows into this sector has been insignificant till today. So eagerness of the MNCs in making investment in infrastructure development is apparent. 100 percent FDI has been permitted in food-processing industry. But total investment in this industry is only $330 million compare to the requirement of $25 billion. Obviously, the food processing sector is not attractive for the investors. The foreign investors will see their own advantage and profitability and not interest of the people of India.

Suggestions

1. Liberalization may be indispensible but phase wise liberalization is more acceptable than opening up the economy at one go, so that local players can get enough time to make them acquainted with the changing situation.
2. Reforming the agro economy involves much more than opening up FDI in retail. There are problems relating to infrastructure, storage and processing. There are controls on storage and distribution. If all that is reformed then farmers should get higher prices without putting pressure on consumers' pocket anymore.
3. Farmers should organise themselves into cooperatives and groups for increasing their bargaining power.
4. Middlemen and traders are supposed to be at the root of rural poverty and India's food inflation, so that steps can be taken to control their activities without affecting their livelihood.
5. Agricultural Produce Marketing Committee (APMC), that hurts farmers and allows middlemen to thrive, should either be modified or scrapped.
6. Kiran shops should also make their own locality based groups so that they can get the benefit of bulk purchase to fight against the MNC retailers.
7. Communication among the SMEs should be stronger to avoid undesirable competition among them. Representative bodies should be more active for stopping sucking of blood by the organised group.

Conclusions

The words development, higher GDP growth rate, higher per capita income are very good to pronounce. But development for the sake of development is meaningless. Development should be for the sake of people.

No reforms are, however, positive sum. There are gainers and losers. If FDI in multi- brand retail is allowed, small retailers will be losers and no one should deny the fact. In retailing, attitude and human touch is more important than experience and skills. These qualities are almost impossible to imitate in modern retail and it keeps the small retailers, the worst sufferers of the policy, ahead of organized retail.

Lastly quality of FDI is more important that quantity and we should keep it in our mind before formulating any policy in this regard.

Current Economic Slowdown in India: An Empirical Analysis

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I. Introduction

Economic growth rate slowed to a 9-year low in March quarter, 2012 at 5.3 per cent, and 6.5 per cent for the entire 2011–12 financial year (refer Figure 1). Even the 2011–12 growth was lower than 6.7 per cent growth achieved in 2008–09 amid the height of global financial meltdown. The present growth slowdown is not exclusive to India; rather it is a global phenomenon. Europe is under the severe pressure of sovereign debt crisis; America is working hard to come out from the prolonged recessionary pressure after the global financial meltdown; China has reoriented its 2012 growth target at 7.5 per cent, lowest since 1990; Global growth is estimated to contract by more than one percentage point between 2010 and 2012 (IMF, 2011).

An intense blame-game among the government, Reserve Bank of India (RBI) and corporate sectors has started with regards to the sluggish performance of the economy. But this is not a time to blame one-another rather it is time of independent introspection of individual strength to revive the growth and work in coordination to each other. We have identified and ordered the following five reasons of present economic slowdown and finally concluded the article with some policy actions to come out of this slowdown.

II. High Interest Rate

RBI has increased its policy rate under the liquidity adjustment facility (LAF) requirement to tighten the money supply thirteen times in 2011–12 to curb inflation. High interest rate always hurt the investment because of higher investment cost. Not only that credit rationing mechanism at higher level of interest always encourage to take more and more risky projects with higher amount of probability of repayment failure. Perhaps, this is the reason why most of the public sector banks have suffered higher amount of non-performing asset (NPA) and lower amount of net profit margin (NPM) (Table 1). This further reduces the amount of availability of credit if there is no provisioning of compensatory refinance facility. High interest lowers the margin of the corporate profitability because of higher interest cost especially the rate sensitive sectors such as infrastructure, manufacturing, housing, power etc. (Table 2). Lower corporate profit margin means lower investable surplus for the next financial year. Lower amount of investment in the next financial year, if not supported by further stimulus packages, certainly reduces the growth in the subsequent years. So high interest rate is not only eating up the availability of capital for the private corporate sector but also reducing the investable surplus indirectly by reducing the corporate profit margin.

Table 1: Performance of Large Banks

Bank	Gross NPA (%)			NPM (%)		
	2011–12	2010–11	Change	2011–12	2010–11	Change
SBI	4.44	3.28	35.37↑	10.99	10.15	8.28↑
PNB	2.93	1.79	63.69↑	13.41	16.43	18.38↓
Union bank of India	3.01	2.37	27.00↑	8.45	12.65	33.20↓
ICICI	6.32	4.47	19.02↓	19.27	19.83	2.82↓
HDFC	1.02	1.05	2.86↓	18.94	19.70	3.86↓

Source: Audited financial results of the banks downloaded from www.bseindia.com
Note: SBI has undergone huge loan restructuring in 2010–2011. NPA is significantly high even for the large private sector banks.

The primary goal of the monetary policy of RBI in India is to maintain a reasonable degree of price stability while ensuring an adequate expansion of credit to assist a sustainable level of economic growth (Rangarajan, 1998). But indiscriminate monetary tightening by RBI is certainly hurting the present growth. RBI has reduces the CRR (Cash Reserve Ratio) by 25 basis points which will release close to 17000 crore of Rupee in the economy in its September, 2012 monetary policy review. But certainly this is insignificant with reference to the targeted growth of 8 per cent. It is expected that RBI will soon think positively and gradually ease the interest rate in the subsequent policy reviews provided there is some stability in the price front.

Table 2: Interest-Cost as a Percentage of Total Expenditure of Rate Sensitive Sectors

Companies(Sectors)	2011–12	2010–11	Percent Change
TATA MOTORS(Automobile)	2.00	1.84	8.7↑
DLF(Housing, construction)	35.01	26.49	32.2↑
L & T(Infrastructure)	1.93	1.82	6↑
TATA STEEL(Commodity)	3.40	2.58	32↑
Adani Power(Power)	22	21.4	3↑

Source: Audited financial results of the banks downloaded from www.bseindia.com

III. Policy Paralysis

The second most culprit of growth slowdown, as per our value judgment, is the policy paralysis of the government. The present policy paralysis of the government can be broadly classified into three categories: policy inaction towards reforms, failure in fiscal consolidation and complete administrative breakdown.

Government has finally notified about the foreign direct investment (FDI) in multi-brand retail without making a positive consensus among the various stakeholders. A number of states are against the present move. Even the ruling Trinamul Congress in West Bengal has declared to withdraw their support from United Progressive Alliance II (UPA-II) making the government a minority one on this issue. It has also increased the FDI cap in aviation and insurance sector upto 49 per cent recently. But still there is suspicion about the future prospect of the aviation industry because of lack of infrastructure in some pockets of the nation. Input cost is also very high in this industry. So foreign inflow in this sector is very much doubtful. There is still a long negative list for FDI. This is definitely hurting the overall level of investment because of inadequacy of capital. Agriculture and manufacturing sectors are attracting insignificant level of FDI in comparison to service sector as due to the absence of supportive government policy. The reform, started in 1991, has required another high amount of push to cope up with the uncertainty of the global economic situation.

Government has overshot its fiscal consolidation goal. It is a lagged consequence of the required stimulus packages after the global financial crisis. Indian economy has successfully come out of the crisis because of this stimulus measures. But the huge subsidy bill primarily consists of oil, food and fertilizer even after the present insignificant increase in oil price and proposed cap on the number of subsidized LPG cylinders in a year is not sustainable even in the short run. High fiscal deficit ultimately crowds out the availability of the capital for the private sector. Further high fiscal deficit is an important cause of inflation. Higher inflation has negative impact in growth.

Finally the administrative failure in several areas has not only raised the questions about the credibility of the present government but also reduced the attractiveness of India as a favored destination of investment. Coalgate embargo, 3G spectrum case, the issue of taxation of Vodafone, no clear direction towards General Anti-Avoidance Rule (GAAR), over encroachment in mining bill preparation, failure to draft an all party acceptable Lokpal Bill are some present impasse which have made the global investor to go out of our nation. Government has failed to meet its disinvestment target because of tepid stock market. Stock market is the barometer of the real economy. It reflects the true valuation of the economy. As the valuation of our economy has come down because of lower growth rate, stock market has responded accordingly. Again under-performing capital market makes it difficult to raise capital and so growth in the next period.

IV. Euro Zone Crisis

It is claimed by our coveted neo-liberalists that the Indian economy is opened with calculated doses of control so that it can resist the external shock of destabilization. Perhaps it is true partially; we have resisted the historical East-Asian currency crisis; recover very fast after the global financial crisis. Nevertheless it is customary to claim that the present Euro zone crisis has affected our growth directly because of our significant amount of exposure to the European economy (Table 3). Approximately twenty per cent of our trade exposure, both export and import, is with the nations of the European Union (EU). EU is India's largest trading partner and also the largest source of FDI as a block. A significant amount of European bank branches are now present in India (Table 4). They have already advances a lion share of their capital to some Indian giants such as Bharti Airtel, HPCL, Vedanta group etc. These European banks may experience significant losses due to Euro zone crisis and so they will reduce their exposure to maintain their capital adequacy ratios. A large number of Indian public and private sector banks such as State Bank of India, Bank of India, Bank of Baroda, Canara Bank, ICICI bank have their branches in Europe. Euro zone crisis has already deteriorated their margin. It is intimidating the advancement of the global economic recovery as it is a significant market towards the rest of the world. It accounts for one-fifth of the world GDP and one-tenth of the global equity markets turnover (Anand et.al, 2012).

Table 3: Exposure of Select Indian Large Companies in Europe

Company	Per cent of Total Revenue from the Operation in Europe	Major Takeover in Europe
TATA Steel	60	Corus
Hindalco	32	Novelis
Sintex Industries	25	Nief Plastics
Havell India	50	Sylvania
Suzlon Energy	40	Repower System

Source: ET Intelligence Group, The Economic Times, 26 September, 2011.

Table 4: European Bank Branches in India

Name of Banks	Country of Incorporation	Number of Branches in India
Barclays Bank Plc.	United Kingdom	10
BNP Paribas	France	8
Credit Agricole Corporate and Investment Bank	France	6
Deutsche Bank	Germany	16
Standard Chartered	United Kingdom	96

Source: RBI, 2012.

V. Rupee Depreciation

The last but not least impeding factor of our present slowdown is the currency depreciation. Rupee has depreciated by more than 9 per cent against dollar in this current quarter. Similar movement is observed against the other major currencies in the world. This huge amount of sudden weakening of Indian currency has adversely impacted the Indian Incorporation's net forex bill. Indian Inc earns 20 per cent of its standalone revenues from exports and spends over 36 per cent of its revenues on imports. We have failed to enjoy the lower commodity prices because of currency depreciation. The dollar price of a barrel of Indian Basket of Crude has fallen by more than 2.5 per cent during May, 2012 but rupee price has increased by 18.6 per cent during the same period (ET Intelligence Group, May, 2012). High import bill enlarges the current account deficit which further depreciates the currency making the import more expensive.

VI. Conclusion

We conclude our comment with some very simple suggestions, perhaps known to all, but difficult to implement at this present juncture simply because of external factors, compulsion of coalition politics, welfare outlook of the government. But still the present government must have to take some immediate contingent measures to restore their long term political goal: the goal of achieving double digit growth.

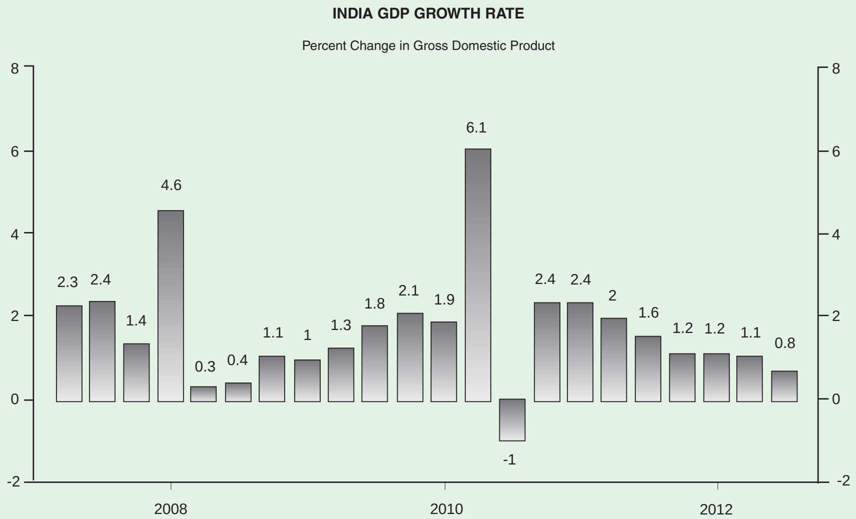
According to our viewpoint, RBI should play the most pro-active role at this present juncture. Core inflation is now showing a tendency of down trend. Hope monsoon will be close to the normal level as per the meteorological department forecast. Commodity prices are at their nadir. So inflation will cool down or at least come to the economically absorbable limit by the next quarter. Again it should be kept in policy consideration that the high growth is generally associated with at least moderately higher inflation level irrespective of the nature of an economy (Khan & Senhadji 2001, Ghosh and Phillips 1998). Therefore, government should pursue the central bank for monetary easing at its next policy review scheduled to be declared on 30th October, 2012. Even if RBI does not reduces the interest rate citing higher inflation volatility and persistent sticky inflationary expectation, then government can think of some moderate doses of stimulus packages such as home loan subsidy, lower amount of service tax etc. in line with the packages after the global financial meltdown. It will certainly reduce the supply side bottlenecks of the economy. As inflation is largely driven by the supply side constraints at present, so stimulus packages along with some degree of fiscal consolidation will reduce the inflation after some very short lag. Lower inflationary situation will provoke the RBI for monetary easing.

There are several bills such as FDI in insurance, pension regulatory bill, land-acquisition bill, Lokpal bill are impending. Government should positively think about all these bills and pass all these in the next session of the parliament. The issues of deferred taxation on Vodafone and long term direction on GAAR have raised several doubts among the global investors. Empowered group of ministers have to take final call on both the issues considering the long term benefit of Indian economy. The recent Telecom Regulatory Authority of India's recommendation on spectrum auction and pricing of the spectrum have also made the global investor confused as well as reluctant to make investment in this sunrise sector of the economy. The problem is very much sector specific but it reveals the weakness and uncertainty of the government policy measures. It should be resolved at its earliest.

Government should further reduce its oil subsidy bill to consolidate its fiscal situation. There is no alternative to the deregulation of diesel price in line with the petrol price decontrol. Several states are opposing this movement. But the present government can think about state specific development packages out of the reduced subsidy to the opposing states. Kerosene and gas subsidy can be provided only to the economically poor households. The use of Unique Identification Number in this context will be a useful measure to reduce the subsidy leakages.

Government has tested a number of models such as Offer for Sale (OFS), Institutional Placement Programme (IPP) to off load the stake in the public sector units and meet the disinvestment target. Recently government is going to introduce an Exchange Traded Fund (ETF) comprised of public sector units to reduce their public holding. But all are in vein just because of lukewarm response of the investors. So we need to restore the investors' confidence first. So we need growth, more and more growth. High growth is the answer to all problems in this globalized world.

Figure 1



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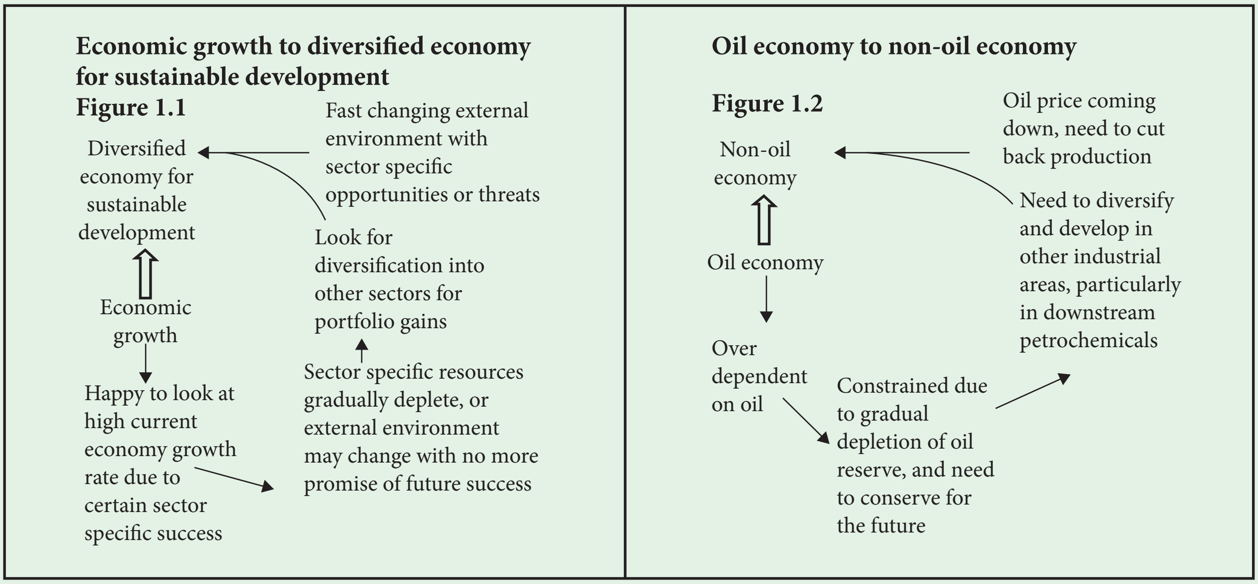
An Analysis of the Transformation Process From Existing to New Business Practices

Prof. Mohit Kumar Kolay
FCMA

Introduction

A business that is run efficiently will survive in the long run whereas a business that is inefficient will perish after a while. Such long run sustainability is possible only if the firm invests in new products, services and technologies such that it always remains ahead of its competitors in its chosen line of business. The process of innovation and evolution becomes all the more important when recessions occur. Global economic downturns have the capacity to wipe out businesses if they do not employ methods whereby they constantly improve their operations and management systems. Apart from sudden macroeconomic shocks, gradual depletion of natural resources could be another reason why firms need to innovate and replace and/or renew their assets.

Continuous change and improvement in all aspects of the business is thus essential for a firm to survive and thrive in the long run. Keeping this in view, here we take a critical look at the changes in the management process in different functional and strategic areas. Perhaps weighing the efficacy of these changes relative to their own organization may be a useful exercise for managers and government administrators in all countries.



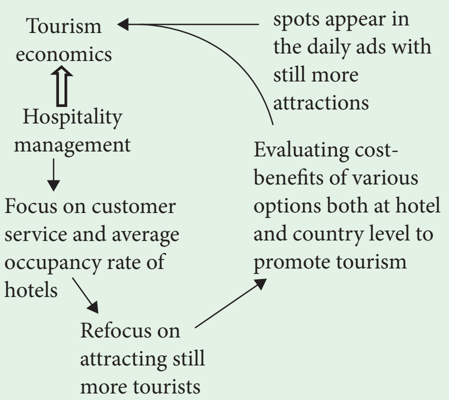
Changes In Economic Scenario

Countries are endowed with a certain quantity of naturally occurring resources e.g. the Middle East is endowed with oil. However, over time resources deplete and changes in external environment may occur which render the natural resource unusable or obsolete. Therefore, nations need to diversify into other potentially promising industrial sectors to maintain future economic growth and development (Figure 1.1). For example, in case of gradual depletion of a natural resource like oil in the Middle East, the countries need to diversify into other sectors to maintain the steady growth rate of its economy (Figure 1.2). Moving towards non-oil based industries over time forces the gradual change in business pattern of those countries. Apart from the oil sector, the tourism industry is another example which could be developed as a substitute to current industries. The number of world tourists is expected to reach 1600 million by 2020 from 960 million as of today. Such staggering growth in the number of tourists implies that any country with potential tourist attractions could open these up to international visitors and this could contribute to the economy as well. Indeed some countries in the Middle East such as Dubai are now successfully building man-made tourist spots e.g. artificial islands to attract tourists. To create an economy in which tourism plays a major role, countries needs to move away from a relatively narrower view of hospitality management (where tourism generates only a small slice of the economy's revenue) to a full scale tourism based economy (Figure 1.3). Examples of such tourism based economies include Bali in Indonesia or Fiji Islands in the South Pacific region where all infrastructure and policies are formulated keeping in mind that tourists should be attracted and re-attracted.

To facilitate economic growth and development in any country, the role of the banking and financial sector is crucial. Historically, commercial banks used to focus on

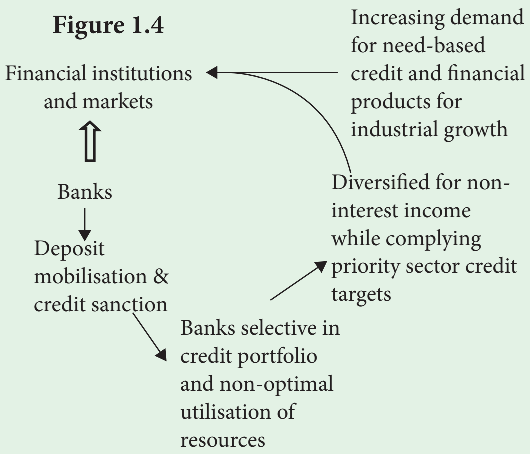
Hospitality management to tourism economics

Figure 1.3



Banks to financial instituations and markets

Figure 1.4



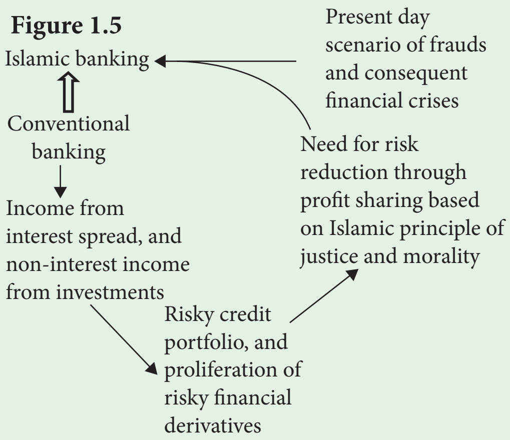
maximization of net interest income within the constraints of various target obligations prescribed by the country's central bank. In recent time however, income from interest has become less important as the proportion of non-interest income of commercial banks has grown. Such growth is in fact one of the key measures of success of any commercial bank—how well is it able to innovate and diversify its existing products and services to suit the changing needs of its customer base? Liberalization, globalization, and privatization have accelerated the pace of this growth and commercial banks now need to work in cooperation with capital markets, industrial development banks, exchange houses, and other financial institutions (Figure 1.4) to keep up with the fast-evolving needs of their clientele.

Currently the worldwide economy is going through a downturn. One of the possible factors contributing to this downturn e.g. in the US has been the increased use of complex financial instruments such as derivatives and mortgage backed complex securities. One of the lessons from this is that perhaps banks should avoid committing themselves for what they do not own. Going a step further, perhaps banks may even try to reduce risk through profit sharing based on Islamic Principle of justice and morality. Perhaps, there exists a need to examine a gradual introduction of Islamic banking along with traditional banking (Figure 1.5). We know that since 1963, when the First Islamic Bank was established in Egypt, a lot of significant developments have taken place within this area, particularly in the 1980s. Iran introduced 100% Islamic banking system in 1983, Malaysia passed a comprehensive legislation on Islamic finance in the same year, From Jakarta to Jeddah, 265 Islamic banks and other financial institutions are now operating in some 40 countries with total assets that top $262 billion. Malaysia created the world's first Islamic interbank money market in 1994. In fact, today Islamic banking has broadened its appeal well beyond the confines of faithful Muslims as HSBC experiences in Malaysia. That ought to prompt the countries' planners to think and suitably decide whether to promote Islamic banking too following the example of HSBC in Malaysia along with conventional banking.

Another important question relating to economic change is whether countries, especially those which have

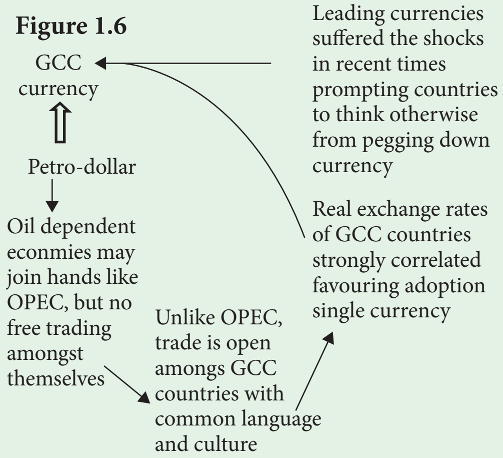
Conventional banking to Islamic banking

Figure 1.5



Petro-dollar to GCC currency

Figure 1.6



a lot of free trade among them, can introduce a common currency of exchange amongst them to facilitate easy exchange among all the trading partners. Currencies of some countries are pegged to a particular stable currency. However, these days in the current global economic situation, erstwhile stable currencies are not free from being affected by sudden macroeconomic shocks either. Trade position and the balance of payment position deteriorate with such sudden economic shocks. The introduction of Euro in the European belt is one such example and maybe extending to other different regions of the world which are closely aligned by their trading needs e.g. the GCC countries or members of the ASEAN (Figure 1.6). An in-depth analysis of the real exchange rates of GCC countries and the correlation between them is needed before a final decision to introduce a unified currency system. However, we know that countries within a region e.g. those within the GCC have the same language and the same culture. Therefore, a priori, pending any economic calculations, we may infer that the introduction of a common currency may be beneficial in strengthening the economies within the GCC system.

Changes in the Organizational Behaviour and Human Resource Management Scenario

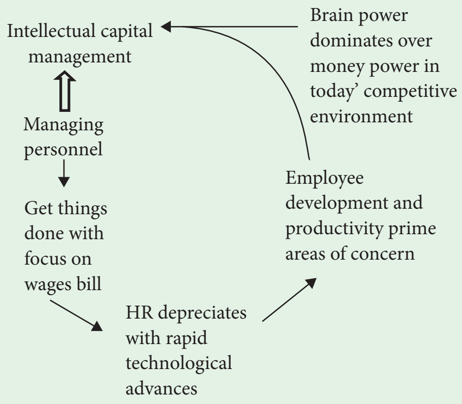
Almost every chairman has been known to declare periodically at their annual general meeting that the employees of the firm are its most important assets. Despite the declaration however, the general perception remains that organizational human resource (HR) is a cost centre i.e. spending resources on the human capital of the firm is considered an expense rather than as development of an asset. Training and development of the workforce has benefits that accrue over time and is necessary on a continuous basis to match the rapid technological advances. Cutting such training costs and focussing instead on short-term profitability will lead to erosion of future profits since the quality of HR will deteriorate. Instead of considering HR as an expense, firms need to view them as assets (Figure 2.1) which will appreciate over time (OECD, 1996). Such a view will promote the best possible utilization of all organizational assets and the firm will thrive in the long run. In the same vein, managers need to expend resources on upkeep and maintenance of infrastructure as well as relationships which are important such as those with customers and suppliers.

Sometimes managers may be tempted to maximize current gains and may end up delaying the required maintenance of machines or bargain too hard with suppliers and customers. Such actions deplete organizational asset base and consequentially, profits in the long run. For sustained long run profits, we need to focus on learning and development of the organization. Focussing solely on employee development and improving cost effectiveness measured by the traditional learning curve (Wright, 1935) is inadequate. Unlearning old and outdated practices, and learning to work together with the suppliers, customers, and above all with employees is needed so that a firm can come out with new products, and processes, and operating system. In sum, the organization needs to be great learning centre (Dealtry, 2002). Perhaps with an ideal firm to look at would be IBM of 1980s with five Nobel prizes and six national medals of science (Figure 2.2).

But in order to facilitate the learning process, constant change and upkeep in all methods of work within the firm are needed. Inertia and resistance to change could be the reason for an organization's failure in the long run. Changing overnight is difficult but it is important to anticipate the likely changes in the internal and external

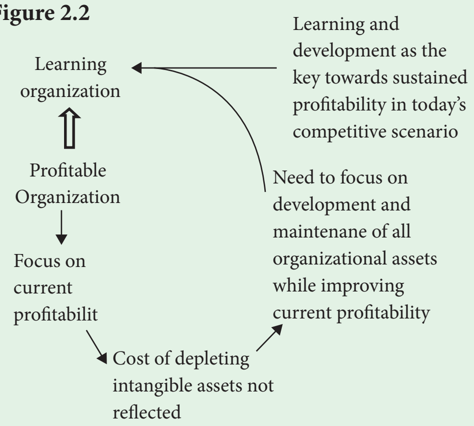
Managing personnel to intellectual capital management

Figure 2.1



Profitable organization to learning organization

Figure 2.2



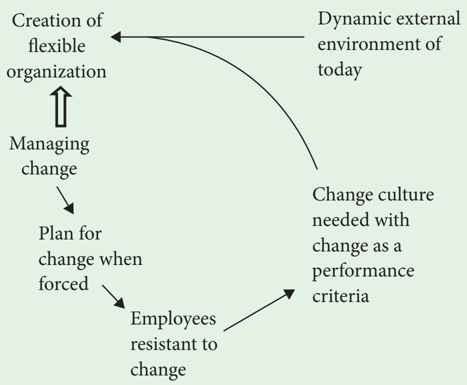
environment and adapt to those changes. For instance, traditionally, increase in sales may be considered important, but creating new sales in new products and markets may be needed to keep up with a dynamic consumer base. The culture of change needs to be embedded throughout the whole organization (Wilkinson, Fogarty & Melville, 1996) making it flexible to deal with the present day uncertainties of the business environment (Figure 2.3).

Apart from employee flexibility and development, emphasis on ethical standards is needed. The legal and regulatory framework may not be adequate to stop unscrupulous managers from profiting by unreasonable methods. Corporate frauds are prevalent, especially in economics with relatively less strict corporate governance framework. A possible recourse is to develop an ethical sense in each employee or person associated with the organization to achieve a higher average level of ethical standards (Figure 2.4) to save the stakeholders from potential fraud.

Another important area of concern in the pursuits of organizational development is the general apathetic behaviour of our present day corporate managers and government administrators. Some organizations go for share option plan for their senior executives to reduce the agency problem and motivate them to take a bit more care of shareholders' interests. Hardly they perceive the organization as their own, and manage the organization as owner-managers. What is lacking today in present day

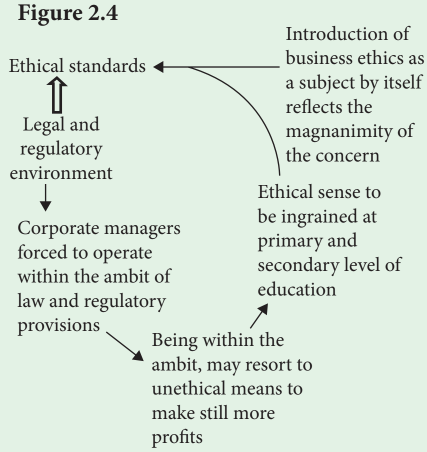
Managing change to creation of flexible organization

Figure 2.3



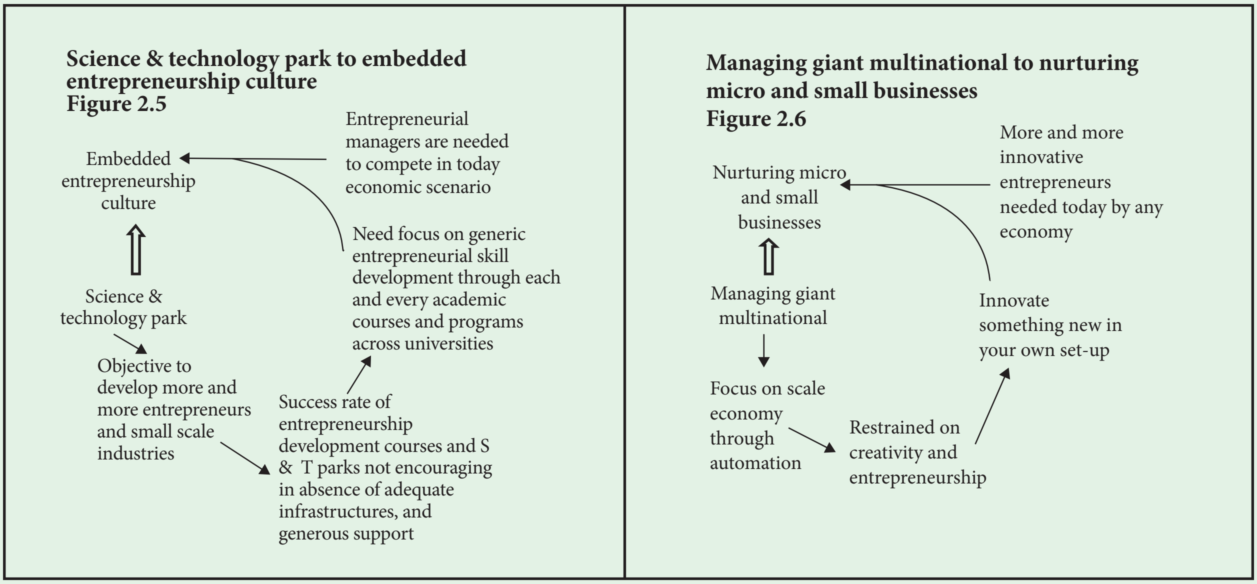
Legal and regulatory environment to ethical standards

Figure 2.4



organizations is the entrepreneurship culture. Executives need to gain confidence in their own strengths, and shake off their weaknesses to become creative. They need to trust their own judgement rather than obey. But the root of all these virtues can be embedded amongst individuals at the schools and colleges focussing on learning outcome of generic entrepreneurial skill development. Some universities have gone in for science and technology entrepreneurs park to develop more and more entrepreneurs. But the number of emerging entrepreneurs is not the last word, what is important is to develop more and more entrepreneurial managers for the country's economy (Figure 2.5).

In the earlier days, corporate executives used to be proud to associate their names with the giant multinationals. But today the days of knowledge monopolies are over, venture capital firms are available to help nurture the ideas of technocrats into great possibilities. Now many executives start feeling suffocated in the giant multinationals, realize the restraint on their creativity, and prefer to go in for start-up companies to innovate something new in their own small scale set-up. If we look at developing economy like India today, for example, small scale sector accounts for 49% of overall country's exports, over 40% of manufactured output, and provide employment to around 28.3 million people (RBIAR, 2008). In such a scenario,



when any developing economy needs more and more innovative entrepreneurs, perhaps the local government need to give priority to micro and small businesses (Figure 2.6) to enable them to play a dominant role in the growth and development process.

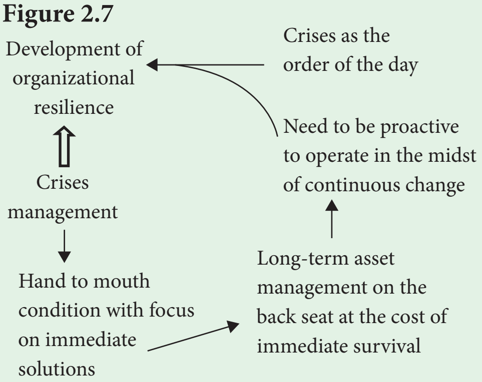
But what happens to business organizations when there is a sudden change, and turmoil in the whole country due to natural disaster like floods in Bangladesh, and tsunami in Indonesia, or man-made coup in a small multi-racial country like Fiji or Solomon Islands, where all policies of the local government are changed, mass exodus of skilled manpower takes place from the country, confidence of employees, creditors, bankers and investors is all tarnished with the country's economy shattered. To survive in such a sudden jerk situation which can never be anticipated and planned, to successfully manage the crises, organizations need to develop an innate strength of organizational resilience over time to face such contingencies (Figure 2.7). The traditional tools and techniques of change management are important but they need to be practiced over the years to develop the necessary strain energy of organization to withstand the shock like the modulus of resilience to withstand the impact loading of structures. Flexibility of an organization refers to its ability to change, while resilience signifies that the organization has been experiencing the change over the years. It is the continuity of change and the change culture inculcated into the organization to add on to its capacity an inner strength to make it resilient (Gittell, Cameron & Lim, 2004). When crises have almost become the order of the day at some part of the globe, what is needed is the organizational resilience to fight for survival in the midst of such hurricanes (Kendra and Wachtendorf, 2003).

Changes in the Operations Management Scenario

With greater knowledge sharing among corporations, organizations cannot continue to rely entirely on its own research and development. They need to make use of others' technologies in its business as well. A good example of this

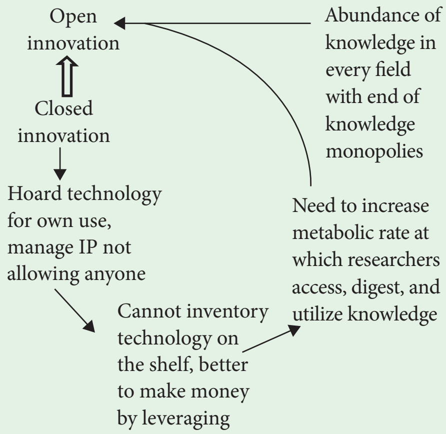
Crises management to development of organizational resilience

Figure 2.7



Closed innovation to open innovation

Figure 3.1

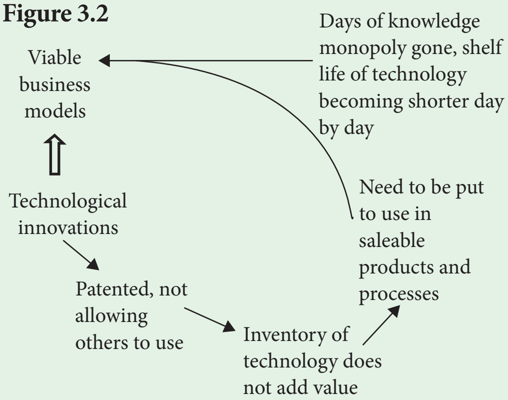


would be IBM. It increased its sales of $2.86 billion with earnings of $364 million in 1963 to a massive $11 billion with earnings of $1.58 billion in 1973, but then in 1980s, as their technological and knowledge monopoly declined, in 1992, IBM recorded the largest annual loss in the US corporate history of $4.96 billion. Then, it opened up and entered into a contract with Apple Computer in 1993 allowing them to use IBM's 2-1/2 inches drive in addition to using the same drive in their own laptop ThinkPad. By 1997, more than half of IBM's 2-1/2 inches drive was going into the laptop of its competitors (Chesbrough, 2003). In summary, IBM could not keep its technology to itself but started sharing it with other firms thereby transiting from closed to open innovation (Figure 3.1).

Technology by itself has no value per se; economic value of technology remains latent until commercialized. For example, the technology of high speed copiers was rejected by firms like IBM, ADL, Kodak, and GE but the business model of leasing out of 914 high speed copiers eventually transformed $30 million Haloid Corporation into Xerox with $25 billion revenue. Again, the same success with high speed copiers resulted in a strong cognitive bias within Xerox and discouraged them to develop low speed copiers needed for small businesses and individuals. Japanese Canon and Ricoh focussed on this section of the market with great success. The effectiveness of the business model adopted (Figure 3.2) is relevant to add value to technology. A mediocre technology with a

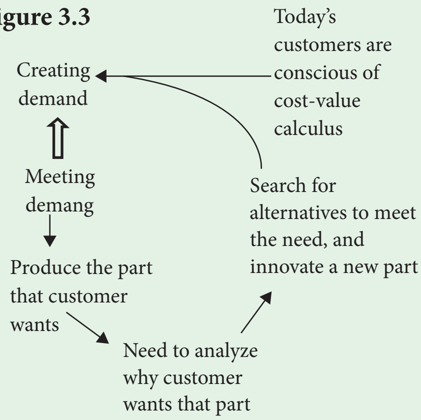
Technological innovations to viable business models

Figure 3.2



Meeting demand to creating demand

Figure 3.3



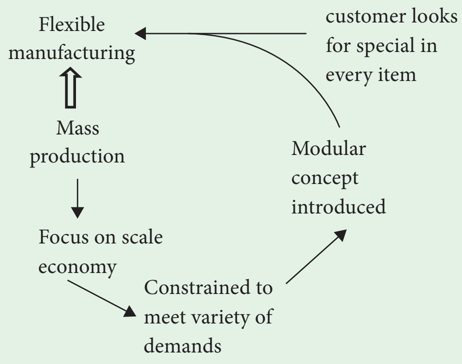
great business model may be more valuable than a great technology with a mediocre business model.

The value of any product or service depends on how it meets the needs of the customers. With constantly changing consumer needs, the organization needs to evolve continuously to keep pace. A firm may import technology but should be in a position to break it up, and reengineer it to improve it. For instance, while today certain type of medicine maybe in vogue; tomorrow we might see certain country-grown plant leaf or vegetable replacing the imported medicine in the whole country. The search for better alternatives needs to be continuous in order to create customer demand (Figure 3.3).

The value of any product or service is not static—technological advances are quite rapid, tastes of individuals continue to change, and new products and services emerge constantly in the markets. Each consumer wants something special in their choice of products and services. The basic design of the car, for example, has remained the same for Toyota, but depending on the choice of various attributes for different target groups, different models continue to emerge in the different market segments. The whole design is structured as the building block of different modules, and the different modules are assembled together to evolve a new model with a new look. What is important is the modular concept to make it flexible (Figure 3.4). The same is the phenomenon

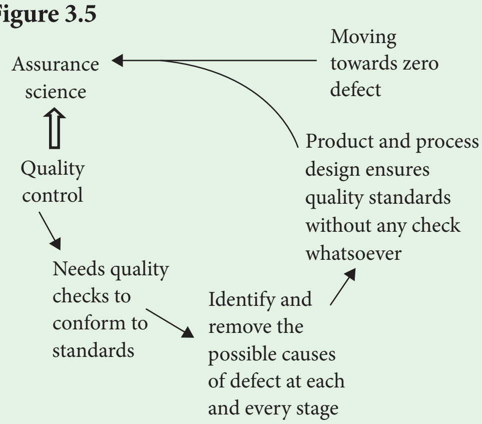
Mass production to flexible manufacturing

Figure 3.4



Quality control to assurance science

Figure 3.5



for services, say for the offer of university courses. Earlier flexibility in course was limited but today, universities are busy in breaking down their offer of courses into different modules, so that it can meet the specific needs of a greater variety of students such as corporate executives or adult learners.

To ensure the value of any product or service to customers, traditionally managers have focussed on quality control, inspection of work-in-progress at each stage and the final point inspection using statistical sampling and control chart techniques. However, with increasing customer demand for quality, three sigma limits of confidence are no longer adequate. Six sigma limits and zero defect are what customers expect. A focus on total quality management process from the design table to the end-product is needed. The product and process have to be so designed, planned and executed so that any deviation from the set parameters would allow the system to readjust and be put back onto the track immediately. Customers won't have to go for inspection or acceptance sampling; they would be assured of requisite quality standards without any check whatsoever (Figure 3.5).

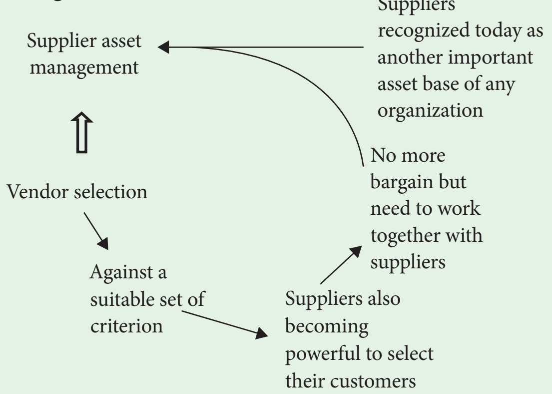
To meet the variety of customers' needs with assured quality, one important area of concern is the availability of required quality inputs on time. Firms need to work together with suppliers to meet their input requirements to enable them to move towards just-in-time system. The suppliers are also equally powerful to select their customers with their own terms and conditions. Suppliers need to be managed as another external arm of the organization as an asset, focussing on long-term relationship building (Figure 3.6).

Changes in Management Information System Scenario

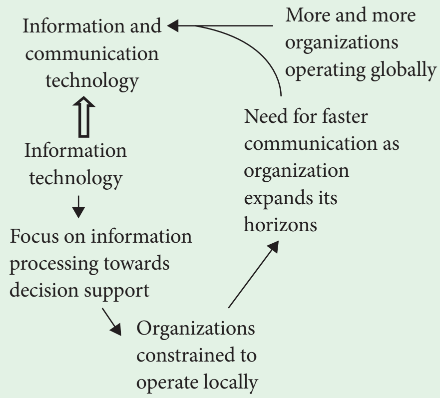
Today, the world is so small that communication from one corner to another corner of the globe is easy and huge opportunities for any business to expand globally exist (Figure 4.1). As organizations expand at different locations around different corners of the globe, the days of data handling and decision making at specific locations

Vendor selection to supplier asset management

Figure 3.6



Information technology to information and communication technology
Figure 4.1



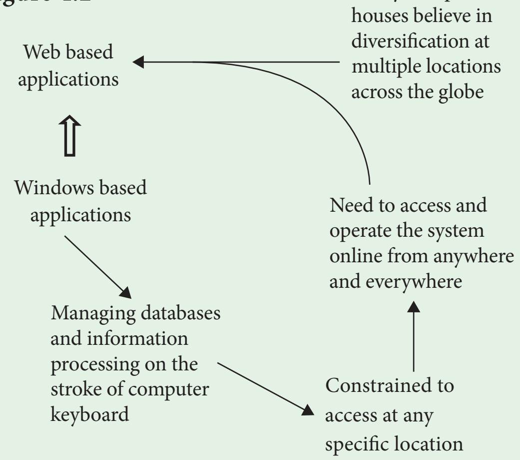
using windows based system have become history. Web based system has emerged (Figure 4.2), allowing the managers to access and operate the system from anywhere. With rapid developments in both hardware and software, the age of vouchers, journals and ledgers have practically disappeared. Most of the transactions are taking place electronically today. The rapid growth and development in mobile technology has led businesses in different countries to weigh the pros and cons of switching from E-business to M-business (Figure 4.3). But be it communicated through E or M, what is basic is the management of organizational data base, and its proper use. We are not interested simply in the data base management system. We need to ensure proper integration so that it can be directly used for assessing the development and utilization of all organizational asset bases as a whole towards corporate objectives. Then we can confirm its effectiveness towards enterprise resource planning (Figure 4.4).

Changes in Financial Management Scenario

As we turn our attention to managing funds, portfolio of investments, we immediately think of diversification. Extending the portfolio principle to decide on the matching and compatible investments in organizational assets like the man and the machine, such as internal

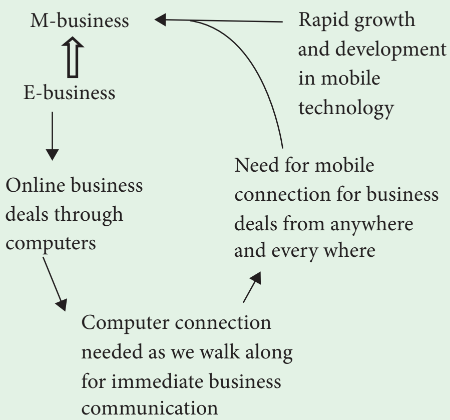
Windows based to web based application

Figure 4.2

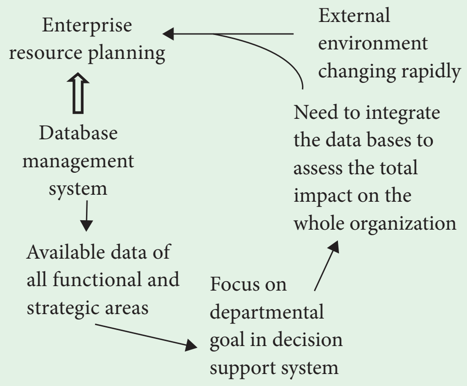


E-business to M-business

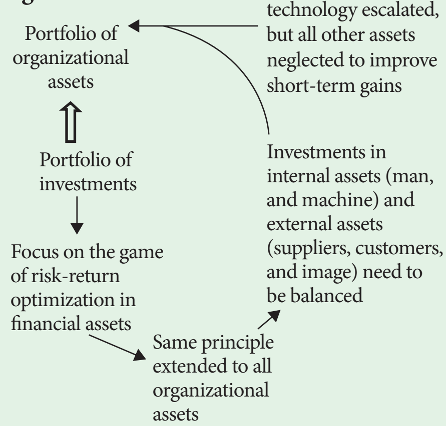
Figure 4.3



Data base management system to enterprise resource planning
Figure 4.4



Portfolio of investments to portfolio of organizational assets
Figure 5.1

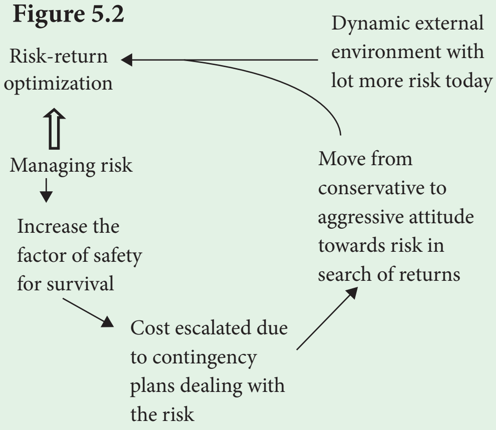


asset bases, and the suppliers, the customers, and the public image, such as external asset bases (Figure 5.1) is very important. Mostly we see huge investments have been made by certain organizations in favour of the latest technology, but there are hardly any investments in the organizational HR. This depletes the quality of HR over time. Likewise, organizations pay very little attention towards the development of suppliers, customers and towards developing the corporate image (Kolay, 1993). These need to be managed as assets, and any imbalance in investments leads to suboptimal risk-return scenarios. Risk can be reduced thereby increasing the factor of safety with obvious adverse consequences in the return. The main question revolves around the extent of incremental return against the additional risk, and to what extent of risk the organization is prepared to take to achieve higher return on the conservative to aggressive attitude scale (Figure 5.2).

Apart from the design of suitable portfolio of investments and the associated risk-return optimization, there has been a landmark development in the investment appraisal method itself (Black and Scholes, 1973). Any strategy or investment today may open up various options in the future. Therefore, the question arises how to put value those options while making the appraisal of such an investment proposal. Black and Scholes got the Nobel Prize for giving us the method of valuing put-call options in finance. The same concept is extended today to assess the firms' discretionary future investment opportunities in physical and human assets (Trigeorgis, 1996) as real

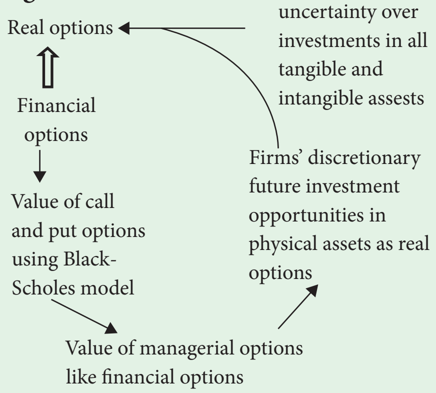
Managing risk to risk-return optimization

Figure 5.2



Financial options to real options

Figure 5.3



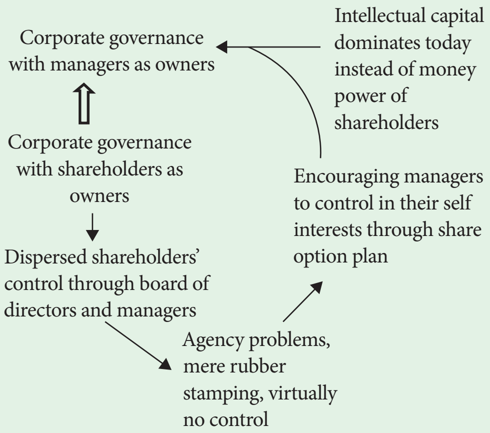
options (Figure 5.3). The job of strategic management is to create more and more options, and assess the present value of such future options to find the effectiveness of the strategies adopted.

Another important question arises who should govern the corporate house, and who should own the same? Is it the shareholders who provide the equity base or the managers who provide the intellectual capital and take all decisions and actions? The shareholders are the legal owners, but they are generally dispersed. Managers and board members may act in their own interests rather than that of shareholders. Attempts such as giving options to senior managers have been made to reduce agency problems. But such agency problems will continue to remain till agent-manager is different from owner-manager. On the other hand managers are the real controllers for all functional and strategic areas of management. If they walk out, the technology cannot run itself. In fact, the intellectual capital (Petty and Guthrie, 2000) dominates over money power and that is why today's researchers (Rajan and Zingales, 2000) believe that letting managers be the owners who provide the intellectual capital may be the ideal situation (Figure 5.4).

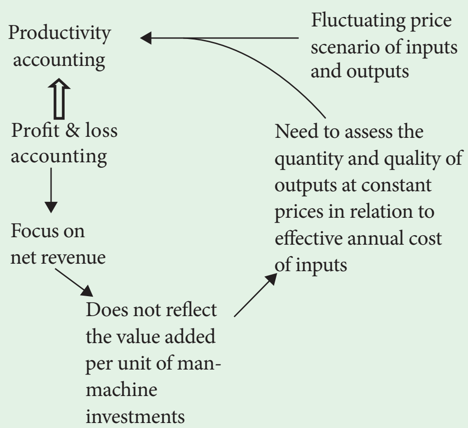
Changes in Accounting Practices Scenario

An organization may make profits during the year as reflected in its annual accounts, but the organization needs to ask itself if it has been productive during the year. Did it

Corporate governance with shareholders as owners to managers as owners
Figure 5.4



Traditional profit & loss accounting to productivity accounting
Figure 6.1



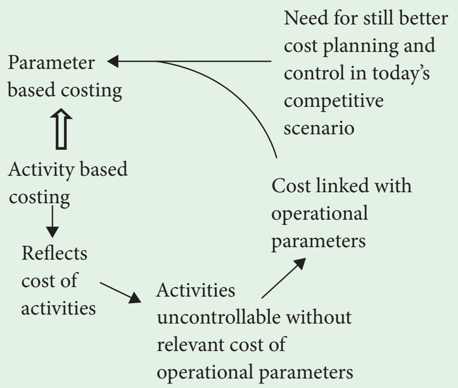
add value or it has made profit because other organizations in the market are comparatively less efficient? Does the extra profit reflect the impact of increase in selling price or did it consume fewer resources per unit of output? Firms need to assess what is important for them to weigh the productivity achievements of the company in terms of output per unit of input, besides the traditional profit and profitability scores (Figure 6.1). Both outputs and inputs need to be at constant prices so that the actual level of productivity achievements is known, differentiating the favourable or adverse impact of fluctuating price level of both inputs and outputs.

Once the level of productivity achievements is known, exploration of ways and means to improve the level is needed. The first and foremost area that attracts our attention is cost planning and control at all operational areas, be it manufacturing items or service areas. From the traditional method of overhead absorption costing, movement towards activity based costing is needed. Manufacturing or service constitutes a number of activities, and associating each activity with the cost driver is needed. With a greater level of competition, greater vigilance and precision on cost figures for day to day cost control is needed. For that we need to move from activity based costing to parameter based costing (Figure 6.2), where we identify certain key parameters of the activity that are likely to govern the major portion of the cost. Waiting for the monthly or weekly cost figure of activities to control cost is not an option. We need to link cost with process control parameters, and monitor those parameters on the control panel online to regulate activity.

While converting inputs to outputs and adding value, organizations add industrial wastes and rejects, polluting the environment. Most of the countries have pollution control boards to set the upper limit of

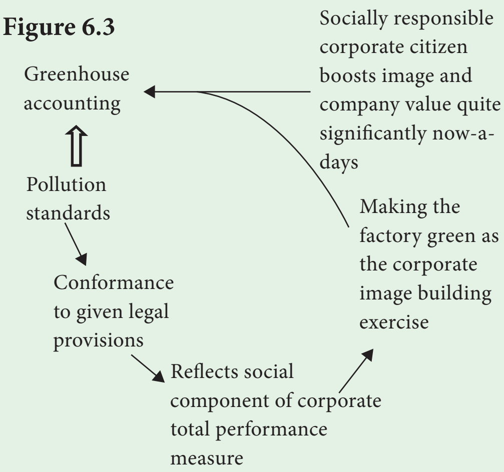
Activity based costing to parameter based costing

Figure 6.2



Pollution standards to greenhouse accounting

Figure 6.3

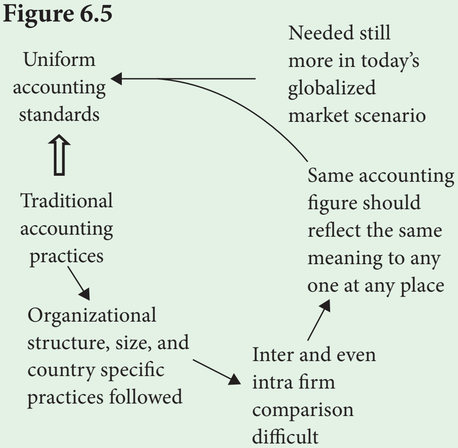


discharge of different pollutants (air, water, and solid pollutants) to the environment. But legal provisions apart, corporations not only meet the set targets, but they try to go a long way to make the factory green. In fact, many organizations are engaged today to boost their image as a socially responsible corporate citizen in the market place (Kolay, 1995), an image building exercise in the arena of greenhouse accounting (Figure 6.3). Besides the concern for environment protection for the society at large, there are other societal areas of concern like employment generation, facilitation of industrial growth, conservation of natural resources etc. Many organizations are struggling to survive, and may not have distinct social goals, other than profit goals. However as firms move along the path of profitability, corporations need to assess the extent of impact that they create on different areas of societal concern, favourable or adverse. Such an impact may be viewed along with corporate profitability performance to reflect the total performance of any organization (Figure 6.4).

Lastly, accounting practices in different countries are different, and are generally guided as per the provisions of Companies Act of the respective countries. Even within a country, accounting treatment, valuation

Corporate social responsibility to organizational total performance
Figure 6.4

Traditional accounting practices to uniform accounting standards
Figure 6.5



of inventory and assets, provision for contingent liabilities etc. vary quite significantly from organization to organization depending on the organizational size, sector, constitutional structure, location, etc. All these differences in accounting norms, provisions, and practices make inter and intra firm comparison difficult. With globalisation, it has become all the more important to have uniform accounting standards (Figure 6.5). When different countries are busy in diversification, globalization, and privatization, it is the right time to evaluate the pros and cons of different international accounting standards and either choose a particular international accounting standard or evolve its own uniform accounting standards. That will go in a long way to assess the effectiveness of various decisions and actions of managers in the pursuits of sustained success of each and every organization in the economy.

Conclusions

The management process has been evolving rapidly to match with the increasing complexity of modern business. Assimilation and transformation are occurring for continuous improvement in the effectiveness of managerial decisions and actions. Looking back, the path of transformation is clearly visible as the traditional systems and procedures in all functional and strategic areas of management are replaced over time. Looking forward, in order to improve the cost to benefit aspect, new dynamic changes need to emerge in the management process. Firms need to perceive and weigh the merits and demerits of those changes, and reengineer themselves with newer tools and techniques of scientific management.

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Announcement

The Institute's Convocation and the National Students' Convention will be held on Friday, the 22nd March 2013, at Science City Auditorium, Kolkata. This is for the information of all concerned.

Business Risk in NTPC Ltd. During the Pre-Liberalization and Post-Liberalization Periods: A Comparative Analysis

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Abstract

Business organizations are much of substance to us because they arrange to provide the means by which we realize our preferred ends. Our individual opportunities and achievements vis-à-vis the societal accomplishments largely depend on the efficient running of these organizations. Efficiency of business organizations basically refers to the earning capability and earning capability, by and large, depends upon the fact that in what way and in what pace the firm acclimatizes itself with its environment because environment dominates the operating activities of a firm, which in turn, affects its risk profile. Hence, it is not hard to understand that all firms are to face some form of risk at one time or other of earning stable returns at the backdrop of the ever-changing character of the environment where business operates and interacts. Considering the stiff competition that exists in the contemporary corporate world, understanding, analyzing and measuring business risk are immensely important to the corporate executives to instigate managerial efficiency and excellence. Business risk of a company stems from its business operations and is caused by a number of factors that are generally categorized as economy–specific, industry–specific and company–specific. It is, in fact, results from the precariousness of the company's competence of creating operating surplus. Economy risk, industry risk and company risk–these three components of business risk originate from economy–specific factors, industry–specific factors and company–specific factors respectively. The genesis of company risk lies in instability in company's one or more fronts, important of which are instability in cost behaviour pattern, inconsistency in revenue generating capability using long term funds and instability in short term debt paying capability. These weaknesses lead to cost structure risk, capital productivity risk and liquidity risk. The economy risk and industry risk associated with a company remain largely irrepressible while it is, to some extent, possible for the company to exercise control over the risk distinctively connected with its company–specific components, i.e. capital productivity risk, cost structure risk and liquidity risk. The present study is an effort to assess the business risk along with its company-specific components associated with NTPC Ltd, the only Maharatna Company in the Indian public sector, and also to make a comparison of its risk-return status between two periods, i.e., the pre-liberalization period and the post-liberalization period.

Introduction

Business organizations are much of substance to us because they arrange to provide us the means by which we realize our chosen ends. Our individual opportunities and achievements vis-à-vis the societal accomplishments largely depend on the efficient running of these organizations. Business refers to the deliberate process of interacting with its environs continually for the purpose of realizing its value-making objectives. To make the process of interaction efficient and effective a firm should always accommodate to acclimatize itself with the way the environment changes. It may be in the economic, social, political and technological front or it may be in some other allied domain. Efficiency of business organizations basically refers to the earning capability and earning capability, by and large, depends upon the fact that in what way and in what pace the firm acclimatizes itself with its environment because environment dominates the operating activities of a firm, which in turn, affects its risk profile. Hence, it will not be hard to understand that all firms are to face some form of risk at one time or another of earning stable returns due to the ever-changing character of the environment where business operates and interacts. The contemporary era featured by free-market economy, ethical neutrality and callous competition as a natural corollary of globalization that took place at the last quarter of the yester century is evident of all-encompassing changes in each and every front of the global economy. In the context of Indian economy, the spectacular changes in the economic environment consequent upon economic liberalization initiated in 1991 caused a rapid transformation in the corporate scenario and in view of the changes in the economic state of affairs as an outcome of reforms, the earning patterns and the financing policies taken up by the Indian corporate players have also changed significantly, leading to notable changes in the pattern of business as well as financial risks associated with the corporates (Sur, 2007). Economic liberalization has forced the Indian enterprises to reorient their strategies for managing risks in a methodical way. Some enterprises have been able to adapt themselves to the new situation, while others do not (Mallik and Sur, 2009). Therefore, the application of an effective risk management system has become inevitable now-a-days for creating value for the shareholders and other legitimate stakeholders. Analyzing the impact of various risk factors is essential to predict the sustainability and stability of a company and in taking proper decisions (Ghosh, 1997).

Business Risk and its Components

Considering the stiff competition that exists in the contemporary corporate world, understanding, analyzing and measuring business risk are immensely important to the corporate executives to instigate managerial excellence by assessing the relative position of the company within the given pattern of industry risk which in turn reflects the capability to achieve stability and also for making risk-return trade off. Business risk of a company stems from its business operations and is caused by a number of factors that are generally categorized as economy–specific, industry–specific and company–specific. It is, in fact, results from the precariousness of the company's competence of creating operating surplus. Economy–specific factors, being macro in nature, affect all the industries of the economy, such as, fluctuations in foreign exchanges, inflation rate, import, concentration of economic power etc. Industry–specific factors influence only the industry to which the company belongs. Industry–specific factors included in this category are special status enjoyed by the concerned industry, growth prospects in the market of the output produced or service rendered by the industry etc. Company–specific factors are distinctively linked with the company concerned such as cost structure, liquidity, managerial efficiency, culture, values etc. Economy risk, industry risk and company risk – these three components of business risk originate from economy–specific factors, industry–specific factors and company–specific factors respectively. The genesis of company risk lies in instability in company's one or more fronts, important of which are instability in cost behaviour pattern, unpredictability in revenue generating capability using long term funds and instability in short term debt paying capability (Ghosh, 1997). These weaknesses lead to cost structure risk, capital productivity risk and liquidity risk (Sur, 2009). The economy risk and industry risk associated with a company remain largely uncontrollable while it is, to some extent, possible for the company to exercise control over the risk distinctively connected with its company–specific components, i.e. capital productivity risk, cost structure risk and liquidity risk. In theoretical terms, there is expected to be a high degree of positive association between risk and return and a company with high risk–low return profile is about to face immense difficulties to rotate its business wheel in the long run. However, the findings of several studies provide an absolutely reverse outcome which is in sharp contrast with the theoretical arguments as evident in the literature of risk management (Bettis and Mahajan, 1985; Singh, 1986; Oviatt and Bauerschmidt, 1991; Mallik and Sur, 2009).

The remainder of this paper is organized as follows. ***Section II*** narrates the objectives of the study. In ***Section III*** the methodology adopted in this study is explained. ***Section IV*** is all about a brief profile of the company under study. ***Section V*** is concerned with the empirical results and finally ***Section VI*** deals with the concluding observations.

II: Objectives of the Study

The present study has the following objectives:

i. To assess the business risk associated with the selected company during the pre-liberalization and post-liberalization periods.
ii. To analyze the company specific components of business risk of the company under study in the pre-liberalization and post-liberalization periods.
iii. To examine the relationship between business risk and return of the selected company during the pre-liberalization and post-liberalization periods.
iv. To make a comparison between the status of business risk associated with the company under study in the pre-liberalization and that in the post-liberalization era.

III: Methodology of the study

The data of NTPC Ltd. for the period 1984–85 to 2011–12 used in the present study were collected from secondary sources i.e. Published Annual Reports of the company. As the economic liberalization process started in India during the financial year 1991–92, it is obvious that the effect of it could not be reflected immediately after its inception. Apart from that, several reform measures in the Indian power sector were undertaken after 1991–92, significant of which were the issue of policy guidelines for private sector participation in the renovation and modernization of power plants in 1995, promulgation of the Electricity Regulatory Commission Act, 1998 for setting up of independent Regulatory bodies both at the Central and State levels, issue of the Electricity Laws (Amendment) Act, 1998 for making transmission as a separate activity and for inviting greater participation in investment from both public and private sectors. Thus, in this study the financial year 1998–99 has been taken up as the initial year of the post-liberalization period. The periods from 1984–85 to 1997–98 and from 1998–99 to 2011–12 were taken in this study as the pre-liberalization and post-liberalization periods respectively. For measuring business risk and its company-specific components of the selected company appropriate measures of financial statement analysis as well as statistical measures were used. While making the analysis of the computed values of risks, statistical techniques like linear trend analysis, Pearson's simple correlation analysis, Spearman's rank correlation analysis, Kendall's correlation analysis etc. and statistical test, namely 't' test were applied at appropriate places.

IV: A Brief Profile of NTPC Ltd

NTPC Ltd., the largest company in Indian power sector, was established by the Central Government in the year 1975. The company proved itself as the best and the most consistent performer in the Indian power sector. As a result, it had been conferred Maharatna status by the Government of India on May 21st, 2010. While as on March 31st, 2011, NTPC's share of the country's total installed capacity was 17.75 percent, it contributed 27.4 percent of the country's total power generation in the year 2010–11. At present, NTPC Ltd. has engaged itself not only in construction and operation of power generating plants but also in providing consultancy to power utilities in India and abroad.

V: Finding of the Study

An attempt was made in Table I to assess the degree of business risk associated with NTPC Ltd. during the pre-liberalization and post-liberalization periods by using two most common measures, namely fixed assets to total assets ratio (FATA) and degree of operating leverage (DOL). In this table, for identifying the nature of the trend in both FATA and DOL series during the said periods linear trend equations were fitted and while examining whether the slopes of the trend lines were statistically significant or not, 't' test was applied. Table I shows that during the pre-liberalization period the FATA of NTPC Ltd. ranged between 0.26 in 1986–87 and 0.61 in 1996–97 while in the post-liberalization period it varied between 0.29 in 2007–08 and 0.44 in 1998–99. The mean values of FATA in the pre-liberalization and post-liberalization periods were 0.43 and 0.35 respectively. It indicates that the average risk associated with the business operations of NTPC Ltd. was lower in the post-liberalization period as compared to that in the pre-liberalization period. The linear trend equation fitted to the FATA series in the pre-liberalization period discloses an upward trend while that in the post-liberalization period witnesses a declining trend and the slopes in both the cases were found to be statistically significant at 0.01 level. It reveals that although there was a significant increasing trend in the FATA of the company during the pre-liberalization period, a notable downward trend in the business risk associated with it was reflected in the post-liberalization period.

Table I also discloses that the DOL of NTPC Ltd. fluctuated between 1.13 (1987–88) and 1.52 (1996–97) during the pre-liberalization period whereas in the post-liberalization period it varied between 1.15 (2011–12) and 1.49 (1998–99). On an average, it was 1.29 in the pre-liberalization period while it was 1.27 during the post-liberalization period. The trend line fitted to the DOL series in the pre-liberalization period indicates a growth in the business risk associated with NTPC Ltd. during the pre-liberalization period whereas that in the post-Liberalization period it reflects a negative growth and the slopes of the trend lines were found to be statistically significant at 0.01 level. It also confirms that although there was a clear upward trend in the business risk associated with NTPC Ltd. during the pre-liberalization period, a strong evidence of negative trend in it during the post-liberalization period was noticed.

In Table II the business risk of NTPC Ltd. was also ascertained by using two statistical measures, namely Coefficient of variation (CV) and Ginni's coefficient of concentration (G). Both the CV of return on capital employed (ROCE) and G of ROCE were used as the measures of business risk in this study. Table II shows that the CV of ROCE in the pre-liberalization period was 0.09 while it was 0.07 in the post-liberalization period .It indicates that the business risk associated with NTPC Ltd. during the post–liberalization period was slightly lower as compared to that in the pre-liberalization period. Similarly, the G of ROCE in the post-liberalization period was 0.0422 whereas that in the pre-liberalization period was 0.0562. It again confirms that the degree of business risk associated with the company during the post-liberalization period was slightly lower as compared to that in the pre-liberalization period.

In Table II, three major components of company risks, namely capital productivity risk (CPR), cost structure risk (CSR) and liquidity risk (LR), were also measured by using CV and G. The CV of capital turnover ratio (CTR) and G of CTR were considered as the measures of CPR while the CV of cost to sales ratio (CTSR) and G of CTSR were used as the measures of CSR and the CV of current ratio (CR) and G of CR were taken as the measures of LR in the present study. Table II shows that the values of CV of CTR in the pre-liberalization and post-liberalization periods were 0.28 and 0.19 respectively. Similarly, the G of CTR in the post-liberalization period (0.1079) was considerably lower than that in the pre-liberalization period (0.1511). The analysis of CPR indicates that NTPC Ltd. was able to maintain a lower level of risk of not getting a stable turnover by utilizing its capital base in the post-liberalization period as compared to the pre-liberalization period. Table II also depicts that the values of CV of CTSR of the company in the pre-liberalization and post-liberalization periods were 0.10 and 0.08 respectively and the values of G of CTSR of the company in these periods were 0.0637 and 0.0475 respectively. Thus the CSR associated with NTPC Ltd. in the post-liberalization period was lower reflecting higher stability in the cost structure of the company during the same period. Table II exhibits that the CV of CR of the company in the pre-liberalization period and that in the post-liberalization period were 0.40 and 0.22 respectively and the values of G of CR of the company in these periods were 0.2320 and 0.1272 respectively. It reveals that liquidity risk associated with the company under study in the post-liberalization period was significantly lower as compared to that in the pre-liberalization era.

In Table III it was attempted to assess the degree of association between the business risk associated with NTPC Ltd. and corporate performance (return) through correlation coefficients between the selected measures of business risks and the selected corporate performance (return) measure taking into account their magnitudes (i.e. by Pearson's simple correlation coefficient), rankings of their magnitudes (i.e. by Spearman's rank correlation coefficient) and the nature of their associated changes (i.e. by Kendall's correlation coefficient). These correlation coefficients have been tested by 't' test.

The measures for assessing corporate performance are several, the most common ones being net profit ratio, return on capital employed etc. When the performance of a business firm is measured using any one of these conventional yardsticks, the implied premise is that the firm exists, operates and grows only for its owners. But this concept does not match with the philosophy of the public enterprises. The achievement of social objective, which is one of the major goals of business organizations particularly those belonging to the public sector, is not at all reflected in the accounting profit-based measures of financial performance. Thus, is this study value added to capital employed ratio (VACE) was taken as the corporate performance (return) measure at the time of ascertaining the degree of relationship between business risk and return of the selected company.

Table III shows that during the pre-liberalization period all the six correlation coefficients were positive, out of which four coefficients were found to be statistically significant either at 0.05 level or at 0.01 level and also during the post-liberalization period all the six correlation coefficients were positive, out of which four coefficients were found to be statistically significant either at 0.05 level or at 0.01 level. A high degree of positive association between business risk and VACE is theoretically desirable. The net outcome derived from the analysis of correlation between VACE and each of the selected business risk measures provided strong evidence of positive association between them. It indicates that high risk was well compensated by high risk premium i.e. high return throughout the period under study.

VI: Concluding Remarks

Investment in power sector is a must to enhance the infrastructural capacity of a country to sustain the process of its economic growth. The Government of India liberalized this sector and opened it before the foreign and private participants to raise adequate funds for the power sector. But, though the Indian Government started its liberalization process two decades back nevertheless it is amazing that the power sector in India still holds the status of a state monopoly. Despite the fact that the national Government has taken much initiative to liberalize this sector by amending the necessary acts and allied procedures yet too many roadblocks are still in the way. This implies that either the private players are not attracted by the problems and prospects of this sector or the Government lacks the right vision to invite them by providing a favorable ground to play. A quick view of the ownership pattern in this industry tells us that the State Government owned generating utilities accounted for 41.51 per cent of the total capacity, while the Central Government owned power utilities accounted for 29.67 per cent and private players accounted for only 28.82 per cent. Thus, NTPC Ltd, being a public sector enterprise, did not face any severe competition at all that was expected to emanate in the post-liberalization age as a natural outcome of liberalization. As a consequence to that, practically a little scope was there to result an increased business risk of the company stemmed from economy-specific and industry-specific factors during the said era. Rather the business risk which is gleaned from the company-specific factors as revealed in the analysis of business risk components was downsized during the post-reforms period which is indicative of lower volatility in the company's capital productivity, cost structure and liquidity in the same period. NTPC

Ltd. launched in October 2004 its Initial Public Offering (IPO) consisting of 5.25 per cent as fresh issue and 5.25 per cent as offer for sale by the Government of India and in February 2010 the shareholding of the Government of India stepped down to 84.5 per cent through further Public Offer. It can be argued that though NTPC Ltd has made a shift in their economic philosophy by adopting the process of disinvestment but the amount they had disinvested is not at all significant and it is so trifling that the reform measures initiated by NTPC Ltd did not cast any significant impact on the instability in the company's liquidity, cost structure or capital productivity fronts. Theoretically, there should be a significant positive association between risk and return. The analysis of correlation gives proof of the positive relationship between them implying that high business risk was well compensated by high risk premium i.e. high return during the study period.

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Table 1 Analysis of Business Risk of NTPC Ltd.

Year	FATA (Times)	DOL (Times)	
Pre-liberalization Period			
1984–85	0.36	1.19	Average FATA = 0.43
1985–86	0.28	1.15	Average DOL = 1.29
1986–87	0.26	1.14	
1987–88	0.30	1.13	FATA = 0.266 + 0.2231t
1988–89	0.36	1.17	(7.496) (5.347)**
1989–90	0.46	1.17	
1990–91	0.50	1.21	DOL = 1.047 + 0.03218t
1991–92	0.53	1.23	(31.798) (8.318)**
1992–93	0.42	1.35	
1993–94	0.42	1.39	
1994–95	0.45	1.42	
1995–96	0.57	1.50	
1996–97	0.61	1.52	
1997–98	0.55	1.47	

Post-liberalization Period			
1998–99	0.44	1.49	Average FATA = 0.35
1999–00	0.42	1.45	Average DOL = 1.27
2000–01	0.43	1.44	
2001–02	0.38	1.29	FATA = 0.436 – 0.0113t
2002–03	0.40	1.37	(32.517) (–7.149)**
2003–04	0.35	1.17	
2004–05	0.34	1.18	DOL = 1.452 – 0.0242t
2005–06	0.32	1.28	(39.387) (–5.595)**
2006–07	0.31	1.19	
2007–08	0.29	1.20	
2008–09	0.31	1.21	
2009–10	0.30	1.20	
2010–11	0.31	1.16	
2011–12	0.32	1.15	

Figures in the parentheses indicate 't' values
***Significant at 0.01 level*
Source: Compiled and computed form Published Annual reports of NTPC Ltd. for the years 1984–85 to 2011–12.

Table II Analysis of Company Risk Components of NTPC Ltd.

Year	ROCE (%)	CTR (Times)	CTSR (Times)	CR (Times)
Pre-liberalization Period				
1984–85	9.53	23.20	0.51	1.02
1985–86	13.30	28.90	0.46	1.62
1986–87	12.70	27.80	0.46	1.57
1987–88	12.11	26.20	0.42	1.68
1988–89	10.52	26.40	0.52	1.81
1989–90	10.21	26.00	0.53	1.78
1990–91	10.02	23.35	0.47	1.89
1991–92	11.04	27.92	0.50	1.53
1992–93	10.90	34.47	0.56	3.09
1993–94	11.51	42.42	0.60	3.19
1994–95	11.41	42.95	0.59	2.75
1995–96	11.79	45.85	0.58	3.93
1996–97	11.91	44.81	0.56	3.99
1997–98	12.36	49.15	0.58	2.80
Post-liberalization Period				
1998–99	13.37	51.76	0.57	2.57
1999–00	13.86	54.10	0.59	2.38
2000–01	13.63	57.63	0.61	2.30
2001–02	11.93	50.16	0.69	3.06
2002–03	10.88	50.25	0.67	4.23
2003–04	12.93	54.55	0.56	1.67
2004–05	12.77	49.79	0.63	1.91
2005–06	12.46	56.03	0.63	2.56
2006–07	13.89	62.08	0.64	3.16
2007–08	14.07	67.95	0.64	3.22
2008–09	14.29	70.47	0.69	2.89
2009–10	13.97	70.76	0.68	2.86
2010–11	14.30	80.42	0.71	2.70
2011–12	14.23	85.86	0.73	2.55

Year	ROCE (%)	CTR (Times)	CTSR (Times)	CR (Times)
Pre-liberalization Period				
CV (%)	0.09	0.28	0.10	0.40
G	0.0562	0.1511	0.0637	0.2320
Post-liberalization Period				
CV (%)	0.07	0.19	0.08	0.22
G	0.0422	0.1079	0.0475	0.1272

Source: *Compiled and computed form Published Annual reports of NTPC Ltd. for the years 1984–85 to 2011–12.*

Table III Analysis of correlation between Business Risk and Return of NTPC Ltd.

Correlation Measure	Correlation between DOL and VACE	Correlation between FATA and VACE
Pre-liberalization Period		
Pearson	0.892**	0.547*
Kendall	0.486*	0.256
Spearman	0.656*	0.377
Post-liberalization Period		
Pearson	0.689**	0.581*
Kendall	0.420*	0.281
Spearman	0.572*	0.466

Source: *Compiled and computed form Published Annual reports of NTPC Ltd. for the years 1984–85 to 2011–12.*
*** Significant at 0.01 level*
** Significant at 0.05 level*

At The Helm

Shri Manoj Mishra has taken over as Director (Finance) of the State Trading Corporation of India Limited with effect from Oct 15, 2012. He is a member of the Institute of Cost Accountants of India. Shri Mishra has over 27 years of professional experience in the area of financial management including resource mobilization from domestic and international markets, project monitoring and Corporate Governance. Prior to his appointment as Director (Finance) in STC he held the position of Chief General Manager (Finance) in STC. Before joining STC he held various positions in Krishak Bharati Co-operative Limited (KRIBHCO). He was also holding additional charge as Director (Finance)-I/C of the company from Dec 13, 2011 to Oct 14, 2012.

Maintenance Costing for Housing Society—an Emerging Concept

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Housing and infrastructure development has seen new concepts come up substantially in the recent past. Gone are the times, when apartments used to be simple dwelling places with minimal amenities like house keeping, water, and common lighting. Lifts joined the list when the housing grew vertically with high rise buildings. With the shortage of continuous supply of power, generators graced the list. Meetings of such societies were mostly conducted in their terraces or in the society's office. All associated charges were strictly restricted and keenly monitored owing to the small size of the society. Of late, we see AGM's of housing societies being held in hotels or banquet/party halls and the member count running in hundreds.

Today we experience a new lifestyle with swimming pool, gym, club house, party hall, library, guest bedrooms, Jacuzzi, Sauna, landscaped gardens , tennis courts, cricket pitches, golf courses et al within the gated community/ housing society/ apartment complex (*hence forth referred to as **housing society***). We are enticed with a never ending list of lifestyle facilities by the builders and developers. Life in such a place looks like a paradise. When you buy an apartment with some of the above amenities and actually start living there, paradise seems to turn into a mirage. Everything seems to fall apart in a few years due to poor maintenance.

Increase in cost and dwindling funds are cited as reasons for poor or non-maintenance. The administrative body (the managing committee - MC) of such housing societies (or the resident welfare association) are endlessly engaged in collecting maintenance and paying dues. There is no dedicated time either to analyse cost or to look into cost control. Sketchy budgeting, uninformed decisions due to poor knowledge of cost, lack of scientific methods to classify, allocate, apportion and manage costs have seen many MC's bite the bullet. No matter who heads the MC; it is back to square one all the time.

In this article, an attempt has been made to review the current methods of arriving at and allocating maintenance charges to individual units of the housing society and to provide an alternative/better method. Presently, the major costs are identified by the MC's as and when they are incurred.

The decisions to incur the cost are predominantly based on

a. The inevitable nature of the expense (like local taxes, maintenance expenses of lift or water seepage/leakage).
b. Majority members agree to incur a cost. (When members of 2nd and 3rd floor of a society decide to install a lift they may bully the minority first floor members to share the capital cost and running cost of the lift).Such decisions are not based on any cost benefit analysis.

Invariably, costs are classified and charged as maintenance cost irrespective of the fact that they are running costs (e.g. Diesel for generators/ energy charges). Thus, the cost and its classification into maintenance cost itself is a matter of huge debate. Even if such a cost is accepted as maintenance cost, then

How to share this cost? And who should share the cost? are some vital questions.

How to share the cost?

The first step to this question is:

To review the present method of calculating maintenance cost per unit.

In a majority of cases it is either a flat rate or on per square foot (PSQF) basis.

Review of the existing method

1. Flat rate

Reason behind using flat rate: All the expenses are common so it is to be shared equally by all. (Total expenses / Number of apartments).

However, flat rate method is indisputable only when

a. All the apartments are occupied.
b. The *number of persons* in each apartment is the same. (The consumption of utilities per apartment

occupied by 10 persons is definitely more than an apartment occupied by a 4 persons.)

c. The maintenance expenses incurred by a housing society is unaffected by price and consumption changes due to external factors.

In reality, these conditions exist only theoretically. Even if (a) and (b) are satisfied, (c) cannot be fixed in the current scenario, as there is **no guarantee** that

i. Electricity/fuel charges and consumption will remain the same throughout the year.
ii. There will be enough water supplies and no additional procurement will be needed.
iii. No additional cost will be incurred for the existing facilities.

2. Per square feet rate (PSQF) ((Total Expenses/Total area)*area of the apartment)

The logic behind charging maintenance on PSQF is as under:

1. Builder/Promoter charges maintenance on PSQF. So, the same is continued by the society as well.
2. Easier to calculate.
3. Property tax is on PSQF basis.

The above bases are illogical and are analysed below in seriatim:

1. Builder/Promoter may not have any other easier base initially. The Builder/Promoter conveniently adopts PSQF basis as (s) he gets more than what (s) he spends towards maintenance. We may note that the Builder/Promoter provides minimal facilities on PSQF rate and most of the facilities like a swimming pool, or gym or a clubhouse invariably remains *under construction* or under the builder's maintenance. Since, the occupancy is low in the initial year/s and the manufacturer's warranty covers the assets in the initial years; the builder/promoter is able to absorb any fluctuation in maintenance expenses even after adopting PSQF basis easily.
2. Adopting a method because it is easier to calculate reflects a *resistance to change in the present scenario.*
3. Property tax is a tax collected for the welfare of the area/locality and not necessarily that particular property. How ever, ***a maintenance charge levied by a housing society on its members is not a tax***. It is collected for maintaining the said housing society and has several components which are not connected area. For example, water consumed is related to number of persons and occupancy and not area.

The above methods are not scientific but crude arithmetic.

When a MC fixes maintenance at say Rs.1000 per month per apartment (on either of the above methods) it is bound to stick to the same until a revision can be authorised by the Annual General Body Meeting.

Since identification and allocation of costs are not done scientifically, when prices go up, there is a compromise in service. Preventive maintenance is postponed, breakdown maintenance is not undertaken on time and essential supplies get rationed leading to disagreement and chaos in every meeting and ultimately a new MC takes over.

On the other hand, sometimes, the actual cost plus a premium is charged as maintenance. This premium has been a constant feed for impropriety in housing societies.

The next question is: ***Who should share the cost?***

In the present scenario, member shares the cost because it is considered to be incurred by one and all. In the real sense it is not. Many of its components are variable (running costs). They tend to be affected by the number of people/usage and occupancy.

Result: Be it flat rate or PSQF, there is a lag in collection as the members of unoccupied apartments and the members who do not use certain facilities feel fleeced and delay payment in addition to the habitual defaulters. The basis of charging also creates a lot of disagreement and there is a constant delay in collecting maintenance charges from members.

Classification of cost, allocation and apportionment are the areas of expertise of a professional accountant. The MC is not necessarily qualified to handle cost issues. The housing society committees impose **'majority decision binds one and all'** rule leaving enough room for disagreement.

Allowing the MC to make cost/financial decision tends to have a negative effect on the overall welfare of the housing society and all its members. Further, failure to classify cost and poor cost management results in erosion of Corpus funds of the housing society.

Is there a logical, scientific and appropriate method? Yes.

We have to adapt to the changing scenario of <u>*housing societies being more than mere dwelling places*</u> and educate people about the fact that maintenance cannot be a completely fixed cost especially when the running costs are included and charged under the head 'maintenance'.

First step would be to classify the elements of maintenance cost into fixed (which in the real sense is maintenance cost) and variable cost (predominantly running expenses). The fixed and variable cost should be allocated on a logical and appropriate basis. *Variable maintenance costs are those which will have a direct impact on **the number of residents** in the housing society.*

Fixed maintenance costs are those which are incurred **irrespective** of number of persons residing in the housing society/occupancy.

- Annual Maintenance contracts (AMC) of lift, Diesel Generator, common air conditioner etc.
- House keeping contract.

- Salary to maintenance staff.
- Local taxes levied on the society.

The above items form part of fixed cost. These costs are relatively stable over a period of time (say one year) and are necessary to maintain the facilities of a housing society.

Diesel Generator fuel expenses, cost of procured water, expenses on sewage disposal, common electricity charges towards- lift, bore well motor and lighting are examples of running expenses.

Suggested approach

A qualified accountant may be appointed to arrive at, allocate and apportion cost and certify the same.

A law passed in this regard, making maintenance costing mandatory for every housing society will go a long way in ensuring *continuous quality living* **in the society.**

This will avoid legal battles between members and the MC of societies regarding non-provision / discontinuance of facilities, misappropriation of society funds etc.

In addition to the above, the following results are expected from the above approach:

i. Society members will know the cost and how/why it is incurred, on a periodic basis reducing the risk of misappropriation.
ii. The monthly maintenance bills will be positively impacted by the conservation steps taken by the residents of the society. They will be motivated to actively participate in using common assets with prudence and care.
iii. Managing committee can spend adequate time on implementing cost reduction as well as cost control measures, thereby enhancing the satisfaction of the members of the residential community.
iv. Cost awareness is created. Any change in cost will be known to all members in the same period in which it is incurred. This avoids the need to wait for the annual audit of accounts to identify any mismanagement.
v. Members will pay for what they use. If a variable cost is not incurred towards a property, then the same will not be payable, especially when the properties are unoccupied or if certain lifestyle facilities like swimming pool/gym are not used by member/s.
vi. The disputes regarding allocation of cost viz. flat rate or PSQF method can be put to rest, as the maintenance cost of every apartment will be determined by a scientific and logical method.
vii. If the costs are separated, then the society can charge a variable maintenance cost along with the fixed cost it incurs every month (similar to an electricity bill).
viii. When the variable portion of maintenance cost (running expenses) is assumed to be fixed, there is an overcharging or undercharging of cost. This situation can be eliminated.

Conclusion

Adopting a costing method to arrive at and charge maintenance is purely the choice of the members of the housing society. However, considering the number of pending law suits on various aspects like basis of charging maintenance, mismanagement of funds/misappropriation of funds and impropriety, a legislation to this effect will benefit every member of the society as well as the economy both in the short and long term.

There is an urgent need to look into this costing, as many of the apartment complexes charge any where from Rs.30000 to Rs. 200000 (or more) per apartment per annum under the guise of maintenance.

The idea of Co-operative housing society can be only strengthened by the fact that its members are treated fairly and equally. The expertise of a cost accountant will go a long way in not just identifying, classifying, allocating / apportioning cost, but also suggesting cost reduction and cost control measures.

Case study

A detailed study was conducted on ***The Riviera by Casa Grande*** in the suburbs of Chennai from May 2012 to Aug 2012.

Casa Grande Riviera is a 3.5 acre, 220 apartment complex with the dwelling units of the following sizes:

Area (sqft)	No of apartments
1220	4
1316	28
1400	44
1486	4
1555	44
1585	92
1615	4
Total	**220**

The 220 apartments fall into 4 blocks with 15 sub blocks of stilt plus four floors each, with a lift in every sub block. There are 5 Diesel generator sets (DG) of varying capacity covering all the blocks and 7 bore wells to supply water to the residents. There is a club house, party halls, 3 guest bedrooms, swimming pool, gymnasium, landscaping and waterfall, sewage treatment plant and covered car parking.

Common services include security, common house keeping services, on site plumber and electrician, treated sewage water removal, DG back up for lift and individual apartment, in addition to occasional purchase of water for residents.

There are apartments of 7 different areas with a difference between the smallest and the largest being 395 sqft. The first MC has taken charge of collecting maintenance from June 2012.

Initially, the MC proposed to continue with the PSQF method charged by the builder and tried to arrive at a rate with the available data.

In such a situation, the owner of the largest flat had to bear an additional Rs.790 (@Rs 2/- PSQF) as compared to the owner of the smallest size apartment, for no extra benefit. Owing to protest from the majority large flat owners, the PSQF idea was shelved and a decision was taken to experiment with a flat rate of Rs.2500 per flat from June 2012. Of course, the minority smaller flat owners were not happy and recorded their protest against the flat rate method.

Both the above methods are arbitrary and do not have a scientific back up, but simple arithmetic.

The problems we are confronted with are:

1. Varied size apartments.
2. There is no link between the sizes of the apartment the number of occupants in the apartment.
3. Gymnasium is not used by some residents.
4. Swimming pool is not used by some residents.
5. Party hall/club house is not used by many residents, whereas some of them have been using the same continuously for conducting/ availing extra curricular activities.
6. Some residents have purchased 2 car parks whereas others have single car parking in the basement.
7. Unoccupied apartment (32% approx).

In addition to the unoccupied category, we have the following situation:

Apartments remaining unoccupied for a short duration (one or more months):

- People lock up their apartments for a few months when they have an assignment abroad.
- Go out on vacations during summer holidays.
- Sometimes there is a gap in renting the apartment as a result of which it remains unoccupied.

The following were noted in this case:

a. Cost has not been classified into fixed maintenance cost and variable (running) cost.
b. Variable cost and occupancy have not been linked. All costs are presumed to be fixed.

In the present scenario, the cost per apartment is calculated by using the following formula:

(expenses + arbitrary premium)/ total number of members

But the expenses considered here comprise of variable cost (which has been incurred by the 68% resident population) and 100% of some fixed cost like security and house keeping. Since 32% is unoccupied, the proportionate variable cost is not incurred yet.

i.e. Expenses = 68% variable expenses + 100% of some fixed expenses + arbitrary premium

Critical fixed expenses like Annual Maintenance Charges on lift and DG have been ignored. Hence, as the occupancy improves and/or fixed costs are incurred (lift/ DG breakdown), current maintenance cost of Rs.2500 per apartment will not be sustainable. The variable cost like diesel consumption for Diesel Generator, Sewage disposal, water consumption (purchased and bore well) and corresponding power consumption will go up and the MC will have to present a review of rates.

It was observed that, by charging both fixed and variable cost to the unoccupied apartments, the members of the unoccupied apartments are compelled to bear the running expenses (variable cost) which was never incurred by them.

Maintenance imposed under the ***Majority Decision*** rule has not gone well with some members owing to the conflict of interest in the decisions.

The MC currently charges the member a fee for accessing the club house and party hall and guest bedrooms (which again is not derived scientifically) whereas there were no plans regarding the allocation/absorption/ recovery of swimming pool and gym cost.

It was also noted that the revenue generating potential of Gymnasium and Swimming pool has been ignored. The lease rental from these sources can be used to maintain the assets and surplus if any can enhance the corpus fund. This will avoid a situation of abandoning the asset due to high cost of maintenance or enforcing a compulsory charge on every member to maintain the asset. The opportunity of renting the Party hall to the non members at an enhanced rate (based on the recommendation of members) is also not explored.

Since The Riviera by Casa Grande has a lot of fixed assets (club house, swimming pool, 15 lifts, 5 Diesel Generators, Sewage treatment plant, gym equipment, common air conditioner, bore well motors etc.) non provision for repair/replacement cost in the future will affect the sustainability of all the assets/ facilities. Prudence demands a decision to put the assets to good use and earn revenues towards the above objective.

The above case study highlights the problems faced by the MC's and members of housing societies where non-scientific methods are used in arriving at and allocating maintenance cost. If maintenance costing is made mandatory for housing societies, all the above problems can be sorted out on a scientific and logical basis. In addition, the MC can be guided in making prudent cost/ financial decisions.

Numeric data courtesy - Ms Jothika Sibal - Casa Grande Private Ltd and Mr Parthiban - Casa Propcare pvt ltd. Period of study June 2012 to Aug 2012.

Statutory Reserve Requirements—an Overview

Akshatha B.G.
M Com., MBFI.

Introduction

Statutory Reserve Requirements i.e., both CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio) act as a tool of monetary policy for the purpose of managing liquidity into the financial and economic system and thereby ensure the profitability position for the banking industry. Traditionally CRR has been one of the monetary tools in the hands of RBI along with other instruments like SLR and Open Market Operations to fight inflation in the country. Under RBI Act, 1934, a certain percentage of net demand and time liabilities (NDTL) of banks is required to be mandatorily maintained with the RBI on a daily basis, which is called CRR and RBI has the statutory right to raise or lower the ratio according to the needs of securing monetary stability in the country. The RBI has laid down regulations stipulating all banks to maintain minimum cash and liquidity reserves (i.e., CRR and SLR) and all NBFCs to maintain only a minimum liquidity reserve (SLR). Development Financial Institutions (DFIs) are not required to maintain any such reserves.

Cash Reserve Ratio

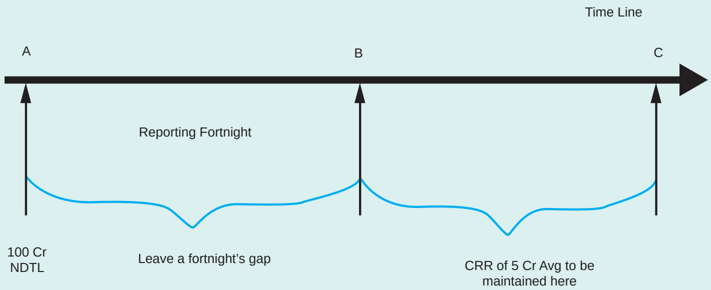
As a measure of simplification and better management by the banks, a lag of two week has been introduced in maintenance of stipulated CRR by the banks. In order to provide flexibility to banks and enable them to an optimum strategy of holding reserves depending on their intra period cash flow, banks are allowed to maintain on average daily balance, a minimum of 80% of the prescribed CRR balance of their NDTL, as on Reporting Friday.

CRR-Scheduled Banks

Cash reserve balance needs to be maintained by the Scheduled co-operative banks with relating to Section 42 of the RBI Act, 1934. According to this section, minimum of 3% and maximum of 15% of NDTL as on the Reporting Friday. Every scheduled co-operative bank is required to maintain a Principal Account with Deposit Accounts Department of the RBI for the purpose of maintaining CRR balance. RBI does not pay any interest on that balances maintained by the bank. For the purpose of computation of CRR, the must take into consider 2 alternatives:

i. 3% of the NDTL or
ii. Prevailing percentage set by the RBI on Reservable Liabilities, whichever is higher.

- NDTL = Liabilities to others + Net Interbank Liabilities (NIBL).
- NIBL = Liabilities to the Banking system–Assets with Banking System.
- Banking system includes SBI and its subsidiaries, nationalized banks, co-operative banks, Foreign Banks operating in India, Regional Rural Banks, primary dealers and excludes RBI, SIDBI, NABARD, IFCI, IDBI, IRBI, NHB, Foreign Banks having no branch in India.
- Reservable Liabilities are arrived on the basis, all exemptions (NRI Deposits) must be deduct with the obtained NDTL.



CRR-Non Scheduled Banks

Cash reserve balance needs to be maintained by the non-scheduled co-operative banks by way of balances in current account with RBI or State co-operative bank of the concerned district or balances maintained by non scheduled co-operative banks in accounts with SBI or its subsidiary banks and a corresponding bank now treated as cash for the purpose of CRR an d SLR. Under section 18 of the Banking Regulation Act of 1949, non scheduled Co-Operative banks must maintain 3% of the NDTL as on the last Friday of the second preceding fortnight.

Changing Role of CRR

The CRR is partly a prudential requirement for banks to maintain a minimum amount of cash reserves to meet their payments obligations in a fractional reserve system. The Reserve Bank of India (RBI) Act implicitly prescribed the CRR originally at a minimum of 3 per cent of any bank's net demand and time liabilities. That restriction was removed by an amendment in 2006. While the RBI is now free to prescribe this rate, any CRR above 3 per cent can still be viewed as a monetary tool to contain expansion of money supply by influencing the money multiplier. But the way in which the CRR was operated historically made it serve a much wider role. During the 1990s, when there was influx of foreign funds through non-resident Indian (NRI) deposits, a differential CRR was prescribed on such deposits to restrict their inflows.

This role—CRR being used as an instrument of regulating NRI deposit flows—got relegated to the background once the relative attraction of such deposits *vis-a-vis* rupee deposits was removed. Now that the interest rates on NRI deposits have been freed, the above role of CRR could well be revived again.

In the more recent period after 2004, when there was a huge influx of foreign capital through varied forms of debt and non-debt flows, and the RBI ended up accumulating large forex reserves, the CRR became an optional instrument to sterilize the rupee resources released from such dollar purchases. This was particularly enabled by not paying any interest on CRR balances maintained by banks with the RBI. The other options of sterilization through open market operations and the repo operations through the liquidity adjustment window (LAF) cost the central bank, just as the market stabilization scheme cost the Government fiscally in terms of interest payments.

The official view on CRR has been changing. During the period of financial repression before 1990s, CRR was the most preferred monetary policy tool. But the Narasimham Committee of 1991 recommended gradual reduction in CRR and increased use of indirect market-based instruments. This was broadly accepted and the CRR reduced from more than 15 per cent to 4.5 per cent by 2003.

But since 2004, the use of CRR as an instrument of sterilization and also a monetary tool has gained ground again. At the same time, the ratio stands now at 4.5 per cent, the previous historic low. Under these circumstances, the official philosophy on CRR in the current juncture is not known. Since CRR acts as a tax that increases their transaction costs, banks in general would want its role to be restored to being a prudential minimum requirement of not more than 3 per cent. And since quantitative easing has become a fashion of central banking across the world, the RBI may well choose to bring the CRR further down gradually to about 3 per cent during the current easing phase, without losing sight of monetary control in the face of inflation remaining stubbornly high at around 8 per cent.

Like CRR, SLR can also be viewed as a hybrid instrument of a different variety. The SLR, according to some, is not a monetary tool and is only a prudential requirement to serve as a cushion for safety of bank deposits. The minimum prescription in this manner was 25 per cent of bank's demand and time liabilities. But it was also more a way of finding a captive market for government securities, particularly when they were bearing below market interest rates. Not surprisingly, this ratio touched about 38 per cent around 1991.

Table 1: Changes in the CRR rates from January 6th to December 28th 2012

Year	CRR (%)
Jan 6 to Jan 27	6%
Feb 3 to Mar 9	5.50%
Mar 16 to Nov 2	4.75%
Nov 9 to Dec 28	4.25%

Source: www.rbi.org.in

Statutory Liquidity Ratio

Statutory Liquidity Ratio refers to the amount that the commercial banks require to maintain in the form gold or govt. approved securities before providing credit to the customers. It is determined as percentage of total demand and time liabilities. Time Liabilities refer to the liabilities, which the commercial banks are liable to pay to the customers after a certain period mutually agreed upon and demand liabilities are such deposits of the customers which are payable on demand. SLR is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities. Thus, we can say that it is ratio of cash and some other approved liabilities (deposits).It regulates the credit growth in India. Under section 24 of the Banking Regulation Act of 1949, the maximum limit of SLR is 40% and minimum limit of SLR is 23% on NDTL as on the last Friday of the second preceding fortnight.

In India, Reserve Bank of India always determines the percentage of Statutory Liquidity Ratio. There are some statutory requirements for temporarily placing the money in Government Bonds. Following this requirement, Reserve Bank of India fixes the level of Statutory Liquidity Ratio. At present, the minimum limit of Statutory Liquidity Ratio that can be set by the Reserve Bank is **23% as on August 2012.** In addition, if banks fails to maintain SLR and is subjected to penal actions prescribed by RBI.

For the purpose of computation of SLR, the must take into consider 2 alternatives:

i. 25% of the NDTL or
ii. Prevailing percentage of the RBI on Reservable Liabilities, whichever is higher.

Objectives of SLR

- Statutory Liquidity Ratio is maintained in order to control the expansion of Bank Credit. By changing the level of Statutory Liquidity Ratio, Reserve bank of India can increase or decrease bank credit expansion.
- Statutory Liquidity Ratio in a way ensures the solvency of commercial banks.
- To provide profitability to the financial institutions while ensuring liquidity since investments in government securities forms a part of the reserves.
- The statutory investments to be made in approved government securities ease the government borrowing programme.

SLR, a Cushion for Safety

For the SLR too, the Narasimham Committee's view was to bring it down to 25 per cent and resort to auctioning government securities at market related rates. Accordingly, the SLR was reduced to 25 per cent by 1997. Just as for CRR, RBI now has the freedom to also fix the level of SLR.

The effective SLR, ironically though, never fell to 25 per cent at least for public sector banks. These banks found investments in SLR securities as a safe haven to optimize their risk-weighted capital adequacy requirements during late 1990s and the early 2000s, when Basel II norms became applicable. The Government's ever-increasing borrowings appetite also served this purpose well. It was only between 2004 and 2008, as non-performing asset (NPA) levels fell and fiscal consolidation was also in place, that banks shifted their portfolio more in favor of credit rather than SLR investments.

During the current post-global financial crisis period—when fiscal consolidation has been given a permanent holiday, the noose of Basel III is on the neck of the banking system, and NPAs have remerged as a potential threat—public sector banks seem to be reverting to their safe-haven approach to SLR investments.

The SLR now has, thus, regained its earlier status of being a tool for providing a captive market for government securities. With the Government taking over the function of issuing regulatory guidelines to public sector banks, in parallel with or even over-riding that of the central bank, this role is bound to further strengthen. That, of course, is not a desirable trend at all. It would be worth recalling the Narasimham Committee's view that the ownership of banks by the Government should not interfere with the conduct of banking regulation. The other dimension of SLR prescription, from the point of view of new Basel III liquidity norms, is whether the latter would be over and above, or within, the SLR prescriptions.

Table 2: Changes in the SLR rates from 2012 to 2006

Year	SLR (%)
2012	23%
2011	24%
2010	24%
2009	25%
2008	24%
2007	25%
2006	25%

Source: www.rbi.org.in

Difference between SLR and CRR

CRR and SLR are instruments in the hands of RBI to regulate money supply in the hands of banks that they can pump in economy. SLR restricts the bank's leverage in pumping more money into the economy. On the other hand, CRR, or cash reserve ratio, is the portion of deposits that the banks have to maintain with the Central Bank to reduce liquidity in economy. Thus CRR controls liquidity in economy while SLR regulates credit growth in the country

The other difference is that to meet SLR, banks can use cash, gold or approved securities whereas with CRR it has to be only cash. CRR is maintained in cash form with central bank, whereas SLR is money deposited in govt. securities.CRR is used to control inflation.

Conclusions

CRR and SLR are the most direct method because it controls the volume of credit and produces immediate effect on the cash reserves of the bank. RBI uses CRR either to drain excess liquidity or to release funds needed for the growth of the economy from time to time. Increase in CRR means that banks have less funds available and money is sucked out of circulation. This ensures that a portion of bank deposits is kept with RBI and is totally risk-free and enables RBI to control liquidity in the system and thereby inflation by tying the hands of the banks in lending money. The SLR is commonly used to contain inflation and fuel growth, by increasing or decreasing it respectively. This counter acts by decreasing or increasing the money supply in the system respectively. Indian banks' holdings of government securities (Government securities) are now close to the statutory minimum that banks are required to hold to comply with existing regulation.

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Benevolent Fund for the Members of The Institute of Cost and Works Accountants of India

Benevolent Fund for the members of The Institute of Cost and Works Accountants of India was created with the noble cause of extending grants and financial assistance of prescribed amount to the members and beneficiaries of the Fund for medical treatment, financial distress and death.

In the recent past, although the grants and financial assistance could be extended to the eligible members and beneficiaries of the Fund in time, it would have been possible to provide enhanced benefits if the membership of Fund had been larger. We, therefore, appeal to those members of the Institute of Cost Accountants of India who have not yet become members to apply for Life Membership of the Fund immediately. The members are also requested to arrange for donations for the fund to provide support to this noble purpose. For details and application form, please visit the Institute's website:www.icmai.in.

Practical Guide to Cost Accounting Records & Cost Audit

By Kunal Banerjee,

Former President, ICAI

Publisher : Taxmann

Edition : October, 2012;

Price : Rs. 975/-

During the last 18 months, starting from April, 2011, numerous Notifications, Orders, Clarifications etc., from Ministry of Corporate Affairs, Government of India, on Cost Accounting Records Rules and Cost Audit Report Rules were brought out for the corporate sector. They were towards strengthening the corporate governance and to inject culture of cost consciousness and cost competitiveness in the Indian industries in both manufacturing & service sectors. This has brought about a radical change in the mechanism of maintenance of Cost Accounting Records and Cost Audit.

This is a first book on the new mechanism on Cost Accounting Records and Cost Audit, brought out by Mr. Kunal Banerjee. He is the former President of the Institute of Cost Accountants of India and has been very closely involved with the Government of India, in the structuring of new framework of Cost Accounting Records and Cost Audit.

The Author has long experience in conducting Cost Audit, Cost Consultancy and allied fields, for numerous MNCs and other reputed companies.

He has explained in the book - interpretation, implication and clarification on various aspects. He has also prepared a case study by developing the cost records upto preparation of product Cost Statements and Para 1 to 11 of Annexure to the Cost Audit Report and Compliance Report with detailed working papers. This serves as a handy work-book for the readers of this book.

He has shared his 30+ years experience in a capsule form through this book.

This book will be equally useful to young first-timer, who is starting practice in the area of Cost & Management Accounting, as well as professionals in the Industry, who wish to install, implement, comply and use the cost accounting records and assurance mechanism of Cost Audit as a management tool.

With the introduction of Costing Taxonomy, for e-filing of Cost Audit Report & Compliance Report under XBRL format, step by step guidance is given for preparing various Paras to take care of XBRL requirement.

The other highlights of the book are as under -

- Illustrative list of, as to what constitutes cost records.
- Product-wise Cost Sheet preparation to cover – type-wise, size-wise, specification-wise etc.
- Cost Audit Programme (how to conduct Cost Audit?)
- Guidance on CAS-6 to CAS-13, in a nutshell.
- Form II – Cost Audit Report, para 2 – illustrative list of observations & suggestions.
- Information to be covered in Para 2 – Cost Accounting Policy.
- Detailed explanation and methodology for compilation of Para 8 & 9.
- Guidance on Para-10 – Related Party Transactions.
- Check-list for preparing Form III – Performance Appraisal Report.
- Guidelines on XBRL and costing taxonomy.

The book will be a ready reference to professionals & industry alike. It is a pioneering effort put in by the author single handedly.

V R Kedia

Regions & Chapters News

EIRC

Cuttack-Bhubaneswar Chapter of Cost Accountants

The Chapter organized a Subject Based Quiz Competition for its current batch Intermediate students. Around 100 intermediate (Group-I) students participated in the program very actively. This program gave the students the scope to assess their own understanding about the examination oriented objective questions and the current happenings in the business world.

The Chapter also organized series of Career Awareness Programs in different colleges at Bhubaneswar during the month of December, 2012 by making quiz programs amongst the shortlisted students at their Campus.

A preparatory test was also conducted for its Current Batch Intermediate (Group-I) students at the Chapter premises with a purpose to bring in seriousness among the students and to prepare themselves for the final examination to be held in the month of June, 2013.

CMA P. V. Bhattad, Central Council Member, Visited the Chapter and witnessed the infrastructure of the Chapter. CMA A. K. Swain, Chairman, Coaching Committee and CMA M. R. Lenka, Chairman, PD Committee of the Chapter welcomed him to the Chapter.

National Seminar on "Banking Sector—A New Paradigm For Cost & Management Accountants Unveiled"

Keeping in mind the Mission and Vision of the Institute, Howrah Chapter of ICAI has organized a National Seminar on "Banking Sector – A New Paradigm For Cost & Management Accountants Unveiled" which were duly discussed by the eminent speaker form RBI, Different Banks, Government Officials, Chamber of Commerce in India on (i) Profitability and Performance Evaluation of Banks, (ii)Financial Inclusion and (iii)BASEL-III, in three technical session on 23rd December 2012 at Hotel Hindusthan International, Kolkata. It highlighted about the cost consciousness in running Banking Industry with a greater emphasis on proper end use of public money at a minimum risk factor.

The three technical sessions were chaired by Mr. S. K. Basu, Ex-CMD, Bank of Maharasthra, CMA Shyamal Acharyya, DMD-SBI and Mr. A. Chowdhury, GM-RBI with the august presence of Shri Debasish Sen, Principal Secretary, Urban Development, Govt. of West Bengal, CMA Agneshwar Sen, IAS, Jt. Director DGFT, Mr. Arnab Chowdhury, GM-RBI, CMA Rakesh Singh, President-ICAI, Mr. Debmalya Banerjee, Co-Chairman-ASSOCHAM, CMA Ashok Mukherjee, Chairman-EIRC, & CMA Tapas Kr. Kanrar, Chairman-Howrah Chapter.

On the same day a Press Meet also held at The Hotel Hindusthan International, Kolkata. Our President CMA Rakesh Singh discussed on the theme of the seminar and future prospects of our professional members.

SIRC

Interaction with students and Members' SIRC, Chennai

On 23-01-13, Chairman (Training & Students facilities), CMA TCA Srinivasa Prasad, met a cross section students at SIRC premises. He interacted with the students about studies, exam preparation, soft skills and placement.

He discussed the issue of MIG (Mentoring and Incubation Group) was discussed with the MIGs which are already formed at SIRC. The students also requested that more such groups can be formed with guidance from member-professionals.

Students and Members' meet at Thiruchirapalli chapter

CCM & Chairman (Members in Industry), CMA TCA Srinivasa Prasad met the executives of BHEL, Trichy and had an interactive session on Time and Productivity Management at BHEL, Thirichirapalli, on 25-01-13.

This was followed by the interaction of the members of the Thiruchirapalli chapter. CMA TCA Srinivasa Prasad explained the various steps taken for facilitating the members. The members expressed their appreciation about such kind of interactions. Past Chairman of SIRC CMA PSM Hameed, Treasurer of the chapter CMA M Shanmuga Sundaram and Asst.Seretary of the chapter CMA M Venkataraman along with other members were present during the interactions.

On 24-01-13, CMA TCA Srinivasa Prasad, who is also the Chairman(Training & Students facilities), met a cross section students of Thiruchirapalli chapter at the chapter premises. Regional Council Member, SIRC, CMA J Murugesan, Vice-Chairman of the chapter CMA A Arumugam and Secretary of the chapter CMA E Panneerselvam were among the members who were present on the occasion. CMA Prasad explained the various facilities available for the students and impressed upon the students the importance of successful completion of the course in time.

Trivandrum Chapter of Cost accountants

As a part of Professional Development Programme, Trivandrum Chapter of Cost accountants arranged a speech on the subject "Role and Mandate of Comptroller and Auditor General (CAG) under Constitution of India – Discussion under present scenario" by Sri. N. Shanmugham Pillai, Member, Institute of Public Auditors of India.

CMA G. S. Manoharan Nair, Chairman, TCCA presided over the meeting. CMA S. Veerapudran, chairman, Professional Development Committee welcomed the guest speaker and participants. CMA H. Padmanabhan, Secretary, SIRC inaugurated the programme by lighting the traditional lamp. In his inaugural address he specified that the subject of discussion is very relevant as the print and visual media are filled with the stories of corruptions and scams.

The speaker elaborately discussed about the constitutional provisions about CAG, mode of preparation & presentation of audit reports, service done by CAG as a vigilant watch dog of public exchequer. He also highlighted contents of some of the current CAG reports which invited wide public interest. Many of the participants interacted with interest in the session and the program became lively.

On the Republic day, the National Flag was hoisted by CMA Padmanabhan H, Secretary, ICAI-SIRC. Also seen, Chairman, Vice Chairman, MCM, Students and Staff Members, TCCA

NIRC

Lucknow Chapter of Cost Accountants

Lucknow Chapter of Cost Accountants of India organized an Inaugural Function for the new session starting from January, 2013 & Prize Distribution Ceremony on 8th January, 2013. This function was started with the welcome of dignitaries on dais, Hon'ble Chief Guest Shri Rajeev Dwivedi, Circle Head – Uttar Pradesh (East), Reliance Communications Limited, Shri K. L. Brabhakar, Chairman CMA Sunil Singh, Secretary, CMA Vikas Srivastava, Joint Secretary CMA Pawan Tewari & Treasurer CMA. Anjana Chaddha. Chairman CMA Sunil Singh addressed in his motivational & Inspirational induction speech to the students that "practice makes a man perfect and Top Keys to Being a Successful Student".

Hon'ble Chief Guest Shri Rajeev Dwivedi, Circle Head – Uttar Pradesh (East), Reliance Communications Limited congratulated the students of ICAI who passed out with merit & rank. He told that there is absolutely no doubt that Cost and Management Accountants (CMA's) Career is the best course out of other professional courses because CMAs are competent to space the Indian economy & control the inflation of our nation. He also told that CMA's can also make control on the pricing so that public services may be provided on reasonable rates to the public.

A large number of new & old students of Lucknow Chapter of ICAI and many senior members attended the function. At the end Inaugural Function was concluded by National Anthem.

WIRC

Navi Mumbai Chapter of Cost Accountants

Navi Mumbai Chapter of Cost Accountants, in their endeavor to update and upgrade Member's knowledge, organized a discussion meet on the topic "Balanced Scorecard as a Management Control System for Strategy Management". The speaker was CMA Prakash Loganath Vice President – Business Systems and Strategy - Reliance Industries Limited.

Speaker explained the concept of Balance Scorecard and the importance of the same in modern business scenario. Through different models and examples, he explained how Balance Scorecard can play a pivotal role in enhancing the efficiency of a business. The speaker also touched upon the points, which may work as impediments while implementing the Balance Scorecard concept in an organization. He emphasized the importance of the role of Management Accountants in Balance Scorecard implementation. The Program was very much appreciated by the Members.

Pimpri-Chinchwad-Akurdi Chapter

The Pimpri-Chinchwad-Akurdi Chapter organized a seminar on "Recent Developments in Cost Audit Report Rules" and "Performance Appraisal Report" at Keys Hotel, Pimpri.

The seminar was inaugurated by Shri B. B. Goyal, Advisor (Cost) - Ministry of Corporate affairs, CMA. Brij Mohan Sharma, past president of the Institute, CMA V R Kedia, CMA Laxman Pawar, Chairman PCACCA and CMA Ashish Deshmukh, Vice Chairman PCACCA.

CMA Ashish Deshmukh welcomed all the members to the seminar and invited all the speakers to the dais. CMA. Laxman Pawar, Chairman PCACCA in his welcome speech deliberated on the chapter activities and need for organizing such seminar and committed to organize such seminars in near future for the benefit of Members and industry. In recent times Ministry of Corporate affairs has issued number of orders & notifications in respect of Cost Audit and Cost Accounting Record rules. PCACCA organized a seminar in order to understand the intentions of the Government behind these provisions and responsibilities of Professionals & Industry.

Shri B. B. Goyal was felicitated by CMA B. M. Sharma by presenting a memento. Thereafter the first session was conducted by Shri B. B. Goyal wherein the recent notification issued on November 6, 2012 was discussed in detail. The session was very interactive and all the questions and doubts were cleared by the eminent speaker.

The second session started with felicitation of CMA V R Kedia. CMA Laxman Pawar welcomed him by presenting a memento. CMA V R Kedia explained the importance of Performance Appraisal Report and the practical aspects of preparing such report. The session was very informative and interactive.

After the technical sessions, CMA Pradeep Deshpande, Secretary, PCACCA, gave a vote of thanks. The seminar was well attended by members of the Institute and participants from the industry.

Kolkata, the 21st December, 2012

NOTIFICATION

16-CWR (12344–12349)/2012: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (b) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the names of:

1. Shri K. Padmanabhan, MA(ECON), BGL, ACS, ACMA(UK), MBIM, ACMA, C/O K. Balasubramanian, Plot No. 16, Second Street, Ilango Nagar, Chennai-600092, Tamil Nadu (Membership No. 1407) with effect from 19th December, 2012 at his own request.
2. Shri H. S. Nagaraja, BSC, ACMA, "Aparna" 1155, 26th A Main, 9th Block, Jayanagar, Bangalore-560069, Karnataka (Membership No. 1791) with effect from 3rd November, 2012 at his own request.
3. Shri Sudhakar D. Joshi, MCOM, ACMA, Flat No. D-2, Harshada Garden, Mahaganesh Colony, Paud Road, Kothrud, Pune-411029, Maharashtra (Membership No. 2152) with effect from 31st March 2011 at his own request.
4. Shri G. V. Ramana Rao, BCOM, ACMA, 4-54-16/C L I G Plot No 41, Lawsonsbay Colony, Waltair, Visakhapatnam-530017, Andhra Pradesh (Membership No. 2954) with effect from 22nd October 2012, at his own request.
5. Shri N. Kalyanaraman, ACMA(UK), ACMA, 6/49, Kalpakam, Cheda Nagar, Chembur, Mumbai-400089 (Membership No. 5601) with effect from 24th February, 2011 at his own request.
6. Shri P. V. Subramanian, BCOM(HONS), ACMA, B-601, Greenpark Apartments, Sugarcane Institute Road, Coimbatore-641007, Tamil Nadu (Membership No. 5993) with effect from 14th November, 2012, at his own request.

Rakesh Singh
President

Kolkata, the 21st December, 2012

NOTIFICATION

18-CWR (1661–1663)/2012: It is hereby notified in pursuance of amended Regulation 18 of the Cost and Works Accountants Regulations, 1959, that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of:

1. Shri Dhirendra Kumar Singh, BCOM(HONS), ACMA, Chairman, M/s. Sukson Agro Products Pvt. Ltd., At Matiyara, P.O. Bhojpatti, P.S. Sarai, Pin-844125, Dt. Vaishali, Bihar, (Membership No. 10110) with effect from 12th December, 2012,
2. Ms. Reeta Anand, BCOM, MCOM, ACMA, Manager (Finance), Air India Ltd., CRA Building, Safdarjung AirPort, New Delhi-110003, (Membership No. 12489) with effect from 25th October, 2012, and
3. Shri N. Venkat Achary, BCOM, MBA, ACMA, FL-403, Seshagiri Mansion, Anand Nagar Colony, Khairatabad, Hyderabad-500004, (Membership No. 13574) with effect from 6th December, 2012.

Rakesh Singh
President

Kolkata, the 21st December, 2012

NOTIFICATION

11-CWR (447–455)/2012: In pursuance of sub-Regulation (3) of Regulation 11 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that the Certificate of Practice granted to:

1. Shri Brij Mohan Rustagi, BCOM(HONS), FCMA, Rustagi & Associates, Flat-D-5/204, Sector-20, GH No. 79 (AWHO), Panchkula-134116, Haryana (Membership No. 4958) is cancelled from 26th November, 2012 to 31st March, 2013,
2. Shri Sanjay Kumar Gupta, BCOM, FCMA, Sanjay Kumar Gupta & Associates, B-605, Sector 17, Vasundhara, Ghaziabad-201012, Uttar Pradesh (Membership No. 17840) is cancelled from 14th August, 2012 to 31st March, 2013,
3. Shri George Joseph, MCOM, LLB, FCMA, George Joseph & Co., Anugraha-Puthenpurayil, Near Caris Bhavan, Kottayam, Athirampuzha-686563, Kerala (Membership No. 23735) is cancelled from 10th October, 2012 to 31st March, 2013,
4. Shri Diptiranjan Panda, BSC, ACMA, Panda & Co., Plot No. 334/2525, Vinayak Nagar, Mahanadi Vihar, Cuttack-753004, Orissa, (Membership No. 28359) is cancelled from 3rd August, 2012 to 31st March, 2013,
5. Shri Rabi Kumar Sahu, BCOM(HONS); ACMA, House No. GM/9, Godabarisha Nagar (Main Lane), in front of Sai Temple, Dist. - Ganjam, Berhampur-760001, Orissa (Membership No. 28545) is cancelled from 11th August, 2012 to 31st March, 2013,
6. Ms. Pooja Mittal, BCOM, ACMA, House No: 37, Sector-17, Huda, Jagadhari, Yamunanagar-135003, Haryana (Membership No. 29069) is Cancelled from 1st December, 2012 to 31st March, 2013,
7. Shri Nityananda Dash, MCOM, ACMA, 1/110, Azadgarh, PO. - Regent Park, Kolkata-700040, West Bengal (Membership No. 29078) is cancelled from 10th December, 2012 to 31st March, 2013,
8. Shri Mukund Kumar Jha, BCOM(HONS), ACMA, C/B2, 3rd Floor, Pabitra Garden City, Kabardanga More, South 24 Parganas, Kolkata-700104, West Bengal, (Membership No. 31104) is cancelled from 21st August, 2012 to 31st March, 2013, and
9. Shri Rohit Sharma, MCOM, ACMA, # 412 / 2, Phase-6, Mohali-160055, Punjab (Membership No. 32129) is cancelled from 15th August, 2012 to 31st March, 2013 at their own request.

Rakesh Singh
President

Notification

In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, in exercise of powers conferred by clause (c) of sub-section (1) of Section 20 of the Cost & Works Accountants Act 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the names of the members vide Notification No 16-CWR (12350 – 21819)/2013 dated 29th January 2013 for non-payment of prescribed fees, the details of which are uploaded on the Institute's website www.icmai.in.

Kolkata, the 16th January, 2013

NOTIFICATION

11-CWR(456–458)/2013: In pursuance of sub-Regulation (3) of Regulation 11 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that the Certificates of Practice granted to:

1. Shri A. Ajith Kumar, BCOM(HONS), ACMA, TC 23/1028(1), BNRA-23, Thycaud P.O., Trivandrum 695014, Kerala, (Membership No. 31011), is cancelled from 18th September, 2012 to 31st March, 2013 at his own request.
2. Shri Anupam Roy, BCOM(HONS), ACMA, FC-64, Narayantala (West), Deshbandhunagar, Kolkata-700059, West Bengal, (Membership No. 29207), is cancelled from 9th October, 2012 to 31st March, 2013 at his own request.
3. Shri M. K. Vijaykumar, MCOM, ACMA, Suman Flat 'C', Sai Swaroop Apartments, 57, 3rd Main Road, Alwar Thiru Nagar Annexe, Chennai-600087, Tamil Nadu, (Membership No. 10166), is cancelled from 16th October, 2012 to 31st March, 2013 at his own request.

Rakesh Singh
President

Kolkata, the 16th January, 2013

NOTIFICATION

16-CWR (12350–12353)/2013: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (a) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the names of:

1. Shri Prantosh Chatterjee, BCOM, ACMA, 165/1, Sarat Bose Road, Kolkata-700026, (Membership No. 725) with effect from 31st January, 2006,
2. Shri Velathe Karuthedathe Nair, BSC, ACMA, Karunavihar, Ottapalam, Kumaranellur-6790552, (Membership No. 1330) with effect from 31st December, 2005,
3. Shri T. V. Krishnamurthy, MA, BL, FCMA, 27, Kalingarayar Street, Ramnagar, Coimbatore-641009, (Membership No. 3472) with effect from 15th September, 2009, and
4. Shri G. S. Shashidhar, BSC, ACMA, No. 1503 (Old No. 44), VIII Main, III Block, Jayanagar, Bangalore-560011, (Membership No. 8108) with effect from 31st December, 2008.
   On account of death.

Rakesh Singh
President

For Attention of Members

The members whose names have been removed from the Register of Members can restore their membership by paying all arrear fees and a restoration fee of Rs. 500/- and submitting application for restoration in Form M-4, which can be downloaded from the Institute's website www.icmai.in. For any query in this regard, e-mail may be sent to membership.rb@icmai.in.

Kolkata, the 16th January, 2013

NOTIFICATION

18-CWR (1667–1669)/2013: It is hereby notified in pursuance of amended Regulation 18 of the Cost and Works Accountants Regulations, 1959, that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of:

1. Shri P. B. Ramanujam, BSC, ACMA, Temple Trees-GD, 20/37, Venkatanarayana Road, T. Nagar, Chennai-600017, (Membership No. 4956) with effect from 8th January, 2013,
2. Shri Rohit Kumar Shah, MCOM, ACMA, 23/112, Swarn-Path, Mansarovar, Jaipur-302020, (Membership No. 8104) with effect from 9th January, 2013, and
3. Shri Sunil Kumar Bhardwaj, MCOM, ACMA, Asstt. General Manager, Bokaro Steel Plant, F&A Dept., Main Admn. Bldg., Bokaro Steel City-827001, (Membership No. 18252) with effect from 11th January, 2013.

Rakesh Singh
President

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

12, Sudder Street, Kolkata – 700 016

Kolkata, the 4th February, 2013

Notice on Fresh Election (By-Election) to the Council from Southern India Regional Constituency

In pursuance of Clause (3) of Schedule 2 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended, the addresses of different polling booths at a place where there are more than one polling booth for the ensuing Fresh Election (By-Election) to the Council, 2013 for filling up one vacant post from Southern India Regional Constituency are notified as follows:-

SOUTHERN REGION REGIONAL CONSTITUENCY

Bangalore	The Institute of Cost Accountants of India - Bangalore Chapter, CMA Bhawan, 81, Mallikarjuna Temple Street, Basavanagudi, Bangalore – 560 004.
Bangalore	Institution of Agricultural Technologists (IAT), No. 15, Queen's Road, Bangalore – 560 052
Chennai	The Institute of Cost Accountants of India – Southern India Regional Council, CMA Bhawan 4, Montieth Lane, Egmore, Chennai – 600 008.
Chennai	Southern India Chamber of Commerce & Industry, 6 Indian Chamber Buildings, Esplanade, Chennai – 600 108.
Chennai	South Indian National Association, Sastri Hall, No. 40, Luz Church Road, Mylapore, Chennai – 600 004.
Chennai	C. Kandaswamy Naidu College for Men, Anna Nagar (East), Near Round Tana, Anna Nagar, Chennai – 600 040.
Chennai	The Stenographers' Guild, 1, Guild Street, T. Nagar, Chennai – 600 017.
Chennai	Chellammal Women's College, No. 112, Anna Salai, Guindy, Chennai – 600032.
Hyderabad	The Institute of Cost Accountants of India - Hyderabad Chapter, CMA Bhawan, Ground Floor, 1-2-56/44A, Gagan Mahal Road, 5th Street, Himayatnagar, Hyderabad – 500 029.
Hyderabad	YMCA of Greater Hyderabad, Secunderabad Branch, S.P. Road, Secunderabad – 500 003

Any voter in such a place wishing to vote may send a request in writing mentioning his name, membership number and the address of the polling booth in which he would like to be attached. Such request should reach the Returning Officer at the Institute's Headquarters at CMA Bhawan, 12, Sudder Street, Kolkata – 700 016 within one month from the date of this notice.

Kaushik Banerjee
Returning Officer

Kolkata, the 16th January, 2013

NOTIFICATION

16-CWR (12320–12343)/2012: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (a) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the name of:

1. Shri K. S. Varadarajan, FCMA, No. 67/8, Kodambakkam High Road, T. Nagar, Chennai-600017, Tamil Nadu. (Membership No. 161) with effect from 17th January, 2011.
2. Shri B. L. J. Sharma, FCMA, No. 19, Central Street, Kumarapark West, Bangalore-560020, Karnataka (Membership No. 433) with effect from 5th October, 2010
3. Shri Chandra Mohan Khattry, BCOM, ACMA, D-4, S.T.C. Society, Western Express Highway, Andheri (E), Mumbai-400069, Maharashtra (Membership No. 878) with effect from 8th November, 2012.
4. Shri S. Subramanian, BSC(HONS), FCMA, Plot No. I, Door No. 9, 3rd Cross Street, Kannappa Nagar, Thiruvanmiyur, Chennai-600041, (Membership No. 968) with effect from 7th September, 1998.
5. Shri S. Lakshminarayan, MCOM, LLB, ACMA, Flats 10 & 11, Plot 50B, Pestom Sagar, Chembur, Mumbai-400089. (Membership No. 1323) with effect from May 2011.
6. Shri M. S. Ananthakrishna Sharma, BSC. DIP. MA, FCMA, Cost Accountant, 247, Sautivilas, Oil Mill Road, Old Bandikeri, Mysore-570024. (Membership No. 1354) with effect from 25th August, 1998.
7. Shri Sahadeb Karmakar, BCOM, ACMA, G.T. Road, Fatehpur, Dist: Burdwan, P.O. Sitarampur, Pin: 713359, West Bengal, (Membership No. 1533) with effect from 28th July 2012.
8. Shri Kishan Gopal Goyal, MCOM, FCMA, K. Goyal & Co., 8, Chitragupta Nagar, Jyoti Nagar Rly. Crossing, Jaipur-302005, Rajasthan, (Membership No. 2719) with effect from 15th November 2012.
9. Shri Madhukar Sadashiv Kulkarni, MSC, DIM, ACMA, A/9, Tridal, Mithagar Road, Mulund East, Mumbai-400081, Maharashtra (Membership No. 2901) with effect from 4th May, 2012.
10. Shri V. Sankaran, ACMA, 175, 3rd Main, 4th Block, Rajajinagar, Bangalore-560010. (Membership No. 2967) with effect from 21st March, 2006.
11. Shri Madhusudan Gajanan Dravid, BA, BCOM, FCMA, 'Santosh' Bungalow, 17, Jayshakti Society, Ganeshnagar, Pune-411052, Maharashtra (Membership No. 3098) with effect from 10th August, 2010.
12. Shri K. T. Abraham, BCOM, ACMA, Kochuplammoottil House, Muttathukonam P.O., Elavumthitta-689625. (Membership No. 3864) with effect from 8th October, 2012.
13. Shri D. N. Meyyappan, BCOM, FCMA, 24-B, Vth Cross Street, Padmavathi Nagar, Virugambakkam, Chennai-600002, Tamil Nadu. (Membership No. 3931) with effect from 3rd October, 2012.
14. Shri Balavadra Mohapatra, BCOM, FCMA, B. Mohapatra & Associates, At-HIG 17 (7 Acres), Housing Board Colony, Chandrasekharpur, Dist-Khurda, Bhubaneswar-751021, Orissa. (Membership No. 4691) with effect from 22nd May, 2012.
15. Shri T. P. Haridas, BCOM, MSC(COM), MBA, PHD, ACMA, Professor of Management, Saint Mary's University, Dept. of Management, Halifax, Nova Scotia, B3H 3C3, Canada (Membership No. 5065) with effect from 25th October, 2010.
16. Shri Jawahar Lal Kumar, BA, ACMA, 212-L/A, New Colony, Gurgaon-122001, Haryana. (Membership No. 5332) with effect from 15th July, 2012.

17. Shri Suresh Chandra Mehta, BCOM(HONS), ACMA, C/o. Swastik Metal Syndicate, 1281, Alamma Choultry, Vinoba Road, Shivarampet, Mysore-570001 (Membership No. 5339) with effect from 21st November, 2010.
18. Shri K. A. Narasimha Nayak, BCOM, ACMA(UK), ACMA, Senior Citizen's, Settlement Foundation, Bharati Seva Sadan, Room No. 19, Kademane, Belandur, Sringeri-577139, Karnataka (Membership No. 7809) with effect from 25th October, 2012.
19. Shri Ashok Kumar Verma, MCOM, FCMA, Sr. General Manager, MIG(S), 4557-B, Sector-70, Mohali-160071, Punjab. (Membership No. 9423) with effect from 9th November, 2012.
20. Shri Dipankar Saha, BSC(HONS), ACMA, HA-33, Salt Lake, Sector III, Kolkata-700097, West Bengal (Membership No. 9838) with effect from 30th March, 2008.
21. Shri S. Narayanaswamy, MCOM, FCS, ACMA, New No. 6, Old No. 05, Raman Garden First Street, Near 7th Street of Nehru Colony, Nanganallur, Chennai-600061, Tamil Nadu (Membership No. 10829) with effect from 17th April, 2012.
22. Shri A. Om Prakash, M.COM, MFM, FCMA, No. 5 (Old No. 190), Chinnamma Nilaya, 12th Cross, 2nd Main, III Block, Thyagarajnagar, Bangalore-560028, Karnataka, (Membership No. 11597) with effect from 2nd December, 2012.
23. Shri S. K. Batra, BCOM, ACS, ACMA, Asst. Company Secretary, NTPC Ltd., Scope Complex, 7, Institutional Area, Lodi Road, New Delhi-110003, (Membership No. 11695) with effect from 31st October, 2010.
24. Shri Rajat Mukherjee, BCOM(HONS), ACMA, 364/16, Netaji Subhas Ch. Bose Road, Kolkata-700047, West Bengal (Membership No. 12380) with effect from 6th September, 2012.
    On account of death.

Rakesh Singh
President

NOTIFICATION

No: CMA(6)/2013 17th January, 2013

The Council of the Institute at its 278th Meeting held on 17th January, 2013 has decided to increase the price of Prospectus for Foundation, Intermediate and Final Course of the Institute under Syllabus, 2012 from Rs. 200/- (Rupees Two Hundred only) per copy to Rs. 250/- (Rupees Two Hundred Fifty only) per copy with immediate effect.

Kaushik Banerjee
Additional Secretary

NOTIFICATION

No. CMA(9)/2013 1st February, 2013

Sub: Fee Collection from Students

The Council of the Institute at its 278th Meeting held on 17th January, 2013 has decided that fees from students pursuing the courses of the Institute shall have to be collected in the following modes only:-

(a) PNB Pay Fee Module – Students shall have to deposit the fee at the PNB Branches for both oral and postal students. No transaction cost has to be borne by the students in this regard.

(b) On-line Registration and Payment – through Credit/Debit Cards – for Postal Students

(c) Where the facility as stated in (a) and (b) above could not be availed, the students would be given the option to pay through "Demand Draft", drawn in favour of "The Institute of Cost Accountants of India", payable at Kolkata.

The Council has further directed that with effect from 1st April, 2013 no fees (by whatever name called) from students should be collected in cash.

The benefit of payment through other Banks and the list of those designated Banks would be notified shortly.

Kaushik Banerjee
Secretary (Acting)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

NOTIFICATION

Kolkata, the 1st February, 2013

21-CWA/2013.-In pursuance of sub-section (1) of Section 21 of the Cost and Works Accountants Act, 1959 as amended, it is hereby notified that the Council of the Institute at its 278th meeting held on 17th January, 2013 has designated Shri Rajendra Bose, Joint Director as Director (Discipline) for making investigations in respect of any information or complaint received by the Disciplinary Directorate.

Rakesh Singh
President

NOTIFICATION

No. CMA(8)/2013 1st February, 2013

Sub: Qualification-based RECIPROCAL EXEMPTION SCHEME- under Syllabus 2012 between the Institute of Cost Accountants of India and the Institute of Company Secretaries of India

The Council of the Institute at its 278th Meeting held on 17th January, 2013 has approved the following RECIPROCAL EXEMPTION SCHEME to grant qualification-based subject exemption to the students of the Institute of Company Secretaries of India (ICSI), be made effective for Syllabus 2012, which has been subsequently approved by the Council of ICSI at its 212th meeting held on January 18, 2013 as given below:

Qualification-based RECIPROCAL EXEMPTION SCHEME- under Syllabus 2012 between the Institute of Cost Accountants of India and the Institute of Company Secretaries of India

Exemption to ICSI passed candidates from papers of the Institute of Cost Accountants of India	Exemption to Institute of Cost Accountants of India passed candidates from papers of ICSI
Foundation Course-Full exemption	**Foundation Program-Full exemption**
Intermediate course	**Executive Programme**
Group 1, Paper 8: Cost Accounting and Financial Management	Module 1, Paper 2: Cost and Management Accounting
Group 1, Paper 7: Direct Taxation	Module 1, Paper 4: Tax Laws and Practice
Group 2, Paper 12: Company Accounts and Audit	Module 2, Paper 5: Company Accounts and Auditing Practices
Final Course	**Professional Programme**
Group 3 Paper 13: Corporate Laws & Compliance	Module 1, Paper 1 : Advanced Company Law & Practice
Group 3 Paper 14: Advanced Financial Management	Module 2, Paper 5: Financial, Treasury and Forex Management
Group 3, Paper 16: Tax Management and Practice	Module 3, Paper 7: Advanced Tax Laws and Practice

Further, the *subject exemption fee for each paper is fixed at Rs.1,000/– (Rupees One Thousand only)*."

Kaushik Banerjee
Secretary (Acting)

Obituary

The Institute and its members deeply mourn the sad demise of CMA S.N. Pyne who passed away on 25th January 2013. He was the former Chairman of EIRC and the founder Chairman of Asansol Chapter of Cost Accountants. His contribution for the development of the profession of cost and management accountancy will always be remembered.

May his soul rest in eternal peace.

Advisory for Renewal of Certificate of Practice 2013–14

The members of the Institute holding Certificate of Practice having validity upto 31st March, 2013 are requested to comply with the following guidelines for renewal of their Certificate of Practice:

1. The following changes consequent to amendment of the Cost and Works Accountants Regulations, 1959 vide Notification dated 4th February, 2011 published in the Gazette of India may be noted:

- The validity of a Certificate of Practice (COP) is for the period 1st April to 31st March every year unless it is cancelled under the provisions of the Cost and Works Accountants Act and Regulations, 1959 as amended.
- The Certificate of Practice issued shall automatically be renewed subject to submission of prescribed Form M-3 and payment of renewal fee and annual membership fee.
- From the year 2011-12 onwards, no renewal Certificate of Practice would be issued. However, the members concerned may download the renewal status from the Institute's website www.icmai.in.

2. It may please be noted that under Section 6 of the Cost and Works Accountants Act, 1959, both the **Annual Membership Fee** and **Fee for Renewal of Certificate of Practice** falls due on 1st April each year.

3. Special attention is invited to the fact that the validity of a Certificate of Practice expires on **31st March** each year unless it is renewed on or before the date of expiry in terms of amended Regulation 10 of the Cost and Works Accountants Regulations, 1959. Hence, a member shall be required to renew his certificate within **31st March** every year.

4. **If the Certificate of Practice of a member is not renewed within 31st March, 2013, his/her status of COP from 1st April 2013 till the date of renewal would be "Not Active" and he will neither be able to affix his digital signature on any cost audit report or compliance report nor will he be able to get approval of Form 23C or Form 23D and the forms will get rejected on the MCA Website.**

5. Subject to what is mentioned in Sl. No. 4 above, a member can get his/her Certificate of Practice for 2013-14 renewed within **30th June, 2013**.

6. It may please be noted that mere payment of fees alone will not be sufficient for renewal of Certificate of Practice. Application in prescribed Form M-3 (New Form from 2013-14 onwards to be used) for Renewal of Certificate of Practice duly filled in and signed is **mandatory**. Soft copy of prescribed Form M-3 for Renewal of Certificate of Practice can be downloaded from Institute's website www.icmai.in.

7. The Institute has introduced a scheme of Continuing Education Programme (CEP) and the same is mandatory in accordance with proviso to sub-regulation (1) of Regulation 10 of the Cost and Works Accountants Regulations, 1959, as amended, whereby no Certificate of Practice and renewal thereof shall be issued unless a member has undergone minimum number of hours of such training.

   As per the said scheme, the following should be complied with:

   i. The member should undergo minimum mandatory training of 10 hours per year.
   ii. The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

   The detailed guidelines in this connection are available on Institute's website www.icmai.in.
   The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st April 2013.

Other relevant issues for Renewal of Certificate of Practice are as follows:

- Application for renewal of Certificate of Practice upto **31st March 2014** has to be made in prescribed **revised Form M-3** which may be filed online or through hard copy of form duly filled in and signed on both sides together with Renewal Certificate of Practice fee of Rs.2,000/- and all other dues to the Institute on account of annual membership fees and entrance fees.
- The annual membership fee for Associate and Fellow members are Rs.1,000/- and Rs.1,500/- respectively. The entrance fee for Associate and Fellow members is Rs. 1,000/- each payable at a time at the time of application for admission to Associateship or advancement to Fellowship, as the case may be.

- The fees may be paid online or by Demand Draft/Pay Order/Cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. In case remittance is made through outstation cheque, Rs. 30/- is to be included towards bank charges. The fees may also be paid directly by cash at the Headquarters, Kolkata or by Cash/Demand Draft/pay Order/Cheque at the Regional Councils or Chapters of the Institute.
- Members should note that the **renewal of Certificate of Practice can be effected only after receipt of the prescribed fees along with duly filled in form and CEP credit hours certificate at the Headquarters of the Institute** and mere submission of the same at the Regional Councils or Chapters will not be sufficient. Members are advised to make payment directly to the Headquarters or use the online facility of submission of application and payment to avoid any delay.

All practicing members are advised to send their application for renewal of Certificate of Practice for the year 2013-14 along with other requirements as indicated above immediately so as to reach the Institute's Office at Kolkata by 27th March 2013 to enable the Institute to issue the renewal certificate by 31st March, 2013.

Renewal of Part-time Certificate of Practice

1. For renewal of part-time Certificate of Practice, it is also essential to furnish a certificate from the employer in the following form or in a form as near thereto as possible if the practising member has undertaken any employment or there has been a change in employment:

   "Shri/Smt ....……………………………………………….. is employed (designation) ………….…………………………………….and (name of Organisation) ………………………………….he is permitted, notwithstanding anything contained in the terms of his employment, to engage himself in the practice of profession of Cost Accountancy in his spare time in addition to his regular salaried employment with us.

   Signature of Employers with seal of Organisation"

2. It may be noted that members holding Part-time Certificate of Practice (COP) are not eligible to undertake statutory assignments like Cost Audit, Central Excise Audit, Certification of Compliance Reports etc.

Kolkata, the 29th January, 2013

NOTIFICATION

18-CWR (1670–1674)/2013: It is hereby notified in pursuance of amended Regulation 18 of the Cost and Works Accountants Regulations, 1959, that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of:

1. Shri Shyam Sunder Bhartia, BCOM, ACMA, 19, Friends colony (West), New Delhi-110065, (Membership No. 3581) with effect from 29th January, 2013,
2. Shri R. Kannan, MSC, ACMA, 13 (Old No. 6), Daniel Street, Adambakkam, Chennai-600088, (Membership No. 8674) with effect from 14th January, 2013,
3. Shri Bhagyanath B., MCOM, ACMA, 'Shree', Malamel Gardens, Karimakkad, Thrikkakara, Dt. Ernakulam, Pin : 682021, (Membership No. 15765) with effect from 10th January, 2013,
4. Shri Murari Agrawal, BCOM(HONS), ACMA, 26, Bangur Avenue, 2nd Floor, Flat No. 4, Kolkata-700055, (Membership No. 18642) with effect from 21st January, 2013, and
5. Shri Sunil Kumar Shah, BCOM(HONS), ACA, ACMA, Binayak Enclave, Block-K/408, 59, Kalicharan Ghosh Road, Kolkata-700050, (Membership No. 20297) with effect from 21st January, 2013

Rakesh Singh
President

NOTIFICATION

No. CMA (3)/2012 Kolkata, the 10th October, 2012

In pursuance of sub-regulation (b) of Regulation 20B and Regulation 31 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by clause (a) of sub-section (2) of Section 15 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India at its 277th Meeting held on 1st October, 2012 has approved the "Syllabus 2012" for introduction w.e.f. 1st December, 2012 as annexed in Annexures 1 & 2. Students admitted to the Courses of the Institute, w.e.f. 1st December, 2012 shall pursue Courses under "Syllabus 2012".

The First Examination under "Syllabus 2012" shall be conducted in December 2013.

The Last Examination under "Revised Syllabus 2008" shall be conducted in June 2015.

Examinations under both the Syllabi shall be conducted simultaneously as under:

Examination to be held in	Examinations to be held under	
December 2013	Revised Syllabus 2008	Syllabus 2012
June 2014	Revised Syllabus 2008	Syllabus 2012
December 2014	Revised Syllabus 2008	Syllabus 2012
June 2015	Revised Syllabus 2008	Syllabus 2012
December 2015 and onwards (until further notification)		Syllabus 2012

This issues with the approval of the competent authority.

Kaushik Banejee
Additional Secretary

Annexure 1

Foundation Course	Paper 1: Fundamentals of Economics & Management
	Paper 2: Fundamentals of Accounting
	Paper 3: Fundamentals of Laws & Ethics
	Paper 4: Fundamentals of Business Mathematics & Statistics
Intermediate Course	Group I
	Paper 5: Financial Accounting
	Paper 6: Laws, Ethics & Governance
	Paper 7: Direct Taxation
	Paper 8: Cost Accounting & Financial Management
	Group II
	Paper 9: Operations Management & Information Systems
	Paper 10: Cost & Management Accountancy
	Paper 11: Indirect Taxation
	Paper 12: Company Accounts & Audit

	TRAINING FOR THE INTERMEDIATE COURSE
	(1) 100-hours computer training ; (2) Communication & Soft Skills Training (3 – days/18 hours)
Final Course	Group III
	Paper 13: Corporate Laws & Compliance
	Paper 14: Advanced Financial Management
	Paper 15: Corporate Financial Reporting
	Paper 16: Tax Management & Practice
	Group IV
	Paper 17: Strategic Performance Management
	Paper 18: Business Strategy & Strategic Cost Management
	Paper 19: Cost and Management Audit
	Paper 20: Financial Analysis & Business Valuation
	TRAINING FOR THE FINAL COURSE
	(1) Industry oriented training programme (7 days/42 hours); (2) Practical Training (Annexure 2)

Annexure 2

Practical Training

Parameters	Explanation
When to start the training	At any time, but before appearing for both the groups or for the remaining group of the Final Course (having qualified the other group of the Final course)
Time period	3 -Years
Recognition of work experience	For students who are already engaged in specified/recognized fields of work/activities including their past experience, would be considered for the purpose of ascertaining their period of training
For being eligible to appear in examination	Out of the total period of 3-years of practical training, a student must be registered for a period of 1 year out of which at least 6-months must be completed before 31st March/30th September respectively to become eligible to make an application for examination to be held in June/December, for appearing in both the groups or for the remaining group in the Final Course (having qualified the other group of the course)
Effective date	Effective for all students (registered under "Syllabus 2008" and "syllabus 2012") who will be appearing in final examination from December 2013 onwards

NOTIFICATION

No. CMA(7)/2013 17th January, 2013

The Council of the Institute at its 278th Meeting held on 17th January, 2013 has decided to increase the following fees with effect from 1st April, 2013:

Category of Fees	Present	Revised with effect from 1st April, 2013 (From Financial Year 2013-2014 onwards)
	Rs.	Rs.
Associate Membership Fee	800/-	1000/-
Certificate of Practice Fee	1000/-	2000/-
Duplicate Certificate Fee for Members & Students	10/-	100/-

Kaushik Banejee
Additional Secretary

NOTIFICATION

No. CMA (4)/2013 Kolkata, the 1st January, 2013

In pursuance of sub-regulation (b) of Regulation 20B and Regulations 30 & 31of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by clause (a) of sub-section (2) of Section 15 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India at its 277th meeting held on 1st October, 2012 has approved the "Syllabus 2012" for introduction w.e.f. 1st January, 2013 as annexed in Annexures 1 & 2. Students admitted to the Courses of the Institute, w.e.f. 1st January, 2013 shall pursue Courses under "Syllabus 2012".

The First Examination under "Syllabus 2012" shall be conducted in December 2013.

The Last Examination under "Syllabus 2008" shall be conducted in June 2014.

Examination under both the Syllabi shall be conducted simultaneously as under:

Examination to be held in	Examinations to the held under	
June 2013	CAT Syllabus 2008	
December 2013	CAT Syllabus 2008	CAT Syllabus 2012
June 2014	CAT Syllabus 2008	CAT Syllabus 2012
December 2014 and onwards(until further notification)		CAT Syllabus 2012

This issues with the approval of the competent authority.

Kaushik Banejee
Additional Secretary

Summary of the Course:

Foundation Course (Entry Level) Part-I

Paper I: Fundamentals of Financial Accounting
Paper II Applied Business and Industrial Laws
Paper III Financial Accounting - 2
Paper IV: Statutory Compliance

Delivery Strategy

Class Room oral coaching

Learning Strategy

Class Room Learning
On-line/off-line self paced studies

ASSESSMENT STRATEGY

On line/off line periodical self-assessment
Course end examination- Multiple Choice Questions
To be answered in OMR answer sheets/on-line

Competency Level (Part-II)

(A) Fundamentals of computers
(B) Filing of statutory returns
(C) Introduction to costing principles and preparation of cost statements
(D) 5-days Orientation Programme

NOTIFICATION

No. CMA(10)/2013 February 1, 2013

Sub: Syllabus 2012 – Structure (Revised)

It is hereby notified in partial modification of Notification No. CMA (3) / 2012 dated 10th October, 2012 on the subject "Syllabus 2012", the papers for Final Course prescribed under Syllabus 2012 is modified as under:-

"Paper 15 - Corporate Financial Reporting" should be read as " Paper 15- Business Strategy & Strategic Cost Management" and further, "Paper 18- Business Strategy & Strategic Cost Management" should be read as "Paper 18- Corporate Financial Reporting".

The title and nomenclature of all other remaining papers including their contents remains unaltered, until otherwise notified.

Hence, the detailed Syllabus 2012: Curriculum, as amended, stands as under:-

Syllabus 2012: Curriculum

Foundation Course	Paper 1: Fundamentals of Economics & Management
	Paper 2: Fundamentals of Accounting
	Paper 3: Fundamentals of Laws & Ethics
	Paper 4: Fundamentals of Business Mathematics & Statistics
Intermediate Course	Group I
	Paper 5: Financial Accounting
	Paper 6: Laws, Ethics & Governance
	Paper 7: Direct Taxation
	Paper 8: Cost Accounting & Financial Management
	Group II
	Paper 9: Operations Management & Information Systems
	Paper 10: Cost & Management Accountancy
	Paper 11: Indirect Taxation
	Paper 12: Company Accounts & Audit
Final Course	Group III
	Paper 13: Corporate Laws & Compliance
	Paper 14: Advanced Financial Management
	Paper 15: Business Strategy & Strategic Cost Management
	Paper 16: Tax Management & Practice
	Group IV
	Paper 17: Strategic Performance Management
	Paper 18: Corporate Financial Reporting
	Paper 19: Cost and Management Audit
	Paper 20: Financial Analysis & Business Valuation

This issues with the approval of the competent authority.

Kaushik Banerjee
Secretary (Acting)

NATIONAL
CMA PRACTITIONER'S CONVENTION - 2013

Theme :

"CMA PRACTICE - THE EMERGING SCENARIO"

Saturday, 23rd FEBRUARY 2013

Venue : Hotel Accord Metropolitan, G.N.Chetty Road, T.Nagar, Chennai - 600 017.

Organised by:

The Institute of Cost Accountants of India
Southern India Regional Council

CMA Bhawan, #4, Montieth Lane, Egmore, Chennai - 600 008.
Tel: 044-2855 4443, 2852 9139, E-mail: sirc@icwai.org, www.icwai.org

NATIONAL CMA PRACTITIONER'S CONVENTION - 2013

Theme: "CMA PRACTICE - THE EMERGING SCENARIO"

23rd February 2013, Chennai

Dear Professional Colleagues

The year 2012 has been a land mark year for practicing cost accountants, with the introduction of new notifications on Cost Audit, Cost Compliance aimed at building cost competitiveness across the industry. The Institute responded to the challenge of Capacity Building by holding series of seminars, workshops, webinars and conferences across the country and also came out with the unique initiative of providing the tool for filing in "XBRL Format" from the Institute itself.

One of the key dimensions relating to the ultimate purpose of the new cost audit mechanism, was amply brought out when the Institute thought it fit to release the "Guidance Note on Performance Appraisal Report", to guide the practitioners about the real role which they have to play and the one which will sustain the mechanism in the long run. The Companies Bill 2012, which has been passed in Lok Sabha has also duly recognized the role of the CMAs in Internal Audit, amongst various other provisions. The role of Internal Auditor has also undergone a major metamorphosis with the management looking at them to add value in non financial areas also cutting across the functional areas, with a 360 degree view of the operations rather than compliance reporting alone. The CMAs fit right into this context as their domain already is a multi disciplinary one involving close co-ordination with the functional elements within an entity.

Taxation is one area, where we have been having a tentative touch with a strong emphasis on "Indirect Taxes" and a light touch on "Direct Taxes". The emerging economic scenario as well as the new consolidation being brought in by the law of the land, the CMAs cannot shy away from the due role they have to play in this field also. The Introduction of a plethora of concepts such as Negative List in Service Tax, GST, Direct Tax Code, Domestic Transfer Pricing and Input Tax Credits has given rise to new challenges that face the business entities, which require a multi dimensional solution than a file and forget solution of the past. Simple aspects like doing away with the filing of price list, self assessment, more reliance on TDS mechanism to collect taxes, point of taxation in service tax, etc., have shifted the onus to the assessee and the penal consequences of non compliance being severe.

While the Capacity Building in terms of physical and intellectual is being assured by the practitioner and the Institute, the use of such resource across the spectrum of services, throughout the year becomes a major new challenge for the CMAs. The demographic profile of the CMAs is also changing with large number of members from the younger age group with good industry experience joining the fray. These new entrants while demanding quality inputs in Capacity Building from the Institute are also ready to meet the appropriate costs of providing such service. The initiatives such as mentoring the students and cost trainees are welcomed by these new entrants who eagerly look for building a CMA career with full of confidence and readily participate in such initiatives. Since they are also new generation tech savvy members, they are not cowed by the technology changes and handle them with aplomb.

To reverse the old proverb, with every opportunity also comes the threat, and that is in terms of adopting the professional ethics. Unethical behaviour may lead to short term dividends, but will on the long run, destroy a professional career as well as the profession. With the International Accounting Community and the Indian Government very proactive on this front, a professional cannot shy away from following professional ethics. With the Government keen on delinking professional institutes from disciplinary mechanism, the profession will be subject to more independent scrutiny than the past.

It is proposed to cover all these aspects in the one day National CMA Practitioner's Convention – 2013, which is to be held in Chennai on 23rd February, 2013. Since this is the first time the Council has thought fit to have an independent practitioner's convention, this can be a curtain raiser to the future events which can be of longer duration based on the feedback from the members.

From the institute side this will also enable an action plan to hold countrywide chain workshops on all these aspects, throughout the year.

The probable experts who will be sharing their views are CMA.Kunal Banerjee, CMA.S.Rajaratnam, CMA.V.S.Datey, Dr.P.Ravindran, CMA.K.Narasimhamurthy, CMA.P.Thiruvengadam, CMA.S.A.Muraliprasad, CMA.Ashwin Dalwadi, CMA.A.B.Nawal along with other experts.

CMA.R.S.Sharma- Former Chairman & Managing Director - ONGC , Chairman- Quality Review Board, ICAI-CMA has kindly consented to inaugurate the Convention. CMA.B.B.Goyal, Advisor - Cost, Govt. of India, Ministry of Corporate Affairs has also kindly consented to be the Guest of Honour.

In this scenario, I extol all the practitioners from all over India to participate in the deliberations and enhance the value to their practice.

(CMA M.GOPALAKRISHNAN)
Chairman - National CMA Practitioner's Convention

Chennai: 28th January, 2013

DELEGATE FEE - ₹ 1,500/-
CEP Credit - 4 Hours

For clarifications:
The Institute of Cost Accountants of India
SIRC - 044 2855 4443 / 2852 9139
TDEC - 044 4263 0008
Email: NPC2013@icwai.org

FREE
Institute Publication
"Members Handbook-2013"
worth Rs.500/-

PROCEDURE FOR SELECTING THE CONCURRENT SESSION

All the delegates after attending the Inaugural Session will be divided into Three Groups for attending each of the Concurrent Sessions both in the Morning and in the Post Lunch Session.

Kindly 'tick' the Concurrent Session you would like to attend both in the Morning as well as in the Post Lunch Session. You may indicate your priority by putting Serial Number 1, 2 & 3 as per your order of preference for both the Sessions.

If more number of delegates opt for a particular session, the Registration will be done on a 'First-Come-First Serve Basis' and beyond the maximum permissible limit based on the seating capacity of the hall, they will be allotted sessions according to their second or third preference.

If no 'Preference' is given, the delegates will be allotted Sessions, keeping in view the number of delegates that can be allotted to each session.

Morning Session		Post Lunch Session	
CONCURRENT SESSION 1: PROCEDURAL ASPECTS OF CARR & CAR-EXPERIENCE SHARING		**CONCURRENT SESSION 4:** ADDING VALUE TO COST AUDIT REPORTS	
CONCURRENT SESSION 2: NEW DIMENSIONS IN INDIRECT TAX PRACTICE		**CONCURRENT SESSION 5:** NEW DIMENSIONS IN DIRECT TAX PRACTICE	
CONCURRENT SESSION 3: NEW HORIZONS-INTERNAL AUDIT & MANAGEMENT CONSULTANCY		**CONCURRENT SESSION 6:** STRENGTHENING OTHER AVENUES	

Please select any one session both in the Morning and in the Evening and put a ✔ mark against the same.

PROGRAMME : 23rd February 2013, Saturday

INAUGURATION
08:55 AM TO 10:30 AM

CONCURRENT SESSION 1:
11:00 AM TO 01:00 PM
PROCEDURAL ASPECTS OF CARR & CAR- EXPERIENCE SHARING
- Cost Compliance
- Cost Audit Reports
- XBRL Filing
- Cost Audit Plan, Documentation & Management Letters

CONCURRENT SESSION 2:
11:00 AM TO 01:00 PM
NEW DIMENSIONS IN INDIRECT TAX PRACTICE
- Indirect Taxation-Overview
- Indirect Taxation-Specific Role for CMAs

CONCURRENT SESSION 3:
11:00 AM TO 01:00 PM
NEW HORIZONS- INTERNAL AUDIT & MANAGEMENT CONSULTANCY
- Internal Audit - What the Boards want?
- Model Internal Audit Report - A Presentation
- Management Consultancy- Becoming a Bean Grower

LUNCH BREAK

CONCURRENT SESSION 4:
02:00 PM TO 04:00 PM
ADDING VALUE TO COST AUDIT REPORTS
- Looking beyond Compliance Orientation
- A Model Performance Appraisal Report
- Audit Committee Meetings - A Model Presentation

CONCURRENT SESSION 5:
02:00 PM TO 04:00 PM
NEW DIMENSIONS IN DIRECT TAX PRACTICE
- Direct Taxation - Overview
- Direct Taxation - Specific Role for CMAs

CONCURRENT SESSION 6:
02:00 PM TO 04:00 PM
STRENGTHENING OTHER AVENUES
- Opportunities - An Updated List- Statutory Certification
- Opportunities - Other Areas

VALEDICTORY SESSION
04:15 PM TO 05:15 PM

Delegate Registration Form

NATIONAL CMA PRACTITIONER'S CONVENTION - 2013

***Theme:* "CMA PRACTICE - THE EMERGING SCENARIO"**

23rd February 2013, Chennai

Membership No.
Associate Member / Fellow Member

Name: __________________________________

Address - __________________________________

____

____

Designation : __________________________________

Telephone No.: __________________________________

Mobile: __________________________________

E-mail: __________________________________

The Institute of Cost Accountants of India
Southern India Regional Council
CMA Bhawan, #4, Montieth Lane, Egmore, Chennai - 600 008.
Tel: 044-2855 4443, 2852 9139, E-mail: sirc@icwai.org

Signature

Cheque/DD should be drawn in favour of
"The Institute of Cost Accountants of India - SIRC" payable at Chennai

Please turn overleaf for selecting the Concurrent Session.

Members' Handbook

Highlights of Members' Handbook:

- Covers career opportunities available to CMAs in employment and Practice
- Covers practicing fields for CMAs under various Ministries, Central & State Government Departments and Statutory & non-statutory fields under various authorities
- Updated Revised Edition covers notifications/ circulars issued till 10th January 2013 by:
    1. Ministry of Corporate Affairs on "Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011" and also clarifications thereon in the year 2011-12;
    2. DGFT, Ministry of Commerce & Industry, authorizing cost accountants in practice to certify forms and statements at par with other professional institute under EXIM Policy of Foreign Trade Policy and Procedures 2009-14;
    3. Telecom Regulatory Authority of India (TRAI) for their Reporting System under Accounting Separation Regulations, 2012
    4. Fertilizer Industry Coordination Committee (FICC)- "Retention Price Subsidy Scheme".
- Other changes consequent upon other changes in the regulatory framework.

Issued By:

The Professional Development Committee of
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
Headquarters:
CMA Bhawan
12, Sudder Street, Kolkata- 700016
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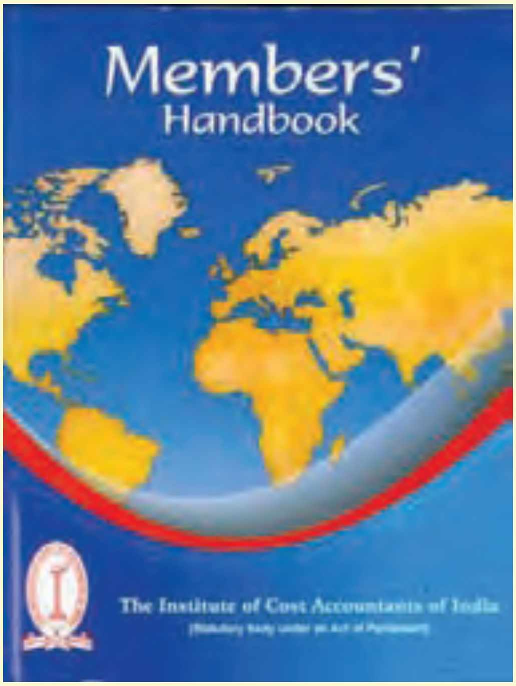

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Guidance Note
on
Performance Appraisal Report (Form III)

Highlights of Guidance Note:

- Provides a general framework for reporting under Performance Appraisal Report as mandated by the Companies (Cost Audit Report) Rules, 2011 notified by the Ministry of Corporate Affairs vide GSR 439(E) dated 3rd June, 2011
- Equip the users with recommended approach to fulfill the above requirement for submission to Board of Directors of the Company.
- Guide in preparing the effective Performance Appraisal Report and also provides tools and techniques to the users which are best suited to a company

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Report on Deliberations at 54th National Cost Convention—2013 held on 18–19 January 2013 at Ahmedabad, Gujarat

I. India's Cost Competitiveness – Imperatives for CMAs

One of the vital means of enhancing productivity and improving quality is through proper cost management. It is widely recognized that what Indian manufacturing industry needs the most today is improvement in cost competitiveness. There is a heightened need to improvise the cost effectiveness of manufacturing processes, while at the same time maintaining quality, to withstand the pressures of competition are equally necessary.

India and other developing economies need to address poverty alleviation as well as sustainable routes to development parallel, while addressing cost issues. Resource-efficient solutions will help companies contribute to this task, as well as add to their global competitiveness. Sustainability can, for example, drive cost savings through efficiencies, creating new markets and securing competitive advantage.

The consideration of cost competitiveness starts in the market with pricing. High performers place significantly more emphasis on understanding competitors' pricing. Pricing is an increasingly complex process. To get pricing right, the company must identify the actual costs involved in supplying the service or product — right across the enterprise. Understanding the Competitive market is the key to this, but it is also critical to have a full understanding of how customer "value" is created and to ensure that full information on costs is available to the pricing decision-maker. A delicate balance is required to successfully deliver price increases without reducing competitiveness. It is becoming increasingly difficult for companies to understand the true value they are deriving from their customer base. Correctly identified, this knowledge will help them to improve margins by sustaining revenues and reducing cost, pitching prices more accurately, while maintaining or even improving their customer service.

Role of CMAs in transforming a Business Cost Competitive:

- Various studies suggest that companies facing intensely competitive market environments tend to employ relatively more sophisticated management accounting systems.
- Competition is commonly identified by researchers as the most important external factor for stimulating managers to consider redesigning their costing systems.
- Even companies facing intensive competition, when going for product-differentiation strategies with a greater number of product and service lines, require sophisticated costing systems to measure accurately the costs of increased variety and customization.
- An organization can become Competitive through Market leadership, Thought leadership and Cost Leadership.
- CMAs should facilitate good governance in the corporate sector.
- ICAI should take a lead to develop and mentor people with employable skills and techniques for being more competitive.
- Performance, Productivity and Efficiency are the buzz words today. Cost Competitiveness should address all these issues.
- Leveraging IT /Analytical skills for generating information and capable of managing dynamic production management system which would facilitate effective Cost Management.

II. Building Enterprise Competitiveness through enhancing Professional Skills Set

Companies have consistently tried to improve quality while reducing their costs. But these attempts have been limited by the problems of delivering high-quality goods and services in lower-cost emerging economies. While these issues remain, companies reported a rapid narrowing of this quality and productivity gap, which in turn is transforming the way they think about the global supply of talent. The new competition is based on quality and cost, challenging Western assumptions about the inherent competitive advantage of the developed economies for high skilled, high value economic activity.

CMAs do more than just measure value — they create it. As the leaders in management accounting, CMAs apply a unique mix of financial expertise, strategic insight, innovative thinking and a collaborative approach to help grow successful businesses. Six functional competencies are at the core of the CMA knowledge set, providing a bridge across these three pillars. The competencies are:

- Strategic management
- Risk management and governance
- Performance management
- Performance measurement
- Financial management

- Financial reporting

Four additional competencies address what might be considered "soft" skills. These often create the most effective senior executives — truly successful leaders use them to make sure the six core functional competencies are delivered efficiently and effectively. These competencies are:

- Problem solving and decision making
- Leadership and group dynamics
- Professionalism and ethical behaviour
- Communication

Skill Mapping by The Institute of Cost Accountants of India:
In developed nations like U.K., USA, Canada etc. focus of Cost and Management Accounting professionals is on three knowledge pillars. In India, Cost and Management Accountants are providing useful services to the industry in regulatory areas also. Keeping the same in mind, the syllabus has been framed with due care of knowledge requirement of professionals in the field of Regulatory services.

The syllabus for the CMA Course has been designed to strengthen the following four knowledge pillars:

- **Financial Reporting**
- **Regulatory Function**
- **Management**
- **Strategy**

The following issues were addressed in this session:

- CMAs should act as thought leaders for enhancing professional skills.
- Management Skills that are aimed to become the CEOs of the oganisation and understand the business strategies and related issues.
- Understand the business and develop skill sets accordingly.
- Building up a new business model to upgrade skills to provide support in technologically advanced environment.
- Professional Skills set should satisfy the need for information required by the managers.
- ICAI should continuously work on how to develop professional skills for the larger interest of the society as a whole.
- High level thought on changing role of management accountants - the transformation process is to be given basic emphasis.

III. Coping with the Tardy Growth of the Economy – Analyzing concern areas and the Role of CMAs
Conventional cost management usually follows the formula that when the economy deteriorates, companies should reduce costs to become profitable again. This cut-and-slash approach to cost management can lead to a loss of customers and market share, unsustainable turnover of experienced staff, and inefficiencies in the long term. In comparison, strategic cost management holds that cost should not be reduced at the expense of business strategy and that costs must be managed for economic value. Costs should not be managed in isolation to each other, but always with regards to the value generated from the costs spent.

The world today confronts with the darkest days of recession since 1930. Despite the fact that the crisis did not originate in the developing countries, these countries are strongly affected by a weak trade, more severe financial conditions and low improvement (the substantial decrease of foreign capital entrance). There is also an increased risk of accelerated environmental degradation, and the social tensions are also growing. The years before the crisis were characterised by an accentuated global economic crisis and a relatively stable and low inflation in most of the countries. This pattern of growth combined with the deficit regularization finally resulted in overcapitalized entities and financial institutions that proved to be non-sustainable. The world chase after more money has been accompanied by the growing international financial want.

With a professional accountant at the helm of accounting, compliance with accounting principles, leading financial and cost accounting properly, orderly, responsible and legally, any crisis can be overcome. The information that can pass companies easier through crisis may be received without delay. It all depends on how this information is used by the management team. The value of the accounting information depends on the optimal decision taken on that basis. This value differs from one information system to another, and so is the cost of the information.

The role of the Management Accountant in sustainability is as yet not well established. However, it is the way to a productive and rewarding future, not only for management accountants but for the society as a whole.

- CMAs must look at revenue maximization through innovative strategy.
- Cost Structure should be in line with strategy.

- CMAs can play an important role in cost/growth/liquidity management for competitiveness.
- Indian economy can improve through effective cost and time management.
- There should be better interface between industry and academia so that fruitful research may be conducted with effective solutions.
- CMAs are expected to bridge the gap between managers and accountants and focus on looking towards the future – at where business is going and what is going to happen.
- The most important four focal points under this slowdown situation of economy are:
  Aligning costs to strategy
  Business Excellence
  Effective management of funds
  Corporate restructuring

IV. Energizing Infrastructure – Strategic option and action agenda

The Infrastructure sector in India is traversing through one of its most interesting phases today. If we look at our growth pattern over the past few years, we will realize how important it is for a country to have a strong infrastructure to enable growth and development. It's imperative that the nation prepares itself for the future and the next anticipated growth curve. Infrastructure projects, such as urban public transport systems like metros, expressways, superior quality highways, flyovers, and world class airports will enable us to achieve our dreams – however, these projects need to be envisioned with a long term perspective.

The following points may be incorporated to get a visible result out of infrastructural development:

- Cost overrun in Infrastructural projects is one of the most important concerns to be addressed to properly.
- Monitoring of Cost and time of the project is very crucial.
- Public Private Partnership is the need of the hour.
- We should give more emphasize on Social Cost Benefit Analysis in a Public project.
- Use of IT and modern tools are much needed for better control and monitoring.
- Using management accounting techniques and tools may enhance project viability to a large extent.
- Enterprise Risk Management should be properly taken care of for better project management.
- Sustainable management accounting may be introduced in a wider way.

V. Availability of Adequate Power – Sine qua non for Sustained Economic Development

India is the fifth largest producer of electricity in the world and according to the Planning Commission, while the State Governments account for 51.5% of the total generation capacity, the central sector and the private sector account for 33.1% and 15.4% of the generation capacity respectively. In line with the respective power generation share, while the government sector (both central and state) have contributed 85.5% of the total capacity addition of 45,295 MW during 1999-00 and 2008-09, the private sector has contributed the balance 14.5%, almost at par with its share in the total installed capacity in the country. Transmission of power is entirely looked after by government utility companies and distribution too barring a few states are in the hands of the government entities.

Tariff reform will work well where the government continues to support the process financially. It will be more efficient where there is a private utility in place to respond to the economic incentives devised by regulators. It will succeed where regulators resist the temptation of revising tariffs frequently or in tightly controlling the utility's profits. Tariff reform will be more efficient where regulators are assured functional independence, adequate competent staff and facilities. The legislation has already provided the basis for successful independent regulation and tariff reform. The key is in devising an implementation strategy that ensures the continued active participation of all stakeholders. So long as public utilities are service providers, a major part of the tariff reform effort lies with governments. Unless public utility management is improved and the cost of supply aligned to efficient levels, regulators will be constrained to continue to disallow costs, thus perpetuating the financial crisis, which they were expected to reverse. Regulators can never be efficient managers. They can only create the enabling environment within which efficient managers can function.

There are number of problems in India in Power Sector. To name a few:

- Energy shortage and huge fuel costs are the major issues at present.
- No penalty of theft of power is another concern.
- Reaching electricity to all is another important issue.
- Lots of political intervention in fixation of tariff.
- Searching for alternative energy.

CMAs can play a pivotal role in pricing, tariff fixation, controlling and overall cost management.

CMAs may look after the following issues:

- Efficiency Improvements

- Cost Minimization
- Capital Budgeting
- Performance Appraisal
- Total Cost Management

VI. Not Everything is Healthy in the Health Sector – Imperatives for CMAs

Health care is the diagnosis, treatment, and prevention of disease, illness, injury, and other physical and mental impairments in humans. Health care is delivered by practitioners in medicine, chiropractic, dentistry, nursing, pharmacy, allied health, and other care providers. It refers to the work done in providing primary, secondary and tertiary care, as well as in public health.

Health care can form a significant part of a country's economy. In 2008, the health care industry consumed an average of 9.0 percent of the gross domestic product (GDP) across the most developed OECD countries. The United States (16.0%), France (11.2%), and Switzerland (10.7%) were the top three spenders. The delivery of modern health care depends on groups of trained professionals and paraprofessionals coming together as interdisciplinary teams. This includes professionals in medicine, nursing, dentistry and allied health, plus many others such as public health practitioners, community health workers and assistive personnel, who systematically provide personal and population-based preventive, curative and rehabilitative care services.

There is an increasing realization of importance for external assessment of Healthcare sector by specialized autonomous agencies. Cost accounting provides information to facilitate both management accounting and financial accounting. Its focus is measuring and reporting financial and nonfinancial information that is related to the cost of acquiring or consuming resources by an organization.

While many hospitals are under pressure to become more cost efficient, new costing systems such as Activity-based costing (ABC) may form a solution. However, the factors that may facilitate (or inhibit) cost system changes towards ABC have not yet been disentangled in a specific hospital context. Via a survey study of hospitals, this has been revealed that cost system development in hospitals could largely be explained by hospital specific factors. Issues such as the support of the medical parties towards cost system use, the awareness of problems with the existing legal cost system, the way hospitals and physicians arrange reimbursements, should be considered if hospitals refine their cost system. Conversely, ABC-adoption issues that were found to be crucial in other industries are less important. Apparently, installing a cost system requires a different approach in hospital settings. Especially, results suggest that hospital management should not underestimate the interest of the physician in the process of redesigning cost systems.

Role of CMAs in the Health Care Sector:

- **Go beyond the normal role of cost accountant**
  - ✓ consider overall business and organisation strategy - cost is an input for decision making but not decision in itself
  - ✓ look beyond conventional methods to help management in decision making
- **Make cost reduction as a way of life** - go beyond product cost
  - ✓ look at production processes, cycle time, wastage, yield parameters…
- Work out **innovative and dynamic costing methodologies** to take care of special situations
  - ✓ tender costing, patented product costing, brand product costing and pure generics product costing etc.
  - ✓ over and under recovery of overheads,
  - ✓ choice of total costing vs marginal costing
- Help management by providing some **ready remedy to take specific decisions** on make vs. buy, to invest in project or go for job work etc.
- **Explore avenues for revenue maximization**
  - ✓ Evaluate the current costs of manufacturing and provide the supportive data to government to arrive at the reasonable cost (norms) for fixation of the ceiling prices.
  - ✓ Identify products / molecules not covered by price control
  - ✓ For price controlled products – constantly watch cost of goods and initiate actions for price revision at appropriate time
- **Identify 'stop loss trigger point'** – help management decide on when to 'pull the plug' of
  - ✓ projects going overboard on cost / time / resources
  - ✓ Products having negative / marginally positive contribution
- **Challenge the cost components in the out sourced items** – using clean sheet costing concept to minimise the cost of outsourced items to improve the gross margins.
- **Evaluate efficiency of operations** – Provide constant update on current as well as future efficiency to management.
  - ✓ Productivity in terms of Man and Machines.
  - ✓ Capacity utilisation in terms of equitable production unit i.e. Reactor liter or equalized pills
  - ✓ Yield monitoring - end to end yield of API as well Formulations.
  - ✓ Solvents recovery at API manufacturing

Glimpses of 54th National Cost Convention – 2013 held in Ahmedabad during 18th - 19th January 2013

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Registration counter at the convention center

Cross section of delegates including past Presidents & Council Members

The President and Council Members with the dignitaries at the inaugural session

The President, Vice President and Council Members with the delegates on the dais

The President addressing the audience at the National Cost Convention

Cultural Programme

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Presentation of memento

The President, Vice President and dignitaries lighting the lamp at the Convention

Release of Knowledge Pack at the Convention

The President addressing the audience at the National Cost Convention

The Vice President addressing the audience at the National Cost Convention

The President, Vice President and Council Members with the delegates on the dais

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