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Infrastructure Financing

Collaborative programme with ASSOCHAM held at Hotel Asia, Jammu on 27.11.12. Seen (L to R) Shri Divesh Mishra, Sr. Vice President, HDFC, Shri Bhupesh Rathore, Executive VP & Regional Head (North & East), YES Bank, CMA Suresh Ch. Mohanty, Vice President, ICAI, Janab Omar Abdullah, Hon. Chief Minister, Govt. of Jammu & Kashmir, Shri Anirudh Dhoot & Shri Surjit Singh Slathia, Hon. Minister for Industries & Commerce and Employment, Govt. of Jammu & Kashmir.

CMA Suresh Ch. Mohanty, Vice President, ICAI in discussion with Janab Omar Abdullah, Hon. Chief Minister, Govt. of Jammu & Kashmir at the Collaborative programme with ASSOCHAM held at Hotel Asia, Jammu on 27.11.12.

11th meeting of QRB in progress at Delhi office on 4.12.12. Seen (L to R), CMA J.K. Puri & CMA V. Kalyanaraman, Members, QRB, CMA J.P. Singh, Secretary, QRB, CMA R.S. Sharma, Chairman, QRB & Dr Navrang Saini & CMA Kunal Banerjee, Members, QRB.

CMA Rakesh Singh, President of the Institute addressing the gathering at the Collaborative programme with ASSOCHAM held at The Palms Town & Country Club, Gurgaon on 29.11.12. Seen (L to R) Shri Vikas Jain, President, Gurgaon Chambers of Commerce & Industry, Shri Pradeep Ojha, Dy. Director (Karnal Region), Ministry of MSME, GoI, Shri P.K. Jain, Chairman, National Council on SMEs, ASSOCHAM, Shri Salil Narang, Addl. General Manager (Finance), HSIIDC & other dignitaries.

Glimpses of Regional Councils and Chapters' Meet held on 30.12.12 at Hotel Mahagun Sarovar Portico - Vaishali, Ghaziabad

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.

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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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The views expressed by the authors are personal and do not necessarily represent the views and should not be attributed to the Institute.

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Editorial

Happy New Year 2013!

In my last editorial, I had indicated that riding on the flurry of 'big bang' reforms; the 30-scrip Sensex and the Nifty were all set to create new benchmark in the days to come. The news is that, the party will continue on the bourses this year as well on renewed expectations, ample liquidity and the government's urgency to revive the economy. However, this does not mean that all is well in the economy and everything is hunky dory. For the past few years India had drawn admirable attention of the world for posting a near double-digit growth. But now it seems that India cannot insulate herself from the deleterious effects of the global recession. As the New Year unfolded, the bad tidings hit the headline of the newspapers that the core sector growth took a further plunge, reflecting the apprehensions of the Planning Commission of a turbulent period ahead. If the course of the economy cannot be turned around, we may well end up with an annual growth rate that would be the lowest in the decade.

The fear of the dismal performance of the economy is palpable amidst the shortage of critical infrastructures to propel the economy to the desired course. As infrastructure is the lifeblood of the economy, India needs to invest in critical infrastructure: it needs electricity, roads, bridges and railways including mass rapid transport systems, ports, airports, irrigation, water supply and sanitation, and storage facilities for the vast economic sectors. Unfortunately, India's infrastructure growth has been well below its GDP growth rate for the past several years. It comes as no surprise that, the Planning Commission has taken note of the situation and accordingly stepped up investment – of 4% of the GDP in the Tenth Plan to 9% in the Eleventh Plan. During the current plan period, the projected investment is likely to go up to nearly 10% of the GDP, entailing a huge outlay of Rs. 56.3 lakh crores. Such a huge amount cannot surely come all from the government coffers – as money must also be spent for other purposes including the social sector. This calls for exploring the other avenues like increasing private investments and opening up for foreign direct investments in the infrastructure sector.

The 12th Plan contemplates at least 48% of the money to come from the private sector sources. This is indeed a huge opportunity for the private sector players of domestic and foreign origin to participate in the vast economic activities of one of the largest economies in the world. However, during the first half of the 2012-13 fiscal, infrastructure and construction companies have suffered from slowdown in project execution and poor inflow of fresh orders. With the only exception of Larsen & Toubro perhaps, none of the players in this sector have fared well.

But before the private sector is invited to join in, India needs to speed up several policy reforms to provide a level playing field for the private funds like the pension fund, insurance funds and its ilk. There is rising demand from the banking sector to allow it raise resources through long-term bonds without the trammels of statutory reserve requirements. Similar facilities are also being demanded by the insurance and pension funds so as to facilitate their participation in the infrastructure ventures. India must emulate the examples of Brazil and China, the two important members of the BRIC, who have received lot of private investments in developing their infrastructure. India must seize the opportunity or else bear colossal costs arising for lost opportunity from the lack of modern infrastructure.

While I conclude on this word of caution, I am sure that the articles contributed by the authors will provide deep insights into infrastructure financing.

Happy reading!

> "You don't build a brand for yourself. You know what people want and you build it for them."
>
> —Walt Disney

CMA Rakesh Singh, President

Dear Professional Colleagues,

At the outset I wish all the members, students and employees of the Institute and their families a very Happy and Prosperous New Year 2013. I hope that the New Year will bring more joy and happiness in our lives.

The present day businesses are run by brands. It may be in the form of name, symbol, term, sign, design or any combination of these and signifies the services of any business and differentiates it from another. Branding is the visual voice of any enterprise. We CMAs have a glorious history of service to the nation. This does not mean that we do not need a brand. In fact, we have to nurture our brand in all forms of media to have a solid, recognizable voice. This is a continuous process. Branding is not about only advertising the services we offer. The branding of the profession comes from our outlook towards the society. We have to make the society realize the potential of CMAs. This is a brand building in real sense. This helps in embedding sustainability to our profession and also encourages new CMAs to join the profession.

The Institute has taken many measures in the recent past like organizing programmes / seminars / workshops, releasing technical papers, guidance notes and other training material for members. But the commitment of our members is also required to build the brand of our profession. Whatever we have achieved in brand building, this is due to the active participation of our members.

Last month I had the privilege to attend the Accounting Bodies Networking meeting organized by The Prince's Accounting for Sustainability (A4S) Forum at London. His Royal Highness the Prince of Wales addressed the gathering and very aptly urged the finance and accounting community to come forward and make the economy "future-proof". He further added that we are living off the Earth's natural capital rather than the income derived from that capital and, unfortunately, there is no global C.F.O. to keep us in check. The Prince said that the daunting challenge of building a better world that provides for a better life for everyone, all within the environmental constraints of our planet, is one of the biggest concerns. He pointed out the significance of these issues to economics, business and long-term security. That is why Accounting for Sustainability Project was set up to demonstrate that extending decision-making and reporting to include social and environmental factors in a systematic way can add real value to organization and the only pathway to success.

Highly inspired by the speech of the Prince, I urge all the members to work together to "future-proof" our economy, our organizations and, ultimately, our very survival.

I would like to congratulate the SIRC and Hyderabad Chapter of Cost Accountants for successfully organising SIRC Regional Cost Convention - 2012 on the theme "Emerging Trends in Costing and Pricing" at Hyderabad on 21st and 22nd December 2012.

I am delighted to inform that I attended the Puja ceremony for the construction of the second phase of Hyderabad Center for Excellence, performed at Hyderabad by CMA Suresh Chandra Mohanty, Vice President in the presence of Council Members and other dignitaries.

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:

Research Directorate

- **Partnership with ASSOCHAM**

The Institute was associated with ASSOCHAM as knowledge partner and published two separate knowledge studies for the two seminars viz. "4th SMEs Sammelan – Building Capacities for Sustainable Growth" on 27th November, 2012 at Jammu and "5th SME Sammelan – Concerns & Solutions" on 29th November, 2012 at Gurgaon, Haryana.

On the 4th SME Sammelan at Jammu, CMA Suresh Chandra Mohanty, Vice President of the Institute shared the stage as theme presenter with Janab Omar Abdullah, Hon. Chief Minister, Jammu & Kashmir, Shri Surjit Singh Slathia, Hon'ble Minister for Industries & Commerce & Employment, Jammu, Shri D.S. Rawat, Secretary General, ASSOCHAM and other eminent dignitaries from Banks and Industries.

On the 5th SME Sammelan at Haryana, I had the opportunity to share the stage as theme presenter with eminent dignitaries from Industries, Banks, Stock Exchange and Chamber of Commerce.

CMA Manas Kumar Thakur, Chairman, Research & Publications Committee of the Institute and other officials of the Institute attended the seminars. The knowledge study prepared by ICAI was highly appreciated by the industry and the Government circle in both the States.

- **Participation in UGC Sponsored Seminar as Collaborating Authority**

The Institute had taken the opportunity to hold a joint UGC Sponsored State Level Seminar titled "Impact of Globalization on Micro, Small and Medium Enterprises (MSMEs) in India" on 6th December 2012 as the sole collaborating authority with Derozio Memorial College, Rajarhat, Kolkata.

The Seminar was inaugurated by Dr. Kaushik Gupta, Vice Chancellor, West Bengal State University. CMA Manas Kumar Thakur, Chairman, Research & Publications Committee, was the Chief Guest of the Seminar. CMA (Dr) D.P. Nandy, Director (Research & Journal) and CMA (Dr) Sumita Chakraborty, Joint Director (Research) of the Institute presented papers on the theme topic. Other eminent speakers from the Universities and Colleges also graced the seminar.

- **Knowledge Study and Research Bulletin released on the National Seminar of Cost & Management Accountants**

I had the opportunity to release a Knowledge Study on the theme "Banking Sector – A New Paradigm for Cost & Management Accountants Unveiled" along with the 36th Volume of our Research Bulletin at the National Seminar of Cost & Management Accountants organized by the Howrah Chapter on 23rd December 2012 at Kolkata. Shri Debashish Sen, IAS, Principal Secretary, Urban Development, Govt. of West Bengal & Chairman, WBHIDCO, CMA Agneshwar Sen IAS, Jt. DGFT, Shri Arnab Chowdhury, GM, RBI along with other eminent dignitaries from Industry, Banks, Stock Exchange and Chamber of Commerce attended the Seminar.

Professional Development Directorate

Exposure Draft of Guidance Note on Cost Audit (Form-II)

The Institute has hosted on its website the Exposure Draft of Guidance Note on Cost Audit (Form II) for views/comments/suggestions, from Members and Industry, the last date of which was 26th December, 2012. The final version of the Guidance Note after incorporating the comments/ suggestions will be issued by the Institute shortly.

Exposure Draft of Guidance Note on Issuance of Compliance Report

The Institute has also hosted on its website the Exposure Draft of Guidance Note on Issuance of Compliance Report for views/comments/suggestions, from Members and Industry, the last date of which was 17th December, 2012. The final version of the Guidance Note after incorporating the comments/ suggestions will be issued by the Institute shortly.

Guidance Note on Performance Appraisal Report (Form III)

I am happy to inform the members that the Institute has brought out final version of the "***Guidance Note on Performance Appraisal Report (Form III)***". As members are aware that the Performance Appraisal Report in Form III is to be given to Board of Directors of the Company 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.

The objective of the Guidance note is to equip the users with recommended approach to fulfil the new requirement of the Form III. The Guidance Note aims at providing a general framework and the users may adopt tools and techniques which are best suited for the company. The Guidance Note can be downloaded from the Institute website. The printed version of this Guidance Note will also be available very soon.

XBRL Software Tool for e-filing of Cost Audit & Compliance Reports

Towards a service to our members, the Institute has provided FREE OF COST to its members an XBRL Software Tool for creation of Instance Documents of Cost Audit Report and Compliance Report using Costing Taxonomy and Business Rules published by the Ministry of Corporate Affairs for e-filing of these reports in XBRL Format. The Software Tool can be downloaded from the Institute website.

Amendments in Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011

To enable e-filing of Cost Audit Report and Compliance Report in XBRL Format, the Ministry of Corporate Affairs has amended the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, on 30th November, 2012 and inserted Rule 5 for filing of cost audit report and other documents using XBRL taxonomy by cost auditors and Rule 6 for filing of compliance report and other documents by companies with the Central Government using the XBRL Taxonomy.

Amendments in Companies (Cost Audit Report) Rules 2011 and Cost Accounting Records Rules

The Central Government has also amended on 30.11.2012 the e-forms and Forms relating to filing of Cost Audit Report and Compliance Report in XBRL Format. The Form-I and Form-II to Cost Audit Report Rules 2011 dated 3rd June 2011 have been amended to Form-I XBRL and Form-II modified. Further, Form-A and Form-B to Cost Accounting Records Rules viz. Companies (Cost Accounting Records) Rules dated 3rd June 2011 and Cost Accounting Records Rules dated 7th December 2011 for six regulated industries namely Telecommunication, Petroleum, Electricity, Fertilizer, Sugar and Pharmaceutical, have been amended to Form-A XBRL and Form-B modified. The above amendments also stated that the definition of "Product/ Activity Group" shall be in accordance with "Product/Activity Group Classification" notified by the Ministry of Corporate Affairs vide S.O. 1747(E), dated the 7th August, 2012. The amendments can be downloaded from the Institute website or MCA website.

XBRL Filings in MCA-21

The filings for the Cost Audit Report and Compliance Report in the XBRL format commenced from December 02, 2012 in the MCA-21 system. The Institute has taken lot of initiatives to equip the members in efficiently generating the XBRL reports and successfully filing them with the Government. Some of the initiatives are:

1. Institute has procured a user friendly software tool that helps in generating the instance document for the Cost Audit Report & Compliance Report in XBRL format and is providing it to the members as a free download on the website of the Institute.
2. A separate section has been created on the website of the Institute that provides access to all contents that a member may require for filing Cost Audit / Compliance report ion XBRL format.
3. A number of hands-on-training programmes on generating Cost Audit / Compliance Report in XBRL format have been organized across the country to update the skills of the members.
4. An "Architecture, Training & Guidance Manual for filing of Cost Audit Report and Compliance Report in XBRL Format" has been developed and is made available on the website of Institute to help members in preparing quality reports.
5. A helpdesk to exclusively deal with member queries on XBRL filings has also been provided. The members may either write to xbrl@icwai.org or call up Toll Free number 1800 233 0455 to resolve the issues related to XBRL filings.

I am also pleased to inform that on the request of the Institute, the Ministry of Corporate Affairs has decided to extend the last date of filing of Cost Audit Report and Compliance Report in XBRL format from December 31, 2012 to January 31, 2013.

Examination Directorate

The Examination Directorate has successfully conducted December 2012 examinations from 10/12/12 to 17/12/12. Again on 23/12/12 examination was held for Gujarat State which was necessary due to the State Assembly Elections.

Hyderabad Centre of Excellence

The results of EPMAS Certificate Course were declared on 11th December. The students have obtained a CGPA of 6 on a scale of 9 and have obtained a grade of B+.

International Affairs

The Federation of Indian Chamber of Commerce and Industry in association with Ministry of Commerce, Govt of India organized "The India Show" during 3rd to 5th December 2012 at Dhaka, Bangladesh. CMA Kaushik Banerjee, Additional Secretary, Kolkata represented the Institute in the show which was held at Bangabandhu International Conference Centre at Dhaka. The delegation was led by Shri S.R. Rao, IAS, Secretary, Ministry of Commerce and the event was organized by FICCI with the support of Commerce Ministry, Govt. of India. About

100 Indian companies representing a wide spectrum of industries like textile, handicrafts, automobile & spares, readymade garments, consumer products jewellery, health care, agro industry, renewable energy, to name a few, participated in the "India Show" event. The event was aimed at promotion of Indian business and removal of trade barriers and was expected to boost trade and investment between India and Bangladesh which has huge growth potential and poised to expand.

CMA Kaushik Banerjee also called on the Vice President and officials of Institute of Cost & Management Accountants, Bangladesh and had a brief meeting wherein matters pertaining to the profession were discussed. The meeting ended on an optimistic note with both the officials expressing their willingness to extend their cooperation to each other on matters relating to the development of the profession.

As already mentioned, I had the privilege to attend the Annual meeting of Accounting Body's Network (ABN) on 13th December 2012 and ABN Technical meeting on 14th December 2012 at London along with CMA JP Singh, Additional Secretary, Delhi. The meeting reviewed the achievement of ABN and A4S with other network members. The meeting was followed by discussion on the Role of Finance and Accounting Community for future proofing the economy. His Royal Highness the Prince of Wales invited the Institute to participate in the same. We are the only accounting body from India, who has got the membership of the Accounting for Sustainability (A4S).

CAT Directorate

I am happy to inform that the first ever on-line Examination for CAT Competency Level was successfully conducted in 25 Test Centres across the country on 22nd December 2012. The on-line examination was conducted in locations like Srinagar, Badaun apart from other places. The response of the students has been encouraging. By the time you read this, the results of the examination would have been announced. On the basis of success of on-line examination now, we are in a position to increase the frequency of the examination.

Programme Activities

CEP-1 Directorate

The CEP 1 Directorate organized In-house training programme on International Financial Reporting Standards for ONGC Limited during 3rd to 7th December, 2012 at Mumbai.

Two batches of two weeks Residential Induction Training programmes were organized for Punjab State Power Corporation Limited during 9th to 22nd December, 2012 and 23rd December 2012 onwards at Vaishali, Delhi NCR. Total 63 newly recruited Revenue Accountants were trained in the above training.

The Institute organized a Residential programme on Recent Trends in Financial Management held during 11th to 14th December, 2012 at Amritsar. In addition, two Residential programmes were organized at Shirdi during 18th to 21st December, 2012 on topics `Contracts and their Management' and `Emerging Issues in Direct and Indirect Taxation' respectively. The programmes were well received by the 38 executives from PSUs, private sector and government departments.

CEP-2 Directorate

As soon as the Costing XBRL software tool was made available for the members with free download from the Institute's website, National Seminar was conducted on Costing XBRL Filing and Hands on Training on Filing of Cost Audit and Compliance Report in XBRL on 5th December 2012 at New Delhi.

Institute in association with the Ministry of Corporate Affairs conducted a webcast on 17th December 2012 to take up the queries related to difficulties faced by the members in filing of Cost Audit Report and Compliance Report in XBRL. Webcast was well received by the members at large and queries were answered by Shri BB Goyal Advisor (Cost), Govt. of India and CMA Kunal Banerjee, Former President of the Institute.

During the month lot of Practical training programmes were conducted by Regional Councils and Chapters at Delhi, Mumbai, Kolkata, Dehradun, Ahmedabad, Ranchi, Pimpri-Akrudi-Chinchwad, Lucknow and so on.

54th National Cost Convention

As you all are aware that the 54th National Cost Convention of the Institute is being organized at Ahmedabad from 18th to 19th January 2013. I urge all the members to come in big numbers to attend the same and make it a big success.

I wish all the members and their families on the occasion of Lohri, Makar Sankranti, Pongal, Guru Gobind Singh's Birthday, Eid-E-Milad and Republic Day.

With warm regards,

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

CMA Sanjay Bhargave
Chairman, PD Committee

Dear Professional Colleagues,

At the outset, I am very thankful to the President and my colleagues in the council for reposing their confidence again by bestowing me successively the Chairmanship of the Professional Development (PD) Committee for the term 2012-13. After the reform drive in the form of notifications by the Ministry of Corporate Affairs of principle based common and industry specific Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011, the PD Committee has played a pivotal role in bringing out Guidance Notes on various issues to facilitate the members of the profession to understand the intent and object of the Government for such notifications without any confusion and also provide the correct interpretations on these notifications.

During the year 2012, the Ministry of Corporate Affairs brought out many more notifications including notification for filing of Cost Audit Report and Compliance Report in XBRL Format using Costing Taxonomy and Business Rules thereof. The Guidance Note to facilitate such filings has also been issued by the Institute.

PD Committee has brought out the following Guidance Notes during the year 2012:

1. Guidance Note on Maintenance of Cost Accounting Records

The Guidance Note on Maintenance of Cost Accounting Records was brought out in June 2012 to facilitate the members in practice, employment and industries to prepare cost accounting records as per the requirement of cost accounting records rules. The primary focus was on the common Cost Accounting Records Rules notified by the Ministry of Corporate Affairs vide GSR 429(E) dated 3rd June, 2011 and the common principles as embedded in the other six industry specific Cost Accounting Records Rules notified on 7th December, 2011. It provides a well-structured cost accounting system suited to the type, size and scale of operations those results in creating the intended cost accounting records leading to collection, assignment, apportionment and absorption of correct cost data to the relevant cost objects in the organization. The sample formats and an illustrative list of cost accounting records have been given in the Guidance Note. The Guidance Note can be downloaded from the Institute website. The printed version of this Guidance Note is in incessant demand.

2. Guidance Note on Cost Audit

The revised structure of the cost audit report, as notified by the Central Government vide Companies (Cost Audit Report) Rules, 2011 vide GSR 430(E) dated 3rd June 2011 read with the Companies (Cost Audit Report) Amendment Rules, 2012 dated 30th November, 2012, require submission of cost audit reports in XBRL Format using the Costing Taxonomy published by the Ministry of Corporate Affairs and based on Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards. The Guidance Note on Cost Audit (Form II) accentuates the revised structure of cost audit report rules and other changes having taken place during 2011-2012. The exposure draft is available on the Institute website for comments.

3. Guidance Note on Performance Appraisal Report (Form III)

The Guidance Note on Performance Appraisal Report (Form III) has been issued in November 2012. The Guidance Note would enable Cost Auditor in preparing the effective Performance Appraisal Report for Board of Directors with respect to providing an actionable insight into costs and profitability for the management in the strategic and operational context. The Companies (Cost Audit Report) Rules 2011 though specifies ten areas of performance indicators, the guidance note gives the other relevant indicators **also** for Performance Appraisal Report. This Guidance Note will **be very much useful to** the members in practice, employment and industries in filing Performance Appraisal Report of cost audit report as required by the cost audit report rules.

4. Architecture, Training & Guidance Manual for filing Cost Audit Report & Compliance Report in XBRL Format

The MCA, vide General Circular No. 8/2012 dated 10th May, 2012 mandated the cost auditors and the companies to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A) for the year 2011-12 onwards by using the XBRL taxonomy. To guide the cost auditors and companies to prepare the cost audit reports and compliance reports in XBRL Format, the Institute issued "*Architecture, Training and Guidance Manual of filing Cost Audit Report and Compliance Report in XBRL Format*". It provides the guidance on filling up each paras of the Cost Audit Report and also Compliance Report in XBRL Format using costing taxonomy. It also provides guidance on creation of Instance Documents and e-filing of Cost Audit Report and Compliance Report on MCA21 portal. It contains FAQs relating to XBRL, Stakeholders and e-filing. The Guidance Note may be downloaded from the Institute website.

5. Guidance Note on Issuance of Compliance Report

To Guide Members on preparation and issuance of Compliance Report in terms of Common and Industry Specific Cost Accounting Records Rules 2011, a Guidance Note on Issuance of Compliance Report exposed for public comments on the Institute website.

6. Guidance Note on Classification of Product Group

Members may be aware that in my last communique I mentioned preparation of Guidance Note by the PD Committee on "Classification of Product Group". The Exposure Draft in this regard was hosted by the Institute for public comments on 30th December 2011. After finalization of "Product Group Classification", this was forwarded to the Ministry of Corporate Affairs for notification. I am happy to mention that the Ministry of Corporate Affairs has notified "Product or Activity Group Classification" vide S.O. 1747(E) in August 2012. The notification supersedes the definition on "Product Group" contained in Cost Accounting Records Rules and Cost Audit Report Rules.

The PD Committee has taken various initiatives for professional development of members. Following are the few endeavors for CMA profession:

(a) Development of Costing Taxonomy for filing of Cost Audit Report and Compliance Report in XBRL Format
(b) Hosting on Institute website the Frequently Asked Questions (FAQs) on CARR & CAR
(c) Replying the queries on CARR & CAR to members and Industries
(d) Certified Facilitation Centre under ACES Scheme of CBEC
(e) IFRS E-Learning Course
(f) MOU with TAXMANN for providing its web contents to students and members at concessional rates
(g) Hosting on the Institute website the Practitioners' kit

The following are other efforts which paid the dividend in the form of notification/ circular by the Government Departments:

(h) On incessant representations by the Institute with the Ministry of Finance, Cost Accountants have been authorised to certify the refund claims of additional duties of Customs (4% CVD) vide Circular No. F.No.401/46/2008-Cus.III dated 5th February 2012.
(i) Also on incessant representations by the Institute, the Ministry of Commerce and Industry, Department of Foreign Trade, vide Public Notice F.No.01/94/180/468-Appendices/AM12/PC4 dated 11th October 2012, provides wherever certification by a Chartered Accountant was required, the exporters would be able to get certification done by a Cost Accountant also. Accordingly, the cost accountants can now issue certificate for all documents under Handbook of Procedure Vol. I and Appendices under Foreign Trade Policy.
(j) Cost Accountants have been recognized for VAT Audit as per Tamil Nadu Government's Third Amendment Act, 2012 in respect of VAT.

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

Wishing you all a very Happy New Year.

With warm regards.

(CMA Sanjay Bhargave)
Chairman, PD Committee
1st January 2013

Understanding Infrastructure and Some Options for its Financing

Shyamal Banerjee
Former President, ICAI (formerly ICWAI)
Ex-Sr. Professor, IIM-Calcutta
Member of Indian Defence Acccounts Service (IDAS)

The Origin

Over some two decades ago I had taught Finance, in a Premier Institute for some years. Even then the situation was frightening. I decided to browse over the current literature on the subject – Journals, Planning Commission and RBI releases, State and Institutional Publications, specialized papers from scholars, papers presented in International and National Seminars, volumes of discussions and experiences in several countries, specially some of the Emerging Economies in which the Internet abounds. After this journey through this overwhelming issue of worldwide concern it struck me that the position was even worse. This paper is the outcome of this realization. Then I had to take a second decision. What kind of Paper should it be? Most materials that I perused were knowledgeable, highly specialized. Yet, at best, they were brilliant stereotypes. The soul of the problem was shirked and bypassed. The decision was done: I would not teach my readers; I would try and titillate their thinking. At least that would be the aim of what I am going to do.

What is Infrastructure?

It is no less than a paradox that volumes have been written and debates are endless – and they are still ongoing on Infrastructure and of course on its financing and, yet, there is no single definition or agreed perception of what is Infrastructure. For the meaning of a word it is always good to look at its origin. The C.O.D. helps. In Latin, '*infra*' is below. As a prefix in English words, *infra* denotes something below or beneath the word. Thus, infrastructure is what lies beneath the structure – just as infrared or infrasonic is what lies below red or sound in wave frequency. When we refer to something about a person as *infradig* we imply that something which is beneath the dignity of the person.

Thus, we derive that infrastructure is what lies below or beneath the structure of an economy or society. What then is structure? Structure is what lies on the surface. In an economy or society it must be industry, agriculture, systems, lifestyle, culture, conduct, the quality of life and societal behavior. We cannot exclude any of the above from the compass of the word 'structure'. The reason why is, that a society cannot grow or develop or be measured and judged by its industry, agriculture, mining or technology alone. The people cannot be counted out. Thus, when we admit a person to a job or organization we not only test his skill and health but what we call his Intelligence Quotient (IQ), Emotional Quotient (EQ) and now, Spiritual Quotient (SQ). Quotient is the degree or measure of a specified quality. Thus the three measures, IQ, EQ, SQ seek to gauge the degree of quality of the 'intelligence', 'the emotion' (qualities of head and heart, - as we say) and of the 'spirit' as well. If these qualities count in a person so do they do in a society. For, society is nothing else but a holism of its elements – people, bonded by a commonness of a bunch of traits that belong to the physical, intellectual, emotional and spiritual components of a human being. The world view seems to accept this approach and interpretation in its measurement of different economies and social groups. That is why it adopts at least *three measures* or indices in scaling the nations of the world. One is of course the over-used (albeit its imperfections) index of GDP and per-capita income. This measure aims at scaling the relative prosperities of different societies of the world. Of course, we say so with a tongue in the cheek, for, we, unhappily, are constantly aware in our mind that it is an *average* index and may, and does, conceal a lot about the quality of life of the members of a society. GDP or average per capita income carries the same fallacy by which a six-foot tall person was drowned in a river of average 5-ft. depth. But let that be for the moment, lest we should stray way away from our aim of dealing with "Infrastructure Finance".

Only one word more, which we cannot avoid, before we move on to pastures new.

Corruption Index

For simplicity we just call it the Corruption Index, which, periodically is published by *Transparency Internationale* an institution located in France. This Index is a multi-dimensional weighted average of visible symptoms that leads to, or enhances the potential, for corruption. Then, what is Corruption? Corruption is not bribery or black money. It has been defined, very simply but with wide implications. "Corruption is the use of public power for private gain". I have no space or occasion her to elaborate. Nor, I believe, it is necessary. Each one of us may put his hand on his heart, close his eyes and apply the above simple edict to himself. I am sure he then, at once, can infallibly locate his seat in the Corruption Scale. All of us, newspaper readers, know that we stand very low (high corruption) on the Corruption Table, keeping close company with the worst and most corrupt societies of the world. Corruption is failure of Ethics. Ethics is a property of the Spirit. Thus, our "ethical infrastructure (SQ)" is very poor indeed. We need uplift it. It costs money, demands sacrifice, refraining from private gain through the use of our public power. Therefore, there is need for financing the uplift of this spiritual (ethical) infrastructure. Alas, yet, nowhere in the 11th or 12th Plan or Government Budget is there a Provision.

We are talking Infrastructure and the way of financing it. Again, alas, billions will go waste if this infrastructure goes on awry, as it seems to be doing, unheeded or casually treated. I know, one may stand up and challenge at this stage, "well, Sir, it is very well to talk, as you are doing. But can you tell us the way to finance this spiritual (ethical – SQ) infrastructure to get it back on its Keel (close to New Zealand's or even UK's)?" Yes, I owe you an answer. The answer is to set up a Special Purpose Vehicle (SPV). What is the format of this SPV? What is the Cost? How does it function? Yes, the answer – "Be prepared to lose votes, forfeit position and power, the lure of private gain by using public power, turn your public power as a weapon of destruction of anything unethical in sight within your compass, systems, again, for a private penny." And this is the financing, this is the cost, for, foregoing gain is the same as spending money – the same as financing the all-important ethical (SQ) infrastructure. Well, Sir, my catechist, I have given you the answer. And that, unhappily, is the only answer. Whether you do it, whether you include it as top priority in your infrastructure – financing programme is your business. But I can assure with solemn conviction that if you do not do it, if you shy away, then your twelfth and thirteenth and umpteenth five-year plans will come and go with trillions and quadrillions of dollars dumped into the pipeline and nothing, yet, will happen. India will never be an advanced country – not even on a par with China, Brazil, Russia, or South Africa – its colleagues in the BRICS group.

As modes of financing infrastructure we need to talk about our *delivery system*, the quality of *Input-output* relationship and a sore need for *Prioritization*. And thereafter of course about some of the technicalities of financing. But before all that, a word about another infrastructural index that need to be tackled and financed.

Human Development Index (HDI)

Unlike GDP, which talks about just income, HDI (issued by UNDP) measures the world's major nations' status of *human development* and ranks them in a hierarchy. Here, too, India occupies a lowly position near the bottom. HDI, too, is a multi-variable Index – which factors in, with due weights, several (twenty three) key measures of human life and society which, together, reflect its health and quality. Some of the factors which are counted within the Index are health, hygiene, sanitation, clean water and air, education, housing and so on. Patently, these are basics to a good life which is essential for a sound *human infrastructure*. This failure of uplift of HDI, in our infrastructure planning was, perhaps, at the bottom of a remark which was made, some time ago, by Amartya Sen (in, if I remember, in an interview). He said – the way our economic development is proceeding, in some ten years half of India will be like the sub-Saharan region and the other half like South California (the words Prof. Sen used may not be exact which is why I have not used quotes). In a few days after the remarks Economist, Ashok Mitra (in his column in The Telegraph), apologetically came out with a correction. He said, Prof. Sen was of course right, - only that, the percentages would be more like 90% sub-Saharan and 10% South Californian. Again no quotes have been used (not that it is necessary) for the same reason.

Yes, my readers, I have not gone amiss nor ambled awry. I perfectly remember, the theme is "Financing Infrastructure". Yet, whether you like it or not, you need to know, and make sure, what you are financing, before you spend pages of your valuable space in pouring out mass of erudite and labored jargons on SPV's and Derivatives, and BOT (Build-Operate-Transfer), BOOT (Build-Operate-Own-Transfer), ROT (Rehabilitate-Operate-Transfer), DBFOT (Design-Build-Finance-Operate-Transfer), Divestiture, Consortia Financing, Securitization, Tie-Ups, Take-Out Financing, Viability Gap Funding, CDS (Credit-Default-Swaps) and many others.

I should not be taken amiss. I vouch, it is not my purpose here to demean or belittle all these umpteen clever and innovative routes to collect the huge funds that are needed for rotting infrastructure and to share and shoulder the massive risks and pitfalls that lie strewn across this minefield of infrastructure financing.

But let that be and do please bear with me for a little while longer while I deal with some of the knots that may ditch and derail much of our massive efforts to uplift our infrastructure.

The Delivery System

Our delivery system is leaky and silted. We lay a pipeline, release funds at one end, so it flows down the pipe to reach the other end, transformed in the process to a benefit to the intended target. Yet, the benefit (or quite a large part of it) does not reach the beneficiary. We can easily build a Delivery Index (DI).

$$DI = \frac{\text{Actual Benefit}}{\text{Intended (budgeted) benefit}}$$ for every Rupee of Investment.

There are leaks and leaching during the passage through the delivery pipeline. It is wider knowledge than an open secret that 25% to 30% of the power generated is lost in the process from the generation point to the point of legitimate consumption, which alone generates revenue. What is worrisome is that quite some part of this bleeding takes place with the knowledge (I did not say, connivance or consent) of the agencies whose job it is to protect such loss. I feel bored to labour the issue. For, should I do so it would certainly bore the reader, for it is so widely known (almost accepted as part of life) and so ubiquitous. One may ask, if it is so well-known, then why even mention it? The answer is, it is just to stress that when we talk of infrastructure financing we ought to spend the first rupee on the wax to seal these leaks before we even start a new project. Of course the issue is not merely financial or technological but has a large political content. The political will is needed. But, then, if that is lacking all investments may go barren.

The Quality of Output

Most discussions on infrastructure harp on statistics. How many ports, bridges, schools, hospitals, kilometers of road and so on. Quality and loyalty to specification is seldom a priority. Highways specified for a 4-inch thickness of tarmac ends up with 3" or less; the slopes and leveling carry marks of slovenliness. Inspections are perfunctory – all signs of sloth, incompetence and corruption.

Committees of Experts galore have been set up and they have delivered reports so thorough and well-written. But, to my mind, there is need for more persistent emphasis on systems quality and enforcement as part of and nodal to infrastructure financing.

Infrastructure is not a once-over process; it is a continuum. A fine doctor who, at, say, fifty years of age ceases to keep abreast of the latest in treatment along his line or a lawyer or accountant in practice who does not spend a sizable share of his working hours in uplifting his quality will soon decay as part of quality infrastructure in medicine, law or accountancy skill. Like such human infrastructure all its physical forms need equal vigilance for its upkeep and uplift. Traditionally, in Indian Society maintenance has always been a casualty. If there is any truth in the saying, - "the poorer a country, the more is waste", then India would qualify as a glowing example. This trait in the national character, is, to my mind, the core of human and social infrastructure. This is what Tagore called "*nistha*", paraphrased as devotion or dedication. This *nistha* or devotion lies at the root of quality. One may ask, are we here discussing attitude, a passion for quality, or is it that our subject is infrastructure – whereby we mean roads and bridges, ports and power plants? I would answer this way: we started with our remark on the meaning of "infrastructure", and we found that '*infra*' is below or beneath, what lies at the bottom and supports and sustains the upper layers, the edifice that is built on the plinth. If we look at this way then ports and bridges are not the infrastructure. They have another bottom layer still beneath. And what is that bottom-most infrastructure? It is devotion, character tireless patience and passion for quality. If we work today we want its fruits tomorrow. That is why, most of what we do is so perfunctory. We are averse to work which has no immediate fulfillment in sight. Columbus's faith in his destination was anchored deep and firm in his unshakable devotion which gave him strength along the voyage across the unknown uncharted ocean. That faith was not so firm in the minds of his sailors, neither had they devotion to the voyage. Everyday they were so anxious to see some symbol of success outside; unless they had something some glimpses of attainment, their energies tended to fade, wear away. That is why as days went by, day after day, as the ocean never seemed to end, their impatience started growing in the same way. They were on the verge of mutiny, they wanted to go back. Yet, Columbus's devotion, even without any sure sign of hope from outside, went along, quiet and unperturbed. But, things came to almost such a pass, the sailors could no longer be held back, they were almost turning back the ship. Just at that time glimpses came in sight, all doubts melted away that there was a shore. Then they were all delighted, all were so keen, enthused to go forward. Then they all thought of Columbus as a leader and a friend, all went on to thank him profusely.

Quoting Tagore's narration of a bit of history here was not out of place. For, it so eloquently brings out what the cultural and psychological infrastructure of a people can achieve. Then, people all over from Europe rushed to this so far unknown piece of land and it is open history now what these early settlers with no wherewithals and little technology achieved in less than a century. The outcome was the upcoming of the most prosperous new land of the world.

Cultural Infrastructure

Another more recent example of the power of what we here call the cultural infrastructure is modern Japan. Less than a century ago, Japan, and all that was Japanese were known for cheapness and poor quality. In World War II Japan was the hardest hit. When the War ended in 1945 it was a waste land devastated by the ravages of War and impoverished by American occupation. Only two years later India, too, secured its independence and soon after launched on its path of planned development. Then, in half a century, by the year 2000 AD, Japan had become a leading advanced economy second only to the US in its GDP (only lately overtaken by China to slide down to the third position), while India is still struggling with its tottering infrastructure, widening trade gap, high inflation, mounting fiscal deficit, weak currency, stagnation in agriculture, a sharp slowdown in manufacturing sector, rubbing shoulders with the meanest economies of the world in HDI indexation.

One may ask, why this lament and woeful repetition of the well-known misfortunes of our land? The answer: I have a purpose in my mind; to my mind, it carries a lesson for us as to how to build the infrastructure, where to begin, how to prioritize and what weights to apply to its multiple components. It has a second lesson, which is that infrastructure can be built (as Japan did it) in not so long a time and to start with the first things first. Right beneath and at the bottom of the visible infrastructure like roads, bridges, ports and power lies the *human infrastructure*, - not only health, hygiene, education and housing but, more important, its *cultural* components – enterprise, attitude, craving for perfection, a pride in the outcome of its efforts, love for cleanliness and a wholesome peaceful friendly work atmosphere. More so, and perhaps most of all, a genuine awareness, and conviction that "*Work is worship*". Japanese work culture truly believes that work-stoppage and work-slowdown is unpatriotic. It has nothing to do with employees' grievances against the management or the employers. It is this Japanese cultural infrastructure that explains why such tools and concepts as KAIZEN, JIT, Zero-defect (Zero-Tolerance) Programmes, Continuous Improvement, Planned Obsolescence, Ship-to-Plant direct feeding of raw materials (imported ores) with perfect synchronization are taught and debated so widely in our Management Schools and MDP's. And all (or most) of these concepts have their origin in Japan. And they are not merely *thoughts* and *theories*; they are right in application – with constant restless improvements and innovations in the Japanese national plants and workplaces. And, as one reflects, what is Japan's inherent infrastructure? Unlike the US's and India's, and even China's, one finds God has been unkind to Japan. It is an island country, comprising four islands, separated by wide, open, turbulent sea, with difficult transportation, hardly any friendly arable soil, rocky and mountainous, prone to constant storms, earthquakes, landslides and tsunamis. Yet, the people have overcome all these natural disabilities to build one of the richest and well-planned high-tech countries of the world. Their sub-sea, superfast railway system, connecting the four islands is a marvel of well-run technology. Japanese products – from automobiles, watches, cameras, electronic and electrical gadgets to toys and steel, stand for quality. Japan is world brand today with life-style and quality of life second to no other country of the world.

But let us secede here. It is not our purpose or place here to produce a paean of Japanese excellence and achievements. Yet, we did spend some space to prove a point. All that Japan has achieved today is *Not* due to its rich infrastructure of roads, bridges, ports, airports, communication, transport and so on. Yes, once they are in position they superbly support the structure and supesrstructure of the economy. But what lies behind and beneath all these is the real bottommost infra-infrastructure, which is the *cultural* infrastructure of the people.

Even then, talking wistfully about Japan and using so much space would have been a sore waste unless – yes, unless – we believe and we decide to recognize *Cultural Infrastructure* as the navel and fulcrum upon which turn its manifestation in physical forms. More than that, not only recognition but we need to adopt an honest, well-thought out programme at all levels of society. Unhappily different forms of adverse cultural traits have festered deep inside the body organism of our society at all levels. Netaji had said "give me your blood and I will give you freedom". In the similar vein som *avatar* (deliverer) must come up, take the helm of the nation with both hands, and proclaim loud and clear, "give me your honesty and application and I will give a clean and prosperous society."

Financing Human Infrastructure

Tackling this human infrastructure – cultural and social – is most difficult, and, yet, has the highest priority. Huge finance is involved in this task; yet; no resources, no exogenous investment should be shirked or denied to this task for any real or specious grounds. Our mounting fiscal deficit has become a bogey on which everybody seems to frown and worry. But when a Corporate House uses debt funds twice as large as equity and makes huge profits everybody applauds the clever use of the "*leverage*". Fiscal deficit is the 'debt' income of the government. If the money is well spent and the social and socio-economic IRR on the debt funds exceeds its servicing cost (cost of debt capital) then such funds add to growth of the national economy. Then why worry? Is then, this answer, 'Yes and no'? The worry is now real and valid because the deficit funds deliver little or no yield. The '*social IRR*' is unachieved. Our solution is not to cut short the Fiscal Deficit or borrowed funds and let the Economy shrink; the answer is to cleanse the institutions and de-silt the delivery channel so that every rupee of the debt fund earns larger social or economic IRR than the cost of its servicing. Yes, there is a time lag for the social benefits to turn and show as economic benefits to the people. This lag has to be tackled in *two* ways, both applied at the same time: *first*, soft loans and moratoriums must be arranged and, *second*, the lag itself should be shortened by energetic speeding up of the conversion flow.

Let us pass on to another critical infrastructure – which, at this time, seems to be moving towards its *nadir*. This is what we call the "*Agro-Infrastructure*"

But before we do that and deal with the Financing Issues relating to this Sector, we need to have a look at the official view of what comprises the Infrastructural Sector. We have here a list published by the RBI for recognition and financing, as such, as infrastructure investments. We need to reproduce this List here (for convenience) for we may need to refer to it and comment on it every now and then as we proceed.

RBI Circular on Definition of Infrastructure

Any credit facility in whatever form extended by lenders (i.e., banks, FIs, or NBFCs) to an infrastructure facility as specified below falls within the definition of "Infrastructure Lending". In other words, a credit facility provided to a borrower company engaged in:

- Developing, or
- Operating and maintaining, or
- Developing, operating and maintaining any infrastructure facility that is a project in any of the following sectors, or any infrastructure facility of a similar nature:
  1. A road, including toll road, a bridge or a rail system;
  2. A highway project including other activities being an integral part of the highway project;
  3. A port, airport, inland waterway or inland port;
  4. A water supply project, irrigation project, water treatment system, sanitation and sewerage system, or solid waste management system;
  5. Telecommunication services whether basic or cellular, including radio paging, domestic satellite service (i.e., a satellite owned and operated by an Indian company for providing telecommunication service), network of trunking, broadband network and internet services;
  6. An industrial park or special economic zone;
  7. Generation or generation and distribution of power;
  8. Transmission or distribution of power by laying a network of new transmission or distribution lines;
  9. Construction relating to projects involving agro-processing and supply of inputs to agriculture;
  10. Construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers, including testing facilities for quality;
  11. Construction of educational institutions and hospitals;
  12. Any other infrastructure facility of similar nature.

An Overview

It is a pity that the RBI's long list of 12 items that constitute infrastructure (barring item xi) which refers to projects for construction of educational institutions and hospitals completely overlooks the human and quality content of the infrastructure. School is mentioned but not the quality of teaching or competence of the teachers. Hospital finds a mention too, but seemingly, only in terms of the bricks and mortars that go into the building – not whether the essential equipments are in position or doctors and nurses – with minimum competence are there to attend to patients. So, *financing*, too, shirks the onus of a running system and confines itself to the task of setting up the skeleton. It looks like, we start the race with a dead horse and then worry how to flog it so it reaches the finishing line.

Alas, not so with China, with which, despite divergence in political set up and modality of achieving the goal, we have considerable similarities in size and population, poverty and affluence abiding side by side, disparity in income, rural-urban divide and socio-cultural diversities. The Millennium Development Goals (MDG) set up by the UNDP are about the same as what China calls *Xiaokang* – which carries the vision of "a balanced, harmonious all round society". China has adopted long term rural development strategies through building a human infrastructure with the ambitious target of reaching the goals by 2020. *Xiaokang* aims at a more balanced, harmonious and human-centred approach to development. It seeks to ensure a balance between man and nature and to empower people to improve their own lives. When our P.M. Dr. Manmohan Singh talks, from almost every forum, of India's aim to achieve *all-inclusive* growth, he must imply something similar, too. But the RBI's definition of infrastructure, even at a cursory glance, seems to fall short as an instrument of achieving such an "*all-inclusive* growth".

Very similar to India's, 60% of China's 1300 million people or 800 million – still live in the country side and whatever decision is taken about agricultural policies or in respect of rural societies will affect more than 50% of population of either country.

Rural and Agricultural Infrastructure

Financing Infrastructure is not a mechanical one-time process, whereby one raises some funds through some clever mechanism and dumps it on the Beneficiary asking it to flower into a modern entity. The people must be involved; for, ultimately the people must help themselves. The government and the well-meaning Agencies can only support the people's efforts, not *supplant* them. For successful financing that yields results and for the overall purpose of modernizing agriculture and the rural economy we need a close look at the human issues involved and how other nations which are now advanced, had passed through their early stages before industrialization. We must deal with this aspect here and now, albeit it would take some space, because otherwise this paper will turn up into another stereotype which describes a bunch of intermediaries and consortia coming forward with an array of complex financial instruments to set up some roads and bridges or school or hospital buildings. Such a paper will look like a Chapter in a Text Book or study group Report set up by the government. Our intention, to the contrary, is to try and produce a human document a socio-economic analysis – by which the majority population of the world (for, such majority still live in the rural country side and the tribal regions) can be uplifted to a better quality of life without taking away or destroying the idyllic charm of sylvan areas and nature's primordial peace and beauty. Financing will have to be directed to that kind of uplift of infrastructure which does not merely add some roads, bridges, powerhouses and so on but enriches the living infrastructure in which the central concern is the people and the fulfillment of their life.

What we say is not a virgin area. Large work has been done in this sphere and we have many experiences on which we can draw – not for copying but to better understand the underlying nexus of cause and effects that underlie various societies. In fact, the World Bank Economic Development Institute has been mounting projects to understand the reasons (and remedies) for the intractable poverty of more than half of the world's population.

Agriculture and Industry: Relationship

By its nature, Agriculture is both an infrastructure and an Industry. There are two kinds of farming:

1. Subsistence farming
2. Commercial farming

In subsistence farming peasants and farmers produce for their own consumption and sale of the minor surplus locally, in the village haats and through barter among themselves for other basic necessities like clothing, edible oil, salt, sugar, spices, tea and some vegetables etc. which they do not produce. At this traditional stage of farming crops are not produced for commercial sale. Holdings are small, little inputs like fertilizers, manures, pesticides are used. Areas are mostly rain-fed, poor crops are crop-failures are common. There is concealed unemployment and farming is just a way of life for eking out an existence. India is still passing through this primitive stage. Large holdings are few and commercial farming for marketable surplus is yet an exception rather than the rule. Some regions like Punjnab, Hariyana, Northern Uttar Pradesh, some districts of Andhra Pradesh are outgrowing this stage and produce large surplus for marketing, sale and exports. While this stage lasts, Indian agriculture, husbandry, horticulture, floriculture and other rural pursuits are lagging behind modern farming and allied pursuits like in Australia, Belgium, Canada, USA and other developed countries. Agriculture and farm pursuits are yet to reach the status of organized industry marked by controlled inputs, full crop insurance high productivity, profitability and scientific and hygienic farm practices.

Thus modern commercial farming is a full-fledged industry. But Agriculture is also a critical infrastructure for industry and the economy as a whole. Economists and social scientists particularly in the post-World War II era, have found a close relationship between agriculture and industry and with growth of the national economy as a whole. Some Economists are largely agreed that agriculture plays *five key* roles in this respect:

- To supply cheap foodstuffs and raw materials for the urban/industrial sector.
- To export farm products to earn foreign exchange to support financing both of rural infrastructure and technological and material imports for urban and industrial development.
- To release labour to provide the workforce for the industrial sector.
- To expand the domestic market for industrial products, and
- To increase domestic savings to be used to finance industrial expansion.

(Bruce Johnston and John Mellor, 1965)

These and many other Western Economists supported the view that agriculture should play the role of "Cinderella" or servant to the pampered "ugly sister" demands of urban and industrial expansion.

We need not accept the above view which is too simplistic, but it seems that in our hurry to attain a developed status for the economy we are making an "outright leap" to industrial development based on the Western Model of infusion of capital, technology, expertise and management methods – trusting that this route would help quick removal of poverty and backwardness and attainment of a modern prosperous civilization.

The outcome of such development policies has however often belied this expectation. In reality, what has happened is a disruption of the balance between rural-urban developments. Inflation and shortages of every kind have raised their ugly head. In an extreme situation poverty deepens in some large pocket and the BPL population goes up.

The more appropriate route to uplift of rural infrastructure with more feasible avenues of financing lies perhaps in the model suggested by E.F.Schumacher (1917-77), a British economist and a leading proponent of the people – oriented approach of ecological and balanced growth. According to him for genuine economic development to be achieved, especially in an under-developed economy with large population and pockets of poverty "the central concept of wisdom is permanence". For this he said "an entirely new system of thought is needed, a system based on attention to people, and not, primarily, attention to goods". In order to realize this new approach adequate attention must be paid to agriculture and rural development, for it is in the villages where the majority of the people still live and make their living and where the largest share of the social workforce is in agricultural and related operations. He did not reject the roles of agriculture as spelt out (and referred to above) by Johnston and Mellor and echoed by Kuznets but added a more profound dimension and said that agriculture (in addition to its five roles as aforementioned) fulfils three more fundamental functions:

1. To keep man in touch with living nature,
2. To humanize and ennoble man's original habitat,
3. To bring forth the foodstuffs and materials which are needed for "*a becoming life*".

One may note that Schumacher's way of looking at rural society and rural infrastructure has a great deal of commonalty with Tagore's concepts and visions of which he wrote so eloquently half of a century earlier.

Financing Rural Infrastructure—Micro and NANO projects

The moment we think of rural infrastructure and talk of financing it we seek to envision large roads and construction projects – bridges, ports, power plants and so on. The RBI lists of infrastructure projects that we have quoted above seem to confirm this thinking process. This is not to say that such large projects are not important or essential. But one thing is clear. They need huge lumps of finance, suffer long gestation periods while large funds are locked up without returns or benefits, are often plagued by cost overruns and time slippage. These, together, mount risks and difficulty of financing and servicing debt finance. As a way out or at least to mitigate the constraint it is most pertinent to follow the route of micro and nano infrastructural projects in large numbers scattered across the rural and interior areas of the country. Such projects would be freed from most of the negatives of project-financing. The additional crying issues of funds scarcity, long time-lags, technology weakness, rural poverty and unemployment would be squarely addressed. These are musts while large projects can go on – albeit with more accountability against cost escalation and disastrous delays.

Villages lack not only highways and motorable roads but short feeder roads which connect remote areas to nearby *haats* and market place, mandis, schools, medical centres, repair shops and communication centres. Such all-season roads built with low-cost low-grade bricks and mortars and moraine locally available and collected from nearby places should be aggressively pursued. Tanks and wells can be dug, or, where they exist, deepened and desilted and mini-fisheries promoted. Many households have kitchen-plots in their backyard or a plot of gardens nearby. These should be upgraded with seeds and manures and waste products of kitchens and monitored garbage of the households and the locality. The households will of course do their bit in their own interest, yet, a little management and initiative may be supplied by the *gram panchayat* with small assistance from their budget and manpower. What, as of now, are scattered efforts with benefits frittered away can be turned into concerted cheerful profitable movement. We can go on and on with nano-projects of continuous improvement, but that is neither necessary nor feasible within the small compass of an essay like this. Money is not and has never been the problem with these small and local enterprises. A look at a small tribal *Santhal* village will convince this truth. Should one visit a village as this just a mile or two from Santiniketan, one will be astonished at how an idyllic habitat has been built up by these poor people. Mudwalls of thatched cottage-like small houses are painted with mud plaster with decorated paintings of chalk and powdered rice pastes. Wild flowers and home-grown plants have supported the natural greenery and ecology. Ethics and aesthetics – when they work together can work wonders without much help from Mammon. There is the truth in the common say – "No country is poor for lack of resources, what they lack is Management." This word "management" has to be understood in a wide sense. It includes innovation, imagination, empathy and coordination.

Public-Private-Partnership (PPP) in Financing

The PPP Model of running and financing infrastructure project has now become a byword. Yet, for lack of imagination one seldom thinks of its fitness unless for mega-projects.

Village communities and rural infrastructure have now become a matter of selfish interest of large multi-billion national and multi-national companies. ITC's e-chaupals and HUL's Shakti centres and many others are examples. Why do these mammoth companies take interest in villages and our rural economy? The reasons are *threefold* and are all selfish. This is something like why British came forward with huge investments to set up the railways across the country in the 1850s.

The threefold reasons are:

1. These companies cannot sell their products. Markets abroad and in the Indian cities are approaching saturation. They need new markets. The thrust of WTO and globalization is primarily that.
2. FDI has entered retail. Lays needs potato and Kissan tomato and ITC and HUL top class wheat. They need access to rural India and improve their growing power of top quality crops.
3. Market is not merely number. That rural India has plenty. They also need improved buying power of the vast rural population. Because people without money do not make good customer.

There is a *fourth* interest of these companies. The pioneers who enter the market with their brands will have an early visibility. The average villager is conservative but once he knows and is attached to a product or a brand he becomes a loyalist. He will stick to his product and will not easily switch brand. This is a huge bonus for the large marketers. Moreover, any community projects that they undertake will amount to social service and a discharge of their Corporate Social Responsibility (CSR). The goodwill that would be generated would be well worth its weight in gold

The rural people may be poor individually and unempowered but, in a body, they harbor a giant strength with which they can bend mammoth companies to take care of their interest. This strength need to be harnessed. And this subtle convergence of interest of the large companies with huge resources at their command and the social interest of uplifting rural infrastructure and income and quality of life of the rural community – must be played up and used with social gains. Here comes in the role of Agency – intervention. The State, the Zilla authorities and the Village Panchayats need to join hands and build up numerous programmes in the diverse fields of rural infrastructure and village life. Finance, then, or technology or knowhow or inputs – nothing will be an unsurmountable problem.

Here lies a huge virgin area of public-private-partnership (PPP), yet, mostly untapped, and potential unexplored, where there is the added advantage of an in-built win-win relationship.

Rural unemployment

Issues of Rural Infrastructure Development and its financing cannot be steered to its role alone of playing "Cinderella" to industry, its "ugly sister". Unemployment, as such, and more especially rural unemployment is a festering sore in the Indian economy and its lurid stains smears all over the body politics. One outcome is the ongoing rural-urban exodus of all kinds of people-educated-unemployed, skilled workers, job-seeking professionals, patients. The cities are overburdened, with no housing, no jobs, no beds for patients, no seats in colleges for ordinary school-leaving aspirants for higher educations. The result is fast growth of slums and slum-like subhuman living conditions with all resultant ills and epidemics. This evil '*tsunamy*' must be halted with all the might of society. We present here some recipes for remedy. Yet we do so with a tongue in the cheek, for, the remedies are so rigorous that we doubt, if our society and agencies, with already so much to do, will muster enough courage and commitment to the task. Enough talks and lip-service already exists; yet sadly, much headway does not seem achieved. Our strength is that these remedies have been tested elsewhere (in Vietnam, for example) with considerable yields.

Some Recipes for Remedy

The labour-market must fast and continuously be upgraded, in skill and empowerment, and liberalized to bring into full play the potential energies and talents of all economic sectors, particularly the nearly 200 million rural households. The task should be institutionalized into a series of wide-ranging policies and measures such as:

1. Provide skill and support to enable diversification of agricultural production and rehabilitate the traditional craft villages, expand various lines of small and handicraft industries and combine traditional technology with appropriate labour-intensive and new skill-intensive technologies.
2. Create and sustain comprehensive supply chain connecting inputs processing-transportation-delivery-retailing-sales proceeds linkage.
3. Expand and build up the technological and social infrastructure in rural areas (schools, infirmaries, roads and electric transmission lines), which in itself will absorb much labour, and will create favourable conditions for economic, social and cultural development in the countryside.
4. Continue to implement various programmes and projects for re-greening millions of hectares of arid and waste lands wherever they exist; also, progressively address, through modern technologies, enrichment of marine resources and their exploitation.
5. Innovate ways to expand the national fund in support of job creation from various sources, of which the state investment should be just the "initial thrust" without resorting to the practice of widespread subsidization.
6. Create widespread training centres to help rural youth acquire the skill and other qualities needed to find employment in labour markets.
7. Encourage mass organizations, NGOs. and professional associations to generate and promote employment opportunities for their members.

Finally, measures for job creation should aim at promoting modern agricultural practices, industry and services in the direction of industrialization, increasing rural incomes and improving living conditions, while limiting the city-oriented migration. The aim is to avoid excessive urbanization and formation of "*metropolitan development poles*". We note that this is a trend that many other countries are now trying to discourage through an aggressive policy of decentralization.

Having recorded these remedial approaches we are left with an uneasy feeling that nothing very new has been said, and most of the messages are not much beyond economic commonsense. Many of these are already part of current programmes. Yet, we believe it is worthwhile summing up the well-tested approaches specially for two reasons:

1. They more need political will and commitment than vast resources, specially at micro levels.

2. Second, whatever programmes are already current their benefit outcome seems tardy and haphazard.

Sources of Financing and some Options

We need to be brief in this last section. First, because the existing literature is already abundant and what we say could hardly add any new insight.

Secondly, an elaborate treatment must be ruled out for constraint of space.

The overall sources of funds for investment of a nation are *threefold*:

- The household sector. Its savings are available for investment.
- The corporate sector. Its retained earnings are deployed for investment
- The government whose income comprises taxes, income from government business (railways, P & T, defence Fys, and PSUs) and user charges for services rendered. To these loans, grants, aids and donation from foreign institutions may be added.

Out of these total resources Infrastructure gets its shares. The different modes of financing the infrastructure are crafted mechanisms which are built to ensure two things:

1. Funds pooled, both from government and in the hands of the private sector (public-private-partnership models),- households and the business sectors – to be directed to infrastructure.
2. Adequate returns to funds-givers (loans and equity) which includes perceived risks in the concerned venture.

Some Options

Finally, we mention some possible relaxations of current regulations to widen scope of financing infrastructure as a sector of critical priority. There exists an estimate that "every one crore rupees spent on infrastructure now saves ten crore on cost escalation and public good due to deficient services later." It seems good common sense since if the bottom is shaky the edifice is bound to totter. The options:

- User charges must move toward recovering full cost. Yes, it will hurt people but it will save the same people and their children, later on.
- Subsidies must take a downward path and, at least in part, need to be absorbed through large improvement in delivery system.
- Improve share of the private sector in infrastructure investment.
- Remove or relax certain constraints in the financial system.
- Remove monopoly in service provision and open up and improve competition.
- Enlarge institutional capacity and autonomy of functioning.
- Set up and enforce fast and transparent Dispute Settlement Machinery.

The Financing Gap is so large (and it is fast growing) that no half-way house is likely to be effective.

Financing Gap for 2007-2012 (dollar billion), against Revised Target ($384 billion at 2005-06 prices)

	Target	Base line	Gap
At 2005/06 prices	384	235	129
At current prices (2011 AD) approx. 7% annual inflation	512	313	199

Even allowing for an optimistic rise by one percentage point in GDP in each year of the Eleventh Plan (2007-12), to achieve the target infrastructure investment level of (planned) 8 percent of GDP by 2011-12, and thereby bridge the gap as above half of the incremental domestic savings will need to be intermediated into the infrastructure sector. There seems, presently, little awareness and urgency in confronting these dimensions.

Yet, we cannot give up and address removing many of the constraints from which the financial systems suffer and raise the sector's capability for intermediating final savings into infrastructure from the current 20-25 percent to the 50 percent at the margin. Even this would not suffice. For, much of the household savings deployed in creating fixed assets or durables, gold, houses, even almirahs, TVs, refrigerators, cars etc., would take away part of the incremental savings. Being a poor country many of the Indian households are yet unequipped with such assets, which, in an advanced country, already exist and so would not take away a slice of the incremental income from liquid resources available for investment.

Conclusion

The focus of the paper has been purposely turned on the development on human infrastructure. This is because Human Infrastructure, in the opinion of the author, may be deemed to be the "Infrastructure to the Physical Infrastructure".

Secondly, organized literature on this facet of infrastructure is much less than views and recommendations on the financing of physical infrastructure. Scholars and expert committees who have written and reported on infrastructure issues and financing have mainly concentrated on various forms and potential of institutional financing, intermediating foreign finance to infrastructure and designing models of financing that meet the demands of long-term, high-risk, and low-return financing that are endemic to infrastructure.

The Emerging Landscape of Infrastructure Financing in India

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Introduction

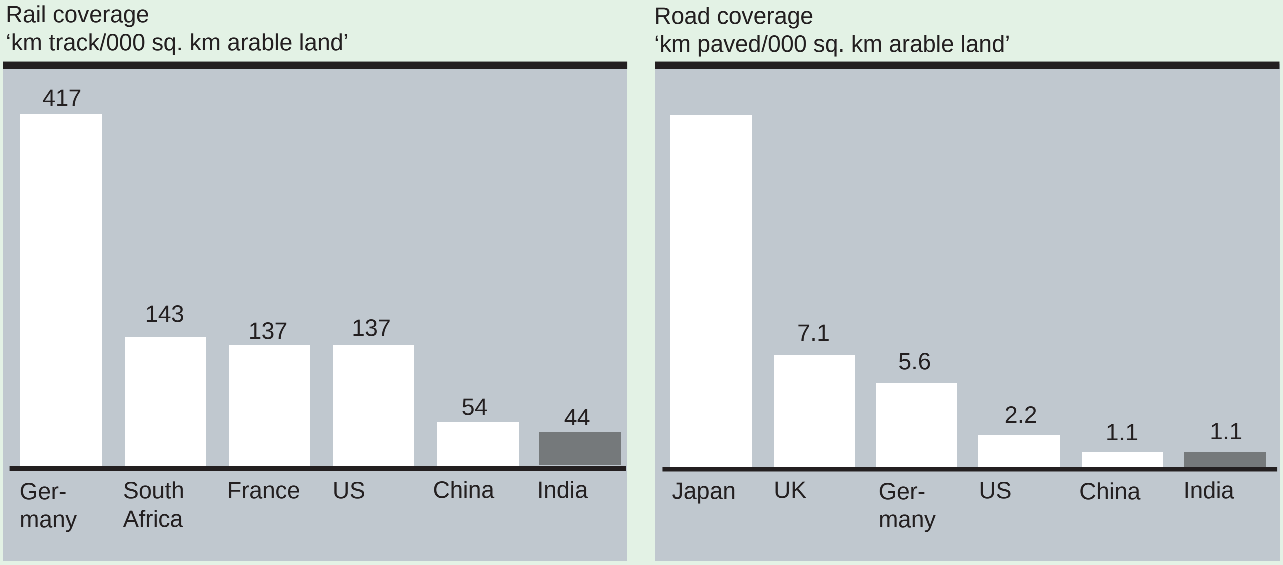
'Inclusive growth' appears to be the leitmotif of economic planning in Indian. While it was the focal point of the recently concluded Eleventh Plan (2007-12), the Twelfth Plan (20012-17) has reiterated the need for a 'faster, more inclusive and sustainable growth' and mulls to support the endeavour with appropriate budgetary support. India needs to grow fast; it has to create wealth at a massive scale to alleviate the poverty that stalks its vast populace. As a matter of fact, India is the home of the largest number of poor in the world; with a dubiously high position in the World Hunger Index (66th out of the 88 countries covered in the Report), it has more people than any other country – over 200 million by some estimates—who are afflicted by hunger. With lacklustre performance in agriculture in the last two plans, the spectre of hunger still lurks around. Indeed, the food grain target was missed in every year from 2002 to 2007. The stellar economic performance of the India economy in the past few years notwithstanding, not a single state in India falls in a 'low-hunger' or 'moderate hunger' category. Twelve states fall in the 'alarming' category, and one – Madhya Pradesh – fall in the extremely 'alarming category'. Four states – Punjab, Kerala, Haryana and Assam are in the 'serious category (Roy, 2012). The irony of Indian economic growth story is in fact highlighted by the Planning Commission (2008: p.1)) itself: "... the absolute number of poor people has declined only marginally from 320 million in 1993-94 to 320 million in 2004-05...and the other indicators of deprivation suggest that the proportion of the population deprived of a minimum level of living is much higher. For example, National Family Health Survey-3 shows that almost 46% of the children in the 0 to 3 years' age group suffered from malnutrition in 2005-06, and what is even more disturbing is that the estimate shows almost no decline from the level of 47% reported in 1998 by NFSS-2". Inclusive growth in India, therefore, is not only a politically correct slogan, but it is a socially desirable target; it mirrors the idea of socio-political justice enshrined in the Constitution of India. Inclusive growth strategy demands that more and more budgetary resources be allocated to the poverty alleviation programme and the focus of the growth are people-centred by ensuring food, drinking water, basic education and healthcare for all. Moreover, the growth needs to be sustainable. Unfortunately, the Indian economy is suffering a double whammy: on one hand, it is trammelled by abject poverty of its vast populace; on the other hand, despite a near double-digit growth for the past few years, the Indian economy is in the throes of infrastructural deficits, posing serious threats to its growth potential. Sustained economic growth requires investments in critical infrastructures such as roads, modern airport, railways across the length and breadth of the country, ports to ferry the merchandise and even swanky hotels and malls for the super rich. Rapid reduction of infrastructural deficit is also important to increase Indian competitiveness in the global market. Since the Second Plan the necessary wherewithal for the development of infrastructures has come mostly from the government coffers. But the demand of inclusive growth has seriously put limits to India's ability to spend huge sums all by itself. This paper argues that a public-private-partnership (PPP) model is the need of the hour to revamp the investments in infrastructure India is lagging behind. In fact, the role of the PPP was widely acclaimed in the Eleventh Plan as well as in the Approach Paper to the Twelfth Plan.

India's Yawning Infrastructure Deficit

The need for good quality physical infrastructure in achieving high economic growth has been extolled in the economic literature. Indeed, good quality infrastructure is the most critical physical requirement for attaining faster growth in a competitive world and also for ensuring investment in backward regions (Planning Commission, 2008). This, as the Planning Commission underscored, includes all weather roads; round-the-clock availability of power; water for irrigation; railways across the length and breadth of the country; ports to ferry our merchandise; airports to handle growing demands for air travels in, and out of, the country. Infrastructure is a critical enabler of economic growth. But unlike the developed countries, and even in comparison to its close competitor, China, India has underinvested in the critical infrastructures. In fact, relative to its growth rate, India's infrastructure investment ratio (defined as a percentage of GDP to the GDP growth rate) has steadily fallen: from 50 between 1988 and 1997 to 38 between 1998 and 2007 (McKinsey , 2010).

India had inherited its infrastructure from its colonial masters, who had built it to serve their military logistics. Around 80 percent of its railway infrastructure and around 30 percent of the road infrastructures were built before the independence. With the independence of the country that came along with partition, India had lost a substantial portion of the colonial infrastructure to the newly created states, Pakistan and Bangladesh (erstwhile East Pakistan). But meanwhile, traffic on rail has gone up by ten-fold between 1951 and 2007. Similarly, surface road passenger and traffic have grown by about 200-fold since independence. Relative to this demand, railway expansion was only 1.4 times and surface road had increased from 0.4 million km to 3.3 million km. But only 15% of these roads are highways and 0.5 percent of these roads are two or four-lanes roads (McKinsy, 2010: p. 24). Indian waterways have also been affected by the partition of the country.

Table 1: India's Logistic Gap



To tide over the crisis, the Eleventh Plan has revamped investments in these critical infrastructures from 5.43% of GDP in 2006-07 to 9.34% by the terminal year of the Eleventh Plan. But in spite of two-fold to three-fold increase in investment — from about $10 billion in 2003 to $30 billion in 2010, according to a McKinsey Report (2010) — India finds itself quite inadequately equipped to meet the challenge of its growing demands. For example, in India, electricity generation is 16% to 20% short of what is needed to meet peak demand. The Indian ports suffer from high inefficiency and congestion as reflected in the average turnaround time of 3.6 days, which compares unfavourably with that of Singapore, for example, where the turnaround time is just 12 hours or less. The McKinsey Report (2010), therefore, warned that, if current trends prevail, inefficiencies associated with poor logistics infrastructure will increase from $45 billion today to $140 billion in 2020. The Eleventh Plan had recognised the infrastructure deficit as an impediment to rapid economic growth (See Table 2).

But unfortunately, the target set in the Eleventh Plan was missed by a country mile. According to the Mid-term Appraisal of the Eleventh Plan, published recently by the Planning Commission (2011), despite a modest target, the gap between the target and the achievements in the Eleventh Plan is quite large in the following sectors:

Roads/ Highways: The Eleventh Plan envisaged an ambitious National Highway Development Programme (NHDP) aimed at upgrading and expanding the national highways in phases. It also envisaged accelerated development of rural roads through the Pradhan Mantri Gram Sadak Yojana (PMGSY). Implementation of NHDP is behind schedule due to the financial crisis that adversely affected the appetite of private investors.

Port: Against an expected addition of 858 million tonnes to port handling capacity in the Eleventh Plan for major and minor ports put together, the actual

Table 2: Infrastructure Deficit and Eleventh Plan Physical Targets

Sector	Deficit	Eleventh Plan Physical Target
Roads/ Highways	65590 km of NH comprise only 2% of network; carry 40% of traffic; 12% 4-laned;50% 2-laned; and 38% single-laned Inadequate berths and rail/road connectivity	6-lane 6500 km in GQ; 4-lane 6736 km NS-EW; 4-lane 20000 km; 2-lane 20000 km; 1000 km Expressway.
Ports	Inadequate berths and rail/road connectivity	New capacity: 485 m MT in major ports; 345 m MT in minor ports.
Airports	Inadequate runways, aircraft handling capacity, parking space and terminal buildings.	Modernize 4 metro and 35 non-metro airports; 3 green field in NER; 7 other greenfield airports.
Railways	Old technology; saturated routes; slow speeds (freight: 22 kmph; passengers: 30 kmph); low payload to tare ratio (2.5)	8132 km new rail; 7148 km gauge conversion; modernize 22 stations; dedicated freight corridors.
Power	13 8% peaking deficit; 9.6% energy shortage;40% transmission and distribution losses; absence of competition.	Add 78577 MW; access to all rural households.
Irrigation	1123 BCM utilizable water resource; yet near crisis in per capita availability and storage; only 43% of net sown area irrigated	Develop 16 mha major and minor works; 10.25 mha CAD; 2.18 mha flood control.
Telecom/IT	Only 18% of market accessed; obsolete hardware; acute human resources' shortages	Reach 600 m subscribers –-200 m in rural areas; 20 m broadband; 40 m Internet.

Source: Planning Commission (2008: p. 255).

achievement is likely to be only about 55 percent of the target.

Railway: Much of the modernisation effort in railway infrastructure has been thwarted by unsustainable revenue model. Railway has so far been dependent on budgetary resources so much that at present subsidy on passenger fare has gone up to nearly Rs. 19,000 crores.

Power: The Indian power crisis remains unabated. With a target of 78577 MW additions in the Eleventh Plan, the actual achievements will not be more that 62,000 MW, nearly 20% shortfall.

Irrigation: The area under irrigation has remained more or less stagnant for the past several years. During the Eleventh Plan it had registered few, if any, improvement. The percentage of irrigated net sown area has marginally improved, from 40% to 43 percent only.

Telecom/IT: Some success has been achieved as far as telephone connections are concerned. But the introduction of 3G services was delayed for a number of reasons. The success in the area of Broadband connectivity has also remained slow.

The Planning Commission thus appositely observed that the pattern of inclusive growth as envisaged in the Eleventh Plan, with a GDP growth averaging 9% per year, can be achieved only if this infrastructure deficit can be overcome and adequate investment takes place (Planning Commission, 2008: p. 254). To support the Indian growth strategy, the Twelfth Plan, therefore, stepped up investment in infrastructure from about 7.55 percent of the GDP in the Eleventh Plan to nearly 10 percent of the GDP in during the Twelfth Plan (See Table 3).

Financing Landscape

Recognising the need to step up infrastructural development for speedy economic growth, the Twelfth Plan envisages a huge outlay of around Rs. 56.3 lakh crore (about one trillion USD). But in a paradigm shift, the Twelfth Plan accords the private sector a special role to play. Indeed, reduction in budgetary support and wider role of the private sector for infrastructure development has been advocated since the Ninth Plan period (1997-2002) itself, and in keeping with the trend, the share of private investment in the total investment in infrastructure went up from 22 percent in the Tenth Plan to 38 percent in the Eleventh Plan. In the Twelfth Plan this share of the private sector is expected to grow up to 48 percent. A reduced share of government spending means that during the Twelfth Plan the Central share in the overall infrastructure investment is likely

Table 3: Projected Investment in Infrastructure during the Twelfth Five Year Plan

					(Rs crore at 2006-07 prices)		
Year	Base Year (2011–12)	2012–13	2013–14	2014–15	2015–16	2016–17	Total 12th Plan
GDP at market prices (Rs crore)	63,14,265	68,82,549	75,01,978	81,77,156	89,13,100	97,15,280	4,11,90,064
Rate of growth of GDP (%)	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Infrastructure investment as % of GDP	8.37	9.00	9.50	9.90	10.30	10.70	9.95
Infrastructure investment (Rs crore)	5,28,316	6,19,429	7,12,688	8,09,538	9,18,049	10,39,535	40,99,240
Infrastructure investment	132.08	154.86	178.17	202.38	229.51	259.88	1,024.81
(US$ billion) @Rs 40/$							

Source: Planning Commission (2011: p. 297).

to decline from 34.30 percent in the Eleventh Plan to 28.91 percent in the Twelfth Plan, and the States' share is likely to decline to 22.90 percent compared to 28.50 percent in the Eleventh Plan. In financial terms, the total public sector investment in infrastructure envisaged in the Twelfth Plan is Rs. 16,28,129 crore by the Centre and Rs. 12,89,709 crore by the States. The private sector investment including PPP projects will account for the balance Rs. 27,13,853 crores, constituting 48.19 percent of the total spending for infrastructure during the Twelfth Plan (Planning Commission, 2012). The major portion of the spending by the central and the State Governments will come from Internal and Extra Budgetary Resources (IEBR). The Internal Resources (IR) comprises retained profits, depreciation provision, carried forward reserves and surpluses, while the Extra Budgetary Resources (EBR) consist of receipts from the issue of bonds, debentures, external commercial borrowings, suppliers' credit, deposit receipts and term loans from financial institutions. Evidently, the role of budgetary resources in financing infrastructure is becoming small to insignificant (see Table 4).

Wider Role for Public Private Partnership

In the past, the source for funding infrastructure were mainly the budgetary allocations, grants by state or central governments and long term debt provided by the leading financial institutions like IDBI and ICICI. But the Planning Commission recognised that funding India's infrastructure needs is a formidable challenge not only for the government but also with private finance. Therefore, one must reach out to the private sector and private savings, and also to the other mechanisms, in India as well as abroad, to finance the huge task ahead. Even then the debt funding by the public and the private sector in Twelfth Plan would leave a gap between estimates and likely requirement to the extent of more than INR 5 lakh crore [See Table 5].

Private financing, unlike the pusillanimous public sector efforts, is based on competition and resource utilization efficiency. It is, therefore, expected that the spirit of competition embedded in private investment will not only expand capacity, but also contribute to the quality of service, besides minimising cost and time overruns in implementation of infrastructure projects.

No wonder that in view of limited ability of the Government source, India is inundated with PPP projects. According to the Planning Commission (2012), as of 31 March 2012, 390 PPP projects have been approved involving an investment of Rs. 3,05,010 crore. According to the recent World Bank database (2011), India is emerging as the largest market for private participation in infrastructure in the developing world. With an investment of around USD71.9 billion in 94 projects in 2010, it marked 85% increase over 2009 and comprised 43% of the overall investment in the developing countries in 2010. India also accounted for nearly half of the investment in new PPI projects in developing countries implemented in the first semester of 2011. In the South Asian region, India attracted 98 per cent of regional investment and implemented 43 of the 44 new projects in the region. A sector-wise analysis

Table 4: Source-Wise Projected Investment (Rs. Crore at Current Prices)

	2012–13	2013–14	2014–15	2015–16	2016–17	Total Twelfth Plan
Centre	250758	282874	320107	362379	412012	1628129
Central budget	107664	117805	129245	142220	157044	653978
Internal generation	68200	76544	86126	96695	109011	436576
Borrowings	74894	88524	104736	123464	145957	537575
States	206944	230041	255636	283185	313903	1289709
State budget	127290	136027	145413	155499	166340	730569
Internal generation	23429	27651	32419	37555	43401	164456
Borrowings	56225	66363	77804	90131	104162	394684
Private	293310	382082	503646	671423	863393	2713853
Internal accruals/Equity	87992	114625	156131	208142	267652	834542
Borrowings	205318	267457	347515	463281	595740	1879311
Total projected investment	751012	894996	1079389	1316986	1589308	5631692
Non-debt	414575	472652	549334	640110	743449	2820121
Debt	336437	422344	530054	676876	845859	2811571

Source: Planning Commission (2012).

Table 5: Likely Sources of Debt (Rs. Crore at Current Prices)

	2012–13	2013–14	2014–15	2015–16	2016–17	Total Twelfth Plan
Domestic Bank Credit	119066	165122	222037	296242	380653	1183119
NBFC’s	56973	82252	115136	159915	213911	O-’MNS
Pension/Insurance funds	21681	26083	30427	35216	39255	152661
ECB’s	46799	56867	66999	78321	88179	337164
Likely Total Debt Resources	244519	330149	434369	569637	722426	2301101
Estimated Requirement of Debt	336437	422344	530054	676876	845859	2811571
Gap between Estimates and	91918	92195	95685	107239	123433	510470
Likely Requirement						

Source: Planning Commission (2012).

(Planning Commission, 2012)of the PPI projects in India shows that:

- In the highways development, paving increasing opportunities for the domestic and foreign participants, more than 60 per cent of the estimated investment — covering a length of about 54,000 km of highways — is expected to be financed through PPP.
- In the civil aviation, to complement the Eleventh Plan spend of Rs. 23,187 crore for modernization of four metro airports, the Airports Authority of India has identified 15 operational Airports for taking up operation and maintenance of both terminal and air side through PPP during the Twelfth Plan.

- Hyderabad Metro Rail Project, which is presently under construction on PPP mode with a total project cost of Rs.12132 crore, is the single largest private investment in a PPP project in India**.**
- In port and power sector, deck is cleared for FDI up to 100 percent under the automatic route. To sum up, as Mr. Pranab Mukherjee, while presenting his last budget in the Loksabha said, about half of the estimated invest in infrastructure during the Twelfth plan will be in the private sector.

Institutional and regulatory backup

Privatization of critical infrastructure is not a straightforward issue; it is not without its flipside. But in the context of privatization, providing an enabling environment and institutional and regulatory backups are indisputably the job of the government. With a view to removing the policy and regulatory gaps and also to ensure availability of long-term finance, the Government of India has initiated several measures. The Indian initiative (Planning Commission, 2012) in this direction is reflected in the following provisions:

- *Cabinet Committee on Infrastructure*: The Committee on Infrastructure (Col), which was constituted in August 2004 , has been replaced by a Cabinet Committee on Infrastructure (CCI) in July 2009. Chaired by the Prime Minister, CCI reviews and approves policies and projects across.
- *Public-Private Partnership Appraisal Committee (PPPAC)*: Consisting of the Secretary, Department of Economic Affairs, as the Chairman, this committee was created for speedy approval of PPP projects. The project proposals are appraised by the Planning Commission and approved by the PPPAC. The Empowered Institution (EI) approves projects for providing Viability Gap Funding to the infrastructure projects at the State level.
- *High Level Committee on Financing Infrastructure:* a High Level Committee on Financing Infrastructure has been constituted with a view to reviewing the existing framework for financing of infrastructure and to make recommendations in this regard. The Report of the Committee is expected to be available by 31 March 2013.
- *Regulatory Authority*: Independent regulatory authorities are already in existence in the power, telecom, and civil aviation sectors. These regulatory authorities perform multifarious activities, which were previously the domain of government regulations. A Regulatory Reforms Bill is underway.
- *Viability Gap Funding:* In order to make Public Private Partnership (PPP) projects financially more viable, the Central Government has made provision for viability Gap Funding up to 20 percent of the cost of the PPP project. An additional grant of up to 20 per cent of project costs can be provided by the sponsoring Ministry, State Government or project authority.
- *India Infrastructure Finance Company Limited (IIFCL)*: IIFCL was originally incorporated by the Ministry of Finance in 2006 for direct lending to infrastructure companies or refinancing to the banks and financial institutions. In the Twelfth Plan it is expected to play extended role of mobilising additional resources for financing of infrastructure by roping in insurance and pension funds, external debt and household savings. The IIFCL also administers takeout financing scheme where long-term loans provided by the banks to infrastructure projects are taken out of their books by IIFCL. This helps banks to avoid an asset-liability mismatch and also makes available the funds to be advanced to new projects. Until recently, the Indian capital market was grossly inadequate to take care of the needs of infrastructure finance. Therefore, to help the situation, Infrastructure Development Funds (IDFs) has been set up for channelizing long-term debt from domestic and foreign pension and insurance funds, as well as from other sources. According to the recent information published in its website (http://www.iifcl.org/Content/profile.aspx), IIFCL has initiated the process for launching an Infrastructure Debt Fund (IDF) along with the other co-sponsors/ investors (e.g. Life Insurance Corporation of India, IDBI Bank, Asian Development Bank and HSBC) for a corpus fund of around US$1 Billion with an investment of around Rs. 15 billion through Mutual Fund route. IIFCL has also acquired stake in the Delhi Mumbai Industrial Corridor Development Corp (DMICDC) which is 41% of the total shareholding as on 31st March, 2012.

Conclusion

Infrastructure is the lifeblood of the economy. The causal link between infrastructure development and economic growth is empirically established (Walsh, Park and Yu, 2011). Economic growth in China took a quantum leap since it started investing in critical infrastructures substantially since 1980s. The emerging markets economies like Brazil, Chile, Indonesia and Vietnam also experienced high economic growth due to heavy investment in critical infrastructure. Infrastructure financing in these countries have been initiated mostly through bank finance. The global experiences in this respect suggest that development of corporate bond market is important for healthy and uninterrupted development of infrastructure. In India, the development of bond market, though still in a nascent stage, is expected to play a crucial role in mopping up the finance for the infrastructure development target set in the Twelfth

Plan. During the fiscal year 2012-13, India is set to collect Rs. 60,000 crore by issue of tax-free bonds. This figure represents a hundred percent growth over the preceding year's collection of Rs. 30,000 crore. The Finance Mister has also announced the Extra Commercial Borrowing (ECB) facility to be extended to several most of the infrastructure sectors. In sending the right signal to the foreign investors the Finance Minister has also announced in his Budget Speech the enhancement of the investment limits by Foreign Institutional Investors in long-term corporate bonds issued by the companies in the infrastructure sector from USD 5 billion to 25 billion. The Qualified Foreign Investors (QFIs) have also been allowed to invest a total of USD 10 billion in Mutual Fund equity schemes and USD 3 billion in Mutual Fund debt schemes that invest in the infrastructure sector subject to total overall ceiling of USD 25 billion. There seems to be no dearth of arrangements. Let's see how it pans out!

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

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Articles, views and opinions on the topic are solicited from readers 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 rnj.rajendra@icwai.org, followed by hard copy to the Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8th January, 2013.

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

'RETURN ON TALENT'

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Infrastructure Finance (IF)—Way to Achieve Economic Development

(Study on Financing in Urban Infrastructure)

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I. Introduction

Creation of adequate and proper infrastructure recognized as the key priority and a necessary condition for sustaining the growth momentum of any economy. Infrastructure development has a direct bearing on sustainability of economic growth and future development. There are many evidences that creation of Infrastructure has large multiplier effects and has a significant impact on poverty reduction. The existence of a positive correlation between infrastructure development and growth process is unanimously recognized as well as empirically evidenced by cross-country experiences. But infrastructure projects have a long payback period; they require long-term financing in order to be sustainable and cost effective. In low-income countries, infrastructure investments have alluring benefits but also daunting costs, where transportation, communication and power generation are inadequate and their provision can do much to boost productivity and growth. In India there is need of large and continuing amounts of investment in almost all areas of infrastructure. This includes **transportation** like roads, ports, railways, and airports; **energy generation** and transmission; **communications** like cable, television, fiber, mobile and satellite and **agriculture** like irrigation, processing and warehousing. Though, there has been some improvement in infrastructure development, but there are still significant gaps that need to bridge. Sources of Infrastructure Finance in India are shown below:

Domestic Sources	External Sources
Equity • Domestic investors (independently or in collaboration with international investors) • Public utilities • Dedicated Government Funds • Other institutional investors	Equity • Foreign investors (independently or in collaboration with domestic investors) • Equipment suppliers (in collaboration with domestic or international developers) • Dedicated infrastructure funds • Other international equity investors • Multilateral agencies
Debt	Debt
• Domestic commercial banks (3-5 year tenor) • Domestic term lending institutions (7-10 year tenor) • Domestic bond markets (7-10 year tenor) • Specialized infrastructure financing institutions such as Infrastructure Debt Funds	• International commercial banks (7-10 year tenor) • Export credit agencies (7-10 year tenor) • International bond markets (10—30 year tenor') • Multilateral agencies (over 20 year tenor)

Sources: Asian Development Bank: Proposed Multitranche Financing Facility India: India Infrastructure Project Financing Facility. November. 2007

Investment in infrastructure finance is not adequate in urban areas if we compare it with population growth rate in urban areas. But over 31 % of population is now living in urban areas in India. It reveals that Development of any areas strongly depends upon urbanization rate and obviously urbanization depends on population growth rate in the area. Various studies reveal that more urbanization contributes more GDP and for this reason high-populated areas contribute more GDP, for example Gujarat, Maharashtra, Tamil

Nadu, Karnataka comparing to Bihar and Orissa. But with the increasing of population growth rate in any area various infrastructure facilities are highly desirable, like Road, telecommunication system, bridge, water supply, sewerage, street light, dam, airport, power supply, various government service center etc.

In India with the passing of time a large number of population are shifted from rural areas to urban areas for many reasons but one of them is job purpose or for searching the better job. Rural people are coming to urban areas for better job and better living standard. Between Census 2001 and Census 2011, the number of towns has increased from 5161 to 7935. The number of urban local bodies, which was 3,799 in 2001, is likely to be 4,041 in 2011. The number of cities with population higher than 1 million, which was 35 in the year 2001, is now expected to be 53. Growing urbanization and shift of population from rural to urban areas will be clear from below given table.

Table 1: Increase population growth rate in urban areas

Year	Total Populati on (in million!)	Decadal Growth Rate (%)*	Urban Population (in million)	Rural Population (in million)	% of Urban Population to Total Population	% of Rural Population to Total Population
1951	361.1	13.31	62.4	298.7	17.3	82.7
1961	439.2	21.64	78.9	360.3	18.0	82.0
1971	548.2	24.80	109.1	439.1	19.9	80.1
1981	683.3	24.66	159.4	523.9	23.3	76.7
1991	846.3	23.86	217.6	628.7	25.7	74.3
2001	1028.0	21.34	287.6	740.4	28.0	72.0
2011	1210.1	17.6%	377.1	833.0	31.2%	68.8%

Source: Census of India

But investments in urban infrastructure are not adequate if we compare it with high population growth rate in urban areas.

The following are the identified sources of urban infrastructure finance.

- Local government capital budget allocations for urban infrastructure;
- Bonds issued for urban infrastructure funds on behalf of local governments;
- Long-term municipal bonds;
- Various state and central governments grants;
- Long term loan from various international financial institution like, ADB, World bank;
- Bank and institutional various loans (at national level) and
- Other emerging financing options, such as leveraging municipal Assets.

II. Objectives of study

The objectives of study are to:

- Exposing the current position of Urban Infrastructure;
- Exposing the financial provision made for Urban Infrastructure in different five year plan;
- Highlight the various Issues of Infrastructure development.

III. Differentiated Features of Infrastructure Finance

Features of infrastructure finance are some way differs from normal financing like production, manufacturing or expansion project. They are:

- Normally infrastructure finance has long maturity period and it extends to five to fort five year and even it may fifty years or more. For example time to completion a bridge may require more than eight years but once it completed its life may more than hundred years.
- Infrastructure finance involve larger amount of investment. For example a bridge may require more than one thousands crores.
- Infrastructure finance always involves higher risk as higher amount and long time period involvement. Prediction of long period situation is more complicated than shorter period. In future changes may arise in customer preference, technological changes, government policies, environmental issues etc.
- In this type of investment return is very low at initial stages but with the passing of time returns go to increases. Initial cost of the project is very high but maintenance cost is very low comparing to its investment cost.
- After completion of project to continue /run the project manpower requirement is much low comparing to its investment cost. For example to maintenance and collection of toll tax in a long bridge, very few persons are required.
- The non-recourse nature, the unique risks of infrastructure development, complexity of arrangement require unique appraisal skills and technique.

IV. Status of Urban Infrastructure

Position of urban infrastructure will be clear from following discussion.

Water supply

As per Census 2011, Drinking Water within the premises is available to 71.2% of the urban population where it was 65.4% as per Census 2001. Similarly as per census 2011 only 20.7% of the population has access to Drinking Water near the premises where it was 25.2% as per Census 2001. None of the cities have 24 X 7 water supplies.

Sanitation

Sanitation is the biggest challenge in Indian cities. In fact the problem of lack of adequate and proper sanitation facility is much worse in urban areas than in rural areas. According to census 2011, 32.7% of the urban population has access to a piped sewer system and 12.6% of the urban population still defecates in the open. Installed sewage treatment capacity is only 30% as per Central Pollution Control Board Report 2009. The capacity utilization is around 72.2%, which means that only about 20% of sewage generated is treated before disposal in most of the cities and towns.

Urban Transport

Public transport accounts for only 22 percent of urban transport in India, compared with 49 percent in lower middle-income countries (e.g. the Philippines, Venezuela, Egypt) and 40 percent in upper middle-income countries (e.g. South Africa, South Korea, Brazil). The share of public transport is declining steadily as neither the quantity is sufficient nor the quality is satisfactory. The overall image of public transport is still quite low. As such generally only the people with no other alternatives, moves by public transports. Out of 423 classes I cities, only 65 have a formal city bus service as on 2012. In 2006, only 20 cities have bus services with the central government direct intervention for owning the buses by providing direct funding.

Solid Waste Management (SWM)

Solid waste management is another big problem in Indian urban areas. They need properly collection and their appropriate use or disposal. According to the Central Pollution Control Board (CPCB) Report 2005, about 1,15,000 MT of municipal waste is generated daily. Collection performance varies from city to city. Staff deployed to manage SWM is also fairly low as per requirements. In most of the cities, waste is transported and dumped to land fill sites. Scientific treatment and disposal of solid waste is practically non-existent in most of the cities.

V. Provision of urban infrastructure finance in five-year plan

11th five-year plan and urban infrastructure financing

Provision made in different five year plan for infrastructure finance in urban areas are mentionable and amount is growing one than previous plan but with the increasing trend of urbanization they are seems to be not enough. But all five-year plans emphasized on infrastructure development. The rader of eleven plans are Bharat Nirman for building rural infrastructure, National Highways Development Programme (NHDP), Airport Financing Plan, National Maritime Development Programme and Jawahrlal Nehru National Urban Renewal Misssion (JNNURM) etc. A detail of eleven five-year plans regarding urban basic infrastructure financing is given below:

Table 2: Projected fund requirement for urban basic infrastructure financing

Sub-sector	Estimated Amount (in Rs. Crore)
Urban Water Supply	53,666
Urban Sewerage and Sewage Treatment	53,168
Urban Drainage	20,173
Solid Waste Management	2,212
MIS	8
R&D and PHE Training	10
Total	129,237

Source: RBI.

11th five year plan bestow prime importance on fresh water supply to urban citizen and total amount of Rs.53,666 (41.52%) core allocated for this purpose. Next importance is given on sewerage (41.13%) followed by proper drainage, solid waste management and other. The projected sources of such fund are given below.

Table 3: Projected sources for basic urban infrastructure finance

Projected sources	Projected amount (Rs. In Crore)
Central outlay	70,000
State sector outlay	35,000
National financial institutions (LIC, HUDCO, IL&FS etc)	10,000
External agencies (World Bank, JBIC (now JICA), ADB and other agencies)	10,000
Foreign direct investment and private sector funds	4,237
Total	129237

Source: RBI.

In this plan total fund of Rs.132590 crore projected for urban transportation system. The estimation made on the basis of following:

Table 4: Projected fund requirement for urban transportation system

Cities (population in lakh)	Total no. of towns	% of towns proposed for 11th Plan	Average require-ment	Rs. in Cxore
01-05	370	50	40	7,400
05- 10	39	50	400	7,800
10-40	28	100	930	26,040
>40	7	100	3000	21,000
METS	a	100		32,000
Modern Buses				38,000
Capacity Building & Transport Planning				350
Total				1,32,590

Source: Eleventh Five-Year Plan, Planning Commission

The sources of such funds are central government, state government, municipalities, financial institutions and also a considerable part from private sector. The details of such sources are given below:

Table 5: Projected sources of funds for urban transportation system

Projected sources	Projected amount (Rs. In crore)
Central outlay	25,900
State /Municipalities outlay	19,500
National financial institutions (LIC, HUDCO, IL&FS etc)	61,190
Private sector funds	26,000
Total	1,32,590

Sources: RBI.

In eleven five year plan emphasized made on all state and UT regarding the urban infrastructure financing and projected funds are allocated to all states and UT. Fund allocation made mainly on the need basis. And for this reason it may think that some state availed more funds and some fewer funds but they are allocated on sound basis. Highest share in the hand of Maharashtra (13.1%) and lowest in Arunachal Pradesh (0.2%) and under UT highest in the hand of Delhi (3.7%) and lowest in D&N Haveli, Lakshadweep and Daman & Diu only approx (0.0%). A detail of projected fund allocation in all states and UT are given in the next page.

Table 6: Outlay for Urban Sector During Eleventh Plan: 2007-11

S.No	States/UTs	2007–08	2008–09	2009–10	2010–11	Total[4] Outlay Urban Sector	% Share of Total
		Rs. crore					
1	Andhra Pradesh	2,511.3	3,975.3	2,342.5	3,756.3	13,085.3	9.6
2	Amnachal	27.2	50.9	88.1	124.9	291.0	0.2
3	Assam	147.0	271.1	469.0	691.2	1,518.3	1.2
4	Bihar	434.0	976.4	1,351.3	791.3	3,553.0	2.6
5	Chhattisgarh	587.0	732.2	1,143.1	1,027.1	3,489.4	2.6
6	Goa	133.4	145.0	158.1	166.2	602.8	0.4
7	Gujarat	2,129.2	3,272.5	3,242.0	3,184.3	11,828.0	8.7
8	Haryana	297.5	423.9	1,318.0	785.7	2,825.2	2.1
9	Himachal Pradesh	35.5	22.9	89.7	108.3	256.4	0.2
10	J&K	309.3	236.0	275.1	313.8	1,134.2	0.8
11	Jharkhand	426.1	460.4	425.6	427.6	1,739.7	1.3
12	Karnataka	2,034.4	3,997.9	4,662.3	4,499.8	15,194.4	11.2
13	Kerala	656.1	720.0	911.3	982.8	3,270.1	2.4
14	Madhya Pradesh	907.1	1,158.8	1,081.9	1,074.9	4,222.7	3.1
15	Maharashtra	3,170.4	6,409.6	4,465.4	3,795.9	17,841.3	13.1
16	Manrpur	38.5	81.1	117.8	111.7	349.2	0.3
17	Meghalaya	37.3	134.9	92.2	146.0	410.3	0.3
18	Mizoram	68.7	149.3	116.1	106.8	440.8	0.3
19	Nagaland	82.9	88.2	136.7	138.0	445.8	0.3
20	Orissa	403.9	282.3	363.2	337.6	1,386.9	1.0
21	Punjab	264.7	262.9	158.0	137.3	822.9	0.6
22	Rajasthan	1,189.7	1,507.3	2,549.0	2,291.6	7,537.7	5.5
23	Sikkim	36.4	49.2	185.8	207.3	478.7	0.4
24	Tamil Nadu	1,331.3	1,518.8	2,049.9	1,820.2	6,720.1	4.9
25	Tripura	58.4	83.6	125.5	101.1	368.6	0.3
26	Uttar Pradesh	2,548.6	4,335.3	4,616.0	4,655.6	16,155.4	11.9
27	Uttarakhand	412.0	375.6	899.5	495.7	2,182.8	1.6
28	West Bengal	2,078.5	2,739.2	3,069.5	3,371.4	11,258.5	8.3
Total-States (A)		22,356.4	34,460.5	31,002.4	35,650.1	129,469.5	95.1
UTs							
29	Delhi	157.7	1,338.9	1,536.1	1,943.5	4,976.2	3.7
30	Puduеherry	331.8	71.7	124.1	133.8	661.4	0.5
31	A&N Islands	28.8	28.6	34.1	30.6	122.1	0.1
32	Chandigarh	107.7	204.6	245.3	223.8	781.4	0.6
33	D&N Haveli	1.8	1.9	12.0	32.2	47.9	0.0
34	Lakshadweep	3.9	4.6	4.5	5.0	18.0	0.0
35	Daman & Diu	2.4	5.6	9.8	15.5	33.2	0.0
Total-UTs (B)		634.1	1,655.8	1,965.9	2,384.4	6,640.3	4.9
Grand Total (A+B)		22,990.5	36,116.3	38,968.3	38,034.6	136,109.7	100.0

Source: Planning Commission &RBI.

12th five-year plan and urban infrastructure financing

Urbanization has emerged as a key policy and governance challenge in India in recent years. While urban development accelerates the process of economic growth, it can also make growth more inclusive too. Since faster economic growth and inclusive growth are likely to be the objectives of 12th Plan, urban development management can be a key vehicle for achieving this objective.

For achieving the goal of 12th five years plan the High Powered Expert Committee (HPEC) estimated urban infrastructure financing from both angle, capital expenditure and Revenue expenditure (i,e Operation and Maintenance cost). The details of estimation of HPEC for capital expenditure are shown below for next five year.

Table 7: **Projected Capital Expenditure during 12th Plan by HPEC**

Sector	2012–13	2013–14	2014–15	2015–16	2016–17	12th Plan Total
Water Supply	5,241	5,881	6,593	7,390	8,285	33,390
Sewerage	3,931	4,411	4,945	5,543	6,213	25,042
Solid Waste	806	905	1,014	1,137	1,275	5,137
Urban. Roads	28,120	31,554	35,372	39,652	44,450	179,149
Mass Transit	7,307	8,200	9,192	10,304	11,551	46,553
Traffic Mgmt. Systems	1,613	1,810	2,029	2,274	2,549	10,274
Storm Water Drains	3,124	3,506	3,930	4,406	4,939	19,905
Street Lighting	302	339	380	426	478	1,926
Other Sectors	8,159	10,737	13,928	17,788	22,439	73,050
Total	58,604	67,342	77,383	88,920	102,178	394,428

Source: RBI.

HPEC also place much importance on proper maintenances of various urban infrastructure facilities to provide the services in systematic and regular way. For this purposes they estimated operation and maintenance cost for next five years in proper way. This cost also includes staff and related administrative cost.

Table 8: **Projected Revenue Expenditure during 12th Plan by HPEC**

Sector	2012–13	2013–14	2014–15	2015–16	2016–17	12th Plan Total
Water Supply	13.392	14,085	14,861	15,732	16,708	74,778
Sewerage	4,299	4,675	5,097	5,569	6,098	25,738
Solid Waste	3,901	4,395	4,947	5,565	6,257	25,06S
Urban Roads	6,044	6,677	7,387	8,183	9,075	37,367
Mass Transit	3,721	4,293	4,935	5,655	6,461	25,06S
Traffic Management Systems	78	165	264	373	497	1,377
Storm Water Drains	758	807	861	922	990	4,337
Street Lighting	94	101	109	118	128	550
Annual O&M	32,232	35,199	38,461	42,11!	46,214	194,278
O&M for all sectors including above 8 sectors.	35,516	38,718	42,307	46,329	50,835	213,706
Establishment Charges	34,812	37,200	39,843	42,765	45,994	200,614
Revenue Expenditure	70,328	75,919	82,150	89,094	96,830	414,320

***Source:* RBI.**

VI. Framework for urban infrastructure financing in Twelfth Plan

For providing the finance to urban infrastructure, 12th plan also identified some ways to provide adequate finance. Their strategy includes the following

- **Stimulations of municipal own sources:** By properly collecting of Property taxes, Land Monetisation, Additional FAR and FAR/ Development Charges.

- **Devolution of Fiscal Powers and Funds:** A significant share of the revenues for the Municipalities would come from a constitutionally mandated revenue sharing arrangement. Such fiscal transfer will strengthen the revenue base of the Municipalities and increase accountability in the delivery of various services to the citizen. It is mentionable that Government of India put in place a systematic mechanism to ensure this devolution
- **Scaling up PPP:** Various PPP model in different infrastructure areas also can assist in financing urban infrastructure.

VII. Major Issues in Infrastructure Development

Importance of appropriate and adequate infrastructure for sustained economic development is well recognized. Planning commission of the 11th Five Year plan noted that India has been adversely impacted on an average by one to two percentage points due to infrastructure bottlenecks. High transactions costs arising from inadequate and inefficient infrastructure prevents the economy from realizing its full growth potential. To achieve GDP growth rate of nine per cent, a substantial investment in infrastructure sector is required. But there are many issues relating to investment in this sector, few of them are mentions below:

- Land acquisition and environmental clearances continue to remain critical concerns for infrastructure developers.
- Proper Co-ordination between Government agencies is another main issue and for this reasons it takes more time to get clearness from different concern department.
- A considerable time gap between bid for a project and commencement of project result in high cost of project comparing to its previous estimation, so attention should given in this areas.
- Week debt market for providing long-term loan is also a major issue. India is heavily reliant on budgetary support and bank credit for funding its infrastructure needs. But long term debt in form of corporate/ sovereign or municipal bonds forms a major share of infrastructure finance in many countries.
- Lack of Focus on Operation and Maintenance of Facilities and Service Standards is also another issue.
- Poor framework for maintenance of common spaces, such as markets, housing colonies, bridges, footpaths, street lighting, play-grounds, common green and open areas is another challenge and it require to improve to some extent.
- Presence of Multiple Authorities having Overlapping Jurisdictions also creates many problems.
- Lack of Integrated Approach is another issue. Example of this is the perennial digging of city roads by various agencies to lay utility infrastructure.
- Lack of Capacity in Urban Bodies to develop and implement PPP based projects to develop various project and to overcome financial constraints.

VIII. Conclusions

The urban sector has historically suffered neglect over the years with policy and resources directed mainly towards the rural sector, until the launch of Jawaharlal Nehru National Urban Renewal Mission (JNNURM). But it is mentionable that nearly 70 per cent of the GDP contributed by the urban areas, and the recent population projections of India moving towards a figure of 40 per cent urbanization in the coming decades, so there is a clear need to focus attention towards the urban sector. This would not only be important to sustain India's economic growth story, but be critical for inclusive growth, given the strong positive effects that a prosperous urban sector has on the rural hinterlands. The investments in urban infrastructure have to be backed by adequate capacity at all levels of government to conceptualize, develop and maintain physical assets. The Government of India would have to take step to provide the necessary fiscal support to manage the process of urbanization in the country and at the same time attention should given on proper formation of long term debt market and alternative way of financing in urban infrastructure like PPP model, considering urban sector immense importance in total economy.

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Tax Titbits

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Reforms which are Awaited

The income for the financial year 2012-2013 has to be computed for purposes of payment of advance tax before 15.3.2013. There have been many drastic amendments especially as regards liability of non-residents, because of amendments to section 9 with its fall out in respect of liability of residents making payments to non-residents under sections 201 and 40(a)(i). The two reports of Parthasarathi Shome Committee, though the final report on indirect transfer is yet to be received with recommendation of roll-back of many amendments, liability may get relaxed. The Finance Bill, 2013 is expected as usual on the last working day of February 2013. There will be little time for assessees to rework their liability. Tax might have been deducted under the present law, which may not be deductible after further amendment making it necessary to adopt the arduous refund procedure. It would be more useful, if the Government decisions on these recommendations are made known earlier to the Finance Bill.

Prior Period Expenses

It is not unusual to set right the omission either of receipts or expenditure relating to an earlier year as prior period item in the accounts open for the current year as is permitted in A.S.5. These are booked as prior period items. Tax laws would expect income and expenses to be considered in respective years, so that revised returns may be necessary, if it could be in time or by requiring adjustment of income in the event of a pending appeal. Where, however, the income or expenditure, gets determined during the year, the accounting treatment and tax treatment need not be different as they can be validly recognized as relating to the year though often booked as a prior period item, because income or expense relates to a transaction of an earlier year. From accounting point of view, an amount can be legitimately taken into account in the year under A.S.5, if it had not been taken into account due to omissions or errors. Where an item relating to a prior year gets finally determined one way or the other during the year, it cannot be rightly described as prior period item, because there was no omission or error in preparation of accounts of earlier year as has been opined in an opinion published by the Institute of Chartered Accountants of India (EAO Vol.12 p.89).

For example, where a voucher is received late or liability is accepted or crystallized during the year, the amount rightly relates to such year as pointed out in ***CIT v. Jagatjit Industries Ltd. (2011) 339 ITR 382 (Del).***

Where classification of such amounts as prior period items do relate to earlier year, whether brought to tax in the relevant years or not, they may invite liability for Minimum Alternate Tax (MAT), where it has application. It is because, the income as per books will bind the assessee as well as revenue only to adjustments permissible under Explanation to section 115JB(2) as had been decided in ***Tamil Nadu Cements Corporation Ltd. v. Jt.CIT (2012) 349 ITR 58*** **(Mad)** following ***Apollo Tyres Ltd. v. CIT (2002) 255 ITR 273 (SC).*** Such a contingency brings out the need for reducing the items in prior period to the minimum with greater care.

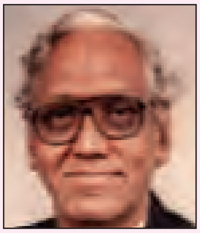
What is Manufacture

Activities, which involve manufacture or production of an article or a thing may be entitled to exemption under Chapter III or deduction under Chapter VIA of the Income Tax Act, if they also satisfy the conditions under the respective sections authorizing relief. Plant and machinery acquired for manufacturing purpose were entitled to investment allowance, when it was in vogue and now for additional depreciation under section 32(1)(iia). Manufacture is often at advantage for sales tax, Central excise and import duty.

It is generally agreed for inference of manufacture, that the input should be different from output in name, character and use as decided in a sales tax case in ***Chowgule and Co. v. UOI (1981) 47 STC 124 (SC)***. Where there is considerable outlay of capital by way of investment in sophisticated machinery and deployment of skilled labour, it should ordinarily lead to the inference, that there is manufacture or production. But what is produced should be an article or a thing, so that immovable property cannot be subject matter of manufacture as was decided in ***CIT v. N.C. Budharaja and Co. (1993) 204 ITR 412 (SC)***, so that construction of dam, bridge, building, road or a canal is not acceptable as a manufacturing activity, but production of materials like hollow block for the building industry may qualify for the inference of manufacture.

There was once a view, that there can be no manufacture or production in matters of processing living things like poultry farming or processing of shrimps for export. But where prawns or shrimps are, for example, processed for export by a number of processes like cleaning, removal of heads and tails, peeling, deveining, packing and freezing them for market, there can be inference of manufacture, where it is done with skilled labour and plant like cooling plant etc, as was found in some cases. The Supreme Court in the case of frozen shrimps decided that such processing cannot be manufacture in ***CIT v. Relish Foods (1999) 237 ITR 59 (SC)*** finding no difference between raw shrimps and prawns from the frozen ones. But it did not overrule the decision of the Kerala High Court in ***CIT v. Marwell Sea Foods (1987) 166 ITR 624 (Ker)***, where it was allowed on the ground that it was based upon "a detailed description of the process by which prawns were prepared for export", though preparation for shrimps for export is regulated for all exports by a rigidly prescribed procedure. The distinction between cases with necessary details of processes and those without has been pointed out in ***CIT v. Kala Cartoons P. Ltd. (2001) 252 ITR 658 (SC).*** It is for an assessee to bring all the relevant information possibly with representation of the processes by visual aids like photograph, so as to bring home its right to deduction.

The need for such labour on the part of taxpayer on such matters to take the trouble of marshalling all the relevant facts has again been stressed in a decision of the Supreme Court in ***Vijay Granites P. Ltd. v. CIT (2012) 349 ITR 350 (SC)*** dealing with the mining and processing of granites, where it was found, that the High Court had decided against the assessee in absence of any proof of production (2004) 267 ITR 606 (Mad). In a short judgement, the Supreme Court recorded that the Assessing Officer had not examined the exact nature of activity in the course of mining, polishing and processing for export of granites. The Supreme Court felt that such enquiry is necessary and gave an opportunity to the assessee to produce relevant evidence to the Assessing Officer by remitting the matter and setting out an outer time limit of three months for disposal from the date of receipt of decision. The case indicates the need for preparation on the part of taxpayer or its advisors to bring details and evidence on record.



A Landmark Ruling on Central Excise Valuation

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There is a common belief that income tax law alone is complicated and that the Central Excise and Customs Laws are better administered by reference to the Notifications of the Central Board of Excise and Customs. A recent Ruling of the Supreme Court on valuation for purposes of levy of Excise duty will unsettle this impression. Excise duty is chargeable on goods with reference to their value at the time of removal from the factory. What is the value on which duty should be charged? Is it the price charged by the manufacturer or the value determined by the Central Excise department? Is it open to the manufacturer to sell the product at a figure below the cost? Is the Excise department bound to accept such price or are their circumstances warranting the fixation of value by the Central Excise department ignoring the billed cost of the manufacturer? These are the issues considered by the Supreme Court.

The Case of Fiat India (P) Ltd., Civil Appeal Nos.1649 of 2004

Fiat India Limited is the manufacturer of Motor Cars known as the Fiat Uno model. The company filed several price declarations in terms of Rule 173C of the Central Excise Rules 1944 declaring wholesale price of their cars for sale through wholesale depots in the period from 27.5.1996 to 4.3.2001. The Central Excise authorities made enquires and found prima facie evidence to show that the wholesale price declared by the company was much less than the cost of production. They came to the conclusion after investigation that the price so declared by the company could not be treated as a normal price for the purpose of quantification of assessable value under Section 4 of the Act and for the levy of excise duty as it would amount to short payment of duty. The cost of production was much more than the wholesale price at which it was sold. The company had sold cars at loss for a consideration. What was the consideration for selling at a loss? The company answered that it wanted to penetrate the market. A Cost Accountant was appointed to do special audit to ascertain the correctness of the price declared by the company. The special audit revealed that the total costs came to Rs. 5,04,982 per Car. The assessable value declared was Rs. 1,85,400/-. Demand was made for the differential duty on the assessable value.

Section 4 of the Central Excise Act

Under Section 4 of the Central Excise Act of 1944 duty is chargeable on the excisable goods with reference to value. Such value shall be deemed to be:

a. the normal price thereof at which such goods are ordinarily sold in the course of wholesale trade
b. where the buyer is not a related person and
c. Price is the sole consideration for the sale

Payment of duty is therefore based on the 'price'. Section 4 referred to price at which the goods are 'ordinarily sold'. Price should be the sole consideration for the transaction. Section 4(1)(a) does not contemplate extraordinary situations. If price is not the sole consideration, Revenue will have to determine if there is any extra commercial consideration in the transaction. Such extra commercial consideration may take the form of cash, kind, services or in any other way. Then, under Rule 5 the equivalent value of that additional consideration should be added to the price declared. If the price is not the sole consideration for sale, it will mean that the sale is influenced by considerations other than the price. The company had argued that it wanted to penetrate the competitive market by selling at less than costs. This means that Section 4(1)(a) will not apply. Normal price will have to be ascertained.

Now Comes Section 4(1)(b)

Section 4(1)(b) declares that while the manufacturer alters the retail sale price, then it is open to the Central Excise department to ascertain the normal price in the prescribed manner. 'Retail sale price' will mean the maximum price at which the goods may be sold to the ultimate consumer and will be include freight, transport, commission, advertisement charges etc., Such altered retail sale price will be taken for computation of duty.

In the case of Fiat India Ltd., Revenue alleged that the loss making price continued for more than 5 years involving sale of more than 29,000/- cars. There was no allegation that the buyers are related persons. Nor was there any allegation of flow back directly from the buyer to the seller. The simple allegation was that the price was not the sole consideration and no prudent businessman would continuously suffer huge loss only to penetrate the market and compete with other manufacturers with more or loss similar costs. The company is expected to act with discretion to seek reasonable income, preserve capital and avoid speculative investment. In the case of Hindalco Industries (153) ELT 481 the Supreme Court had observed that recourse can be had to Section 4(1)(b) if there was anything to suggest to doubt the normal price declared. In the case of Fiat India Ltd., the sale price was not based on manufacturing cost and profit but it was fixed at a lower price to penetrate the market. The normal price was much higher as found by the cost Accountant's special audit report. Sale at a lower price to compete with other manufacturers was a factor in depressing the sale price to an artificial level. The result was that the full commercial cost of manufacturing and selling the cars was not reflected in the lower price. Merely because the company had not sold the cars to the related persons and there was no element of flow-back from the buyer to the seller, the price declared cannot be accepted as 'normal price'. This was the Ruling of the Supreme Court.

In the leading case of Xerographic Ltd., case, the Supreme Court had held that if price is the sole consideration for sale of goods and no other consideration, then only Section 4(1)(a) will apply. Again in Metal box case, the Supreme Court had opined that for purposes of Section 4(1)(a), normal price would be the price which must be the sole consideration for the sale and there cannot be any other consideration coming into play. In the case of Fiat, it was admitted by the company itself that sale was made at a loss to penetrate the market and this showed that price was not the sole consideration. The price did not reflect the true value of goods. Valuation had to be done under 4(1)(b) of the Act. The company argued that assessable value must be gathered from the normal price and manufacturing cost was irrelevant. Revenue cannot reject the normal price merely because it is less than the cost of production. The transaction was made bona fide and there was no charge of flow of extra consideration from buyer to seller. For applying Section 4(1)(b), it was contended that, the additional consideration has to be added to the assessable value and must be quantified in monetary terms. If the department cannot determine the additional flow of consideration, then it is not possible to invoke Rule 7 governing the determination of the assessable value. This is the essence of the Circular of CBEC No.215/49/96 Cx dt.27.05.1996. This argument did not cut ice with the Court. It ruled that the sale was made at an artificial price and this entitled the department to levy duty after prescribing the normal price as per Rules.

Conclusion

The Ruling has far reaching implications. It intrudes into the domain of pricing. The idea in lowering the price may be to gain market dominance by cutting out competition. Because of this Ruling, the company is being asked to pay duty on moneys not received. It was in the leading case of K.P.Verghese vs. CIT 131 ITR 597 that the Supreme Court ruled that no tax shall be payable on unrealized capital gains. The law had to be amended under the Income Tax Act to get over the Ruling. The Central Excise Act was amended w.e.f 1st July 2007 and the word 'ordinarily' was removed from Section 4(1)(a). The idea was to allow the market forces to determine pricing. Section 4(1)(a) could not have anticipated bona fide sales at prices below the cost.

Government is seriously considering encouraging Foreign Direct Investment in retail trade. There is always a stiff competition to achieve market dominance. Hindustan Lever vs. Procter and Gamble, Hewlet Packards Vs. Lenovo and Acer, Coke vs. Pepsi are all famous cases involving cut-throat competition to penetrate the Indian market. The Supreme Court ruling discussed above may very well come in the way of retail giants from USA and Europe landing in India in a big way and cutting prices to secure market dominance.

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Price Below The Cost of Production–Not Normal Price–Price Based on Costing to be Assessable Value

(2012-TIOL-58-SC-CX – in the Hon'ble Supreme Court of India-Civil Appeal Nos. 1648-1649 OF 2004-M/s Fiat India Pvt. Ltd.,)

The Normal Price below manufacturing cost of a product cannot be treated as assessable value to ascertain Excise Duty. This was held in a judgment delivered by **Hon'ble Supreme Court in M/s FIAT MOTORS LTD case**.

If we read the provisions of under Section 4(1)(a)of the Central Excise and Custom Act, it says that the price must be ***the sole and only*** *consideration* for the sale. If the sale is influenced by considerations other than the price, then, Section 4(1)(a) will not apply. When the price is not the sole consideration and there are some *additional considerations* either in the form of **cash, kind, services** or in any other way, then according to Rule 5 of the 1975 Valuation Rules, the equivalent value of that additional consideration should be added to the price shown by the assessee.

Even after amendment to Section 4 - Transaction Value - If the price is not the sole consideration for sale, then the transaction value shall not be the assessable value and value in such case has to be arrived at, under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000.

Section 4 lays down that the valuation of excisable goods chargeable to duty of excises on ad-valorem would be based upon the concept of transaction value for levy of duty. 'Transaction value' means the *price actually paid* or payable for the goods, when sold, and includes *any amount that the buyer is liable to pay* to the assessee in connection with the sale, whether payable at the time of sale or at any other time, including any amount charged for, or to make provisions for advertising or publicity, marketing and selling, and storage etc., but does not include duty of excise, sales tax, or any other taxes, if any, actually paid or payable on such goods. Therefore, each removal is a different transaction and duty is charged on the value of each transaction.

A normal price, as per Section 4(1)(a), is the price at which the goods are ordinarily sold. A loss making price cannot be the price at which goods are ordinarily sold and the loss making price cannot be the normal price

In the case of **M/s FIAT MOTORS LTD.,** CEC Deptt. had prima facie found that the wholesale price declared by the Company /assessees is much less than the cost of production and, therefore, the price so declared by them could not be treated as a *normal price* for the purpose of quantification of assessable value under Section 4(1)(a) of the Act and for levy of excise duty as it would amount to short payment of duty.

In said case following issues were raised:-

— Whether the Price declared by assessees for their cars which is admittedly below the Cost of manufacture can be regarded as "normal price" for the purpose of excise duty in terms of Section 4(1)(a) of the Act.

— Whether the sale of Cars by assessees at a price, lower than the cost of manufacture in order to compete and penetrate the market, can be regarded as the "extra commercial consideration" for the sale to their buyers which could be considered as one of the vitiating factors to doubt the normal price of the wholesale trade of the assessees.

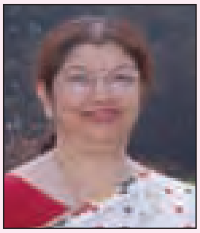
— The decision in the present case turns upon the interpretation of Section 4(1)(a) and Section 4(1)(b) of the Act read with relevant Rules in order to determine the correctness or otherwise of impugned judgment and order.

- As per Sec. 3, a charging section, the taxable event for attracting excise duty is the manufacture of excisable goods. The charge of incidence of duty stands attracted as soon as taxable event takes place and the facility of postponement of collection of duty under the Act or Rules framed there under can in no way effect the incidence of duty. Further, the sale or ownership of the end products is also not relevant for the purposes of taxable event under the central excise. **Since excise is a duty on manufacture, duty is payable whether or not goods are sold**. Duty is payable even when goods are used within the factory or goods are captively consumed within factory for further manufacture. Excise duty is payable even in case of free supply or given as replacement. **Therefore, sale is not a necessary condition for charging excise duty**.
- Section 4 of the Act lays down the measure by reference to which the duty of excise is to be assessed. The duty of excise is linked and chargeable with reference to the value of the exercisable goods and the value is further defined in express terms by the said Section. In every case, the fundamental criterion for computing the value of an excisable article is the normal price at which the excisable article is sold by the manufacturer, where the buyer is not a related person and the price is the sole consideration.
- the cost of production of the Fiat UNO Cars is much higher than the price at which the assessees are selling them to the general public. **The price is artificial and arrived at without any basis just to capture the market and drive out the opponents from business.** The Fiat UNO Cars in question are equipped with *powerful Fire Engine and superior quality* gadgets and that when normal price cannot be ascertained as per Section 4(1) (a) of the Act, the alternate procedure under the Valuation Rules, i.e. cost of production and profit has to be applied.
- that all costs incurred to make goods saleable/ marketable should be taken into account for determining the assessable value and that the loss incurred by the assessees to penetrate the market should be borne by them and in the process Government should not lose revenue,
- The Cost Accountant had calculated the average price of the Fiat UNO Car by adding material cost (import, local, painting and others), rejection at 1% of total cost and notional profit at 5% of total cost for the period (from April, 1998 to December, 1998 vide his report dated 31.03.1999,) which came to Rs. 5,04,982/- per car. On the basis of the price arrived at by the Cost Accountant in its report as authentic and acceptable, but by adopting the average price of Rs.4,53,739/- for different models of Cars in the show cause-cum-demand notices is more reasonable and appropriate.
- the 'loss making price' continuously for a period of more than **five years** while selling more than 29000 cars, cannot be the normal price. It is true that in notices issued, the Revenue Deptt. does not allege that the buyer is a related person, nor do they allege element of flow back directly from the buyer to the seller, but certainly, they allege that the price was not the sole consideration and the circumstance that no prudent businessman would continuously suffer huge loss only to penetrate the market and compete with other manufacturer of more or less similar cars.
- the price is not the normal price, is established from the following three circumstances which the assessees themselves have admitted that :

• the price of the cars was not based on the manufacturing cost and manufacturing profit, but have fixed at a lower price to penetrate the market;
• though the normal price for their cars is higher, they are selling the cars at a lower price to compete with the other manufacturers of similar cars. This is certainly a factor in depressing the sale price to an artificial level and
• the full commercial cost of manufacturing and selling the cars was not reflected in the lower price.

Conclusion

Though the assessee has not sold the cars to the **related person** and the **element of flow back directly from the buyer to the seller** is not the allegation, but manufacturer has been giving direct monetary benefit to its customers by charging much less than manufacturing cost. Hence, the price at which the assessees had sold its goods cannot be accepted as 'normal price' for the sale of cars.



General Anti-Avoidance Rules (GAAR): An Objective Analysis

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The Finance Act 2012 has contained several new tax measures and the notable are the introduction of General Anti-Avoidance Rules (GAAR) and retrospective amendment to the Income Tax Act 1961. In fact, this year finance Act contained around 28 retrospective amendments.

The provisions relating to GAAR appear in chapter X-A (section 95-102) of the IT Act 1961. These provisions confers wide power on the tax authorities to, notwithstanding anything contained in the act, declare an "arrangement" that the tax payer has entered in to as "impermissible avoidance agreement" and as a result tax liability would also be determined. GAAR, initially sought to be introduced vide the DTC 2010, was introduced a year early; as a possible response to some of the observations of the country's apex court in the Vodafone Case.

The Government also amended section 9 of the Income Tax Act, 1961 to empower the Revenue authorities to levy tax on all the transactions that involves the indirect transfer of capital assets since the inception of the Act i.e. 1st April, 1962.

These two far reaching measures created a lot of hue and cry among the investors particularly the foreign investors. The response from the foreign institutional Investors (FIIs) to the budget was so harsh that the flows from these investors begun to decline. In other words, the foreign institutional inflows that had totaled $ 8.4 billion till the budget day, dried up in the following weeks. In the month of April 2012 alone, FIIs pulled out nearly $ 1 billion from India.

The extent economic environment in the country is not good and it is facing several structural challenges-high fiscal deficit, huge current account deficit, high inflation, faltering foreign investments etc. The April-June, 2012 quarter saw large forex outflows causing the rupee to fall from Rs.51 to 57 to the dollar during this period.

On 30th August 2012, the Yeshwanth Sinha headed Standing Committee on finance stated in a report, that many of the budget provisions had hurt the investment climate in the country. The committee finds that the investment climate in the country has suffered a serious setback and investor confidence hit mainly because of concerns over the impact of retrospective tax laws and new GAAR.

A bunch of the controversial tax proposals in this year's budget has severely dented investor confidence. The panel urged the government to take steps to revive growth, create a strategic oil pool to deal with the spike in oil prices, raise resources through disinvestment and target subsidiaries to reduce fiscal deficit. It also said that high inflation, infrastructure bottlenecks, rupee depreciation, high interest rate and skill shortages has dented the faith of the investors in the economy.

In February 2012, the CBDT constituted a committee to provide recommendations for formulating guidelines to implement the provisions and draft a circular so as to ensure that this tool is not used in discriminately. After due examination, the committee submitted draft guidelines on 28th June, 2012.

Sensing that these proposals may create negative impacts, the Prime Minister on 16th July 2012 has constituted a four member expert committee with Dr. Parthasarathi Shome as the Chairman (other members were Mr. N. Rangachary, Dr. Ajay Shah and Sunil Gupta) to vet and rework the guidelines based on comments from various stakeholders and the general public. Subsequently, on 6th August, 2012, it was also asked to provide its views on retrospective tax amendments in the Income Tax Act.

After extensive consultations with different stakeholders & the general public, it has submitted draft report on 1st Sept 2012. Subsequently, on 1st Oct 2012, it had submitted to the finance ministry two reports- one the final report on GAAR & other one on the retrospective taxation.

It appears that while framing the provisions of GAAR, the ministry of France has ignored the suggestions given by the Standing Committee on Finance. Now, the Shome Committee's suggestions are akin to the recommendations of Standing Committee and go beyond. Here in this post, we briefly touch upon only some of the key suggestions.

Recommendations of the Committee on GAAR

1. Deferral: The Committee opines that GAAR is 'an extremely advanced instrument of Tax Administration" meant to deter misuse or abuse of tax law through complex and contrived arrangements and without adequate safeguards, it could become an instrument of abuse in the hands of inapt tax officials, deterring voluntary compliance by law abiding taxpayers.

Committee feels that, at the global level several countries have introduced GAAR but before the introduction, these countries adopted the practice of preannouncement. Therefore, the committee called for the deferment of GAAR by three years. In other words, it suggests that these provisions made applicable from 1st April, 2016. In fact, In Brazil, tax law can be implemented only after a year of its announcement providing enough time helps both the tax payers as well as the administrator. Tax payers can reorganize their business operations as needed and department can also provide sufficient training to the tax official on the finer aspects of international taxation.

Other day, in an attempt to defend the tax proposals, the then Finance Minister Pranab Mukharjee said that India is not a tax heaven nor it is desperate for foreign investment at any cost. He also reminded the Lok Sabha that "when investment was not there we did not eat Lizards".

These words of former Finance Minister shows that India is fully determined to protect its tax base. In fact, the government is not alone trying to protect potential revenue through these kinds of measures. An outcome of the global economic slowdown is that governments the world over practicing the same.

On March 29, 2012 the Canadian government announced the changes in the transfer pricing and thin capitalization to plug possible leakages. Similarly, Taiwan's Finance Ministry declared it would resume levying Capital gain tax on transfer of securities.

What seems to bother investors about similar moves in India is that they are announced without thinking things through. In India, tax payers feels that established precedents are over turned suddenly.

2) Substance Test: The extant tax law does not have an exhaustive list of what constitutes substance in the eyes of the taxman. Therefore, the committee recommends the government to restore the definition of lacks 'commercial substance' as present in DTC 2009 and 2010. The definition, as contained in these codes, stresses more on the presence of significant business risks or net cash flow impact on any party to the arrangement etc. to determine whether or not an arrangement lacks commercial substance.

The committee suggests that cases of round tripping or involvement of accommodating parties or arrangements of self cancelling nature etc. may be considered as indicators, while ascertaining whether arrangements lacks commercial substance or not.

It also suggest to consider certain factors, like period of time for which an arrangement exists, payment of taxes, directly or indirectly under the arrangement, and availability of exit route under the arrangement.

The committee strongly feels that Section 97 of the Act should be amended to include definition of commercial substance as under.

"An arrangement shall be deemed to be lacking commercial substance, if it does not have a significant impact/effect upon the business risks or net cash flows, of any party to the arrangement apart from any effect attributable to the tax benefit that would be obtained but for the provision of this chapter."

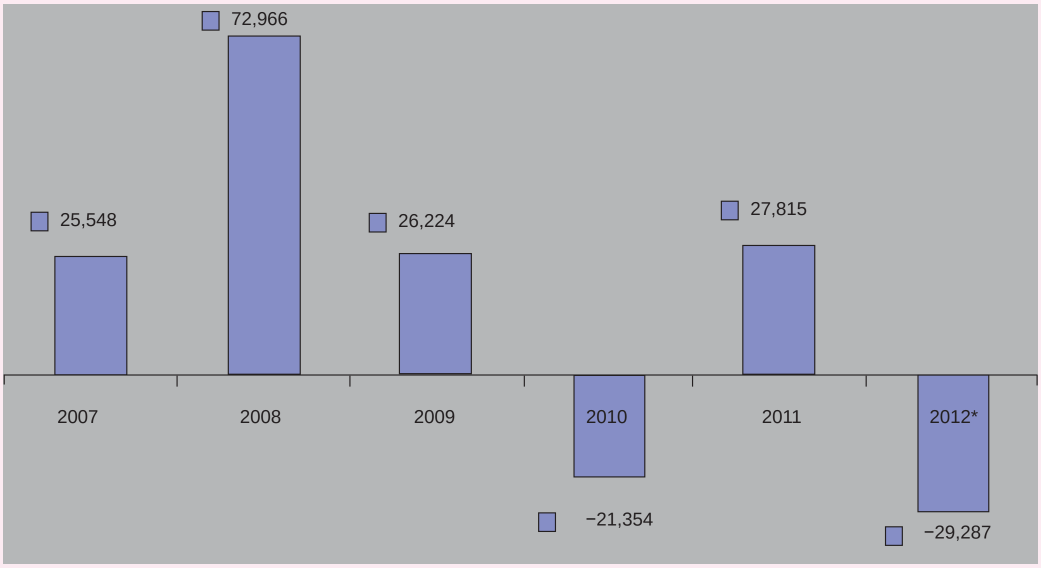
3) Grandfathering: One of the important recommendation of the committee is that it advises the government not to invoke the provisions of GAAR in respect of income arising from the investment (not arrangement) made prior to the implementation of this new law. In other words, it suggest that all the investment made prior to the implementation of GAAR be grandfathered and hence no income from such investment should attract the provision of GAAR. This certainly go a long-way in reassuring those who have made significant investments in India on the basis of existing treaty provisions.

4) Taxation of Capital Gain: Like Kelkar Committee recommendations (that submitted report in 2002),this committee has made a far reaching recommendation to abolish capital gains on the transfer of listed securities (whether held as a capital asset or business asset) for both resident and non- resident tax payers.

The Committee supports this recommendation on the grounds that many other jurisdictions do not tax non-residents on their share capital gain. At the same time, the committee favors for the hike in the STT rate to compensate the revenue loss arising from the abolition.

The Government of India, through the Budget 2003-04, provides exemption in respect of any gain made by an investor from the transfer of listed shares held for at least one year before such transfer. The Indian Finance Minister's budget speech for the year 2003-04 declared "In order to give a further fillip to the capital market, it is now proposed to exempt all listed equities that are acquired on or after March1st, 2003 and sold after the lapse of one year or more from the incidence of capital gain tax." Prior to this, the Government used to levy a tax @10% as long term gain tax.

Table 1 DIIs Net Investments (Rs. Crore)



*Till September 7, 2012 *Source:* BSE/NSE

Though we make tall claim that our stock markets are one of the best in the world in terms of number of listed companies, contracts traded, volume generated, algorithms used etc. No doubt we have 23 stock exchanges and there is an intense competition among them. But the reality is that we have a capital market that does not help the Indian corporate sector to raise capital. Our capital market has failed to attract domestic investors. Both the individual and as well as institutional investors are shying away from the capital market (Table 1). The capital formation in the sector rose from 10.3% of GDP to 17.3% in 2007-08 and that is a part of the story of high growth since 2003-04.

Domestic savings have declined from 38% of GDP in the financial year 2008 to 32% of GDP in the financial year 2011. And less than 5% of households saving are in shares and debentures. In 2012, as many as 1.89 million retail equity folios have been closed.

At the global level, several countries including European countries have used tax breaks to grow and develop their market when the markets were opened up for international investors. In France, after introduction of the tax breaks, in a period of seven years, the proportion of domestic household investors went up from 7% of total of the households to 17% and thereafter many countries like Germany, Belgium and Sweden followed the suit.

In India, the total number of equity investors represented by Demat account is only 1.3% of total population, which appears to be very less in comparison with around 17% in the US and the UK, 10% in China and 7% in South Korea.

At present the long term capital gain is exempted for both the resident and non-resident and a tax @ 15% is levied on STCG for the non-residents.

5. Taxation of Foreign Institutional Investors (FIIs): The panel suggest that where these investors decides not to take any benefit under the double taxation avoidance agreement (DTAA) and subjects themselves to tax in accordance with the domestic laws, the provisions of GAAR should not be invoked.

The committee also advises not to bring the non-resident investors in FIIs into the tax net**,** whether or not an FII chooses to take a DTAA benefits provided the investment should be made only in listed securities.

Foreign Institutional Investors have been allowed to invest in India since September, 1992. Initially, they were allowed individually to invest up to 5% of the company's issued capital and collectively up to a maximum of 24%. In the June, 1998 this limit was hiked to 10% & in March, 2001, FIIs as a group were allowed to invest in excess 24% and up to 40% of the paid up capital of the company with the approval of general body of shareholders granted through and special resolution. Again this has been hiked to the Sectoral Cap for foreign investment in any sector as of September, 2001.

India has also limits for FII investments in bonds ($20 billion), government securities ($15 billion) and long term infrastructure corporate bonds ($25billon) (table 2). As per the data released by SEBI, the net investment by these investors, as on 30th Oct 2012, is $152billion ($119.6 billion in equity & $32.4 billion in Debt) through Stock Exchange, primary investments and other routes and there are 1,751 registered FIIs. Bulk of the inflows -Institutional inflows as well as FDI is coming through Mauritius route, which does not levy capital gain (table 3) tax.

Table 2 Foreign funds flow (as on April 30, 2012)

	G-Secs	Govt. debt (long-term)	Corporate debt	Long-term infra debt
Total Limits	46,216	22,795	99,777	1,12,095
Actual Inflow	42,035	16,042	82,566	12,312
% of total	90.95	70.38	82.75	10.98

Table 3 **FDI flows from low-tax nations on a rebound**

Country	April-July 2012		April 2000-June 2012	
	Inflows	(%) Share of total inflows	Inflows	(%) Share of total inflows
Mauritius	2.0	33.3	66.1	37
Singapore	0.9	15.2	18.0	10
UK	0.4	6.9	16.9	10
Japan	0.4	7.2	12.7	7
US	0.3	3.0	10.7	6
Natherlands	0.6	10.3	7.7	4
Cyprus	0.2	4.1	6.6	4
Germany	0.3	4.7	4.9	3
France	0.1	1.1	3.0	2
UAE	0.1	1.4	2.3	1
Total	5.9	-	176.9	-

Table4 **Tax Havens: A User's Guide**

Location	Population 2010, '000	Known for	Critics say
Cayman Islands	56	World's leading domicile for hedge funds. Also popular with big banks.	Lax regulation, essentially written by its clients. Crops up in most big financial scandals.
Mauritius	1299	Close links to India. Poaching business from more-pressured European havens.	Allows Indians to disguise investment in their own country as tax-advantaged foreign capital.
Jersey	93	Close links to the City of London. Impenetrable offshore trusts. No corporate/capital-gains tax.	Cliams that it is cleaning up its act. But Isle of Man is doing more.
Luxembourg	507	Doggedly resisting European efforts to promote transparency. Second-largest mutual-fund market after US.	The "Death Star" of financial secrecy at the heart of the EU.
Switzerland	7664	Defending tax evasion as a legitimate response to "excessive" tax elsewhere. Managing a third of the world's cross-broder invested wealth.	Concessions offered under international pressure to end bank secrecy are mostly window-dressing.
Singapore	5086	Aggressively marketing itself as a regional hub. Like Mauritius, snatching business from Western havens.	Information-sharing agreemens with other countries constrained by legally enforced safeguards.

Source: Tax Justice Network: UN Population; The Economist

6) Tax Residence Certificate: The panel opines that the GAAR should not be used to over ride the tax treaties**.** As of today, India entered Double Taxation Avoidance Agreement (DTAA) with 82 countries. Like Mauritius, other countries such as Cyprus, Singapore and Netherland also offers tax benefits but to avail tax benefits, one has to comply with certain conditions. In Singapore, to avail tax benefits the tax payers need to have an operating expenditure of 2,00,000 Singapore dollars. There is a limitation of benefits (LOB).

Expert committee recommends that if a treaty has in built anti –avoidance provision in the form of LOB clause, treaty over ride should not prevail. It also suggests the government to revisit the DTAA entered with such countries where it does not have an in built anti- abuse provisions. Recently the CBDT issued a notification prescribing the particulars a TRC should contain.

The government amended section 90 and 90 A of the IT Act and these amended sections calls for the submission of Tax Residency Certificate (TRC) to claim the treaty benefits . The amendment is effective from financial year 2012-13.The memorandum to the finance bill also clarifies that the certificate is necessary but not sufficient condition for benefiting from the agreements.

So far, there was no specific provision under the statute that called for the certificate for availing the benefit under DTAA. But there is a circular 789 dated April 13, 2000 issued by the CBDT on the context of the DTAA with Mauritius. This circular provides that certificate of residence issued by Mauritius government will be sufficient evidence for the status of residence as well as beneficial ownership under the DTAA. The apex court also upheld the validity of this circular in its historical judgment in the Azad Bachao Andolan (2003) case. India entered DTAA with Mauritius way back in 1983.

The panel recommended retaining this circular validating a TRC issued by Mauritius until the abolition of capital gain tax on listed securities.

7) Negative list: The panel feels that, as the provision of this law provides huge discretionary powers to the tax authorities, the several decisions made by the tax payers in the ordinary course of the business could be subjected to scrutiny merely because they gave rise to the tax benefits. In order to avoid such unpleasant possibilities, the committee recommended for preparing a negative lists of cases to ensure that business choices of the tax payers are not circumscribed. It also made clear that where only a part of the arrangement is impermissible; the application of provisions of GAAR would be confined to that.

8) Constitution of Approving Panel: The finance bill provides for constituting approval panel with 3 members. Instead, the panel suggests that it must have five members- one Chairman, who should be retired judge of the High Court, two members from outside the government and another two members should be Chief Commissioners of Income Tax. This approving panel may decide the matter by majority.

9) Retrospective Amendments: As already mentioned, the finance bill contained around 28 retrospective tax amendment, more than twice the number of retrospective amendment enacted in the finance bill 2010. There were 12 Retrospective Amendments in that bill.

The same committee has strongly suggests that any taxation involving indirect transfer of asset located in India should be prospective and not retrospective. This suggestion implies that the government should not go back and tax Vodafone.

The panel opines that the retrospective amendments should be introduced only in the 'rarest of rare cases' in order to correct apparent anomalies in law, remove technical defects in procedure, or to protect the tax base from abusive tax planning scheme.

It strongly felt that the amendment to retrospective tax indirect transfers aims to expand the tax base, and is hence against the basic tenet of law as it affects certainty, apart from being unfair. Accordingly, it recommended that amendment should be prospectively.

The panel also suggested that if government wants to do retrospective amendments, it must carry exhaustive and transparent consultation with the tax payers who would be impacted by such amendments.

The committee stated that if the government continues with retrospective taxation, such provisions should be applied only to the person who has actually earned the capital gain (i.e. seller). It also recommends that if income is charged to tax retrospectively, no penalty or interest be levied. Now, it would be difficult for the government to collect tax from the seller as it does not have operations in India now.

In fact, like Vodafone, there are at least 19 cases involving indirect share transfer, with revenue implication of Rs. 40,000 crore, are pending disposal.

Conclusion

Introduction of both General anti-avoidance rules as well as the retrospective amendments have a significant impact on the tax payers. Several countries of the world have GAAR in their statute book-Australia 1981, Canada 1988, South Africa 2006, China 2008.

Like India, UK, China etc have also introduced retrospective amendments. For example, in 2008, UK government introduces retrospective amendments to counter abusive transactions but it ensured that such amendments did not impact pending or decided court cases. Similarly, China, in December, 2009, introduced a new law (circular 689) to tax sale of offshore holding companies having underlying Chinese interests by disregarding the intermediary entity in specific circumstances. These amendments never met with the kind of resentment and uproar as witnessed in India.

A study conducted by World Bank revealed that countries such as UK and China are far ahead of India on parameter such as ease of doing business and paying taxes.

A recent paper published by the RBI on FDI says that FDI inflows into India alone remained sluggish in 2010-11, while global flows to other emerging markets recovered. This was despite India's sound economic performance ahead of the global recovery.

Once, the eminent lawyer, Mr. Nani Palkhiwala said that "the retrospective process can only serve to bring the law into contempt. They imply that the citizen's right of appeal is illusory, that the executive is omnipotent and that the hapless citizen should never hope to win in his fight against the state, however illegal the state's action might be."

Tax litigation in India was assumed unreasonable propositions. There are around 2.59 lakh pending cases and the amount locked up in litigation is Rs 4,36,741 crore.

At the global level, anti-avoidance rules are invoked selectively under exceptional situations and with adequate diligence. The question is whether India will develop its own risk based criteria for selecting cases that should invite the wrath of the tax administration.

Several developing countries of the world have made innovative and pragmatic use of their tax policies to attract fund inflows and boost growth. India, therefore view tax policy not merely as a tool to generate revenue, but a component of its overall economic policy.

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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.

FOR ATTENTION OF MEMBERS

"CD of List of Members, 2012 will be made available for sale to the Members at a price of Rs.100/- per copy. Members interested to procure the same may remit Rs.100/- by Demand Draft drawn in favour of 'The Institute of Cost Accountants of India', payable at Kolkata, addressed to the Secretary, The Institute of Cost Accountants of India."

Penalizing Misfortunes: Draconian Penal Codes in Indirect Tax Laws—The Case for Reform

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Crime and Punishment in human society is as old as the hills. Moral do's and don'ts prescribed in religious scriptures are set for adherents to follow, on the pain of a *Daniel's* judgment of the Maker in the afterlife. In our country, the Code of Manu and the other Dharmashastras were followed in good measure till the English changed our system as well as thinking. The Bible exhorts people to render unto God what is God's and unto Caesar what is Caesar's.

What God wants from humans is fairly clear, but what the Caesar wants from his tax payers is rarely clear. The God may be ever more merciful of human shortcomings and may be more willing to forgive, but the kings and by extension the Modern Governments will *act* tough. Taxation has been an area where the State puts in penal sanctions to compel 'required' obedience and compliance. The human nature being what it is, the tax collection cannot understandably be based solely on the voluntariness on the part of tax payers. Panoply of penalties permeates all tax provisions. Nobody will argue that penal provisions ought not to be retained in Tax Laws. Such provisions are perhaps a necessary evil. Nevertheless, having acquiesced in the ceding of penal powers to the State in the matter of collection of Tax, the citizens in a democratic civil society cannot be totally oblivious of the provisions written in the Law imposing penal liabilities on tax payers. It will be a benign prospect if the enacting Legislature lays down a clear Law, but duly informed by well considered and fair tax penal policy. Such an enforcement regime would humanistically need to differentiate between honest mistakes and an intention to evade, between genuine miserable circumstances and dishonest arrangements. After all, it is not a King who has to be paid the taxes now. *It is the government of the people, for the people and by the people*. And there is no government away and apart from the people. When the Tax Code is written in such a way that the penal sword falls across the board without any kind of distinction, the instrument cannot be treated as a fair and just Law. **In other words, tax penal provisions imposing onerous penalties cannot be unmindful of mitigating circumstances.** The field should not be left to the Judiciary to put in new law in the name of laying down and enforcing Principles of Interpretation. In recent times the Tax Administrations even while unwilling to consider mitigation and differentiation in conceptualizing onerous tax penalties, have gone to the extent of prescribing the maximum tax as the minimum penalty. The judicial duty to consider mitigating circumstances is thus gotten out of the way and the court is compelled to give effect to such draconian provisions. In this Article we will look at some of the unconscionable penal codes written into some of the Indirect Tax Laws in our country.

Short Shrift to the Tax Payer—Rule 8 (3A) of Central Excise Rules, 2002:-

Rule 8 of Central Excise Rules, 2002 provides for the manner of payment of Central Excise Duty by registered manufacturers. It appears that the Law Makers have taken the world '*duty*' in *Central Excise Duty* too seriously for citizens' comfort. The Rule does not cause any tremor when it begins to exhort that the duty on the goods removed from the factory during a month should be paid by the 5th of 6th of the following month, depending upon whether the tax is required to be paid electronically through Internet Banking or by other means, respectively. Only that the Rule is paranoid about tax collection for the month of March of any year. The provision mandates that tax on goods cleared during the month of March should be paid by the 31st day of March itself! The sting in the Rule is on uncomfortable display when the provision comes to sub-rules (3) and (3A). The Sub-Rules are extracted herein along with the sub-rule (4):-

"(3) If the assessee fails to pay the amount of duty by due date, he shall be liable to pay the outstanding amount along with interest at the rate specified by the Central Government vide notification under section 11AA of the Act on the outstanding amount for the period starting with the first day after due date till the date of actual payment of the outstanding amount.

Well, fair enough. Only that the rate of interest @18% is way too high and positively penal and not just compensatory. But the Rule does not stop with this. Now read the enormous damage in the following rule:

(3A) If the assessee defaults in payment of duty <u>beyond thirty days</u> from the due date, as prescribed in sub-rule (1), then notwithstanding anything contained in said sub-rule (1) and sub-rule (4) of rule 3 of CENVAT Credit Rules, 2004, the assessee shall, <u>pay excise duty for each consignment at the time of removal, without utilizing the CENVAT credit</u> till the date the assessee pays the outstanding amount including interest thereon; and in the event of any failure, it shall be deemed that such goods have been cleared without payment of duty and the consequences and penalties as provided in these rules shall follow. (Emphasis added)

(4) The provisions of section 11 of the Act shall be applicable for recovery of the duty as assessed under rule 6 and the interest under sub-rule (3) in the same manner as they are applicable for recovery of any duty or other sums payable to the Central Government.

***Explanation:-* For the purposes of this rule, the expressions 'duty' or 'duty of excise' shall also include the amount payable in terms of the CENVAT Credit Rules, 2004."**

A reading will show that these provisions have gone too far in the name of checking tax non-payment. Now, Indirect Taxes like Central Excise Duty are leviable on mere despatch of the goods from the factories. The tax is also due by the 5th or 6th of the following month and has to be paid with interest at a usurious rate of 18% per annum in the event of delay beyond the due date. These strict compliances have to be gone through whether or not the tax payer is financially in a position to meet his tax commitments. The tax is collected well in advance of the collection of sale consideration by the tax payer on the anticipation or expectation that the contracted sale that led to the despatch of goods would soon fetch money for the tax-liable seller consequent to which the tax payer should be in a position to remit the tax in advance. Service Tax till 30th June 2012 had been the only Indirect Tax that was based on actual receipt of consideration by the tax payer and not on the basis of doctrine of expectation.

The tax-liable sellers will not always be in a financially advantageous position to remit the Central Excise Duty well in advance of the receipt of consideration from the buyer. There are bound to be situations when the buyers default in payment or the goods are lost or destroyed or pilfered *en route*. There may also be cases when the assessees are faced with sudden financial disasters forcing them to default temporarily on Central Excise Duty remittance. In such cases, the provisions in the Law ought to consider the miserable circumstances of their case and stop with recovering the steep interest of 18% on delayed payment of tax. ***A time limit of, say, one year ought to have been fixed before a draconian Rule like sub-rule (3A) should be wielded by the ever zealous tax officials***. This sub-rule hands out a double whammy to the Excise assessees when they default in their tax remittances for no fault of their making. They lose the facility of monthly payment of tax and they also are deprived of the utilization of their CENVAT Credit. They are compelled to pay the tax in cash every time there is a despatch of goods from their factory. What is worse is that the Rule virtually requires the defaulting assessee to self-impose the penalty and in the event of any failure to do so on his part, his goods so cleared would be treated as having been cleared without payment of duty and would be liable for seizure and confiscation. The Departmental Officials have even gone to the extent of disallowing CENVAT Credit, utilized by such assessees, without following the self-imposable penalty under this Rule. The disallowed utilized CENVAT Credits can be claimed back in refund only when the defaulted tax is paid in cash with interest and even then the CENVAT Credit hanging in limbo may be lost if the claim is not made within the time limit of one year from the relevant date of utilization.

These provisions are also to be viewed as unjust when they do not take into consideration the factors behind default in payment of duty by an assessee. The Rules also provide for the draconian prospect of recovery of the defaulted tax by the Departmental Officials. For example, by attaching and selling the property of the defaulting manufacturer (without having prescribed any Guidelines on the quantum of tax default and the period of such default that should be considered in exercising such enormous penal power). The Rules, by not prescribing a time limit to consider genuine difficulties of the assessee-in-default, represent an unguided power bereft of primary legislative sanction in the Central Excise Act, 1944 and on this ground may be deemed *ultra vires*. It is the existence of such draconian provisions, unguided in their discretion and bereft of legislative policy, that may lead to incentivised bureaucratic departures from ethical conduct.

Rules 14 And 15 of Cenvat Credit Rules, 2004—Leveying Penalty for a Mere Book Entry Gone Wrong:-

Rule 14 of the CENVAT Credit Rules was infamous for containing a provision that penalized by way of imposition of steep interest a mere error in the books of accounts relating to availment of CENVAT Credit. An entry of tax credit taken by the assessee but reversed in the books before the amount could be utilized for tax adjustment was frowned upon by the Rule and interest at 18% was liable to be paid even if the Exchequer suffered no loss in this regard. The penal policy was changed with effect from 1.4.2012 when the Government moderated the penalty of interest by stipulating that the penal interest would apply only when the wrong credit was ***both taken <u>and</u> utilized*** and not when it was just taken but reversed without such utilization. The relief, though late in coming, has been only partial. The Rule 15 still contains the provision that even a mere taking of CENVAT Credit wrongly *inter alia* is liable to a penalty equivalent to the amount of the tax credit. When no interest is payable on tax credit taken incorrectly but reversed before utilization, the mistake ought to be ever so light and inconsequential since the Exchequer is not affected in any manner. In such circumstances, the threat of penalty is neither sensible nor fair and just. The existence of this provision is another potential factor in unleashing unwarranted bureaucratic measures against tax payers in distress.

Rule 6A of Service Tax Rules, 1994:—the Threat of Recovery of the Property of the Assessee for a Mere Delay in Remitting the Tax:-

The Service Tax Law has been toughened recently and the previous policy of the Government stressing tax payers' Voluntary compliance has given way to one of strict enforcement against them. The Rule is extracted as follows for easy reference:-

"(6A) Where an amount of service tax payable has been self-assessed under sub-section (1) of section 70 of the Act, but not paid, either in full or part, the same shall be recoverable along with interest in the manner prescribed under section 87 of the Act.

Statutorily robbing Peter to make good Paul's default:

The Section 87 which provides for the modes of recovery of tax in arrears to the department inter alia contains a dramatic, unguided power to requisition the amount of defaulted tax from any third person who owes any money to the defaulter. The power can be used even against a Bank or Post office etc where the assessee has money in account or expected to receive money into. The law taking care of the interests of the government has no provision assuring the third person from whom the money is being demanded that his debt to the tax defaulter will be treated in law as duly paid to the defaulter and discharged. The Service tax law in its haste threatens the third party that inter alia, his assets would be liable for recovery action if he were not to pay up the amount once a demand was issued to him.

The above provisions of which examples can be seen in state vat laws also, are misguided in their philosophy and unguided in their scope and discretion. The Rule does not take into account the genuine difficulties of the tax payers who may have committed tax default due to circumstances beyond their control. By not taking into cognizance the misery and misfortune of genuine tax payers and not considering a time limit within which to act tough, the Section and the Rule are both draconian and unsuitable for a democratic country based on the Rule of Law.

Conclusion:-

The above cases are only an illustrative list of such legal provisions going berserk against honest tax payers who may be in financial plight not of their fault. In our country there has been a debate on curbing black money and corruption as well as in ensuring universal adherence to the Rule of Law by politicians and civil servants alike. However, no thought has been given to the problems that would be caused by misconceived and unsocial provisions written into the Law by the governing class that is now being asked to be more responsive and responsible. Such needlessly draconian and citizen-unfriendly provisions cannot be the cornerstone of a System of Rule of Law. The Law has to be Just, Fair and Reasonable to the interests of the Government, but also to assuring the safety and security of the citizens. Many of our tax provisions are outdated or draconian or simply loaded against compliance by the citizens. Corrupt officials thrive on complex and obscure law. ***A form or a rule or a circular is usually thrown at the citizens who are hapless before such "law".*** Often, the forms and rules of tax law would require *Philadelphia lawyers* (to cite a metaphor popular in the USA) to decode and understand them. Unless the excesses of such draconian law are culled out and curbed, the tax payers and citizens alike will have no respite from the tax babus. The need of the hour is to put all such provisions under the ethics scanner and weed out unsocial regulations that do not serve any purpose other than perpetuating a bureaucratic mindset of exploitation of the unwary and blighted tax payers and engendering acts of malfeasance in the name of Law enforcement. The government itself never really gains. It is high time that the Budget consultations lead to desirable improvements in the writing of legal provisions, so that citizens do not find it impossible to comply with the manifold provisions of Law.

Highlights of Order Dt. 6th November, 2012 by MCA, CAB Regarding Automatic Cost Audit

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Recently, the Government of India, Ministry of Corporate Affairs, Cost Audit Branch has published Order F No.52/26/CAB–2010 Dt. 6th November, 2012 superseding the earlier Orders issued vide even number dated 2nd May, 2011, 3rd May, 2011, 30th June, 2011 and 24th January, 2012 and in continuation of Notification S.O. 1747 dated 7th August, 2012 regarding Product/Activity Group Code.

The Order dated 6-11-2012 has clarified the issue of products covered under cost audit by linking the order with the Product Group Codes thereby removing the ambiguity of the concept of allied products linked to individual product names referred to in the earlier cost audit orders.

Earlier, vide Order dated 2-5-2011 read with Notifications on 6 industry-specific (regulated industries) Cost Accounting Records Rules, 2011 (CARR) dated 7-12-2011, 2 digit Central Excise Tariff Act (CETA) Chapters were covered under definition & interpretation of products, which are subject to CARR & automatic Cost Audit. i.e. Chapter 27 for Petroleum, Chapter 17 for Sugar, Chapter 22 for Industrial Alcohol, Chapter 29 for Bulk Drugs & Chapter 30 for Formulations and Chapter 27 for Electricity Generation. In respect of Telecommunications & Electricity Transmission and Distribution Industries, Chapter no. is not mentioned in CETA. However, exhaustive definition is given in CARR for respective industry for applicability to various activities [also refer Note (b) of the said Order dated 6-11-2012].

Subsequently, vide Cost Audit Order dated 3-5-2011; additional products were covered under automatic Cost Audit with the threshold limit mentioned in the same Order viz. Cement, Tyres & Tubes, Steel, Paper and Insecticides. However, vide Order dated 30-6-2011 in modification of Order dated 3-5-2011, 2 digit CETA Chapter Headings were introduced and few more products were also added under automatic Cost Audit Order viz. – Glass, Paints & Varnishes & Aluminium. The 2 digit Chapter Headings were introduced to identify products covered under cost audit. Earlier product definition was available in the product specific Cost Accounting Records Rules that were superseded by common Cost Accounting Records Rules notified on 3rd June, 2011.

Finally, vide Cost Audit Order dated 24-1-2012, 9 categories of products with 2 digits CETA Chapter Heading were notified for automatic Cost Audit Order with threshold limit.

In view of coverage of various products with 2 digits CETA Chapter heading vide above referred Cost Audit Orders, a lot of confusion and misinterpretation arose regarding the applicability of various products and companies under automatic Cost Audit. This was further aggravated with the concept of Intermediate and Allied Products.

Even after the issue of Notification No. 1747 dated 7-8-2012 regarding Product/Activity Group Code, whereby, 4 digits CETA Chapter headings have been indicated, the interpretation issue regarding applicability of Cost Audit to various products still remained unresolved.

In view of the above, the MCA has justifiably brought out Order F No.52/26/CAB–2010 Dt. 6th November, 2012 whereby consolidating all the above referred Orders and Notifications, wherein 4 digit CETA Chapters are mentioned for applicability of automatic Cost Audit for a product/company.

The Order dated 6-11-2012 has grouped the various products subject to automatic Cost Audit under following two categories:

i. Cost Audit coverage for 'Regulated Industries'—Telecommunication, Petroleum, Electricity, Sugar (including Industrial Alcohol), Fertilizer, Pharmaceutical (covering Bulk Drugs & Formulations) covered under Para 2, Table I.
ii. Cost Audit coverage for 'Other Industries' not covered above, but covered under Para 3, Table II.

Regulated Industries (Para 2):

a. Vide Para 2 of the said Order, the above referred six regulated industries will be subject to automatic Cost

Audit, which are listed in CETA Chapter Heading as per Table I of the said Order.

b. There is not much change in Para 2 of the said Order for regulated industries, however, for the sake of ready reference it's highlights are given below:

- **Products covered**—Telecommunication, Petroleum, Electricity, Sugar (including Industrial Alcohol), Fertilizer, Pharmaceutical (covering Bulk Drugs & Formulations).
- **Applicability**—As on the last date of the immediately preceding financial year:

  (i) Net worth exceeds Rs. 5 crores, or

  (ii) Aggregate value of the turnover from sale or supply of all products or activities_exceeds Rs.20 crores, or

  (iii) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

c. Sr. No. 8 in Table I, Product/Activity Group Code 2008—Electrical Energy, CETA Chapter - 2716, will cover **Electricity Generation** [refer Note (f)]. However, transmission & distribution of electricity will be covered under Sr. No. 27, Product/Activity Group Code 5406, **Transmission or distribution of Electricity**.

d. Companies engaged in 100% production, processing, manufacturing for Products/activities listed under Table I will not be subject to Compliance Report, but they will be only covered under Cost Audit.

e. Sr. No. 3, Product/Activity Group Code 1027, Ethyl Alcohol and other Spirits (Industrial Alcohol), CETA Chapter 2207 only will be covered under this product group, however, other products covered under CETA Chapter 22 i.e. 2201 to 2206, 2208 & 2209 will be covered under Para 3, Table II under product code 1025, 1026 & 1028.

Other Industries (Para 3):

a. Para 3 of the said Order covers all non-regulated industries, which are subject to Cost Audit vide Order dated 30-6-11 & 24-1-12.

b. Additional products are also covered, as these products are already listed in the Product/Activity Group Notification dated 7-8-2012, under automatic Cost Audit once they cross the threshold limit, as per Appendix 'A'. In case a company does not meet the threshold limit for Cost Audit, it would be covered under Compliance Report mechanism.

c. The other highlights of Para 3 of the said Order are as under:

- **Products covered**—As per Table II CETA Chapter Heading.
- **Applicability**—As on the last date of the immediately preceding year –

  (i) Aggregate value of the turnover from sale or supply of all products or activities_exceeds Rs. 100 crores, or

  (ii) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

Notes to Order:

Note (a)—CETA Chapter Heading as per Table I & II is to be taken as reference point. Therefore, such products are subject to automatic Cost Audit irrespective of whether **Central Excise Duty is levied or not** i.e. even if excise duty is nil, blank, exempted, not prescribed or state subject (agriculture product, tobacco etc.)

Note (b)—It will be applicable for Telecommunication Industry & Electricity Industry.

Note (c)—At present this Note may not be relevant, since there is no product or activity group coming under the category envisaged in this Note.

Note (d)—In case products are covered under Inorganic & Organic chemicals (product group code 2010 & 2011), but such finished products are **primarily** used for Pharmaceutical Products (Bulk Drugs & Formulations – Product Group Code 2012 & 2013) then for such inorganic & organic products, threshold limit for Cost Audit will be as per Para 2 above.

Note (e)—This note seems to be just repetition from CARR (Petroleum), 2011.

Note (f)—Product Group Code 2008, Electrical Energy should be used for Generation of Electricity.

Note (g)—Since, CETA Chapters 2203 to 2206 & 2208 are blank for rate of duty, therefore, reference of Customs Tariff Act is made here for coverage under Compliance Report & Cost Audit Report.

Note (h)—Separate abridged Cost Statement shall be prepared, if unit of measurement is different even if products are falling under the same product group (eg. Kg, Litre, No. etc.)

Note (i)—In case, same CETA Chapter heading is appearing under two or more product groups, most appropriate product group shall be considered.

Para 4—The Order dated 6-11-2012 is effective for various companies for Cost Audit in respect of each of its financial year commencing on or after 1st January, 2013.

Para 5—Companies covered by company specific order or industry specific order vide earlier Cost Audit Orders issued by the MCA, shall continue to be under those orders upto the financial year commencing prior to 1-1-2013.

Para 6—The procedure for appointment of Cost Auditor will be same as per earlier General Circular dated 11-4-2011 & 6-11-2012.

Para 9—Earlier various clarifications/exemptions issued by the MCA on Cost Audit & Compliance Report shall remain in force.

Appendix 'A'

Following Additional products are covered under automatic Cost Audit vide Order dated 6-11-2012

Sno	Product or Activity Group Code	Name of the Product or Activity Group	CETA Chapter Headings covered in the Product or Activity Group
14	1018	Vegetable Saps or Products	1301 to 1302; 1401; 1404
20	1026	Alcoholic Beverages*	2203 to 2206; 2208
22	1029	Food Residues or Prepared Animal Feed	2301 to 2309
23	1030	Unmanufactured and Manufactured Tobacco	2401; 2403
24	1031	Tobacco Products	2402
31	2013	Albuminoidal Substances, Starches, Glues and Enzymes	3501 to 3507
38	2026	Essential Oils	3301 to 3302
39	2027	Personal Care Products	3303 to 3307; 8212; 9615 to 9616
40	2028	Soaps, Detergents and Cleaning Agents	3401 to 3402
41	2029	Lubricating Preparations	3403
42	2030	Waxes and Wax Products	3404 to 3407
43	2031	Explosives	3601 to 3603
44	2032	Fireworks, Matches and Combustible Materials	3604 to 3606
45	2033	Photographic and Cinematographic Goods	3701 to 3707
51	3001	Raw Hides, Skins and Leather	4101 to 4107; 4112 to 4115
52	3002	Leather Products	4201 to 4203; 4205 to 4206
53	3004	Wood and Wood Products	4401 to 4421
77	3031	Footwear and Parts thereof	6401 to 6406
78	3032	Headgear and Parts thereof	6501 to 6502; 6504 to 6507
80	3037	Ceramic Products	6901 to 6914
82	3039	Pearls, Diamonds, Stones and Jewellery Articles	7101 to 7118
103	4021	Railway Rolling Stock	8601 to 8606
104	4022	Parts of Railway Rolling Stock	8607
105	4023	Railway Track Fixtures and Fittings	8608
106	4024	Containers	8609
112	4031	Non-powered Aircraft and parts thereof	8801; 8803
113	4032	Aircraft, Spacecraft and parts thereof	8802 to 8803; 8805
114	4033	Parachutes and Rotochutes	8804
115	4034	Ships and Boats	8901 to 8904
116	4035	Floating Structures	8905 to 8908
117	4036	Optical Equipments and parts thereof	9001 to 9005; 9012 to 9013; 9033
118	4037	Photographic or Cinematographic Equipment and parts thereof	9006 to 9008; 9010 to 9011; 9033
119	4038	Measuring Instruments and parts thereof	9014 to 9017; 9023 to 9033
120	4039	Surgical or Medical Instrument and parts thereof	9018 to 9022; 9033
121	4040	Clocks or Watches and Parts thereof	9101 to 9114
122	4041	Musical Instruments and Parts thereof	9201 to 9202; 9205 to 9209
123	4043	Medical or Vehicular or other Furniture and Mattress and parts thereof	9401 to 9404
124	4044	Lights and Fittings	9405
125	4045	Prefabricated Buildings	9406
126	4046	Toys, games and sports Equipments	9503 to 9508
127	4047	Stationery Items	9608 to 9612
128	4048	Miscellaneous manufactured articles	9601 to 9607; 9613 to 9614; 9617 to 9618

*Alcoholic Beverages are now linked to the Customs Tariff Act, 1975 [vide Note (g)]

Internal Audit—A Tool for Continuous Improvement

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Introduction

General perception of internal audit among the operations executives are:

It is a necessary evil since it is a statutory requirement.
It is same thing as external audit but in more details.
It is carried out to find faults and frauds and need to be tolerated in the organisation.

Due to such common perception of internal auditing, this department is either feared or neglected by the operations management and its potential is not fully utilized.

According to The Institute of Internal Auditors, Florida, USA:

"The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process."

According to this definition, internal audit is designed to add value and improve the operations of an organisation. There are following basic differences between internal audit and external audit:

- External auditors are appointed by shareholders, internal auditors are appointed by the Management.
- External auditors report to the shareholders, internal auditors submit their report to the Management.
- There is specified statutory format for report of the external auditors; there is no format specified for report of the internal auditors.
- External auditor's primary purpose is to certify the accounts prepared by the management and state whether it represents true and fair view of the financial status of the company. The internal auditors do not certify accounts. The basic purpose of internal audit is to give assurance on internal control, risk management and governance process.
- The scope of external audit is limited to financial audit whereas internal audit scope encompasses the entire business including operations.

In most of the organizations, the internal audit report remains just that, "a report"

Unless the audit recommendations are accepted by the management and implemented, there will not be any value addition and the audit reports will be simply filed.

The key to Internal Audit value addition are:

1. Internal Audit recommendations should be made in consultation with and acceptance of the auditee through dialogue.
2. Audit recommendations should be implemented.

According to Professional Standards of Internal Auditing issued by The Institute of Internal Auditors :

"The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."

Case Study

Following is the case study where Internal Audit Department was used as a tool for continuous improvement through the following cycle:

"Independent Auditor Review-Audit Recommendation-Management Action-Improvement."

In the above cycle *Management Action* is very important, without mandatory management action all the efforts of internal auditing becomes meaningless exercise.

There are many articles and books dealing with planning and performing internal audit. But literature on implementation of internal audit recommendations is limited.

This case study presents implementation of a system of ensuring management action and development of computerized information system for follow up on implementation of audit recommendation.

This case study involves establishment of a new internal audit department after restructuring of an organization. The organization is a multinational having operations in more than 100 countries. Its India operations were restructured with Head Office at Delhi and 12 State Offices in various parts of India. A small internal audit department was established with the Internal Audit Director and seven internal auditors. The internal audit department started as a first step, documenting the "Departmental Performance Plan" of the internal audit department with objectives of the department and expected results.

The next step was to formally define purpose, authority, and responsibility of the internal audit activity in a charter. The Internal Audit Charter was released by the Chief Executive Officer.

An "Internal Audit Manual" was prepared containing policies and procedures of internal audit in line with International Standards for Professional Practice of Internal Auditing and circulated to the management.

As per the Internal Audit Manual, the auditors needed to follow some basic discipline and procedures given below:

1. Auditors needed to prepare and plan for the internal audit assignment by going through previous audit reports, organisation chart, unit's performance etc. This activity was documented and reviewed by audit supervisor.
2. Internal Audit was scheduled in consultation with the State Office Head. There was no system of a surprise audit (unless directed by the Chief Executive Officer for investigation)
3. Internal Audit started with a Pre-audit meeting with Head of Office along with his senior colleagues. Detailed audit schedule and audit scope was finalised in this meeting and minutes of meeting were required to be prepared by the auditor.
4. The auditors needed to identify sufficient, reliable, relevant and useful information followed by analysis, evaluation and documentation of information. They needed to keep the Office Head informed regarding progress of audit and audit findings on day to day basis. The audit work papers were reviewed by the audit team leaders.
5. At the end of the audit, a Post Audit meeting was held where the auditors were required to make a presentation to the Head of Office and his colleagues.
6. The presentation included auditor's observation backed by criterion (such as standards, policies, guidelines, management circulars, laws etc). Observations without criterion were only suggestions for improvement which the auditee was free to accept or reject. Audit Observations backed by criterion was bound to be accepted by the auditee.
7. Auditors also were required to state the Effect or Impact of the observations. Observations having negligible impacts/effects were not to be reported.
8. The causes and recommendations for improvement were evolved jointly during the post-audit meetings. The minutes of the post audit meeting was required to be prepared and given to the auditee. The auditee was considered as partner in internal audit to find the control weaknesses and scope for improvement.
9. A draft report was circulated to the auditor. After acceptance of the draft, the final report was prepared.

Audit Report Format

It was decided that the audit report format would be in line with classical recommendation of Lawrence B Sawyer i.e.: Observation, criteria, cause, effect and recommendations. One more item "Management Comment" was added where the Unit management may give their comments. The whole set was termed as an audit condition and was numbered. One observation may have more than one recommendation.

The summary of all observations requiring management action was given in the beginning of the audit report. The summary contained condition no., area of audit, activity, brief description of observation, materiality code (depending upon effect/impact). Sample Summary is enclosed. (Exhibit A)

Follow up of Management Action

As per audit manual, management was required to take action on all internal audit recommendations within six months from the date of internal audit report.

Management was required to document action taken and send the documents to the internal audit director for closure of audit conditions.

Internal audit director was required to document the closure and inform the management whether the action taken was adequate and audit condition closed. In case further management action was required, same was informed to the management and the condition remained open.

In case there were more than one recommendations in a condition, it could be partially closed i.e. some recommendations where adequate actions were taken, were closed and others remained open.

EXHIBIT-A SUMMARY OF AUDIT FINDINGS

No.	Area	Activity	Description of condition	MW	RC	HK
01	General Administration	Property Management	Property numbers not indelibly marked. Fire extinguishers and laptop not included in inventory register. Documents not available for the property transferred. No documentary evidence for physical verification of property with inventory list. List of Properties insured do not match with inventory records			X
02	General Administration	Personnel Management	Medical fitness certificate is not available. Earned leave requested a day before the commencement of the leave. Copy of appraisals not given to the staff.			X
03	General Administration	Field Security Plan	Field Security Plan not up to date.			X
04	Financial Management	Pay Roll	Total compensation charged under one A/C code. SPF deducted 20% instead of 18%. Incorrect gross salary computation.		X	

Computerized Information System

In order to facilitate follow up of management action a computerized information system was developed using Microsoft access database.

As and when an internal audit report was released, data on audit observations and recommendations contained in the internal audit report was entered in the computer system. The input screen of the system is enclosed. (Exhibit B)

Whenever audit conditions were documented as closed by the internal audit director, the closure information was entered in the system.

Hence at any point of time the system contained information of all audit observations and recommendations and their closure.

At any point of time the system was able to give information on open and closed audit observations and recommendations along with ageing (number of months remained open), materiality code, state office etc. Various reports could be generated to get state office wise and materiality wise open and closed audit observations and recommendations along with ageing.

Menu screen for the system is attached (Exhibit C)

For systematic follow up of management action, a monthly report was generated from the system giving office wise total number of audit observations during an audit cycle and materiality code wise number of observations; number of observations still open along with ageing in number of months open. This summarized report was sent to the Chief Executive Officer (Exhibit D)

The head of State Offices audited were sent a list of open audit observations and recommendations requiring management action along with ageing in number of months open at the beginning (Exhibit E)

In addition to the above, the Chief Executive Officer and the concerned head of office were informed every month about the audit conditions which remained open for more than six months.

Results

With the above monitoring, it was possible to close all 95% of audit conditions within six months and 100% of conditions within one year.

In addition, the internal audit reports had provision for information on any previous audit condition which remained open. However, all previous audit conditions were generally closed when the internal auditors carried out next cycle of audit.

Continuous improvement of operations were noticed through management actions and closure of audit recommendations.,

Other Uses of The System

The computerized information system developed could be used by the auditors for taking reference of earlier audit report database for carrying out audits and preparing audit reports. By adding a search facility, similar audit conditions from earlier audit reports could be referred.

EXHIBIT-B

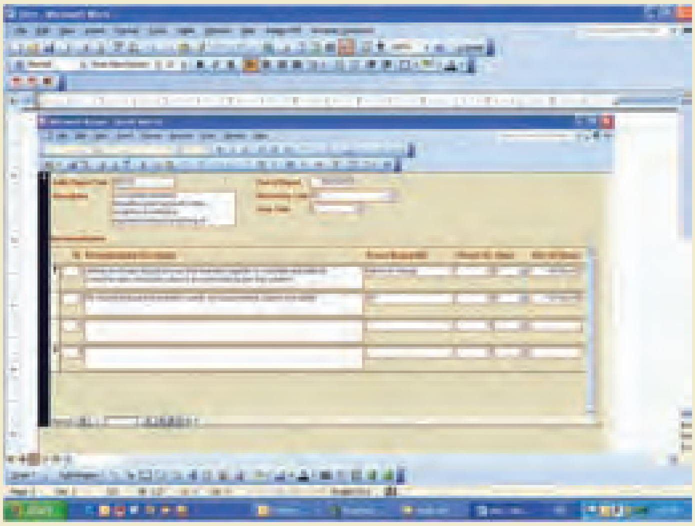


EXHIBIT-C

EXHIBIT-D

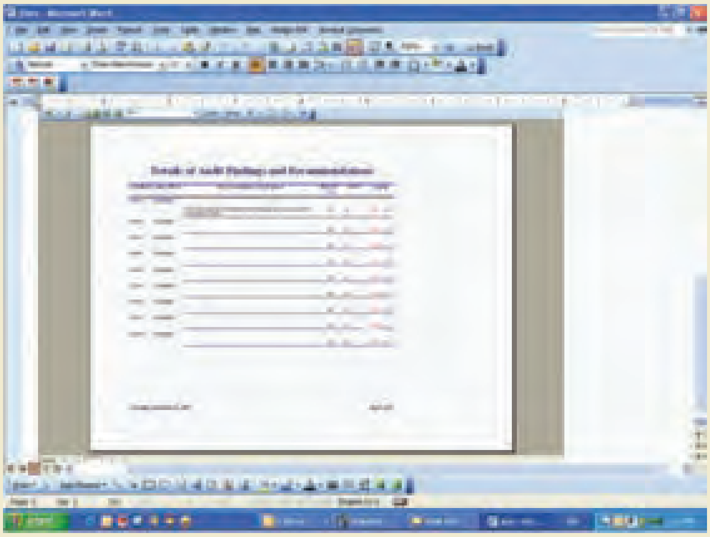
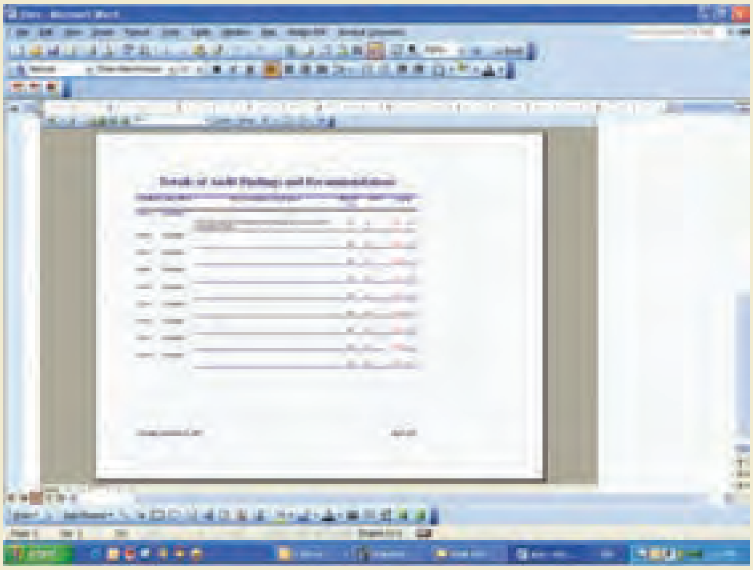


EXHIBIT-E



Conclusion

The above case study shows how Internal Audit can be used as a tool for continuous improvement and value addition by:

- Simple computerized information system.
- Friendly audit process where the auditee is considered a partner in formulating audit recommendations.
- Mandatory management actions on internal audit recommendations.
- Follow up of management actions by Internal Audit Department.
- Support of the Chief Executive Officer.

Shadow Price from the Perspective of Management Accountant

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In commercial applications, a shadow price is the maximum price that management is willing to pay for an extra unit of a given limited resource. For example, if a production line is already operating at its maximum 48-hour limit, the shadow price would be the maximum price the manager would be willing to pay for operating it for an additional hour, based on the benefits he would get from this change. Shadow prices can provide decision-makers with insights into problems. For instance if a constraint limits the amount of labor available to you to 48 hours per week, the shadow price will tell you how much you should be willing to pay for an additional hour of labor, e.g. by means of overtime or contract labour hiring. If your shadow price is Rs. 10 for the labor constraint, for instance, you should pay no more than Rs. 10 an hour for additional labor.

Some cost-benefit analysis takes into account abstract commodities (also called intangible assets) not normally purchased or sold in a marketplace. Since cost-benefit analysis is quantitative, all variables under consideration must be transformed into a rupee value. By assigning a shadow price to an intangible asset, analysts can get a clear picture of how the costs of a project affect the current circumstances. An example of a commodity requiring shadow pricing might be the value of a national highway to the social well-being of a community when calculating the cost of a construction project. By assigning a numerical rupee value to the national highway, analysts can evaluate its value to a community with regard to the costs of new construction.

Shadow pricing quantifies commodities for which the value would normally be viewed qualitatively. By assigning a rupee value to such commodities, the opportunity cost of certain decisions can be better understood, which can be helpful during the decision-making process.

Linear programming (LP) can be interpreted as allocating resources to activities. In particular, when the functional constraints are in "less than equal to form", the right hand side quantities are interpreted as the amount availability of the respective resources. In many situations, the maximum amounts of resources may be increased to certain extents by additional expenditures, which may cause betterment of the objective function. Whether these relaxations of the resource amounts at additional costs will be adopted or not will depend on the enhancement of the objective function value that will result in from those relaxations.

The idea is to arrive at the economic contribution of each resource to the measure of performance of the objective function. This economic contribution of a resource, over a limited range, is called the **shadow price** for that particular resource and can be found from the solution of the DUAL problem of the PRIMAL LPP. If Simplex method is followed, the shadow prices can be read from the last row, i.e. ($z_i - c_j$) row of the respective slack variables column of the final tableau of the PRIMAL LPP.

The shadow price for a resource measures its marginal value i.e. the rate at which the optimal value of the objective function can be increased, to a limited degree, by increasing the amount of this resource being made available. It is not necessary that all resources will have positive shadow price. There may be some resources (called **free goods by economists**) available in surplus for which the shadow prices are zero. And there will be others (called **scarce goods by economists**) which have limited supply for which the shadow prices are positive. This kind of information provided by the shadow prices is useful to the decision makers when it considers reallocation of resources.

To illustrate the concept of shadow prices let us take a hypothetical example. A readymade garment manufacturer produces "Ordinary", "Elite" and "Luxury" type of men's trousers, having unit profits of Rs. 1,000, Rs. 1,500 and Rs. 2,000 respectively. Each unit of the products requires 2, 3 and 4 metres of cloth material respectively, the total availability of which is limited to 500 metres per month. Again each unit of the products requires 15, 20 and 25 labour hours respectively, the total availability of which is limited to 1,500 hours per month. Initially, the management wants to know the optimum number of trousers to be produced per month i.e. values of X_1^*, X_2^* and X_3^* respectively that will maximize the total profit.

PRIMAL LPP

Maximize, $Z = 1{,}000\ X_1 + 1{,}500\ X_2 + 2{,}000\ X_3$ **Total profit from products**

s.t. $2\ X_1 + 3\ X_2 + 4\ X_3 <= 500$; **Material availability limitation**

$15\ X_1 + 20\ X_2 + 25\ X_3 <= 1{,}500$; **Labour hour availability limitation**

$X_1, X_2, X_3 >= 0$

We put the Primal in standard form by adding two slack variables X_4 and X_5.
Optimal solution: $X_1^* = 0$; $X_2^* = 0$; $X_3^* = 60$; $X_4^* = 260$; $X_5^* = 0$ and Z^* = Rs. 1,20,000.

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(Material availability X Shadow cost of Material) *(Labour availability X Shadow cost of Labour)*

Minimize, $W = 500\ Y_1 + 1{,}500\ Y_2$ *(Resou rce Payments)*

s.t. $2\ Y_1 + 15\ Y_2 >= 1{,}000$ *(Ordinary trouser, X_1)*

$3\ Y_1 + 20\ Y_2 >= 1{,}500$ *(Elite trouser, X_2)*

$4\ Y_1 + 25\ Y_2 >= 2{,}000$ *(Luxury trouser, X_3)*

$Y_1, Y_2 >= 0$ *(Nonnegativity)*

We put the Dual in standard form by subtracting three surplus variables Y_3, Y_4 and Y_5 and adding three artificial variables Y_6, Y_7 and Y_8 respectively.
Optimal solution: $Y_1^* = 0$; $Y_2^* = 80$; $Y_3^* = 200$; $Y_4^* = 100$; $Y_5^* = 0$ and W^* = Rs. 1, 20,000.

For Maximization LPP (Primal)

Simplex Tableau 1								
Basic	x_j	x_1	x_2	x_3	**Slack 1,** x_4	**Slack 2,** x_5	B i.e. RHS	Ratio
	c_j C_o	1,000	1,500	2,000	0	0		
x_4	0	2	3	5	1	0	500	100
x_5	0	15	20	25*	0	1	1500	60
	$\mathbf{C_o^T A = z_j}$	**0**	**0**	**0**	**0**	**0**	$\mathbf{C_o^T B = 0}$	
	$\mathbf{(z_j - c_j)}$	**–1,000**	**–1,500**	**–2,000**	**0**	**0**		
Simplex Tableau 2								
x_4	0	–1	–1	0	1	–1/5	200	
x_3	2,000	3/5	4/5	1	0	1/25	60	
	$\mathbf{C_o^T A = z_j}$	**1,200**	**1,600**	**2,000**	**0**	**80**		
	$\mathbf{(z_j - c_j)}$	**200**	**100**	**0**	**0**	**80**	$\mathbf{C_o^T B = 1{,}20{,}000}$	
					Shadow price of Material, $\mathbf{y_1}$	Shadow price of Labour, $\mathbf{y_2}$		

The DUAL LPP's economic interpretation may require little elaboration. The first variable Y_1 gives the marginal value of the first resource i.e. the material. The second variable Y_2 gives the marginal value of the second resource i.e. the labor in this case. The first dual constraint restricts the value of the resources used in producing a unit of X_1 (Ordinary trouser) to be greater than or equal to the marginal revenue contribution of X_1. In the PRIMAL problem X_1 uses two units of material and 15 units of labor, returning Rs. 1,000, while the dual problem requires material use times its marginal value ($2Y_1$) plus labor use times its marginal value ($15\ Y_2$) to be greater than or equal to the profit earned when one unit of X_1 (Ordinary trouser) is produced (Rs. 1,000). Similarly, constraint 2 requires the marginal value of material plus 20 times the marginal value of labor to be greater than or equal to Rs.1,500, which is the amount of profit earned by producing X_2 (Elite trouser) and the third constraint does the same for X_3 (Luxury trouser). Thus, the dual variable values are constrained such that the marginal value of the resources used by each primal variable is no less than the marginal profit contribution of that variable.

Verification: For the example, the shadow price of "material" = Y_1 = 0 and shadow price of "labour" = Y_2 = Rs. 80.

1. We change the first constraint of the PRIMAL to "$2 X_1 + 3 X_2 + 4 X_3 <= 501$"; the optimal value of the objective function remains as Z* = Rs. 1, 20,000 i.e. it does not change at all. Hence the resource "material" may be designated as a so called "free goods" for this example.
2. We change the second constraint of the PRIMAL to "$15 X_1 + 20 X_2 + 25 X_3 <= 1,501$"; the optimal value of the objective function changes to Z* = Rs. 1, 20,080 i.e. it increases by Rs. 80.
3. We again change the second constraint of the PRIMAL to "$15 X_1 + 20 X_2 + 25 X_3 <= 1,502$"; the optimal value of the objective function changes to Z* = Rs. 1, 20,160 i.e. it increases by Rs. 160.

Hence the resource "labour" may be designated as a "scarce goods" for this example.

The objective function of the DUAL LPP minimizes the total marginal value of the resources available. In the example, this amounts to the material endowment times the marginal value of material ($500Y_1$) plus the labor endowment times the marginal value of labor (1,500Y2).

Thus, the dual variables arise from a problem minimizing the marginal value of the resource endowment subject to constraints requiring that the marginal value of the resources used in producing each product must be at least as great as the marginal value of the product.

Areas of application of shadow prices: The technique of shadow prices serves as useful computational tool in devising a relatively efficient system of project evaluation and assists in achieving success in programming and public policy.

- **In Project Evaluation:** The use of market mechanism for the determination of product and factor prices is not an ideal method because it leads to a wrong allocation of resources. In developing countries like ours, the market mechanism operates imperfectly due to a number of economic and social obstacles. Therefore, it is not possible to have project evaluation on this basis. Even otherwise, the rise in prices being inevitable during the process of planning, it is therefore not possible to correctly assess the costs and benefits of a project. A factor that is expected to be in short supply should have an accounting price higher than its market price, while one that is surplus should have a valuation that is lower than its market price. Therefore shadow prices are used for evaluating the effects of a project on the national income which are also termed as external effects. This is often done on the basis of the profitability criterion or cost-benefit analysis where both costs and benefits are calculated at accounting prices. Sometimes even rough estimates of shadow prices also help. They may, for example, show how sensitive the priority figures of a number of projects are to changes in such accounting prices. They may enable us to classify products in groups that are attractive under certain specified emergency circumstances.
- **In Public Policy:** Public expenditures have three goals in developing countries- (i) increasing economic efficiency, (ii) encouraging economic growth and (iii) redistributing income from the rich to the poor. Many cost-benefit-analysis deals mostly on the first goal. But others try to achieve all three goals. The latter type of cost-benefit-analysis is called "social project appraisal."

The success of a plan depends to a considerable extent on the correct determination of the inherent values of shadow prices. In a socialistic pattern of economy, the public sector cannot be developed unless the prices of inputs like labour, capital, foreign exchange etc are determined in accordance with shadow prices. Though shadow prices are rough estimates, yet the government should try to bring market prices close to the shadow prices of products and factors through fiscal, monetary and other measures for the successful implementation of the plans.

- **In Programming:** By programming we mean the working of the economy in a rational, consistent and coordinated manner. The main aim is to maximise the national income through time. For this, it makes an optimum use of the amount and composition of investment, and adopts public investment, fiscal, monetary and commercial policies. In the context of developing countries, programming implies the optimum use of investment so that there is no obstacle in the production process.

In reality, the difficulties of supplies of factors rise in market prices and the scarcity of foreign exchange is obvious in such economies. Such difficulties are overcome with the help of shadow prices, and fiscal, monetary and other policies help in bringing the market prices of factors, products and foreign exchange in conformity with their shadow prices and thus make programming a success. It can then be interpreted as the minimum input cost, subject to the constraints and to the requirement that no profits be made. These shadow prices are, therefore, no different from the factor prices that would emerge in perfectly competitive equilibrium in which product prices are exogenously determined.

Remarks: The United Nations Industrial Development Organization and I.M.D. Little and J. A. Mirrlees initially developed the basic methods needed to determine shadow prices. Lyn Squire and Herman van der Tak, who were employees of the World Bank, then synthesized the ideas.

The resulting approach (the LMST accounting price method) continues to enjoy wide acceptance.

The key in the LMST methodology is to use world prices (the prices at which goods are bought and sold internationally) to shadow price all project inputs and outputs that are classified as tradable. Non-tradable goods can also be valued if their inputs are tradable. Even labour can be valued at world prices if it produces tradable goods. The rationale is not that free trade prevails or that world prices are undistorted, but simply that world prices more accurately reflect the opportunities available to a country.

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CORRIGENDUM

In the article of Shri Ravindran Pranatharthy titled "Give and Take Policy: Conflicts of Consistency in Cenvat Credit Rules" published on page number 1430 of December 2012 issue, a line appears at the very beginning of the opening para "As regards direct taxes, it felt that there will be revenue loss, if Direct Taxes Code Bill, 2010 is implemented". It is clarified for the information of the readers that no such line was penned by the author and the same has been erroneously printed. The Editor sincerely regrets for such inadvertent error.

Kingfisher Airlines–King of Good Times Trapped in Bad Weather

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On October 4th, 2012, Mrs. Sushmita Chakarborti, wife of Mr. Manas Chakraborti, a Store Manager with Kingfisher Airlines, committed suicide at their South-West Delhi residence. She was battling depression and wrote a suicide note stating that her husband works with Kingfisher Airlines, where they have not paid him salary for the last six months and due to acute financial crisis of the family, she committed suicide1[1].

Kingfisher Airlines, launched in 2003 by UB Group Chairman Vijay Mallya as a premium full-service carrier is in deep - trouble now. The Airline is burdened with huge debt, accumulated losses, dues to airport authorities and unpaid employee salaries. Presently, the crises-ridden Kingfisher Airlines has only 10 operational aircrafts and its license to fly cancelled by the Directorate General of Civil Aviation on the grounds that the Airline has failed to sketch a "Revival plan" and has caused huge inconvenience to customers owing to frequent flight cancellations.

Chairman Vijay Mallya has asserted that he along with his team is working to make the grounded carrier fly again, and is hopeful towards a comprehensive rehabilitation plan, including recapitalization of the airline. Thus, time will unfold what in reality happens to the ailing carrier and whether Kingfisher Airlines will fly again or not.

Background

UB Group, the parent company of Kingfisher Airlines started off as United Breweries Ltd (UBL) in the year 1915, and marked its presence in the Indian Alcoholic beverages industry under the leadership of Vittal Mallya, the first Indian director of UBL in the year 1947[2]. In 1951, UBL added liquor to its product mix, with McDowell as its first subsidiary. Vittal Mallya's son Vijay Mallya, who previously, managed the Brewery and Spirits division of UBL, was elected by the shareholders as the Chairman of UB Group, in 1983. Mallya expanded the UB groups' business into pharmaceuticals, paints, petrochemicals, plastic, electro-mechanical batteries, food products, carbonated beverages, Pizza chains, software, TV channels, and IPL, transforming UB Group as one of the largest business conglomerates with defined corporate structure and corporate governance policy 2. UB Group's foray into the aviation industry was marked with the launch of Kingfisher Airlines on 9th May, 2005, as a premium full-service carrier, with its inaugural flight from Mumbai to Delhi[3].

Kingfisher Airlines which is a wholly owned subsidiary of UB Group Ltd. ever since its launch in May 2005, had pioneered a range of market-firsts that had completely redefined the entire experience of flying. Kingfisher Airlines was the first Indian airline to introduce in-flight entertainment (IFE) system on domestic flights. Passengers onboard were provided complimentary 'welcome kit' that contained a pen, facial tissue and headphone to use with the IFE system[4]. Kingfisher Airlines had alliance with Dish TV to provide live TV entertainment to passengers with 16 channels on each seat and also other tools such as web chat, in-seat plug-ins for music and 100 percent E-ticketing. Passengers were served exquisite cuisines on most flights and before take-off, passengers were served bottled lemonade. Kingfisher airlines made a mark in the Indian aviation scenario in terms of plush air travel experience for its passengers, modern and pleasurable services on board its flight, lavish airport lounges, which set Kingfisher apart as high class flying carrier. In June

[1]*http://www.ndtv.com/article/cities/wife-of-kingfisher-employee-commits-suicide-over-his-salary-problems-275577*
[2]*http://www.theubgroup.com/profile_genesis.aspx*
[3]*http://www.flykingfisher.com*
[4]*http://www.iseindia.com/ResearchPDF/Air%20Transport%20Service_Update1.pdf*

2005, Kingfisher airlines was the first and only Indian airline operator to order five A380, Five Airbuses A350-8—aircraft, and five airbuses A330-200 aircraft worth $3 billion[5]. In 2007, Kingfisher Airlines merged with low-cost carrier Air Deccan increasing its total market share to 20.8% and thereby starting its international operations on September 2008 by connecting Bengaluru with London.

After the merger, Air Deccan was renamed Simplifly Deccan and subsequently to Kingfisher Red, the low-cost service of Kingfisher Airlines on domestic routes. In May 2009, Kingfisher Airlines carried more than 1 million passengers, giving it the highest market share among airlines in India[6].

The Indian Civil Aviation Industry

The liberalization of the Indian aviation sector marked a massive makeover of the airlines industry. From being mainly a Government owned industry, the Indian airline industry is now dominated by privately-owned full-service airlines and low cost carriers[7]. Earlier air travel was a privilege only a few could afford, with privatization, air travel has become much cheaper, and can be afforded by large number of people. India's civil-aviation sector, anticipated to be growing at a healthy annual rate of 15-20 percent, is considered India's second most promising industry after Information Technology[8]. The growth rate is one of the greatest in the Asia-Pacific region, and the country is presently the ninth-largest aviation market in the world. A substantial boom in the tourism industry, together with a growing cash-rich middle class population and strong government support has helped. With growing private involvement and foreign investment, India's civil aviation passenger growth is among the biggest in the world[9].

The civil aviation industry began its journey in the year 1912, with the domestic air route between Delhi and Karachi under the joint initiative of then "Indian State Air Services" and "Imperial Airways", UK. In 1948, the Government of India and Air India (earlier Tata Airline) jointly established Air India International Ltd and in 1953, the Government nationalized the airlines through the Air Corporations Act, 1953, which led to the formation of Indian Airlines and Air India. Indian Airlines came into being with the merger of eight domestic airlines namely Deccan Airways, Bharat Airways, Himalayan Aviation, Kalinga Airlines, Indian National Airways, Air Services of India, Ambica airways, and Mistry airways, to operate domestic services, while Air India International was to run the International services[10]. The second phase of the aviations sector began during the 1990's and with the Government's liberalization policy. Many private airlines like Damania Airways, East-West Airlines, Modiluft, Jagsons, NEPC Airways, Gujarat Airways and Span Air, started their operations during the said period.

It was during 1994-95, that Air Sahara and Jet Airways came into the Indian aviation scenario and sustained to operate, although the other private carriers like East-West Airlines, Skyline, NEPC and ModiLuft discontinued flight operations by 1998 and the capital losses caught up after these closures, were approximately of Rs. 10 billion to the aviation industry[11].

By the year 2005, Jet Airways was the largest airline company in India followed by Government owned Indian Airlines, while Air Sahara (now Jetlite) controlled 17% of the Indian aviation industry market share[12]. But the market share of Jet and Sahara as private carriers was challenged by Air Deccan - India's first Low Cost Carrier (LCC) which revolutionized the LCC model in the Indian Aviation Sector with its arrival in 2003. On observing the success of the LCC Model, in terms of market share and passenger growth rate, other airlines also started to venture in the sector and adopted the No-Frills Model. Some of them are Kingfisher Airlines (which acquired LCC Air Deccan in 2007), Jet Lite, Indigo; Go Air etc. New carriers such as Star Airlines, Skylark, Magic Air, Air One were also given license to operate in the low-cost segment. Thus, the advent of the low cost carriers into the Indian aviation sector further intensified domestic competition.

Subsequently, in the year 2006, the Indian aviation industry witnessed the merger of two major private airlines, with Jet Airways acquiring 100% stake in Air Sahara for nearly USD 500 million (about Rs. 2,300 crore) in an-all cash deal. In the year 2007, there were two other mergers and acquisition taking place, one was of the Indian Airlines—Air India merger and the other major alliance happened between Kingfisher Airlines and Air Deccan. Kingfisher airlines acquired a 46% stake in Air Deccan's parent company Deccan Aviation with a deal worth Rs. 550 crores[13]. (***Annexure 1***)

Gradually the Indian aviation industry was attacked by some major setbacks in the form of high fixed cost, cyclic demand, severe competition, susceptibility to external shocks. The effect of the global economic slowdown of 2008 and increased price of aviation turbine fuel added to the woes of the global airline industry[14].

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[5] *Centre for Asia Pacific Aviation (CAPA)*

[6] *http://mospi.nic.in/Mospi_New/upload/statistical_year_book_2011/sector-4-service%20sector/ch-23-civil%20aviation/civil%20aviation-writeup.pdf*

[7] *http://www.iseindia.com/ResearchPDF/Air%20Transport%20Service_Update1.pdf*

[8] *Journal of Asian Aviation (Singapore)*

[9] *http://www.asianaviation.com/articles/192/Indian-aviation-faceschallenges/opportunities*

[10] *http://info.shine.com/Industry-Information/Aviation/140.aspx*

[11] *www.asianaviation.com/articles/192/Indian-aviation-faces-challenges-opportunities*

[12] *Delloite Research*

[13] *ICRA Research fillings*

[14] *http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

In India too high ATF prices, severe competition, high losses, inflated cost, and liquidity crunch, have raised concerns about the operational viability of many Indian carriers including Government owned Air India, the flagship carrier which currently has debts in excess of 460 billion rupees and an accumulated loss in excess of Rs. 200 billion. Increasing labour costs, shortage of competent pilots, high tax structure, increasing fare prices, low percentages of non-aeronautical revenues and escalating debt has become an industry wide problem, to send most of India's private airlines into red zone[15].

The Global aviation industry is also going through challenging times due to unparalleled fuel price climb during the last 4 years, turbulent financial markets and economic recession.

Launch of Kingfisher Airlines

To comprehend Kingfisher Airlines current state of distresses better, we need to go back to the launch year of Kingfisher Airlines in 2005. Vijay Mallya in line with his glitzy image, unveiled Kingfisher Airlines as a five-star carrier, with personal in-flight systems, captivating customer support, and exquisite cuisines for the passengers. The launch of Kingfisher happened during the period when aviation industry in India was in a boom and the launch of several new private airlines between 2004 and 2008 helped the matter more. Mallya's business plans and fashion of execution deviated from the core competence of UB Group, as the entire Group did not have any links with the airline business. For Mallya, there was no bending on the lure of getting into the airline division; there was the glamour, something he couldn't get enough, regardless of the yachts and islands[16]. So, through Kingfisher Airlines he promised passengers a class of service not habitually seen among the domestic airlines.

Jet Airways was good and on time, but was for busy executives; Air Deccan was for the common people, a kind of shuttle service. In time, the airline became a stepping stone for the chase of other adventures like acquiring White and Mackay. He bought newspapers (Asian Age) fashion and movie magazines, bought and sold a TV company and added football teams to his ever expanding empire. He even added a cricket team to his list of acquisitions and called it Royal Challengers[17].

Mallya brought glamour into the trade of running airlines. Each seat in his aircraft had a TV display just like the global air carriers offered welcoming guests by appearing on the screen and asking them to write to him personally if they were discontented with any service[18]. The corporate sector wanted all top executives to fly Kingfisher and they came back admiring the service. After starting its operations Kingfisher Airlines faced stiff competition from the upcoming low-cost carriers and also Mallya was keenly waiting to fulfill his international ambitions as in India, an airline needs to complete five years of domestic services before it can endeavour into international skies[19].

Merger with Air Deccan

Kingfisher Airlines took over low-cost carrier Air Deccan in 2007. Captain G.R. Gopinath of Deccan Aviation, the parent company of Air Deccan, was urgently looking for a potential buyer for the airline and had also tied up with Reliance's Anil Ambani for a sell-out, but last minute delays, led to the collapse of the deal. Eventually, Vijay Mallya linked in and forked out Rs. 550 crores for acquiring 46% stake in Deccan Aviation. The acquisition happened in three phases, at first, UB holdings Ltd. the holding company of Kingfisher Airlines acquired 26% stake in the company and in the second phase another 20% were acquired by giving open public offer to the shareholders of Deccan Aviation[20]. The shares were allotted at Rs.155 per share approximately a 10% premium for the current market price (CMP) and at the final phase open market purchase of 2.95% stake. UB holdings Ltd spent around Rs. 1000 crores for the acquisition[21]. Subsequently, in December 2007 the boards of both the airlines decided to merge Kingfisher Airlines and Air Deccan. From a 100% full-service model, Mallya switched to two brand strategy—Kingfisher Airlines and Kingfisher Red (the low cost-service of Kingfisher, after the merger) (***Annexure 2***).

Kingfisher Airlines got Air Deccan's huge market share and several aircrafts as well as an immediate listing of the airline. It also availed the license to fly on international routes, as Air Deccan had been in the business for more than five years. Kingfisher Airlines' merger with distraught budget carrier Air Deccan gave Kingfisher prompt control over 29% of the domestic passenger market to meet arch rival Jet Airways head on, as Air Deccan had a domestic market share of 19% and a passenger base of three million by June 2006, but also acquired the losses incurred by Air Deccan, since financially the carrier wasn't in a sound position.

As per Air Deccan Prospectus, prior to the merger, Air Deccan had a loss burden of Rs.725.01 crores for the

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[15] *Directorate General of Civil Aviation (DGCA)*

[16] *CMC Senior Theses CMC Student Scholarship 2010," Airline Bankruptcy: The Determining Factors Leading to an Airline's Decline" By Jason Tolkin, Claremont McKenna College*

[17] *in.reuters.com/.../india-kingfisher-vijay-mallya-idINDEE81P00H201...*

[18] *www.indianexpress.com/news/kingfisher-on-a-wing-and-a.../6*

[19] *http://businesstoday.intoday.in/story_image.jsp?Img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpgandcaption=*

[20] *http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[21] *Civilserviceindia.com*

quarter ending September, 2005. The merger of two thinly capitalized entities was aggravated by global meltdown and rising oil prices and by March 31, 2009 the merged entity's borrowings had accelerated from Rs. 900 crores to Rs. 5,600 crores[22].

The Aftermath of The Merger

After the merger with Air Deccan, Kingfisher selected to give up the cost efficacies, which the acquisition brought in; instead the airlines encompassed the inadequacies of a full-service model. Kingfisher gave up the web ticketing system, and extended all bookings through global distribution systems. Other low cost carrier tactics like keeping overhead costs reduced by flying a single class arrangement of aircraft, quick aircraft turnaround, selling tickets online, selling of food on board were never assimilated into the main operations of Kingfisher Airlines.

The twin brand strategy of Kingfisher Airlines, in the domestic market confused the passengers, and with time, the price-conscious passengers drifted from the mother brand – the full service carrier- to the no-frills subdivision. The other aggressive airline operators in the low-cost segment such as Indigo and Spicejet persuaded away passengers with attractive fares[23]. The no–frills segment in the Indian aviation industry grew but the market share of Kingfisher Airlines did not. Kingfisher Airlines had slipped to the number 3 position with 16.7% market share in October 2011, having conceded the lead position to Indigo (19.6% market share)[24] (***Annexure 3***) Kingfisher's fleet size also reduced from its highest 85 in December 2008 to 66 in the October 2011. In contrast Jet and Indigo had 100 and 64 aircrafts respectively.

In September 2011, Kingfisher Airlines changed its business model by withdrawing its Kingfisher Red brand and completely transforming its fleet to a dual class, full service conformation. In the aviation industry the operative costs of Kingfisher was the highest (apart from Air India) in the month of October, 2011.

In the second quarter of financial year 2012, Kingfisher's cost per available seat was Rs. 4.31, but for Jet Airways, another full service carrier was Rs. 3.31. For the no-frills airline like Spicejet and indigo, it was much lower ranging from Rs. 2.7 to Rs. 2.9[25]. (***Annexure 4***)

Kingfisher was unsuccessful to scale up its transnational operations as intended, even after acquiring the low cost carrier with the plan of flying globally. The unveiling of Kingfisher's transnational routes coincided with global financial meltdown of 2008, impacting air travel harshly over the world and jet fuel prices sky rocketed and touched a high of $150. Global operations are more money-making for airlines because of the price variance for ATF between India and foreign destinations like Dubai where airlines tend to refuel. For Jet airways international operations contributed around 57% of Jet airways earnings in FY'11 while the corresponding figure for Kingfisher Airlines was only 22%.

The market value of UB holdings is only Rs 4,713.4 crore in contrast to the debt on its books of Rs 2,331.6 crore, in addition to debt guarantees and collateral offered on behalf of Kingfisher of Rs 16,852.9 crore as per its 2010-11 annual report[26]. Even though Kingfisher earned adequate revenues but the margin with costs was not sufficient to service the liability of ever increasing interest rates. The interest cost for the company went up from 11 per cent at the time of debt recast package to 14 per cent in the month of May, 2012[27]. The merger of the loss making Air Deccan with Kingfisher did not help matters financially adding to higher debt and interest payouts. For Kingfisher airlines things went out of control further because the airline never had a professional airline management in place. When Kingfisher airlines was launched in 2005 Nigel Harwood was appointed as the CEO but, left after a year since then, the airline did not have a CEO till 2010, until appointing Sanjay Aggarwal as CEO[28].

Kingfisher Flies into Red Zone

Kingfisher was propelled as an all economy, single class arrangement aircraft, with food and entertainment structures. After about a year of operations, the airline abruptly shifted its focus to luxury and subsequent to its merger with Air Deccan, launched its international flights as well as low-cost services. Kingfisher had too many changes in their business model and approaches that led to strategic failure and this had major influence on the airline because haphazard expansion didn't give time for the airline to stabilize[29]. Kingfisher at present needs USD 400 million with the carrier seeking more bank loans to support its operations, and the airline will also require over USD 800 million to fully finance its business plan[30].

Kingfisher Airlines for the four financial years beginning from 2008 has negative EBITDA (***Annexure 5***), but the airlines loan amounts have also jumped, especially in the year 2009. As on March 31, 2009, debt levels increased from Rs. 934 crores to a whopping Rs. 5665 crores, indicating a major risk burden on the banking

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[22]*http://kaipullai.com/2011/11/28/the-curious-case-of-vijay-mallya-and-his-bailout-and-one-more-scam/*

[23]*http://zeenews.india.com/news/exclusive/kingfisher-airlines-hurt-by-vijay-mallya-s-over enthusiasm_762836.html*

[24]*The Hindu*

[25]*Business Standard*

[26]*Kingfisher Airlines Annual Report, 2010-11*

[27]*http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[28]*http://zeenews.india.com/news/exclusive/kingfisher-airlines-hurt-by-vijay-mallya-s-overenthusiasm_762836.html*

[29]*CNN-IBN Reports*

[30]*http://www.moneycontrol.com/financials/kingfisherairlines/results/yearly/KA02*

system. (***Annexure 6***) Kingfisher is burdened with an accumulated loss of Rs 8,000 crore and has never reported a net profit since its inception, the following data extracted from the yearly results of Kingfisher airlines supports the fact of reported losses posted by the company for the last 7 years of its journey[31]

Financial Year	2011	'10	'09	'08	'07	'06	'05
Reported Net	(1027.40)	(1647.22)	(1608.83)	(188.14)	(419.58)	(340.55)	(19.53)
Profit/Loss Secured	5184.53	4842.43	2622.52	592.38	716.71	448.16	159.42
Loans Unsecured Loans	1872.55	3080.17	3043.04	342.00	200.00	3.50	125.06

Source: Dion Global Solutions Ltd
((http://www.moneycontrol.com/financials/kingfisherairlines/results/yearly/KA02)

Out of the total debt exposure of various public and private sector banks in Kingfisher Airlines, Government owned State Bank of India takes the lead position, whose accounted loan exposure is Rs. 1400 crores along with an equity exposure of Rs. 182 crores and recently with the fresh bailout package of Rs. 1500 crores, amounting to total exposure of Rs. 3139 crores in the airline[32]. (***Annexure 7***)

SBI is followed by another Government owned bank, IDBI bank which is the second highest in terms of loan exposure to the ailing airline for Rs.719 crores. The banking consortium also includes private banks such as ICICI, Federal Bank etc. Kingfisher Airlines has a total debt burden of about Rs. 7524 crores, of which over Rs. 1300 crores have been converted into equity as part of the debt restructuring process. The PSU banks are now burdened with a substantial ownership of Kingfisher Airlines on account of debt converted to equity, and are holding 23 per cent stake in the airline, thus they also have to protect minority shareholder interests besides their own balance-sheets[33].

In early 2012, the airline missed one of the milestones to raise Rs. 1,000 crore through global depository receipts (GDR). Because of the crisis in the Arab world, the lenders had to convert part of their loans to equity at a premium to market price. In the year 2009, IDBI Bank had warned UB Group Chairman Vijay Mallya that Kingfisher Airlines was in the red, but despite the report, since 2009 the bank has sanctioned loan to the airline of over Rs 900 crore[34]. The report was prepared in November 2009 on Kingfisher's request for loan of Rs 900 crore for six months. IDBI Bank, in which the government is the largest shareholder, sanctioned the Rs. 900 crores loan to Kingfisher Airlines in 2009 in two tranches. One was an Rs 150-crore short-term loan to pay overseas vendors and the other Rs 750-crore loan to repay creditors.

Owing to its large debt, Kingfisher spends more than 20% of its revenue on interest, which leads to high level of debt becoming out of control and exceeding the carrier's operating profit result. The airline has accumulated losses of about Rs. 6000 crores, recording a loss of Rs. 1027.40 crores in financial year 2010-11. About nine-tenths of Mallya's 58.61 percent stake in Kingfisher is pledged. These loans for Kingfisher have also come at an enormous cost for the UB group[35].

Furthermore, the strapped for cash Kingfisher Airlines has failed to deposit the Income tax deducted from its employees' salaries for the last two financial years, and has about Rs. 130 crores tax deducted at source due to be deposited[36].

The Government of India also has frozen 40 bank account of the airlines. The airline has defaulted on the payment of airport landing, parking, catering and aviation turbine fuels, and owes Rs. 1424 crores to the Airports Authority of India and to add its woes the carrier has been put on a cash and carry-mode by the Airports Authority of India (AAI) Kingfisher Airlines is indebted for a total sum of approximately Rs. 890 crores to all its fuel providers like Indian Oil, HPCL and BPCL. Like the AAI, Indian Oil has put the airline on cash and carry mode and the other two suppliers have blocked supplying fuel, with BPCL filing a court case against Kingfisher Airlines for recovery of unpaid dues of over Rs. 250 crores and for this the Airlines is

[31]*http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[32]*http://businesstoday.intoday.in/story_image.jsp?img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpg&caption=*

[33]*www.asianaviation.com/articles/192/Indian-aviation-faces-challenges-opportunities*

[34]*http://business.rediff.com/slide-show/2010/sep/21/slide-show-1-indias-top-airlines.htm*

[35]*ICRA Research fillings*

[36]*Directorate General of Civil Aviation (DGCA)*

importing jet fuel to save on high sales tax charged by State Governments[37].

Kingfisher Airlines currently has only 10 operational aircraft compared to 66 a year ago. The financial crisis hit Kingfisher's operations since January 2012 and the airlines had been forced to cancel 50-75 flights on a daily basis for its schedules of 340 flights daily, due to which the airlines according to Government estimates, lost Rs. 3-4 crores a day, which is approximately Rs. 100-120 crores per month[38]. Besides all the aircrafts of Kingfisher Airlines are leased, from leasing companies such as International Lease and Finance company, and also Dublin based Irish firm Investec Global Aircraft Leasing (ATR leases) and GE Commercial Aviation, which had arranged for leases with Europeans aircraft manufacturer Airbus, which is in talks with Kingfisher airlines over taking back the leased planes[39].

Kingfisher Airlines asked the banks for another debt recast and possibly some easier provisions to pay interest costs. But the airline has entirely no assets that it can sell or mortgage for acquiring new loans from banks, since all its aircrafts are pledged with its lenders. The Banking consortium of 17 banks has been meeting regularly to help the cash-strapped airline. The consortium, led by SBI, has made available a total Rs 7,000 crores to Kingfisher to help it keep flying.

The Directorate General of Civil Aviation (DGCA) has suspended Kingfisher's Scheduled Operator's Permit (SOP) on October 19th, 2012 till further orders after a lockout and its failure to come up with a viable plan of financial and operational revival[40]. According to DGCA, Kingfisher had failed to run a "safe, efficient and reliable operations." The SOP suspension came after a lockout by the management on October, 2012 following a standoff with its employees who struck work from September 30, 2012 demanding payment of overdue salaries[41]. The lockout was lifted on October 25, owing to payment of three months pending salaries and an assurance to clear salary dues for seven months by December, 2012. Meanwhile, Kingfisher said it is working on a comprehensive revival plan which will be given to aviation regulator DGCA. According to Aviation Ministry sources, once Kingfisher submits the plan, DGCA would hold consultations with airport operators, oil companies and other agencies to which the airline owes money, before considering giving it the clearance to fly again.

Epilogue

Airlines industry has always been a very challenging one to operate in. Very few companies are actually earning profit in this industry. Kingfisher Airlines, a dream venture of Vijay Mallya also ventured into this industry to make a difference and to redefine the experience of flying. But Kingfisher Airlines once known for its premium quality and class is in the deep crisis now and is actually struggling for its space in the sky[42]. The Directorate General of Civil Aviation (DGCA) had suspended Kingfisher's SOP on October 19, 2012 till further orders after a lockout and its failure to come up with a viable plan of financial and operational revival. DGCA had said Kingfisher had failed to run a "safe, efficient and reliable operations." State Bank of India (SBI), the lead bank to ailing Kingfisher Airlines, cautioned the carrier that it "will not fly" if it fails to bring in fresh capital by November 30, 2012. India will not renew Kingfisher Airlines' licence to fly if the ailing carrier fails to provide a turnaround plan by end-December[43]. The government is now concerned about how the cash-strapped carrier would pay the salary dues to employees and the dues to its service providers, including airport operators, aircraft lessors and oil companies.

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[37] *www.asianaviation.com/articles/192/Indian-aviation-faces-challenges-opportunities*

[38] *http://www.centreforaviation.com/analysis/woes-continue-for-kingfisher-airlines-amid-steep-losses-andunviable-debt-burden-62975*

[39] *http://www.moneycontrol.com/news/business/kfa-permit-wont-be-renewed-if-no-revival-plan-by-dec-31_777653.html*

[40] *http://www.moneycontrol.com/news/business/kingfisher-wont-fly-if-doesnt-get-capital-by-nov-30-sbi_778396.htm*

[41] *http://www.moneycontrol.com/news/business/kfa-permit-wont-be-renewed-if-no-revival-plan-by-dec-31_777653.html*

[42] *http://www.ijbmc.com/issue/656.pdf*

[43] *http://www.moneycontrol.com/news/business/kfa-permit-wont-be-renewed-if-no-revival-plan-by-dec-31_777653.html*

ANNEXURE

Annexure 1

Industry Evolution
1953 Nine Airlines existed including Indian Airlines and Air India
1953 Nationalization of all private airlines through Air Corporations Act;
1986 Private players permitted to operate as air taxi operators
1994 Air Corporation act repealed; Private players can operate schedule services
1995 Jet, Sahara, Modiluft, Damania, EastWest granted scheduled carrier status
1997 4 out of 6 operators shut down; Jet and Sahara continue
2001 Aviation Turbine Fuel (ATF) prices decontrolled
2003 Air Deccan starts operations as India's first LCC
2005 Kingfisher, SpiceJet, Indigo, Go Air, Paramount start operations
2007 Industry consolidates; Jet acquired Sahara; Kingfisher acquired Air Deccan
2010 SpiceJet starts international operations
2011 Indigo starts international operations, Kingfisher exits LCC segment
2012 Government allows direct ATF imports, FDI proposal for allowing foreign carriers to pick up to 49% stake under consideration.
Source: ICRA Research

Annexure 2

Source:http://businesstoday.intoday.in/story_image.jsp?img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpg&caption=

Annexure 3

SHRINKING MARKET SHARE

Kingfisher has dropped to No. 3, just about ahead of Air India. Post Air Deccan buy-out, Kingfisher had combined market share of 29.1%.

	Oct '11 %	Jun '08 %
Jet Airways	24.8	29.8
IndiGo	19.6	10.3
Kingfisher	16.7	14.5
Air India	16.6	14.7
Spicejet	16.1	10.3
Go Air	6.2	4.4
Air Deccan	nil	14.6
Paramount	nil	1.3

Source: DGCA

Source: Directorate General of Civil Aviation

Annexure 4

GOING DOWN

Most operational key indicators for Kingfisher are negative.

	July-Sept '11 (Q2, FY12)	July-Sept '10 (Q2, FY11)	Better/ (Worse)
No. of departures	32,926	30,277	9%
ASKMs (million)	4,414	3,757	17%
RPKMs (million)	3,337	2,967	12%
Passenger load factor (%)	76%	79%	(-3 points)
Block hours	60,074	54,783	10%
Revenue passengers (Million)	3.01	2.69	12%
Total revenue per ASKM (₹)	3.69	4.03	-8%
Cost per ASKM (₹)	4.31	3.89	11%
Ex-fuel cost per ASKM (₹)	2.4	2.61	-6%
Average gross revenue per passenger (₹)	4,531	4,620	-2%
Fleet size*	66	66	—

Source: Kingfisher Airlines, Analyst reports
*[illegible]

Source: Kingfisher Airlines Analyst Reports

Annexure 5

Comparative Balance Sheet of Kingfisher Airlines (Rs. in Crores)

Sources Of Funds	**Mar '11**	**Mar '10**	**Mar '09**	**Mar '08**	**Jun '07**	**Jun '06**	**Mar'05**
Total Share Capital	1,050.88	362.91	362.91	135.80	135.47	98.18	16.20
Equity Share Capital	497.78	265.91	265.91	135.80	135.47	98.18	16.20
Share Appl. Money	2.95	7.48	8.11	10.09	0.00	0.00	0.00
Pref. Share Capital	553.10	97.00	97.00	0.00	0.00	0.00	0.00
Reserves	-4,005.02	-4,268.84	-2,496.36	52.99	249.23	125.95	-2.54
Net worth	**-2,951.19**	**-3,898.45**	**-2,125.34**	**198.88**	**384.70**	**224.13**	**13.66**
Secured Loans	5,184.53	4,842.43	2,622.52	592.38	716.71	448.16	159.42
Unsecured Loans	1,872.55	3,080.17	3,043.04	342.00	200.00	3.50	125.06
Total Debt	7,057.08	7,922.60	5,665.56	934.38	916.71	451.66	284.48
Total Liabilities	***4,105.89***	***4,024.15***	***3,540.22***	***1,133.26***	***1,301.41***	***657.79***	***298.14***
Application Of Funds							
Gross Block	2,254.26	2,048.14	1,891.80	322.33	340.77	247.33	55.25
Less: Accum. Dep.	682.37	493.62	316.29	43.55	33.74	16.40	4.52
Net Block	**1,571.89**	**1,554.52**	**1,575.51**	**278.78**	**307.03**	**230.93**	**50.73**
Capital WIP	673.35	980.61	1,630.95	346.25	357.62	286.53	153.09
Investments	0.05	0.05	0.05	0.00	0.41	0.41	0.45
Inventories	187.65	164.88	147.25	48.64	61.62	57.26	36.40
Sundry Debtors	440.53	322.49	229.84	27.16	35.24	13.06	8.27
Cash & Bank Bal.	88.18	50.91	49.41	5.84	422.05	181.17	47.08
Total CA	**716.36**	**538.28**	**426.50**	**81.64**	**518.91**	**251.49**	**91.75**
Loans & Adv.	5,380.19	4,604.31	3,640.42	832.49	149.77	232.03	47.28
FDs	164.18	155.56	122.45	274.29	395.00	75.31	35.85
CA, Loans & Adv.	6,260.73	5,298.15	4,189.37	1,188.42	1,063.68	558.83	174.88
Current Liabilities	**4,463.86**	**3,908.03**	**3,814.63**	**687.31**	**449.15**	**434.05**	**108.77**
Provisions	62.11	46.77	45.55	9.52	6.94	5.93	1.07
Total CL & Prov.	4,525.97	3,954.80	3,860.18	696.83	456.09	439.98	109.84
Net Current Assets	**1,734.76**	**1,343.35**	**329.19**	**491.59**	**607.59**	**118.85**	**65.04**
Misc. Expenses	125.84	145.64	4.51	16.64	28.75	39.08	28.83
Total Assets	***4,105.89***	***4,024.17***	***3,540.21***	***1,133.26***	***1,301.40***	***675.80***	***298.14***

Source: http://www.moneycontrol.com/financials/kingfisherairlines/balancesheet/KA02#KA02

Comparative Profit and Loss Account of Kingfisher Airlines (Rs. in Crores)

Income	**Mar '11**	**Mar '10**	**Mar '09**	**Mar '08**	**Jun '07**	**Jun'06**	**Mar'05**
Net Sales	6,233.38	5,067.92	5,269.17	1,456.28	1,800.21	1285.42	305.55
Other Income	81.58	-333.30	598.90	113.62	342.10	59.64	14.73
Total Income	**6,314.96**	**4,734.62**	**5,868.07**	**1,569.90**	**2,142.31**	**1345.06**	**320.28**
Expenditure							
Raw Materials	56.69	40.89	51.19	43.79	45.94	36.73	5.77
Power & Fuel Cost	2,274.03	1,802.99	2,602.62	889.30	979.50	625.45	92.98
Employee Cost	680.54	689.38	825.42	244.96	247.72	163.04	31.76
Other Manu. Exp.	1,192.80	1,108.82	1,112.85	408.21	617.56	425.48	104.78
Sell & Admn Exp	997.34	996.85	1,062.74	180.39	146.78	114.38	29.13
Misc. Exp.	87.94	108.58	167.55	14.81	25.11	33.78	9.85
Total Expenses	**5,289.34**	**4,747.51**	**5,822.37**	**1,781.46**	**2,062.61**	**1398.86**	**274.27**
PBDIT	***1,025.62***	***-12.89***	***45.70***	***-211.56***	***79.70***	***-53.80***	***46.01***
Interest	2,340.32	2,245.59	2,029.33	434.44	466.05	250.72	55.33
PBDT	***-1,314.70***	***-2,258.48***	***-1,983.63***	***-646.00***	***-386.35***	***-304.52***	***-9.32***
Depreciation	203.02	162.80	133.20	18.28	17.67	13.34	3.06
Other Written Off	38.01	54.49	38.39	18.31	26.25	18.94	5.73
Profit Before Tax	***-1,555.73***	***-2,475.77***	***-2,155.22***	***-682.59***	***-430.27***	***-336.80***	***-18.11***
Extra-ordinary items	72.99	31.28	0.00	-0.97	14.09	0.00	-2.74
Tax	-455.35	-700.00	-546.38	-494.45	3.40	3.75	-1.32
Reported Net Profit	***-1,027.40***	***-1,647.22***	***-1,608.83***	***-188.14***	***-419.58***	***-340.55***	***-16.79***
Per share data (annualised)							
Shares in issue (lakhs)	4,977.79	2,659.09	2,659.09	1,357.99	1,354.70	981.82	31.06
EPS (Rs)	-20.64	-61.95	-60.50	-13.85	-30.97	-34.69	-54.05
Equity Dividend (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Book Value (Rs)	-70.46	-150.54	-83.88	13.90	28.40	22.83	43.96

Source: http://www.moneycontrol.com/financials/kingfisherairlines/profit-loss/KA02#KA02

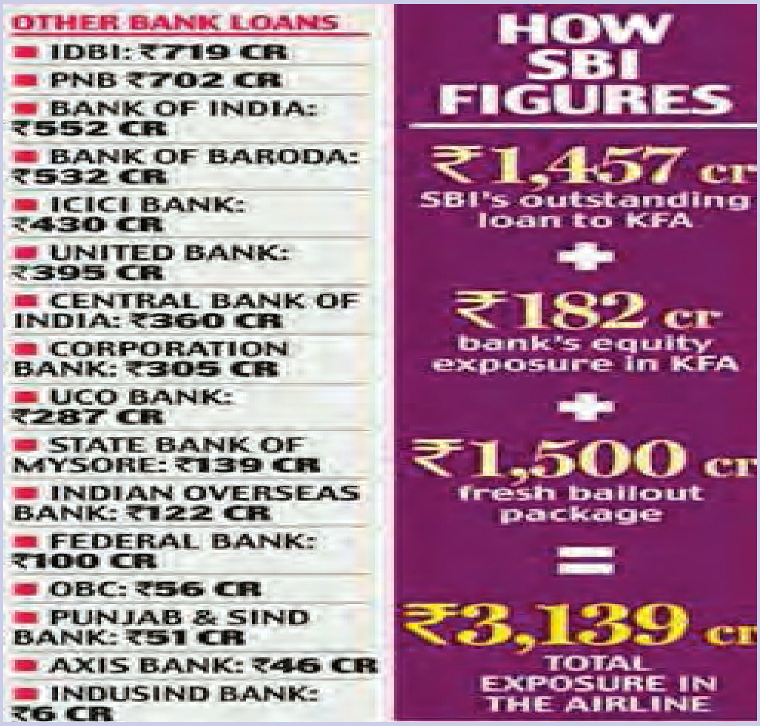
Annexure 6

HEADWINDS
Debts outweigh gains at Kingfisher Airlines.

	FY08	FY09	FY10	FY11
Total revenues	1,441	5,239	5,068	6,233
Operating expenses	1,810	(5,860)	(4,867)	(5,371)
EBITDA	(724)	(1,806)	(893)	(122)
Interest	(50)	(778)	(1,102)	(1,313)
Depreciation	(18)	(133)	163	(203)
Net debt to equity (ratio)	0.60	12.20	17.10	2.80
Secured/Unsecured loans	934	5,665	7,923	7,057
Shareholder's funds	1,166	451	451	2,397
Net loss	188	1,609	1,647	1,027

Source: Kingfisher Airlines Annual Report

Annexure 7



Source:http://businesstoday.intoday.in/story_image.jsp?img=/images/stories/February2012/sbi-2-enlarge_022212080831.jpg&caption=

Corporate Financial Reporting in India: the Impact of Revised Schedule VI

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1. Background and Issues

Corporate Financial Reporting has been undergoing rapid changes throughout the world; India is not an exception. Research studies in India show that such changes are evolutionary and predominantly influenced by legislative changes. Although there are many other means of communication of performance of corporate enterprises (e.g. web-site, press release, etc.), annual report is widely used for disseminating corporate information to the investors (present and prospective) and creditors and other users. Disclosure of high quality accounting information in the financial statements serve as one of the important vehicles, for both national and international investors and creditors, for taking more credible investment and credit decisions. Such information facilitates cross-border listing, financing at lower cost of capital and, above all, foreign direct investment. So, after globalisation of Indian economy, gradual efforts have been made in this direction.

The Ministry of Corporate Affairs, the professional institutions of the country, and the SEBI have all been actively involved in enhancing, among others, the competitive advantage of the corporate enterprises through disclosure of high quality accounting information in the corporate annual reports. It does not require any special mention that measurement and disclosure of corporate financial information is required to be done in compliance with generally accepted accounting principles, accounting standards and relevant provisions of the Companies Act, 1956. Also, quite expectedly, efforts have been going on to make convergence of Indian Accounting Standards with International Financial Reporting Standards (IFRSs) which was about to start from 01.04.2011 but has been deferred due to some internal constraints (e.g. lack of green signal from the Ministry of Finance for matters concerning the impact of taxation). Nevertheless, as part of the convergence process, a large majority of accounting standards issued by the Institute of Chartered Accountants of India and notified by the Government, have been updated and made as "Ind. AS". Another important action towards promotion of convergence is modernising Companies Act, 1956, to make it internationally competitive. A Bill with this objective has been under active consideration of the Parliament. Pending that, the Government of India revised Schedule VI to the Companies Act giving new formats for Balance Sheet and Income Statement and detailed guidelines for their preparation and made these new formats effective from 01.04.2011. In view of the above, this paper addresses a number of issues, such as:

- What are the basic points to be kept in mind in preparing the financial statements now?
- What changes are made in the format of Balance Sheet and what are their implications?
- How does the new format of Income Statement improve the understanding and analysis of results of operations of the reporting entity? What else should we do to fine-tune the new format to make it internationally competitive?
- How should we gear up for imparting education and training to the future generation of accountants and auditors?

The paper is organized as follows. Section 2 gives some basic aspects to be kept in mind in preparing the financial statements. In section 3, components of assets and liabilities, as given in the format, are examined with some explanation where necessary. Section 4 gives analysis of the new provisions of the Schedule with respect to Profit and Loss Statement. The next section highlights how the present prescribed format of profit and loss statement can be fine-tuned as early as possible to make it internationally more competitive. Section 6 outlines some of our concerns for imparting education and training to the future generation of accountants and auditors .This is followed by concluding observations.

2. Some basic points for preparation of financial statements

According to the "General Instructions" appended to the Schedule, financial statements refer to Balance Sheet and Profit and Loss Statement, although Cash Flow Statement is very much a part of the mandatory financial statements to be prepared by the listed companies. So, the explanations and guidelines are applicable to only Balance Sheet and Profit and Loss Statement. The **important points** to be kept in mind in preparing these financial statements are:

- The terms used in Schedule VI carry the same meaning as given in the relevant accounting standards. It has also recognised the primacy of accounting standards. In other words, in case of any conflict between a provision of the Schedule and that contained in a Standard, the provision of the Standard will prevail over the Schedule.
- Generally, in case of a conflict between a provision of an Act and that contained in the Schedule framed under the said Act, the provision of the Act will have overriding power.
- The Schedule provides only vertical format of preparation of Balance Sheet for use (dropping the T-format, as an alternative form) by the reporting entities and prescribes for the first time a new format for income statement. The term Profit and Loss Account is replaced by the term Profit and Loss Statement and the Profit and Loss Statement is to be prepared in a statement-form (dropping again the accounting form of presentation).
- The requirements as prescribed in the new formats are the bare minimum ones – a company can go beyond them in terms of presentation with a view to giving more relevant picture for better understanding of the financial position and operating results of the company, as the case may be.
- Earlier, details of many figures, either in the Balance Sheet (say, Fixed Assets, Current Assets, etc.) or in the Profit and Loss Account (say, Revenues, Operating Expenses, Provisions, etc.) were given separately under respective "schedules" giving cross references to the financial statement concerned. The Revised Schedule has now replaced "Schedules" by "Notes" for giving details of figures or explanations.
- It is also obligatory to use same unit of measurement in the financial statements including Notes thereto.
- Like the old practices, figures for the previous accounting period should be presented side by side along with the current figures. The formats for both financial statements give the following orders : Particulars (1), Accompanying Notes (2), Figures for current reporting period (3), and Figures for previous reporting period (4).

3. Balance Sheet

Part I of the Schedule contains the new (vertical) format for Balance Sheet replacing prevailing formats – T-format which had been part and parcel of the old Schedule from the inception of the Companies Act and the vertical format which was later introduced in 1979 as an alternative.. Before, we take up the new classifications of assets and liabilities, let there be a mention of the previous requirements first. The previous format of balance sheet contained two broad sections – Equities and Liabilities (usually put under the nomenclature, Sources of Funds), and Assets (usually put under Application of Funds in the vertical format). Equities and Liabilities included (1) Share Capital (2) Reserves and Surplus, (3) Secured Loan, (4) Unsecured Loans, (5) Current Liabilities and Provisions. Similarly, Assets section included (1) Fixed Assets (Goodwill, Land, Building, Plant, etc.), (2) Investments, (3) Current Assets and Loans and Advances, and (4) Miscellaneous Expenditure, and (5) Profit and Loss Account, debit balance, if any.

The current format has made sea-changes both in concepts and contents. The so-called Sources of Funds are now replaced by the nomenclature, Equity and Liabilities. Similarly, Application of Funds is now replaced by the nomenclature, Assets. **Under Equity and Liabilities** appear 5 broad groups, namely, **(1)** Shareholders' Fund [comprising (a) Share Capital, (b) Reserves and Surplus, and Money received against share warrants], **(2)** Share application money pending allotment, **(3)** Debit Balance of Profit and Loss Statement, **(4) Non-current liabilities** [comprising (a) Long term borrowings, (b) Deferred tax liabilities (Net), (c) Other Long term liabilities and (d) Long-term provisions] and **(5) Current liabilities** [comprising (a) Short-term borrowings, (b) Trade payables, (c) Other current liabilities, and (d) Short-term provisions]. Similarly, in the second section of the format, **Assets** are classified into two broad categories, **(1) Non-current assets** comprising **(a)** Fixed assets [(i)Tangible assets, (ii) Intangible assets, (iii)Capital work-in-progress, and (iv) Intangible assets under development]; **(b)** Non-current investments; **(c)** Deferred tax assets (net); **(d)** Long-term loans and advances, & **(e)** Other non-current assets] and **(2) Current assets** [comprising (a) Current investments, (b) Inventories, (c) Trade receivables, (d) Cash and cash equivalents, (e) Short-term loans and advances, (f) Other current assets].

In the General Instructions, non-current liabilities and non-current assets have not been defined. In conformity with the concepts contained in the revised IAS 1, assets and liabilities which are *not current* are to be treated as non-current liabilities or assets, as the case may be. An asset is treated as a **current asset** when it complies with any *one* of the following criteria:

- It is expected to be realised, or intended for sale or consumption, within the company's normal *operating* *cycle* i.e. the time between acquisition of an asset for processing and its realisation in cash or cash equivalent, or

- It is held primarily for the purpose of trading, or
- It is expected to be realised within 12 months after the reporting date, or
- It is cash or cash equivalent (that is, short-term investment which can be realised within a period of 3 months) unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

Where, however, an operating cycle cannot be identified, it should be assumed to be equivalent to a period of 12 months.

Similarly, a liability is classified as current liability, when it satisfies any *one* of the following criteria:

- It is expected to be settled in the normal operating cycle of the company; or
- It is held primarily for the purpose of trading; or
- It is due to be settled within 12 months after the reporting date, or
- The company does not have any unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

There has also been change in terminology with necessary clarification with respect of certain current assets and liabilities. For examples, Trade Receivables, which are defined as only dues arising from goods sold or services rendered in the normal course of business, replace Sundry Debtors. Accordingly, amounts due on account of other contractual obligations can no longer be clubbed with Trade Receivables. Similarly, Sundry Creditors are substituted by Trade Payables (amount due only in respect of goods purchased or services received in the normal course of business and amounts due under other contractual obligations cannot be included here). A scrutiny of the format shows that some items of assets and liabilities are required to be shown both under current and non-current groups depending upon their maturity or payment period. Examples are investments, trade receivables, loans and advances under assets, and trade payables, borrowings, and provisions under liabilities. Interest on long-term loans and leases payable within 12 months of the reporting date, should be shown under "other current liabilities". But such interest falling due beyond 12 months should be shown under "other long-term liabilities".

Comments: There is no doubt that the present balance sheet format has been simplified classifying assets into two groups. Similar comments can be made in case of liabilities which are presently put under two groups, non-current and current. The use of the concept of operating cycle as one of the criteria for determining whether an asset or liability is a current asset or current liability is a step in the right direction to take care of the nature of business of the reporting entity. The classification of investment and loans and advances into short-term and long-term depending on the maturity period, and the classification of provisions into short-term and long-term depending on the period of payment is another step in the right direction. But the Instructions suggest that if a part of trade receivable is due for more than 12 months, that part should be shown as non-current assets under "other non-current assets" group. Similarly, if a part of Trade payables exceeds credit period of one year, it should be shown as non-current liability under the group "other current liabilities". Reporting of over-due receivables or payables should have been made under current asset or liability instead of shifting them to non-current items. A better approach should have been to put them under a separate category within the same current item as receivables or payables more than 12 months to pin point inefficiency of credit and collection policy of the company. The computation of right current ratio would not also be affected because overdue receivables or payables can be excluded for the purpose in the same way we do it for inventory or bank overdraft in computing liquid ratio.

The shifting of the Debit Balance of the Profit and Loss Account to the Equity and Liabilities side of the balance sheet, as stated earlier, a step, which was long overdue, is in the right direction. But the Instructions suggest that figures under this account, if any, should be disclosed separately, instead of adjusting against the Shareholders' Fund. This latter aspect of the recommendation is not free from any debate.

4. Profit and Loss Statement

It is a multi-step statement format requiring disclosure of many important information separately as shown in Table 1.

The format for Profit and Loss Statement is first of its kind in India. Earlier, although there was no format for Profit and Loss Account, there were some instructions with respect to disclosure of certain items. Nevertheless, the usefulness of a format was long overdue. India used to follow the British model in accounting and many other matters. But in the U.K., two formats for profit and loss account (horizontal and vertical) were introduced by the Companies Act, 1989. Over time, however, companies in India developed their own Profit and Loss Account model which used to be followed consistently to give a "true and fair view" of the profit or loss position of the company as required by Section 211 of the Companies Act. But that led to diversity in practice from company to company and sometimes from period to period. Viewed from all these, prescribing a format for Profit and Loss Statement is certainly welcome.

Table 1: Format of Profit & Loss Statement

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	Total Revenue (I + II)		xxx	xxx
IV.	Expenses : Cost of materials consumed Purchases of Stock-in-Trade Changes in inventories of Finished Goods, Work-in-Progress and Stock-in-Trade Employee benefits expenses Finance costs Depreciation and amortization expense Other expenses		 xxx xxx xxx xxx xxx xxx	 xxx xxx xxx xxx xxx xxx
	Total expenses		xxx	xxx
V.	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI.	Exceptional items		xxx	xxx
VII.	Profit before extraordinary items and tax (V – VI)		xxx	xxx
VIII.	Extraordinary Items		xxx	xxx
IX.	Profit before tax (VII-VIII)		xxx	xxx
X.	Tax expense : (1) Current tax (2) Deferred tax		 xxx xxx	 xxx xxx
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII.	Profit/(Loss) from discontinuing operations		xxx	xxx
XIII.	Tax expense of discontinuing operations		xxx	xxx
XIV.	Profit/(Loss) from Discontinuing operations (after tax) (XII-XIII)		Xxx	xxx
XV.	Profit (Loss) for the period (XI+XIV)		xxx	xxx
XVI.	Earnings per equity share : (1) Basic (2) Diluted		 xxx xxx	 xxx xxx

Comments: This multi-step income statement will therefore be very useful to the users and analysts. Disclosing revenues, expenses and other items as line items against specified serial numbers will facilitate quick identification, and inter-period and inter-firm comparison. Many of the useful information about the activities of the business, viz. selling products, incurring some of the items of costs directly to those sales and incurring expenses that generally support the business, appear in the upper portion of the profit and statement. The next portion gives information on peripheral or incidental activities, exceptional items and extra-ordinary items, etc. Distinguishing between the financial effects of a company's major or central operations and those of other activities or events are expected to help users to analyse trends affecting a business without the potential distorting effects of peripheral or incidental activities.

Similarly, distinguishing between the financial effects of a company's usual or recurring activities and those of other activities will improve the analysis of underlying trends and relationships in a company's ongoing businesses. Information on earnings per share (both basic and diluted) will also be extremely useful. However, to the investors, present and potential, providing such information has now become mandatory under AS-20 for certain classes of companies. Putting them in the last section of Profit and Loss Statement is certainly a more effective step.

5. Fine-tuning the Profit & Loss Statement

We have made some comments about the format of the Balance Sheet in section 3. For the sake of volume, we refrain from adding others. But for format of Profit and Loss Statement, being first of its kind in India, we give more thoughts for its further improvement.

The present format of Profit and Loss Statement has something in common with the US format for Income Statement although there are many differences. So, let there be a quick reference to the prevailing US Income Statement. In the US format, the reporting corporation has to disclose **Gross Profit** (Net Revenues less Cost of Goods Sold), **Income from Operations** (GP less Operating Expenses), **Income before Income Tax** (i.e. Income from Operations plus Other Revenues and Gains less Other Expenses and Loss), **Income** after tax but **before Irregular items**, **Net Income** (i.e. Income before Irregular Items plus/minus Gains or Losses on Discontinued Operations and also plus/minus Extra-ordinary items (net), and **Comprehensive Income** (i.e. Net Income plus adjustment of income from Balance sheet i.e.,. foreign exchange, retirement pension funds, securities held for sale) all separately as line items. In the global economy because of cut-throat competition, we frequently refer to the term "Sustainable Income". It is the most likely level of income to be obtained in the future. It helps the users to derive an estimate of future earnings. Sustainable income differs from the actual net income by the amount of irregular revenues, expenses, gains and losses included in the current year's net income. Companies generally report two types of irregular items: (i) gain or loss on discontinued operations, and (ii) extra-ordinary items. In the U.S. format, we find a cautious approach in arriving at sustainable income which may be difficult in our case.

It may be argued that an important item is not shown in the given Indian format, viz., **Gross Profit** Information on cost of goods sold and gross profit are very essential information to make an in-depth analysis of the financial health of a business. Stock-market analysts use gross profit per rupee of sales as an important indicator to judge the performance of corporate enterprises. Management and other interested parties closely watch the amount and trend of gross profit. Such useful information indicates the effectiveness of a company's purchasing and pricing policies. So, we forcefully argue that disclosure of cost of goods sold or services rendered and gross profit should be provided in the format by making necessary amendment by the authorities concerned as early as possible.

Comprehensive income, as used in the USA, is a relatively complex concept. Its inclusion may be dropped at this moment for simplicity in the new format of the Profit & Loss Statement.

We also refer below to a few items in the present format involving terminological and other conflicts which need reconsideration.

(i) **Employee Benefit Expenses** should be re-coined as **Employee Related Expenses**. How can salaries and wages, and contribution to PF, be interpreted as "Benefit" when employees receive the amount in exchange of contractual services?

(ii) **Finance costs:** This is a welcome classification. But General Instructions (item 3) suggest further classification as (a) Interest Expense, (b) Other borrowing costs, and (c) applicable net gain or loss on foreign currency transactions and translation. Item (c) should not be a part of total expenses in this group to determine profit before exceptional and extra-ordinary items. Rather, it should form part of VI i.e. exceptional items.

(iii) **Exceptional Items and Extra-ordinary items**: The General Instructions do not contain anything about these two vital groups of items. One should therefore look at the provisions of the accounting standards for making a distinction among them. But a clear cut explanation of these items is also lacking.

One alternative is to examine the practices followed for **exceptional items** by some well-known companies in India for financial year 2011-2012. (i) **Tata Chemicals :** (a) Compensation on voluntary retirement, (b) Provision for diminution in the value of long-term investments, (c) Impairment of assets, (d) Notional exchange loss on restatement of long-term borrowings (net). **(ii) Hindustan Unilever:** (a) Profit on sale of long-term investment, (b) Reduction of liability for retirement benefits arising from actuarial assumption changes, (c) Write back of provision pertaining to a bond disposed in an earlier year, (d) Expenses related to buy-back of shares, (e) Restructuring costs; (iii) **Tata Steel**: Profit on sale of non-current investment.

For Extra-ordinary items, we also looked for the industry practices represented by a large number of the BSE-Sensex companies for 2011-2012 but could not find anything. So, let us refer back to the US environment. Extra-ordinary items are defined as events and transactions that meet two conditions: (i) unusual/abnormal in nature, and (ii) infrequent in occurrence (not expected in the foreseeable future). Examples may be (a) loss due to earthquake, (b) loss due to major natural calamities, (c) takeover of property by a foreign government, (d) effects of a newly enacted law or regulation.

In view of the above position, should there be separate line items for Exceptional Items and Extra-ordinary items or should they be clubbed together? To overcome some of the difficulties in their classification and also to reduce diversity in practice, we suggest that, **it is better to club** the two items together for the time being – **first with exceptional items and then by extraordinary items** and wait for building up of good professional practices in this regard.

6. Concerns for future education and training

India has the second largest accounting profession in the world, after the US. Large numbers of students are taking up commerce and professional courses every year. The future of the accounting profession in any country depends not only on the present professionals but also on the future generation. Accordingly, imparting effective education and training to the latter group is a dire necessity. Efforts should also be made to make them internationally competitive so that prospect of getting jobs or becoming successful in the profession becomes brighter. Accordingly, a few of the important suggestions may be given below.

i. *Financial Statements*: In the Instructions appended to Schedule VI to the Act, the Balance Sheet and Profit and Loss Statement are referred as "financial statements" "for the purpose of this Schedule". But in terms of provisions of Section 210 of the Act, a listed company is required to prepare Profit & Loss Statement, Balance Sheet and a Cash Flow Statement, all of which are got to be audited by the statutory auditor. This point may be highlighted to the students lest they do not misunderstand that financial statements mean and include Profit and Loss Statement and Balance Sheet only. In the same token, the usefulness of a Cash Flow Statement (AS-3) be explained very briefly.

ii. *Difference in the format of the Balance Sheet:* Commonwealth countries have been predominantly following the British model in accounting and other matters. As a result, we find its influence in the Companies Act. Also, there are many countries that follow the US model. As indicated briefly earlier, there are many differences between financial statements prepared under the two systems. Keeping in mind the global economy these days, students should be given an idea as to why the formats of Balance Sheet as per the two systems differ so widely. In other words, in the vertical format under the US model, Assets are presented first and order of their presentation is based on liquidity e.g. cash and bank balance first and, fixed assets, last. Similarly, Equity and Liabilities are presented in the second section of the balance sheet and the order of presentation is again based on urgency of payment i.e. creditors are shown first and then, at the end, comes Shockholders' Equity, as mentioned earlier. The logic for such presentation can be understood from the basic accounting equation:

$$Assets = Liabilities + Equity$$

In the British (and hence the Indian) model both assets and liabilities are presented in the balance sheet in order of their permanence, rather than liquidity. But what may be the logic for putting Equity and Liabilities on the top of the format rather than Assets? It may be argued that, in the corporate form of business, resources are arranged by issuing equity shares and then assets are acquired or constructed. Hence, sources of resources (Equity and Liabilities) are put on the top position of the vertical format giving primacy to resources than assets. The format prescribed by the IASB and that by FASB have similarity. India is going to converge her accounting standards with IFRSs soon. In that eventuality, does not it become more pragmative to come closer to the IFRS format.

iii. *Impact on financial analysis:* In section 3, we have briefly referred to shifting of an item of current asset or liability to the non-current item under certain given circumstances. What will the implication of such shifting on financial analysis e.g. current ratio, debt-equity ratio, or any other ratio, one of the components (either numerator or denominator) of which would be current assets, non-current assets, current liabilities or non-current liabilities? It may be appropriate to explain in brief to the students the implication of such a shift.

- A transfer of any portion of current assets to the non-current assets, will reduce current assets, and hence will have similar impact on current ratio i.e. reduction in current ratio. But an increase in denominator, say, non-current assets turnover (Net Sales/Non-Current Assets) will reduce the ratio.
- Similarly, a shift from current liabilities to non-current liabilities, will increase the current ratio.

7. Concluding Remarks

We welcome the changes brought in the two important financial statements through revision of Schedule VI to the Companies Act. This will increase quantity and quality of accounting information to the users. Coupled with other measures, namely, ensuring better corporate governance and sustainability, the competitive edge of corporate sector in India will tend to increase. We also expect that the reporting enterprises will build up good practices to be emulated by others at the international arena. Nevertheless, there is no place of complacency in achieving and maintaining excellence in this regard. The three professional institutions, the SEBI and the Ministry of Corporate Affairs all will have their respective roles to play to fine-tune both the formats for further improvement sooner than later. Professional institutions and educational bodies should engage in organising seminars and orientation courses to the accounting faculty and professional accountants so that education and training of future generation of accountants and auditors in India become internationally more competitive.

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Corporate Governance of Hydroelectric Power Projects Construction Contract Management Entities

A corporate entity involved in the construction of hydroelectric power projects can enhance its wealth generating capacity for the stakeholder by adapting a systematic process of contract managements as through a systematic process of contract management the construction of excellent hydroelectric power project is possible in cost effective manner. Further the present system of power pricing is cost plus fixed profit margin on equity invested. This aspect since beginning emphasizes the need for cost control during the construction stage of hydro electric power project. Further it is very difficult to achieve enhancement in wealth generating capacity of a corporate entity for its stakeholder involved in the construction of a hydroelectric power project unless cost are controlled from the initial stage. A corporate entity involved in the construction of hydroelectric power projects need to have systematic contract management strategies for achieving good corporate governance also. The underlying objectives of the corporate governance are to generate more and more wealth for its stakeholder by observing the good values in their practices. Thus a power entity involved in the construction of hydroelectric power project need to have systematic contract management strategies, controls for cost cuttings and good values in their practices for achieving good corporate governance. In power sector good corporate governance is needed for providing sufficient and affordable (low cost) quality power to all for economic growth and prosperity. Government also initiated reform process to achieve the sufficient, low cost and quality power for all. The key success of reform process lies to a great extent on making power entities cost conscious and accountable for any cost over run at the construction stage of hydro electric power projects otherwise inefficiencies and idle cost will be loaded as cost of constructions and thereby shall affect the power pricing. This can be better understood by an illustration. Suppose initial cost estimation of a hydroelectric power project was Rs 1000 crores and the normative equity investment on it shall be Rs. 300 crores therefore profit margin will be certain fixed percentage on equity investments. Now the revised cost for the same project is Rs. 2000 crores than the normative equity participation shall be allowed up to Rs. 600 crores. Thus increase in cost shall increase the power price by a single factor (of increased profit) as the pricing is done on cost plus fixed profit margin on equity investment basis. Though it is beneficial for the generating corporate entity but not for the consumers (one of the stakeholder). Thus underlying principles of corporate governance of enhancing wealth generation capacity for all stakeholders is defeated. In this article an attempt has been made to explain various systematic process of contract management to be observed by a corporate entity engaged in the construction of power projects for achieving the best practices of corporate governance i.e. construction of excellent hydroelectric project in cost effective, environment friendly and socio-economically responsive manner. The existence of systematic contract management process for construction of hydroelectric power projects in cost effective manner is evidenced by the followings

- Formulation of multilayer strategies for contract management and Strategic supervision by the board through monitoring, direction and controls.
- Implementation of multilayer contract management strategies and controls for various business events by the operational management at the top.
- Assessment of various business events by the operational management at the top for making appropriate operational decisions.
- Implementation of effective financial and operational controls by tracking and documentation of various business events and cost incurred thereon i.e. value addition at each stage. Each business event may

further be identified into work event and its various cost factors. The incurred cost is accumulated by identifying consumption of resources by each cost factors. The cost factors may be either normal/ abnormal or measurable/non-measurable.

- The abnormal and non-measurable cost factors are to be ignored for making appropriate operational decisions. However a Suitable risk evaluation mechanism and control strategies should be in place for abnormal and non-measurable cost factors.
- Making cost accounting framework independent of financial accounting framework.
- Identification and elimination of unprofitable work event by comparing it with the expected revenue.
- Appropriate disclosure of physical and financial progress achieved.
- Observing good values, such as integrity, equity, transparency, fairness, disclosure, accountability and commitments at all levels of the corporate entity. Integrity, fairness and commitments stands for acting ethically, equity stands for the protection of rights for all, transparency and disclosure stands for openness in relationship without affecting its own strategic interests and accountability stands for holding itself accountable for all strategic actions and decisions taken in the interest of all stakeholders such as provider of men, materials, money and machines.

The various process of systematic contract management are explained above we may now consider possible strategies for resolving the **frequently encountered problems** in contract managements that retards the physical progress of construction and consequently increases the construction period and cost.

- The specialized job requiring specialized agency for executions.
- Pricing and payment timing for execution of extra/ substituted items under already awarded contracts.
- Claims arising out for doing or abstain from doing something during the course of discharge of mutual obligations under the contract.
- Sub division of major job like electromechanical and hydro mechanical job based upon timing suitable for executions.

The specialized job requiring specialized agency for executions

In civil construction generally (sometime may be for electromechanical and hydro mechanical) it has been seen that few civil construction activities are there which requires execution by specialized agency. In the perceived cases the major contractors are asked to include the price of such activities in their bid and list of specialized agency/ sub- contractors are provided and for non perceived cases the said work are treated as extra or substituted work requiring specialized agency for executions. At the time of actual execution it sometime may happen that either such specialized agencies are pre occupied in some other work place or are not willing to work at the offered price and they quote some exorbitant price. This situation ultimately delays the project completions cost. This problem could be resolved by initiating a separate bid process subsequently for each such work at the time of actual executions by considering the physical progress of main construction work. This may be made effective by inserting a suitable provision in the contract for integration of such work with main work.

Pricing and payment timing for execution of extra/ substituted items under already awarded contracts. It sometime happens that contractors fail to get remunerative price at appropriate time for the execution of extra/substituted items under the already awarded contracts. This could be a cause of dissatisfaction and dispute which ultimately hampers the physical progress of the construction. It is very important while managing a contract to maintain the cannon of commercial viability and if a contractor fails to get the remunerative price at appropriate time than whole purpose of contract management is defeated. The strategic direction in this situation could be that executing agency shall quote the price for such extra/ substituted work and employer shall release the payment on the quoted rate based on the physical progress however certain percentage say 25% of such payments shall be secured by bank guarantees against any excess payment determined on final settlements within specified timeframe. In order to discourage the contractors from any exorbitant quotations a suitable clause may be inserted that any excess payment on final determination shall be interest bearing and such interest shall be recovered at a specified rate from the date of advance. The final rate may be arrived by standard norms wherever available or by actual inputs provided by the contractors and by loading of suitable overheads and profits in the due course of reasonable timeframe. This will ultimately help to achieve desired physical progress without time and cost overrun.

Claims arising out for doing or abstain form doing something during the course of discharge of mutual obligations under the contract: The claims can be classified into three categories viz **First,** Claims lodged against the specific/various clauses of the contract and are accepted as admissible by the employers, **Second**, Claims lodged against the specific/various clauses of the contract and are not accepted as admissible by the employers and **Third,** Claims lodged against the specific/various clauses of the contract and its admissibility depends upon the subjective interpretation of the contract clause by the officer of the employer.

In first two category no strategic directions are needed but in third case strategic diction are needed for better management and **that could be independent and simultaneous assessment of claims by two/ three committees** These committees shall submit their report **independently and simultaneously to a committee constituted with top management for taking necessary decision based on such report**. The decision of the committee of top management shall be final for accepting or rejection of such claims. This would be a process similar to the decision given by **more than one bench of court judges** and shall be able to eliminate subjective interpretation by the officer of the employer.

<u>Sub division of major job like electromechanical and hydro mechanical job based upon timing suitable for executions</u>: It is frequently observed that the dispute between the electro and hydro mechanical contractor and employer arises due to extended time related claims. It is true that electromechanical and hydro mechanical work can be awarded at some later date based on the physical progress of the civil constructions to avoid time extension related claims of the contractors. This is beneficial on two counts. Firstly the time extension related claim will not arise and secondly equipments shall be of the latest technological version. Here only precaution is needed to carve out and award separately the work to be executed at initial and intermittent stage like earthing and turbine model testing work etc. Suppose the construction started in the year 2010 by award of all work simultaneously with an expectation that civil work will be available by 2013 for electromechanical and hydro mechanical work. The civil work got delayed and was made available in 2015. The agency executing the electromechanical and hydro mechanical work may become entitled for claiming time related cost for delays. Further specification of the equipments shall be of the 2010 not of year 2014/2015. Thus for the maximization of benefits for all stake holders the contract for electromechanical and hydro mechanical work may be awarded at some later date considering actual physical progress of the civil constructions except the works needed at the initial or intermittent stages of civil constructions.

The Contractor assigned with job of the civil construction of Dam may be given with some other package of civil construction of job on assignment basis. This move of the employer will help to spread fixed cost of **Contractor assigned with job of the civil construction of Dam on** other activity, which will ultimately to achieve cost reductions. The **Contractor assigned with job of the civil construction of Dam virtually** left with no job during the monsoon period till they achieve certain level of height on dam works.

Thus various contract management strategies, directions and controls shall be able to resolve all issues of contract operations during its execution and shall ultimately benefit the all stakeholders by enhancing the wealth generating capacity of the power projects. The various benefits that likely to accrue its various stake holder can be listed as under.

- The power entity shall be able to achieve reduction in operational costs and better financial results in environment friendly and socio-economically responsive manner.
- Men working for it shall get better remuneration, career prospect and working environments.
- The elimination of inefficiency and wastage shall reduce the power cost and consumers shall get sufficient and affordable (low cost) quality power for consumption, economic growth and prosperity.
- The capital providers shall get a better return of their capital investments and shall take further judicious decision of their future investments in power sectors. The capital providers are very important for the development of an industry as the necessary capitals are provided by them.
- The various strategies for elimination of inefficiencies and wastages by entity will help the regulators to design a scheme for reward and punishment for producing or non-producing low cost quality power.
- The financially viable power entity shall be able to generate resources for its expansion, technological up gradation and tax for other developmental work undertaken by the government.

Conclusion

The formulation and implementation of various contract management strategies for construction of a hydroelectric project shall be able to control and reduce the cost for generating more future profits and wealth generating capacities for its various stake holders. Thus good corporate governance can be achieved.

Emerging Trends of Business And HR in Banks

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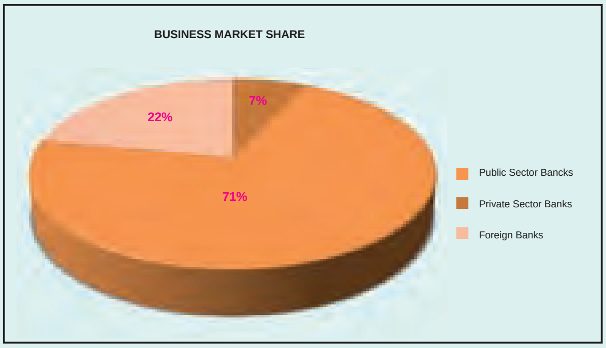
Background

A rudimentary definition of Banking could be understood as accepting deposits and giving advances to needy. Till the onset of the process of Financial Sector Reforms in 1991-92, the banks in India were undertaking simple business of Banking. But the introduction of reforms, which began with the implementation of Narasimhan Committee recommendations in the form of Prudential Accounting Norms, was a turning point in the history of Indian Banking. Reserve Bank of India embarked upon gradual but well calibrated process of deregulation through various policy initiatives. In a concerted and simultaneous move, the Government of India through its various Ministries started the process of liberalization with an objective of marching towards the abolition of License Raj. Such initiatives, brought about spur in the trade and economy of the Nation. The changes in the fields of Trade and Economy had a significant impact on the way the business was being done. It was sought to bring about greater operational efficiency in the business of Banking. The developments – both Domestic and Global coupled with higher degree of integration of transnational economies led the business of Banking in India to more complexities. Liberalization of our economy and deregulation of interest rates resulted into vulnerabilities of interest rate volatilities, exchange rate risks etc. The global volatility in the Commodity prices had sharper impact on not only the international trade but also the business of banking globally. The Indian Banking Sector was opened up to private players and also liberalized to Foreign Banks. Consequently New Generation Private Sector Banks were born and more Foreign Banks were allowed to set up their branches/ offices in Urban Indian market. While there is a restriction on Foreign Banks acquiring more than 24% equity in Public Sector Banks, Foreign Equity participation in New Generation Private Sector Banks was allowed up to 74%.

The market share of Public Sector Banks, Private Sector Banks and Foreign Banks has also been undergoing significant change and stand at the following levels:

Public Sector Banks	:	71%
Private Sector Banks	:	22%
Foreign Banks	:	7%
		100%

A pie-chart would illustrate the market share of different sectors of Indian Banking.



It is quite interesting to note that Foreign Banks have been able to garner 7% of market share with a meager 0.50% of Branch Network. The main reasons for the Foreign Banks to capture a disproportionate market share could be the following:

1. Higher Global Standing & Rating.
2. Presence closure to Bulk market.
3. Professional Management.
4. Modern Work Culture
5. Advanced Technology
6. Huge Capital Base
7. Lower Levels of Regulatory Adherence.

On the other hand our Public Sector Banks have special characteristics which significantly impact the competitiveness at the market place. Some of such characteristics are:-

i. Unhealthy Legacy Issues
ii. Ageing Workforce
iii. Trade Union Rigidities
iv. Antiquated Work Practices
v. Burden of Social Banking
vi. Lower and slower Technology Implementation
vii. Constrained Capital Raising Capabilities
viii. Lower Capabilities of attracting & retaining talent
ix. Excessive Vigilance Indulgence

In this backdrop, if the Public Sector Banks have to guard and enhance their market share of business, HR Policies of Public Sector Banks need to undergo radical change more particularly in terms of compensation package, Models of Recruitment, Training, placement and career Management. The fear of Vigilance action has very adversely affected the decision making in Public Sector Banks. But we must frankly confess that despite these constraints, the Public Sector Banks have made great advances in the field of technology absorption. Although the Core Banking Solution (CBS) has fairly stabilized, the issues like integration, Net working, MIS Generation - paperless Banking still remain a great challenge for Public Sector Banks. Continuous development of skill sets and enhancement of productivity shall continue to haunt the Management of Public Sector Banks. Growing strength of New-Gen Private Sector Banks has been putting additional strain on the attrition level of middle level managers of the Public Sector Banks.

US Financial Crisis of 2007-08 has been a dampener to the growth of business world-wide which has been further compounded by the European downturn and problems of liquidity in several countries. Political upheavals in some of the countries have also impacted the global business. But our demographic dividends offer great opportunity to the Banking Institutions in India to continue to make strides within the country.

It would be appropriate to discuss Emerging trends in Indian Banking space in this background.

Basel - III Norms

Narasimham Committee's Prudential Accounting Norms in 1992-93 were a virtual adaptation of the prescription of Basel Committee on Banking Supervision. From a prescription of 4% of Capital Adequacy requirement, we have come a long way in strengthening our Banking Institutions over last two decades. Strengthening the capital base of Banks has been a gradual but steady process in India. Hence the Banks in India are amongst the best Capitalized Banks in the world. Basel Committee on Banking Supervision (BCBS) released its Basel – III guidelines in December 2010 to strengthen the capital base of the Banks. Consequently the Reserve Bank of India improvised over BCBS (Basel-III) framework and released final guidelines for implementation amongst Banks in India in April 2012. While BCBS sought to strengthen the capital base by amending certain provisions of existing Basel-II framework, RBI has been stricter in prescribing a Common Equity Tier- I (CET-1) Capital of 5.5% of Risk Weighted Assets Value and enhancing the Tier-I Capital to 7% of the Risk Weighted Assets Value. It is quite heartening to know that most of the Banks in India are Basel-III compliant even as on 30.09.2012. But the exponential rate of growth of business of Banking in next 6-7 years would expect Indian Public Sector Banks to bring in additional capital of Rs.4.25 to Rs.4.50 Trillion. A major portion of it will come from the internal accruals. The deficit in capital would depend on quantum of internal generation of profits and can be brought in the form of a combination of the following sources:

a. Fresh Induction by the Government.
b. Equity Dilution by lowering Government holding in Public Sector Banks.
c. Resorting to Rights Issue to existing share holders.
d. Follow on Public Issues.
e. Lowering the size of assets which carry high risk weight factor.

It is pertinent that socio-political compulsions of the Government would not permit dilution of Government holding below 51% in atleast the medium term though the global institutional imperatives would continue to mount their indoctrination in this regard. The Government of India, aware of its constraints on this count, shall also continue to drop hints of its half-hearted intentions through its various instrumentalities to lower the Government Equity below 51%. Government has in recent past, begun to induct fresh capital through inter-Governmental entities like Life Insurance Corporation of India. It is also mulling the idea of reckoning cross-holding of Public Sector Banks in each other as Government holding for the purposes of 51% Government Equity to maintain the Public Sector character of these banks. In such an event, it would not be difficult to continue to recapitalize the Public Sector Banks. If it is encouraged, it would lower the trading in the equity of Public Sector Banks on our Stock Exchanges. The Government would need to continue to have control over the Banking Institutions to help carry out its agenda of social banking.

Financial Inclusion

India is the second most populous country in the world with 1.21 billion people. Despite rapid urbanization in the last two decades, about 67% of India lives in villages. Economic growth in recent years has significantly enhanced the aggregate wealth of the nation. But the poor and neglected has not been able to share the dividends of growth and prosperity. A significant impact of liberalization of Branch Licensing Policy of RBI has been felt by a virtual absence of opening of new rural branches up to 2010. Thanks to the major initiative by RBI and Government of India about inclusive growth that in last two years the Public Sector Banks have opened a good number of branches in unbanked rural areas. There was realization on the part of the Government after US Financial crisis that there was great potential in rural India where banks could explore new market segment and do profitable business, Therefore, the financial inclusion was considered as an essential pre-condition to ensure a balanced and equitable economic development which will lead to greater economic and social independence. Latest emphasis on financial inclusion has transformed the ways, the Bankers look at it. They have started recognising it as a business opportunity instead of an obligation. But to derive real-time benefit from financial inclusion, the bankers need to expand their reach to penetrate into rural India through a cost-effective network. Low volume of transactions would call for and must be supported by affordable technology – both in terms of cost and understanding for a Common semi-literate rural population. Leveraging the technology is an imperative for the success of financial inclusion. The experiment of replacing the conventional 'brick & mortar' model of a Bank branch by a 'click' and 'portal' in the form of Ultra Small Branch aided by a Business Correspondent is in its nascent stage. Lower remuneration to the Business Correspondents could be a cause of collapse of Ultra Small Branch Model. Inadequacy of Compensation to a full time worker is always fraught with risk and financial sector is more vulnerable. The model needs a deeper study and relook.

The financial inclusion network in the country includes –

1. No Frills Accounts with Banks,
2. Business Correspondent,
3. Self-Help Groups,
4. Micro Finance Institutions,
5. Unique Identification Project,
6. Mobile Bank Vans,
7. Mobile ATMs etc.

The Banks need to take proactive steps to create awareness among the rural population about the facilities offered by the Banks. Financial Literacy must precede financial inclusion. The financial literacy campaigns therefore need to be escalated. Sensitising the hitherto neglected groups will certainly help them to be an integral part of financial inclusion. In a country where about 20% of the population is still illiterate it would be a daunting task for the Bankers to penetrate deep into this sector in a meaningful manner. Considering the popularity and high degree of mobile connections in the country-side, it would be appropriate to exploit mobile technology to the hilt for the success of financial inclusion initiatives. Multiple product delivery and cross-selling of other products customized for rural India shall be an appropriate strategy. Livelihood enhancing model with in-built joint liability mechanism will enhance the success of financial inclusion and this in turn will prevent the assets contamination thereby leading to success of the initiative.

New Model of Financial Inclusion needs to be ring-fenced to keep the true spirit of its economic–imperatives. It must be protected from the traditional mindset without sacrificing the much needed transparency in operations. There would be need to measure the effectiveness of the new model of financial inclusion. A Broad indicator of success will be the enhancement in the level of physical infrastructure and the income levels of the target groups. We must be able to see real stimulation in the rural economy and other allied activities post financial inclusion initiatives. After attaining 100% Financial Inclusion, the banks must evolve Reinforcement Models to carry on the process of development of the Nation to enable it to enter the comity of developed nations by 2020. Rural Technology up-gradation will be as vital as Banking Technology for the success of the programme.

We need to induct people into the Banking System with rural orientation on HR front on a sustainable basis. It would call for special incentives to the people involved in the Financial Inclusion Projects in a meaningful and substantial manner. Lack of Education and Health Care Infrastructure in rural areas need to compensated as an HR retention strategy. Risk Management Strategies must be put in place to not only guard the interests of the Bank but also as a confidence building measure among the rural people.

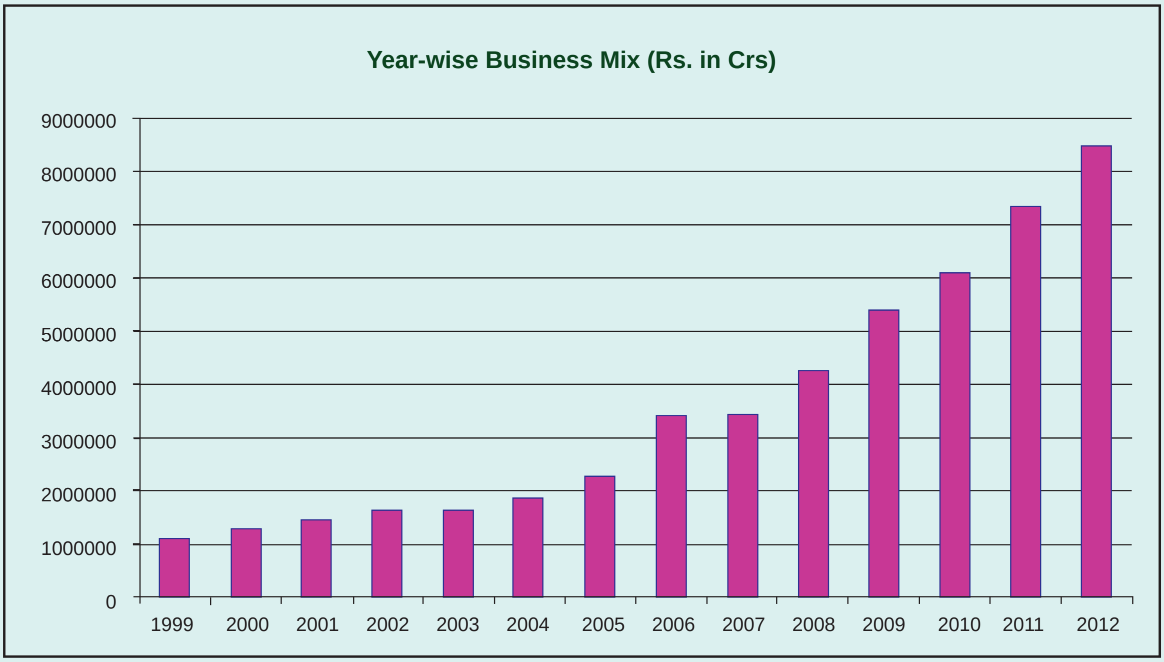
HR Growth Paradox

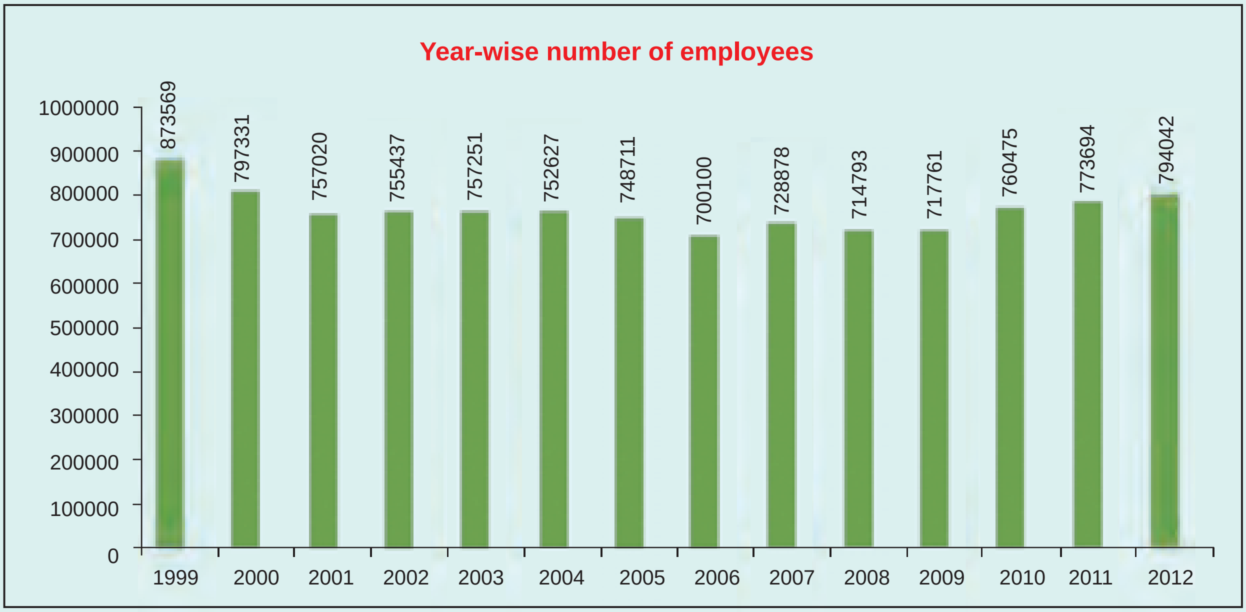
It is interesting to study the growth pattern of total business mix of Public Sector Banks. The empirical study shows that the Business mix of Public Sector Banks as on 19.07.1969 at the time of nationalisation of the major Public Sector Banks was Rs.7665 Crores consisting a Deposit of Rs.4469 Crore and Advances of Rs.3196 Crores. An exponential growth witnessed by the Public Sector Banks has seen the Business Mix rising to Rs.84,88,405 Crores with Deposits at Rs.4791251 Crores and Advances of Rs.36,97,154 Crores as on 31.3.2012. The per employee business at the time of nationalisation as on 19.07.1969 was Rs.4.07 lacs which has grown to Rs.1069.01 lacs. It works out to be an increase of 262.81 times. Even at Average Consumer Price Index (1960-100) per Employee Business has gone upto more than 10.32 times from Rs.2.32 lacs to Rs.24.04 lacs.

As against such high business ratios, the number of employees in Public Sector Banks has registered an increase of 4.21 times from 188,536 in 1969 to 794042 as on 31st March 2012. The figures available from 1998-99 are furnished below:-

Year ended	Business Mix (Rs.in Crs)	Percentage growth in business	No. of Employees	% increase in No. of employees	Per employee business at current prices (Rs.in lakhs)	Per employee business at 1960 prices (Rs.in lakhs)
31.03.99	1091352	37.87	873569	-0.01	124.93	6.08
31.03.00	1274451	16.78	797331	-8.72	159.84	7.58
31.03.01	1448741	13.68	757020	-5.06	191.37	8.74
31.03.02	1628745	12.42	755437	-0.21	215.60	9.44
31.03.03	1627603	-0.07	757251	0.24	214.94	9.05
31.03.04	1862499	12.43	752627	-0.61	247.47	10.03
31.03.05	2290524	22.99	748711	-0.47	305.93	11.95
31.03.06	3370298	47.14	700100	-6.49	481.40	18.00
31.03.07	3434346	1.90	728878	4.11	471.18	16.51
31.03.08	4251372	23.79	714793	-1.93	594.77	19.63
31.03.09	5372904	26.38	717761	0.49	748.56	22.64
31.03.10	6087169	13.29	760475	5.95	800.44	21.55
31.03.11	7339298	20.57	773694	1.73	948.60	23.12
31.03.12	8488405	15.65	794042	2.62	1069.01	24.04

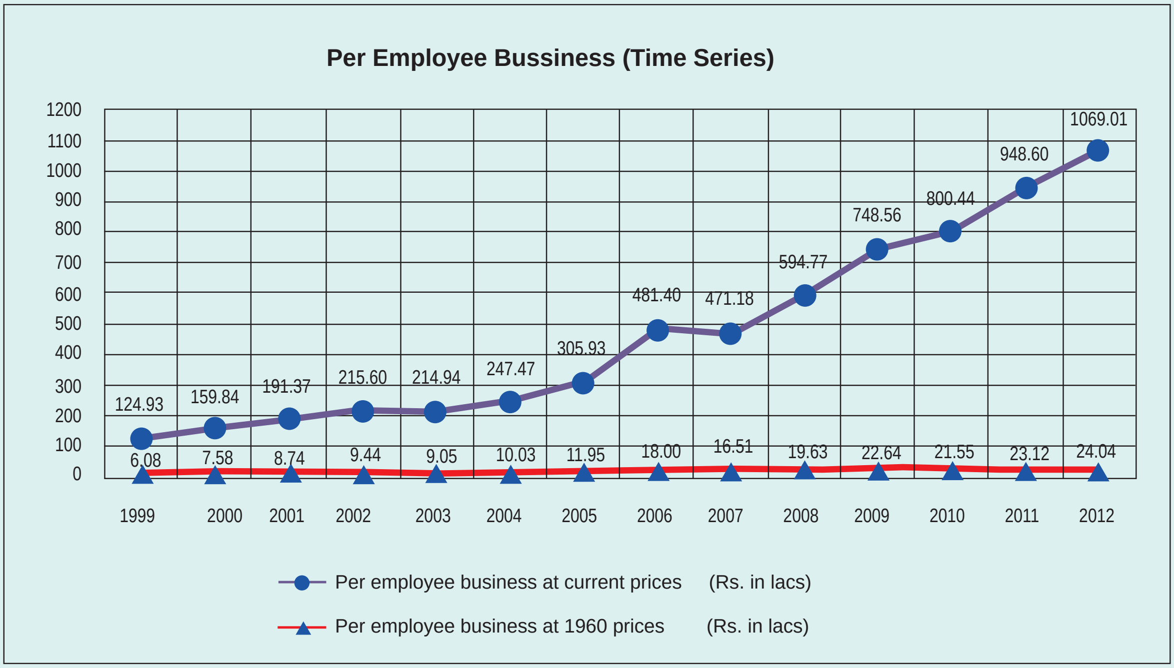
Note: Negative figure percentage increase in the number of employees during different years denotes reduction in the number over the preceding year.





A Cursory look at these above two bar charts reveals that the real situation is characterised by a phenomenal growth of business mix between 1999 and 2012 whereas the number of employees has shown **a negative and static growth during the same period**. It thus has created a situation of manpower deficit, especially in the Public Sector Banks. The following chart explains this concern more starkingly:

Average Annual Growth of Business Mix for the period 1999-2012 is 18.92%



It can be seen that even if we factor the price rise/ inflation, per employee business between 1999 and 2012 has gone up by 3.96 times, in contrast to the stagnant or rather negative growth in the number of employees.

A sharp decline in employees' strength during the years 2000 and 2001 was on account of Special Voluntary Retirement Scheme offered to the employees in the form of Golden Hand Shake. The Public Sector Banks witnessed another sharp decline in the number of their employees in the year 2005-06. This decline is attributed to emergence and expansion of New Generation Private Sector Banks which used the Public Sector Banks as a hunting ground to meet their manpower requirements. The manpower crunch faced by Public Sector Banks could not be addressed due to 5 years post VRS embargo imposed on them. PSBs started their recruitment drive in 2006-07. But it has not been commensurate with the expansion of Network and growth of business. The aging workforce and growing retirements have only added to the woes of Public Sector Banks. It would be hard for Top Bankers to believe that mismatch in the growth of Business and the Human Resources of Public Sector Banks had led to serious perilous implication for the PSBs in the following spheres:

1. Deterioration in the quality of staff
2. Decline in the customer service

3. Disproportionately high employee work load
4. Decline in the standard of follow up and monitoring of loans and Advances
5. Constraints of Training the Employees
6. Increase in stress levels of Employees
7. Increase in Medical Expenses Reimbursement to Employees
8. Decline in the Quality of Portfolio
9. Emergence and growth of Business Development Consultants & Recovery Agents
10. Outsourcing of several core activities

Despite these constraints, a study by Business Consultancy Group has found that the productivity and Profitability parameters of Public Sector Banks are comparable to those of New Generation Private Sector Banks, if the outsourced head count in Private Sector Banks was adequately factored. It is also interesting to note that the Banks irrespective of Sectoral classification have been able to impress upon their Auditors about the desirability of varying provisions despite stringent norms laid down by RBI. Most Public Sector Banks have faltered on making adequate provision towards employees' pension scheme.

Another HR paradox has been quite intriguing in a sense that despite large scale unemployment in the country, most of the Public Sector Banks have been struggling to fulfil their manpower requirements. Several of the advertised vacancies remain unfilled. There are serious Regional mismatches in recruitment, thereby posing the problem of deployment. The Recruitment Models earlier practiced by individual Public Sector Banks had failed to address this complexity of Recruitment. Despite Institute of Banking Personnel Selection stepping into assisting the Public Sector Banks in making recruitment, the problem has remained the same. The industry needs to evolve sustainable solution to resolve this crisis like situation.

Bangalore campus of Manipal University in Association with some New Generation Private Sector Banks has evolved a model of Recruitment and Training for helping them absorb quality officers. The model seems to be working well. It has also found acceptability with some Public Sector Banks as well like Bank of Baroda, Punjab National Bank, Andhra Bank, Central Bank etc. This model envisages selection of candidates for a nine-month on campus programme leading to award of a Diploma in Bank Management. The course fee is borne by the candidates, which is funded by the sponsoring bank in the form of Education Loan at different terms. The entire course is customized according to the requirements of individual Banks. It is divided in 3 Tri-misters for the purposes of conducting examination. On successful completion of the course the candidates are absorbed in the sponsoring Bank in the Managerial cadre. An on the job industry training also forms part of the programme. Apart from teaching management subjects, the programme also provides exposure to Bank specific products in the Liability, Assets, Para banking, Core Banking, cash management, Risk Management, Treasury Functions, NPA Management, Know Your Customers etc.

The Best part of the programme is that the training is imparted by the trained bankers and academicians unlike in the training model followed conventionally where on the job training during the Probationary Period is imparted by mostly untrained trainers, which may sometimes include not very qualified rankers who are good enough to carry out menu-driven transaction processing in a mechanical manner. A detailed study of the Model evolved by Manipal University may help further fine-tuning the programme. It would be worth replicating the model to improve the quality of intake into officers' cadre of Public Sector Banks. The Public Sector Banks need to create an Employer Brand which appeals to young recruits.

On—Boarding New Recruits

Induction Programme acts as a window to the Bank to the young recruits. It should therefore be well crafted and showcased. While introducing the new recruits to the mundane details of administration and work details, it is important for the trainers to take them through the inspirational introduction of the institution. The induction must include familiarizations with the Institutional Heritage, its purposeful journey of several decades and also the legacy. The new recruits must be familiarized with policies relating to Career Prospects in realistic terms. Selling Dreams to young minds plays an important role in imbibing a sense of institutional commitment, loyalty and wellness. The formative years should focus and revolve around the following:-

i. Cross functional rotational training
ii. Structured mentorship programme
iii. Job Enrichment and Empowerment
iv. Training and Skill Development
v. Objective Performance Management System
vi. Reward, Recognition and Incentivization

It shall be imperative on the part of the Management to project demographic risks by timely locating future skill gaps and strategies to bridge the gaps in an effective manner. Lateral / unconventional talent induction wherever unavoidable may be resorted to while guarding the interest of existing employees' promotional aspirations. On accountability front, it must be the responsibility of the Top Management to identify ways to prevent the genuine mistakes from destroying the careers of the people under often insensitive accountability regime. Public Sector Banks need to strengthen their HR department which encompasses career Management Performance Management, Skill Management and also effective Non-Officer Engagement. Critical issues before HR Managers would be the provision of adequate and quality Human Resources, minimising the attrition levels by creating positive exit barriers etc.

Discipline, Motivation and Performance

These three are very closely linked variables in the service industry like Banking. It is more so in Public Sector Banks where vigilance is under the superintendence of several agencies like Bank's own vigilance Department, Central Vigilance Commission, Central Bureau of Investigation, State Police Department and Reserve Bank of India. The sequence of these three variables has a vital role in the performance outcome of the people. A study by Business Consultancy Group revealed that in Public Sector Banks Discipline Enforcement with a hope to motivate, leads to Low Performance. Similarly to motivate and then enforce discipline also leads to low performance outcome. A High Performance was witnessed through a Balanced and concurrent approach to motivation and discipline. Such an approach would require very sharp minds and reflexes on the part of HR Managers.

Cash Reserve Ratio—A controversy

Banks are required to maintain Cash Balance as determined by Reserve Bank of India from time to time in terms of Section 42 of Reserve Bank of India Act. The amount of cash balance to be maintained is determined as a percentage of Net Demand and Time Liabilities (NDTL) of the Bank. Section 42 provided CRR range to be between 3 and 15% of NDTL. But through an amendment to the RBI Act in 1992, the percentage was changed to 3 to 20% of NDTL. Through an amendment to Section 42 of RBI Act in 2006 the floor and ceiling rates have been abolished leaving it to the wisdom and discretion of RBI to fix any rate of CRR. It is so designed to provide flexibility to RBI as Monetary Authority of the country to conduct Monetary Management. RBI has been using CRR as a Liquidity Management instrument in an effective manner.

It is pertinent to dwell on the issue of payment of interest on the CRR Balances maintained by the Banks with Reserve Bank of India. RBI had been paying interest to the Banks @10.5% up to April 1990. Interest rate was subsequently lowered to 8% in 1992. But progressively with an amendment to RBI Act effective 24th June 2006, RBI has abolished the system of payment of interest on CRR Balances. Since the interest payment was discontinued through an amendment to the RBI Act, it had the consent of the Government of India too. But recently the Chairman of State Bank Group Shri Pratip Chaudhury has raised the issue of desirability of payment of interest on cash balances held with RBI and demanded suitable compensation from RBI. But RBI has practically ridiculed SBI Chairman when a Deputy Governor of Reserve Bank of India stated that if the Chairman of State Bank of India is not able to do business in the given regulatory environment, he can look for some other place. The reaction from RBI appears to be quite disproportionate and offensive. Apart from being the Central Bank and Regulatory Authority, RBI is a profit making organisation too. It has freedom to use the funds impounded by it from the Banks through the instrument of CRR. It is therefore appropriate to part-compensate the Banks on CRR balances as was being done upto 24th June 2006. Some of the opponents of interest payment on CRR balances have gone to the extent of saying that such payments will be A Mortal Sin of Central Banking Authority. Other critics are arguing that payment of interest outlay would return a substantial portion of incremental sum of CRR to the Banks in the form of interest and Current Rate of CRR at 4.5% of NDTL would effectually come down to about 2% of NDTL. Such an arrangement would reduce the effectiveness of CRR as a Liquidity Management instruments. Such comments defy logic as the interest payment has a bearing on the bottom-line whereas CRR would additionally affect the availability of working funds. The payment of interest does not alter the size of the impounded cash held with RBI. The underlying objective of Section 42 of RBI Act is to impound cash from banks to have liquidity buffer and not to impair the profit making capability of the banks through the instrument of CRR. With no ceiling on CRR in Section 42, RBI can play havocs on the profitability of the entire banking system by tweaking CRR and weakening the banking institutions. There is a need to have in-built checks in the form of payment of interest on CRR balances. It is also pertinent that RBI has been progressively strengthening the provisioning norms for contaminated and impaired Assets. This provides not only significant transparency but also reduces the apprehension of occurrence of a run on our State Run Banks. This lends credence to the theory of phasing out the stipulation of CRR on Banks' NDTL. Until this happens, the Banks need to be compensated by RBI in a fair and equitable manner.

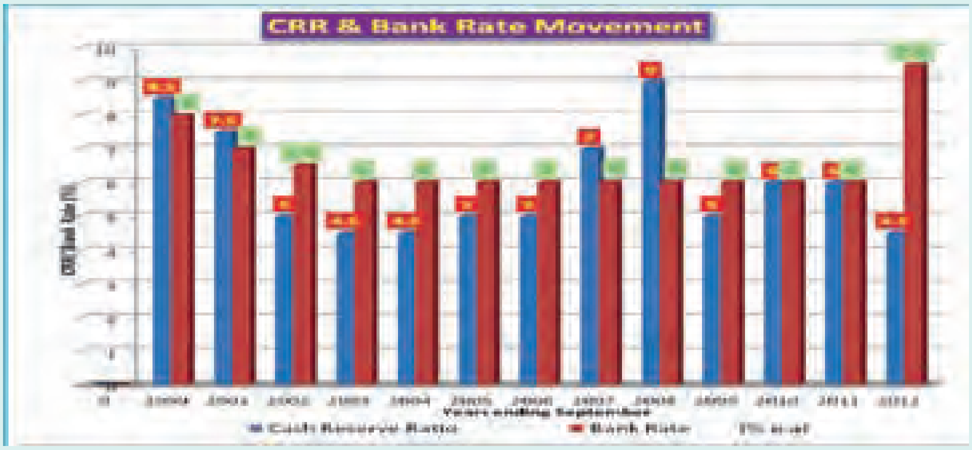
A study of CRR impounded by RBI from time to time suggested that in early to mid nineties, the CRR was as high as 16.5% of NDTL of the Banks. But between 2000 and 2012 the rate of CRR has been hovering between 4.50% and 9.0%. Such a large variation especially when there is no ceiling on the rate of CRR could cause a significant dent in the profitability of the Banks while correspondingly helping the RBI to post better results.

Bank rate is the rate at which RBI lends money to the Banks as a Banker of the Banks. It is a Benchmark or Reference Rate which acts as an indicator for the Banks to adjust their interest rates. RBI has been using both CRR and Bank Rate to regulate the availability of lendable resources and ensuring provision of cost effective credit to the needy sectors of the trade, economy and society commonly called as a productive sector.

The effective rate of CRR and Bank Rate since 2000 Sept. Upto 2012 September are furnished here:-

Year ended September	Cash Reserve Ratio (% of NDTL)	Bank Rate (% p.a)
2000	8.50	8.00
2001	7.50	7.00
2002	5.00	6.50
2003	4.50	6.00
2004	4.50	6.00
2005	5.00	6.00
2006	5.00	6.00
2007	7.00	6.00
2008	9.00	6.00
2009	5.00	6.00
2010	6.00	6.00
2011	6.00	6.00
2012	4.50	9.50

The following bar chart depicts the movement of CRR & bank rate during last 13 years.



For the current level of NDTL the interest even at 4% p.a. would aggregate to about Rs.10,000/- Crores for the Public Sector Banks. Assuming that RBI would be able to deploy the funds @ 8% p.a., RBI will also be net gainer upto Rs.10,000 Crores after making payments to the Banks. It would appear to be a win-win situation for Banks and RBI. Such an arrangement will also uphold the principles of fairness and equity. It is also interesting to note that high rate of inflation has not allowed RBI to make any significant use of Bank Rate as an effective instrument of Monetary Management.

CASA

The current Accounts and Savings Accounts (CASA) constitute 'No Cost and Low Cost funds' for the banks. It has been gaining growing focus of the Bankers in last several years. Since CASA is a major source of low cost funds, it gives leverage to the Banks to enhance their competitiveness at market place. Hence CASA is significantly vital to the Bankers. It would be interesting to understand that inspite of higher level of technology advancement in the Banking Industry, the alternate delivery channels of service delivery have not become very popular and the conventional Channel of employee Customer contact-point at the Brick and Mortar Branch continues to be a major source to influence the level of CASA business. The efficiency and effectiveness of this delivery channel plays a significant role in helping the Banks have high CASA. The age profile of the employees manning these counters and product unawareness and unfamiliarity has left much to be wanting in many of our Public Sector Banks. There is an urgent need to invest the requisite amount of resources in up-skilling this important channel both in terms of technology and HR.

Holistic Credit Management:

Credit Management in Public Sector Banks has been undergoing a serious transformation. The growing role of consultants in scouting new business has been doubly impacting the workforce – (1) by helping them achieve their business goals and (2) by robbing them of the art of scouting new business. The shortage of manpower depicted in earlier parts of this paper has facilitated the growing tendency of the managers to depend on the consultants. Quality of manpower and assets have both been impaired in this emerging process.

Such consultants are also capable of preparing the credit appraisal to further mitigate the hardship of Bankers. The devices like pen drive are a great boon in this field. Sanctioning Authorities who are quite familiar with the Consultants, have efficient support staff to ensure and protect their interests by stipulating protective conditions in the sanction notes. Compliance and disbursement are back to the desk of Branch level functionaries who assume responsibility for complete safety of advance of the Bank. In the event of impairment in the quality of Bank loans, the axe of accountability naturally falls on the Branch Staff. But Credit Management is more than this as Recovery of Non-Performing Assets has assumed greater significance in today's context. The Government of India and Reserve Bank of India have helped the Banks to evolve a concept of Recovery Agents and sale of contaminated Assets to Assets Reconstruction Companies. These new mechanisms have been responsible for huge drain of Public Money on the one hand and making the various other people quick-rich on the other hand. These are nothing but perils of outsourcing such a sensitive segment of business. It is intriguing that Central Vigilance Commission considers such segments as sensitive where the staff should be subject to rotational transfers every 2-3 years. But how the outsourced persons with high degree of vested interest are allowed to operate without any accountability is anybody's guess. Banks would do better to recruit and employ adequate number of permanent employees to handle all these assignments. That alone can help banks prevent under recoveries and thereby improve the profitability of Public Sector Banks. A motivated and upskilled workforce is the sure way to success.

Conclusion

Public Sector Banks need to enhance technology to become more competitive in the market place. Success of financial inclusion will largely depend on the lower transaction cost and its sustainability in long run. Operational efficiency in an environment of low volumes alone can convert financial inclusion into a business opportunity for Public Sector Banks.

Monetary and Non-monetary enhancement in the compensation package of the officers is the need of the hour to create attraction in the job and make it appealing to the younger generation on the supply side of the employment market. The Banks will be in a position to strategise Talent Retention measures only if Talent Attraction Measures are successful. There is also need to relook at our Business Correspondent Model and the system of engaging Recovery Agents. While the Business Correspondents are lowly paid, the Recovery Agents are able to grab substantial amount even by ethical means, which far exceeds the notional employee-cost the banks would be required to spend if the same job is to be done by permanent employees. Improvement in the quality of assets portfolio and adequate compensation on CRR balances will enhance the profitability of the banks and strengthen the Balance Sheets. Changing business paradigm naturally mandates more investment in training infrastructure to continually upgrade and re-skill the manpower.

Guidance Note on Cost Accounting Standard on Cost of Utilities (CAS-8)

"The Council of the Institute of Cost Accountants of India has issued Cost Accounting Standard 8 (CAS-8) on Cost of Utilities which lays down a set of principles and methods of classification, measurement and assignment of Cost of Utilities for determination of the cost of product and presentation and disclosure of such costs in the cost statement.

The Guidance Note deals with practical aspects in connection with the determination of Cost of Utilities of a product. In this Guidance Note the Cost Accounting Standards have been set in bold italic type and reference number of the standard has been retained".

Further The Companies (Cost Accounting Records) Rules, 2011 provides that every company, including a foreign company defined under section 591 of the Companies Act, 1956 which is engaged in production, processing, manufacturing, or mining activities have to maintain cost accounting records in accordance with the generally accepted cost accounting principles and cost accounting standards issued by the ICAI, to the extent these are found to be relevant and applicable. The above Rules further provides that these will be applicable to companies wherein:

(a) aggregate value of net worth as on the last date of the immediately receding financial year exceeds five crores of rupees; or

(b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or

(c) the company's equity or debt securities are listed or are in the process of listing on any stock exchange whether in India or outside India.

Chapter 1 Introduction

Production processes need several inputs other than raw material in the form of water, steam, electricity, and the like. These inputs are known as utilities. Utilities are classified according to the nature of utility, such as power, steam water, compressed air and so on.

A distinction is to be made whether an input is a utility or production input. For example in case of manufacture of Caustic Soda, electricity is a principal input for electrolysis of brine. If there are multiple connections/source of supply of electricity and in production of Caustic soda one of the source is directly connected without any stepping up/stepping down activity, it is to be treated as production input and not as utility. For other connection where utility power is distributed to one or more end users, it is to be treated as utility.

For example, one of the manufacturing processes requires heating. The heat can be generated and applied with help of steam or a stand alone thermic fluid heater attached to the process equipment. In such a case, if heat is applied to a given process with the help of stand-alone thermic fluid heater which is a part of process equipment and there is only single end user - this should be treated as a part of a process and not as a utility cost.

When different activities are required to be carried out on given input(s) to make it distributable and usable by one or more consuming sections, it should be recognized as a distinct utility.

Sub-set of a particular Utility:

A given utility may have more than one distinct utilities. For example supplier of electricity may be providing electricity at 11 KVA and thereafter it is converted to 460 V and given to different users. One of such user may employ step down process and bring the voltage level to 230 V. Depending upon the relevancy, the electricity in this case may be treated as two distinct utilities vz. 460 V(High Voltage) and 230 V (Low voltage) electricity. Thus electricity will have two subsets.

Sub-set of utility is also applicable for generating of steam. If steam is raised in a boiler at 48 Kg/cm^2 at 1800°C temperature with 0% humidity (Superheated steam) given to certain process and in other boiler steam is raised at 18 Kg/cm^2 with 2% moisture at 1000°C (saturated steam) which is given to different processes or to the same process and at different point of time, two different utilities shall be considered for steam viz High Pressure steam (48 Kg/cm^2) and Low Pressure steam (18 Kg/cm^2).

The above two examples highlight the importance of selection of appropriate sub sets of a given utility considering the special feature of a sub-set.

Sometimes an entity may have centralised utility or utility at department level. For example a manufacturing process may need some form of compressed air, whether for running a simple air tool or for more complicated tasks such as the operation of pneumatic control. Compressed Air Utility may be centralized services or it may that individual air compression units are provided for each department depending upon the requirement. In case individual air compression units are provided it may be possible to merge the cost of operating the air compressor with the respective departmental expenses. But where centralized air compression and supply is made, a separate air compressed utility is to be accounted.

Classification of utility:

> "Various types of utilities are used in manufacturing process as indicated in Annexure-1. These are classified according to the nature of utility, such as power, steam water, compressed air and the like".

Examples of cost measurement are:

- Use of historical cost;
- Use of actual or standard cost;
- Designation of items of cost which must be included or excluded from the utility cost.

Unit of Measurement of Utility:
Each utility has a different measurement unit considering its nature and cost is expressed in per unit of the related utility. Details of measurement of unit of different utility is given below:

Utility	Measure	Unit
Power	Units per hr	KWH or MWH
Steam	Weight/ Pressure	KG/ Cm^2 at --- °C
Water	Volume	Ltrs/K.Ltrs
Heating	Thermal unit	K cal or BTU
Air	Pressure Volume	Kg/CM^2 or M^3

Assignment is tracing the cost of utility to a product or service and dealt in Chapter 4.

The principles and methods adopted shouldbe applied consistently from one period to another and for reasonable uniformity between different products/units. For example inputs of utility such as coal, furnace oil, etc are valued on the basis of FIFO (First-in-First out) method, the same shouldbe followed consistently from one period to another and for different type of utility for valuing the inputs.

For arriving at an assessable value of excisable utilities used for captive consumption, the cost of production is to be determined in terms of Cost Accounting Standard 4 on Cost of Production for Captive Consumption (CAS-4). In other words CAS-8 is not applicable in above situation.

CAS-8 is applicable to the organization which is producing utilities for use in their manufacturing process. It is not applicable to the organizations which are primarily engaged in generation and sale of utilities. For example it is not applicable to organizations producing utilities, such as, NTPC. TATA power, NHPC etc.

As per Para 3.4 of CAS -8, the issues related to ascertainment and treatment of carbon credit are not covered under this standard.

Chapter 2 Definitions

4.1 Abnormal cost: ***An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.***[1]

4.2 Committed Cost: ***The cost of maintaining stand-by utilities shall be the committed cost.***

4.3 Cost Object: ***This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.***[2]

4.4 Finance Costs: ***Costs incurred by an enterprise in connection with the borrowing of funds.***

4.5 Imputed Costs: ***Hypothetical or notional costs, not involving cash outlay, computed for any purpose.***[3]

4.6 Normal capacity: ***Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.***[4]

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4.7 **Standard Cost:** ***A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.***

4.8 **Utilities:** ***Significant inputs such as power, steam, water, compressed air and the like which are used for manufacturing process but do not form part of the final product.***

4.9 **Stand-by utilities:** ***Any utility created to safeguard against the failure of the main source of inputs.***

Chapter 3 Principles of measurement

5.1 ***Each type of utility shall be treated as a distinct cost object.***

As each utility is a distinct cost object, cost of each utility is to be collected and measured separately. For example power, steam, water, compressed air, oxygen, nitrogen, coke oven gas and the like are distinct utilities, and the cost is collected and measured for each utility separately. The costs are booked to each utility through initial documents such as supplier 's bill, if directly identifiable with utility, payroll analysis sheet, stores requisition, etc. A separate cost statement is to be prepared for each utility.

5.2 ***Cost of utilities purchased shall be measured at cost of purchase including duties and taxes, transportation cost, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited) that can be quantified with reasonable accuracy at the time of acquisition.***

There can be a mix source of supply for a given utility. For example, the entity may purchase electricity from electricity supplier and may also be receiving from its own stand-by facilities for generation of electricity.

For purchased power it will include all cost of purchase, maximum demand charges (which is payable irrespective of the actual power consumption), Load factor, local duties and other expenditure attributable to procurement. Credit is to be given for any discount, rebate, taxes and duties refundable.

The above treatment is also applicable to any other utility purchased, such as purchase of steam, coke oven gas from other unit, raw water from municipal sources and so on.

Cost of utility consists of direct employee cost, fuel, direct expenses, chemicals, stores and spares, repairs & maintenance, depreciation and inter utility transfer cost. Measurement of cost of utility involves the basis of cost measurement method and establishing citeria for use of alternative cost measurement techniques.

5.3.1 ***Cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.***

The cost of generating a utility may comprise water, fuel, power, direct expenses (such as boiler inspection fee), consumable stores, direct employee cost, repair and maintenance, depreciation, inter–utility transfer and factory overhead.

For example:

Cost of power generation will include cost of fuel such as furnace oil, coal salaries and wages, consumable stores, repair and maintenance, deprecation. and factory overhead.

Unit cost is arrived at on the basis of the net aggregate consumption in different departments after adjusting transmission losses. In case of cogeneration (power and steam) where waste heat from TG (Turbine Generation) is recovered in waste heat recovery unit and used for production of steam.

Charging of power to the consuming cost object is generally done at the weighted average of the cost of power purchased, generated and distribution cost at the consuming point.

Steam: A separate statement of cost of steam is prepared indicating the quantity of steam generated, cost of fuel, soft water, power, employee cost for operating staff, sundry supplies, chemical additives, deprecation and other works overhead. Unit cost of steam is arrived at on the basis of units consumed in different departments after adjusting distribution loss.

Steam may be of high pressure, low pressure and medium pressure with multiple paths by which the steam pressure is reduced according to the purpose of use. Steam costs are highly dependent on the path that steam follows in the generation and distribution system. The reported cost of steam is the average cost of generation at a particular production rate. Equated pressure(ata) should be indicated in the cost statement for steam. The net cost of operating the steam is equal to the cost of steam generation less the credit for power generation in the turbine.

Raw water: Raw water is either purchased or obtained from ground wells/canal. The cost of water mainly consists of share of cost of power allocated through inter-utility transfer. The total cost of water should include employee cost, fuel, power, repair and maintenance of tube wells, depreciation, overhead. The total monthly cost of operating this department is divided by the quantity of thousands of K Ltr of water pumped during the month to determine the unit cost of water pumped.

Cost of Soft Water: Water, if hard, requires treatment. The cost of soft water will include the cost of raw water, chemicals, cost of maintenance of settling tanks, employees cost, depreciation and the like.

The cost of demineralised water is also arrived at on the above basis.

Inter Utility transfer

There is inter–utility transfer cost for a utility. For example water utility may be used in generation of steam and power. Power may be required for pumping water from tubewell. Inter-utility cost is to be determined by the following method:

a) repeated distribution method;
b) simultaneous equation method
c) matrix algebra through computer application

When Repeated Distribution Method is adopted, the utility costs are repeatedly allocated in the specified percentage until the figures become too small to be significant. Steps to be followed under this method are:

i) The proportion at which the cost of a utility is to be distributed to production cost centres and other utilities centre is determined based on usage.
ii) Cost of first utility is to be apportioned to production cost centres and other utilities in the proportion as determined in step (a) above.
iii) Similarly cost of other utilities is to be apportioned.
iv) This process as stated above is to be continued till the figures remaining undistributed in the utility are too small to be significant. The small amount left with utilities may be distributed to the production cost centres.

An illustration of repeated distribution method is at annexure _2___.

b) The simultaneous equation method is adopted to take care of inter-utility distribution of cost of utilities to production cost centres with the help of mathematical formulation and solutions. Steps to be followed are:
   i) Proportion of utility received by different utilities/production cost centre from a utility is assessed on the basis of records.
   ii) The same ratios are used as coefficients in the equation framed for finding values of a utility.
   iii) Solution of the equations gives the cost of service cost centres.
   iv) Cost of utility to be distributed to production cost centres.

An illustration of simultaneous equation distribution method is at annexure __3_.

c) matrix algebra through computer application: Spread sheet software such as Excel provides facility for inter-division cost ascertainment and reapportionment of inter utility. This application may be used for determining inter-utility transfer cost.

Quantitative records of production and distribution should be recorded for each utility to measure the unit cost of a utility.

5.3.2 ***In case of Utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to the cost of utilities determined as per paragraph 5.3.1.***

If utilities generated are transferred to inter units of an entity, the cost of distribution of such utilities will be included in the cost of utility as determined under para 5.3.1. It will comprise cost of generating utility and cost of distribution facility. Distribution may be through a pipe line/transmission line. The cost of maintenance of pipe line/
Transmission line for transfer of utility will be added to the cost of utility.

5.3.3 ***Cost of Utilities generated for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost and share of administrative overheads.***

In case of inter company transfer, cost of utility so transferred should comprise as para 5.3.2 viz. direct material (fuel and the like), direct labour, direct expenses, chemicals, share of factory overheads, distribution cost and share of administrative overhead. Cost of a utility determined as above plus share of administrative overhead is to be charged for inter company transfer.

5.3.4 ***Cost of Utilities generated for the sale to outside parties shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution cost, share of administrative overheads and marketing overheads.***

The sale price of utilities sold to out side parties should include cost of utilities as computed under para 5.3.3. plus marketing overhead and margin, as illustrated in Annexure 3.

5.4 *Finance costs incurred in connection with the utilities shall not form part of cost of utilities.*

Finance Costs are *incurred by an enterprise in connection with the borrowing of funds.* While determining the cost of utility as para 5.3.1 to 5.3.4. above, finance cost i.e. interest related cost will not be considered as an item of cost.

5.5 *The cost of utilities shall include the cost of distribution of such utilities.* The cost of distribution will consist of the cost of delivery of utilities up to the point of consumption.

The utility is supplied to the user from the place of generating the utility. The cost incurred from the place of generating to the end users (i.e. setting of pipe line and the like) will form part of the cost of utility supplied. It will include the cost of transportation through pipe/transmission line, stepping up/stepping down of power voltage, maintenance of distribution channels, etc.

5.6 *Cost of utilities shall not include imputed costs.*

Imputed cost does not involve any cash payment. It should not be included in the cost of utility.

5.7 *Where cost of utilities is accounted at standard cost, the price variances related to utilities shall be treated as part of cost of utilities and the portion of usage variances due to normal reasons shall be treated as part of cost of utilities. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.*

The cost of utility may be accounted on standard cost method. The standards are fixed for various inputs, such as material, fuel, direct employee cost, budgeted overhead expenses. Under this method, price of inputs of material fuel and the like is predetermined for a stated period taking into account all the factors affecting price such as anticipated market trends, transportation charges and normal quantity of purchase. Standard prices are determined for each input and material requisitions are valued at standard price irrespective of the actual purchase price. Any difference between the standard and actual prices of purchase results in input/ material price variance. The material price variance is to be treated as part of input/material cost. There may be also input/ material usage variance (the difference between the quantity required as per standard and actual consumption). Normal variance will form part of the cost of input. Abnormal usage variance will not form part of the utility cost. There can be other variances relating to employee cost, overhead between actual and budgeted and the like. Variances due to normal reasons should be treated as cost while the variances due to abnormal\ reasons shouldnot form part of the cost of production.

For other expenses and overhead, expenses budgeted and actuals are compared at different level of activity.

5.8 *Any Subsidy/Grant/Incentive or any such payment received/receivable with respect to any cost of utilities shall be reduced for ascertainment of the cost to which such amounts are related.*

Subsidy, grant or incentives are provided for specific purpose. For example, generation of non-conventional energy. Any subsidy, grant received/receivable shouldbe reduced from the utility cost.

5.9 *The cost of production and distribution of utilities shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost*[5]*. Cost of a Stand-by Utility shall include the committed costs of maintaining such a utility.*

Where utilities are created for captive consumption, utility plants are operated based on the production plan of end product. Normal capacity of end product is considered to be normal capacity for the utility.

Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance. There may be a situation when end product itself may be operated at below normal capacity in adverse market conditions and recession. In such a situation the normal capacity adopted for end product should be treated as normal capacity for the utility. The cost of production and distribution of utilities should be determined based on the normal capacity as discussed above or actual utilization whichever is higher. The unabsorbed cost is to be treated as abnormal cost.

The committed cost of maintaining a stand-by utility should be included in the cost of stand by utility. All related cost of the standby utility is to be absorbed irrespective of its level of utilization.

There may be a different situation where a utility is purchased and generated also. For example in case of electricity, there is one subset called purchased electricity and another is a electricity generation through DG set. In case of purchased electricity, there cannot be a measure for capacity and whereas for DG set there will be measure for capacity which again is to be related to the end product.

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[5]*Adapted from paragraph 5.7 of CAS 3*

Where utilities have capacity to cater to plant requirement and for sale to other parties, the cost of production and utilities is to be determined based on the normal capacity of the utility plant. If it is operating below normal capacity utilization, unabsorbed cost is to be treated as abnormal cost.

5.10 ***Any abnormal cost where it is material and quantifiable shall not form part of the cost of utilities.***

Abnormal cost may arise for example due to plant break down, flood fire and the like. Such cost will not form, part of the utility cost. Another example of abnormal cost is due to low capacity utilization.

5.11 ***Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of utilities.***

Penalties/damages are levied for non compliance of regulatory requirements. For example not complying with boiler inspection, not safeguarding hazardous utility. Penalty so levied should not form part of the cost of utilities.

5.12 ***Credits/recoveries relating to the utilities including cost of utilities provided to outside parties, material and quantifiable, shall be deducted from the total cost of utility to arrive at the net cost of utility.***

The total cost of a utility is to be adjusted for the cost of utility supplied to outside parties if the its cost is material and quantifiable. Credit should also be given for the recovery made for the utility consumed by other units such as township and the like. The net cost arrived at, be then charged to the different units benefitted by the use of a utility.

Example:

(1) Where a unit has a township/colony, electricity and water charges recovered for its use may be credited to the cost of these utilities and net cost distributed to production centres.

(2) If utility is sold by Unit A to outside parties, credit is to be given to the cost of utility at price of utility sold to outside parties(i.e. cost of utility including distribution +administrative Overhead+ Marketing Overhead and Margin)

5.13(2) ***Any change in the cost accounting principles applied for the measurement of the cost of utilities shall be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an organisation.***

Cost accounting principle applied for measurement of the cost of utilities should be followed consistently and uniformly among different utilities and period. Change in cost accounting principle should be made only if required by law or for compliance with requirement of law. If various inputs are valued on FIFO basis, it should be followed consistently.

Chapter 4 Assignment of costs

6.1(2) ***While assigning cost of utilities, traceability to a cost object in an economically feasible manner shall be the guiding principle.***

The cost of utilities is to be assigned to the end user/cost objects on the basis of traceability to a cost object. Cost Object as defined under paragraph 4.3 includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which utility costs are to be ascertained. The meter installed for recording consumption of utility is the right source of traceability of cost of utility for a cost object. If no meters are provided, the cost of utilities is to be assigned on the basis of rated capacity, wattage, horse power of machines, area volume or on technical assessment. The basis adopted for assigning cost of utility should be economically feasible. Economic feasible means cost effectiveness in the sense that cost accounting is not too expensive in relation to expected benefits. Basis of assignment varies with each utility as detailed below:

Power: The power consumed by each cost object/activity/sub-activity is to be assigned on the basis of meter reading. Current period reading minus previous period reading indicates the units consumed by the cost object and multiplying with utility rate, total cost of the utility is assigned.

If no meters are provided, the cost is assigned on the basis of rated capacity, wattage, horse power of machines, as discussed earlier. This practice applies for other utilities.

6.2 Where the cost of utilities is not directly traceable to cost object, it shall be assigned on the most appropriate basis.

The cost of utilities is to be assigned on the basis of meter reading which is more reliable. In case meters have not been installed, it should be assessed on technical estimate based on equipment rating, area, volume, and the like.

For example:
For Product A, in the absence of meter, utility required may be assigned based on product requirement as per technical estimate.

6.3 ***The most appropriate basis of distribution of cost of a utility to the departments consuming services is to be derived from usage parameters.***

In the absence of meter, utility is to be distributed to the consuming departments based on usage parameters such as stated in the project report, technical estimates taking into account the equipment rating capacity, space, volume and the like. The project report of the plant lays down various usage requirement of utility, and the same should also be taken into account while assigning the utility consumption.

Chapter 5 Presentation

7.1 ***Utilities costs shall be presented as a separate cost head for each type of utility in the cost statement, if material.***

The cost statement should indicate the details of each utility separately, if material, as detailed blow:

Cost statement of A Product				
Particulars	Unit	Qty	Rate/Per unit	Amount(Rs)
Material consumed	Xx	Xx		Xx
Utilities Water	KL	62500	1.50	93750
Dm Water	KL	3560	3.00	10680
Power	Kwh	615780	4.00	2463120
Steam	MT	2560	780.00	1996800

In the context of cost statement, Materiality is to be judged in terms of nature, quantity and cost of utility. A piece of information is material, if its omission./non-disclosure could influence the decision of the user. If a utility is not material, it may be shown under production overhead.

7.2 ***Where separate cost statements are prepared for utilities, cost of utilities shall be classified as purchased or generated. Such statement shall also include cost of utilities consumed along with quantitative information by individual consuming units, inter unit transfers, inter company transfers and sale to outside parties wherever applicable.***

If a utility is purchased and generated, purchase value of the units purchased and cost of units generated is to be indicated in the cost statement separately. Weighted average rate is to be used for assigning the cost of utility to the user departments. The cost statement should also furnish distribution of utility to users departments, inter unit transfers, inter company transfers and sale to outside parties. The information is to be furnished both in quantity and value. Cost of utility is to be assigned as provided under para 6 above.

Chapter 6 Disclosures

8.1 ***The cost statements shall disclose the following:***

8.1.1 The basis of distribution of Cost of Utility to the consuming centres.

The basis of distribution of cost of utility to the consuming centre adopted is to be disclosed in the cost statement. Normally it will be based on meter readings of period/technical estimates, area, etc as detailed in the table below.

Power	Basis	Units (KWH)	Amount
Production Deptt A	Meter reading	5700	23370
Production Deptt B	Meter reading	3560	14596
Utility : Water	Meter reading	1000	4100
Air-conditioning	Meter reading	2300	9430
Others	Meter reading	1500	6150
	Total	14060	57646

Steam Power House Production Deptt A Production Deptt B	Basis Meter Reading Meter Reading Meter Reading	M.Tons	Amount
	Total		
Air Conditioning	Basis		
Production Design & Drawing Administration Sales Department	Area Area Area Area		

8.1.2 The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.

If a utility purchased as well as generated is sold to outside parties, the utility cost statement should disclose the following details

Particulars	Units	Rate	Amount
POWER Purchased Generated Total Less Distribution loss			
Net units			
Distribution Deptt A Deptt B Other Outside parties			
Total			
Sale to outside parties Cost of generation & Distribution Add: Administrative Overhead Add: Marketing & Distribution cost Total Sale Price			

For Example
Disclosure: During the period, unit has sold 5680 KWH units to outside parties @ Rs 6.50 per KWH against cost of sales (including marketing and distribution cost) of Rs 5.10 per KWH.

8.1.3 Where cost of utilities is disclosed at standard cost, the price and usage variances.

In case standard costing technique is used, cost statement of a utility should disclose price and usage variance separately relating to various inputs. Variances should be indicated in the cost statement. Abnormal variance are to be excluded and indicated in the cost statement as a foot note.

A cost statement indicating the variance is at Annexure _3_____.

8.1.4. The cost and price of Utility received from/supplied to related parties[6].

If any utility is procured from or supplied to related parties (as defined under the Companies (Accounting Standards) Rules, 2006)), its relationship, nature of transaction viz quantity, rate, other terms/conditions of procurement are to be disclosed. The objective of disclosure is to ascertain that the transaction is at arm's length and on purely commercial terms.

Example
Related party → XYZ Ltd
Nature of relationship → *We and our* subsidiaries own 51 percent of their. Equity.

[6]*Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement*

Nature of transactions: XYZ Ltd supplies power
Volume of transaction: During this year ….2500 KWH units of power were supplied @ Rs. 4.50 per KWH for Rs 11250.

8.1.5 The cost and price of Utility received from/supplied as inter unit transfers and inter company transfers

Inter unit transfers/inter company transfers relating to utility received/supplied is to be disclosed in the cost statement or as a foot note. It should indicate cost of a utility supplied and price of a utility purchased. In case of inter-unit transfers, utility should be at cost. If inter utility transfer is at selling price, difference between cost and price to be indicated as a footnote in the cost statement of a product. In case of inter company transfers, if utility is charged at price in the cost statement, details of cost should be furnished by a footnote.

For Example:

(1) Main Steel plant has supplied coke oven gas to Tubes Plant at cost of Rs xxx per cub meter.
(2) Company A has sold power 6500 KWH to Company B at a selling price of Rs 5.00 per KWH against cost of sales of Rs 3.75 per KWH.

Cost of Production per KWH …… Rs 3.50
Selling & Distribution per KWH …… Rs 0.25
Cost of Sales per KWH …… Rs 3.75

8.1.7 Cost of utilities incurred in foreign exchange.

Cost of inputs for a utility incurred in foreign exchange is to be disclosed by way of footnote in the cost statement of the utility.

For Example :
Unit has captive thermal power plant. It has imported 1500 MT coke valued in foreign exchange US $ xxxxx during the current year.

8.1.7 Any Subsidy/Grant/Incentive and any such payment reduced from Cost of utilities.

Any subsidy/grant/incentive received relating to utilities is to be reduced from the cost of utilities and disclosure made accordingly by way of a foot note.

Example
The State Government has been subsidizing setting up of non-conventional energy plant/its use. Such subsidies received and receivable are to be reduced from the cost of utility.

Example: Unit has set up wind plant and received subsidy of Rs 10.0 lakhs. This has been reduced from the capital cost of the plant and resulting in lower depreciation of Rsxxxx.

8.1.8 Credits/recoveries relating to the Cost of utilities.

If any credit or recovery considered while determining the cost of utility, the same shouldbe disclosed in the body of the cost statement.

Disclosure:
Sale of Fly Ash has been adjusted against the cost of power (Rs 15 lakhs in 2010 as against Rs 10 lakhs in 2009)

8.1.9 Any abnormal cost excluded from Cost of utilities.

Abnormal cost is to be excluded from the cost of utilities as the same has not contributed to the production of utilities. Disclosure is to be made by way of foot note in the cost statement.

For example: During the year there was theft of 300 Tons of coal valued at Rsxxxx. The same has been excluded from the cost of the power generated.

8.1.10 Penalties and damages paid etc. excluded from cost of utilities.

Penalties and damages paid are not an item of cost as these are levied for non compliance with regulatory/contractual requirements. These are to be excluded from cost and disclosure made as a footnote in the cost statement.

For Example:

(1) Unit has an agreement with Power supplier for a specified quantity of power. Unit had drawn excess power during the specified time and penalties was levied by the power supplier of Rs 1.2 lakhs during the year. The same has been excluded.

8.2 ***Any change in the cost accounting principles and methods applied for the measurement and assignment of the Cost of utilities during the period covered by the cost statement which has a material effect on the Cost of utilities. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.***

Cost Accounting principles, and methods applied for the measurement and assignment of cost of utilities are to be applied consistently between one period and uniformly applied for different utilities. If any change is made in these principles and methods results in material effect on the cost of utilities, the same should be disclosed in the cost statement or by a foot note. In case the impact of change in principles and methods of cost accounting is not ascertainable, the fact is to be disclosed by a note to the cost statements.

For Example:

(1) Heat recovery steam partly used for drying process was charged at of the the normal steam rate. It has been changed to charging Heat recovery steam at equivalent calorific value of furnace oil used resulting in higher charges to dry process of Rsxxx and higher credit to steam.

(2) Steam to various cost centres was being assigned on technical estimates. During the current period, meters have been installed and the cost of steam has been assigned on the basis of meter reading.

8.3 ***Disclosures shall be made only where material, significant and quantifiable.***

Level of materiality and significance has not been stated in the standard. As stated in para 7.1 Material and significance of an information will be different from situation to situation. Materiality of cost information is to be judged from the perspective of the users of that information. If material, the same is to be disclosed.

8.4 ***Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.***

Disclosure in the body of cost statement will depend on cost of each utility. If it forms material part of the cost of the utility, the same should be disclosed in the cost statement. Disclosures may also be by way of foot note.

Annexure 1

CLASSIFICATION OF UTILITY

Power	Purchased Power Generated Power (stand alone) Co Generation
Water	Raw Water Treated water Demineralized water Distilled water/softening water Chilled water Cold water Hot water
Steam	Low Pressure steam High pressure steam
Climatic control	Air conditioning Humidification Air Handling units
Air	Compressed Air Instrument Air (Vacuum) Oxygen Gas Nitrogen gas Hydrogenation

Annexure 2

Illustration of Steam Cost

COST CENTRE-STEAM					
Installed Capacity		60000			
Production	MT	55385			
PARTICLUARS	UNIT	QNTY	RATE	AMOUNT	COST PER MT
VARIABLE COST				Rs/Lakhs	
RAW MATERIAL					
COAL	MT	9380.00	4386.25	411.43	742.85
COAL HANDLING CHARGES				3. 5	6.32
DIESEL OIL EXPENSES FOR LOADER				5.5	9.93
COAL COSUMPTION\ASH SALE				-6.28	-11.34
SIDING EXPENSES				1.67	3.01
ENTRY TAX				6.25	11.28
RAW MTRL TOTAL				422.06	762.06
CHEMICALS					
LIME	MT	11.85	3460.21	0.41	0.74
CAUSTIC SODA	MT	11.85	27512.87	3.26	5.89
H C L	MT	67.94	3694.60	2.51	4.53
RESIN-FFIP	LT	118.50	151.91	0.18	0.32
SULPHURIC ACID	LT	2.37	8438.82	0. 2	0.36
CHLORINE	LT	1.58	7594.94	0.12	0.22
SODIUM SULPHATE	KG	19.75	151.91	0.03	0.05
OTHERS		0.00	1.00	1.65	2.98
CHEMICAL TOTAL				8.36	15.09
POWER	KW	871172.00	2.79	24.34	43.95
WATER	KL	49003.00	2.72	1.33	2.40
TOTAL VARIABLE COST				**457.35**	**825.76**
FIXED COST					
EMPLOYEES				8.04	14.52
DEPRECIATION				4. 5	8.12
OTHERS				1. 2	2.17
TOTAL FIXED COST				13.74	24.81
TOTAL COST (VARIABLE+FIXED)				471.09	850.57

Annexure 3

Examples of Steam cost – Transfer to Other units

Steam cost per tonne works out to Rs 471.09 as illustrated under Annexure 2. If steam is transferred to other unit, distribution cost will be in addition to the above cost as illustrated below

1.	Steam generation cost as 5.3.1 above	Rs 471.09	Per MT
2.	Distribution cost : Operation & Maintenance cost of distribution line Depreciation Other Total Distribution cost	 Rs 1.00 Rs 0.75 Rs 0.75 Rs 2.50	 Rs MT
3.	Inter Unit transfer cost	Rs. 473.59	Rs MT

Cost of a utility determined as per para 5.3.2 plus share of administrative overhead to be charged.

Example:
Inter Company transfer price

1. Cost of steam generation as para 5.3.1.	Rs 471.09 per MT
2. Distribution cost	Rs 2.50 per MT
3. Share of Administrative Overheads	Rs 0.50 per MT
4. Inter company transfer, cost of utility	Rs 474.09 per MT

Example of Sale of Utility

1.	Cost of steam generation as para 5.3.1.	Rs 471.09 per MT
2.	Distribution cost	Rs 2.50 per MT
3.	Share of Administrative Overheads	Rs 0.50 per MT
4.	Marketing overhead	Rs 0.75 per MT
5.	Cost of Sales	Rs 474.80 per MT
6.	Margin	Rs 2.20 per MT
7.	Sales to outside parties	Rs 477.00 per MT

Illustration: Determination of Abnormal Cost due to low capacity Utilisation	
Installed capacity Power Plant	400,000 kwh
Normal Capacity fixed after accounting for normal unavoidable interruptions	366,000 kwh
Generation of Power: 2007-08 2008-09	 370,000 340,000
Generation during 2008-09 was low due to strike for 30 days. Therefore it was decided by the management to remove cost portion of fixed overheads incurred during the strike period and the same was shown as a reconciliation item (Abnormal Overhead) in the Profit Reconciliation Statement for Profit as per Cost Accounts and Profit as per financial Account. Detailed working is as under:	
(A) Variable Cost	Rs 11,90,000
(B) Fixed Overheads for the year based on Normal Capacity of (C) Abnormal Fixed Overhead due to unitilised capacity (D) Share of Fixed Overhead for Actual Production (B-C)	Rs 7,32,000 Rs 61,000 Rs 671,000
Cost of generation after excluding low utilisation cost (a) Variable cost (b) Fixed Overhead for actual production (c) Total	 Rs 11,90,000 Rs 6,91,000 Rs 1,881,000
Cost per unit (KWH) Rs 1881000/340000	Rs 5.53 kwh
Fixed Overhead unabsorbed (treated as an item of reconciliation between Costing P&L A/c & Financial A/c	Rs 61,000

Cost Accounting Standards Board

REQUEST FOR COMMENTS

Cost Accounting Standards Board, the standard–setting body of the Institute, has approved the release of Exposure Draft of Guidance Note on Cost Accounting Standard On Cost Of Utilities (CAS—8). The proposed exposure draft of Guidance Note may be modified in the light of comments received before being issued in final form.

Please submit your views/ comments/ suggestions on the Guidance Note on CAS—8 preferably by email, latest by 11th January, 2013.

Comments should be addressed to :

The Secretary,
Cost Audit and Assurance Standards Board
The Institute of Cost Accountants of India
3rd Floor, CMA Bhawan
3, Institutional Area, Lodi Road
New Delhi - 110 003
Ph : 011-2462 2510

Email id responses should be sent to :casb@icwai.org

Copies of this draft Cost Accounting Standard may be downloaded from the CASB Website at *http://www.casbicwai.org*

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

Regions & Chapters News

WIRC

A 'Faculty Meet' of WIRC Oral Training Centres was held at Indian Merchant Chambers, Churchgate, Mumbai on 28th November 2012 at 6.00 pm to discuss various matters relating to Oral Training

CMA Ashok Nawal, MD, Bizsolindia Services (P) Ltd., Pune & Chairman Students, Members and Chapter Co-ordination Committee, WIRC welcomed the Faculty members. CMA Aruna Soman, Council Member of the Institute briefed about the finer issues of New Syllabus. CMA Shrenik Shah, Chairman, WIRC gave an overview about the New Syllabus. CMA Ashish Thatte, Vice-Chairman,WIRC informed about the activities that are presently being carried on at WIRC. On this occasion, WIRC released new publications on objective types of question and Answers. The members present replied to the queries raised by the Faculty Members.

CMA Debasish Mitra, RCM, WIRC proposed vote of thanks.

SIRC

Mysore Chapter of Cost Accountants (MCCA)

MCCA organized a full day seminar on 'Service Tax' on 25th November 2012 at Hotel Dasprakash Paradise, Mysore. CMA G.V.S. Subrahmanyam, Chairman, SIRC presided over the seminar. Present in the seminar were Shri B.S. Ravi Kumar, a leading Chartered Accountant and Tax practitioner of Mysore who inaugurated the seminar, CMA G.N. Venkataraman, past President of the Institute who released the souvenir brought out by the Chapter on the occasion, Shri D.D. Bhat, GM (Commercial), J.K. Tyres Ltd, Mysore, CMA T.L. Sangameswaran, Chairman, MCCA, CMA K.M. Lalu, Secretary, MCCA, CMA K.V. Prabhakar, Member, SIRC, Shri Rajesh Kumar T.R., Chartered Accountant and eminent Tax practitioner and Shri K. Parameswaran and Shri Harish Bindu Madhavan, eminent Advocates of Mysore.

CMA G.V.S. Subrahmanyam, Chairman, SIRC in his presidential address dwelt on the latest developments in the field of Service Tax and advised Cost Accountants to rise to the occasion to deliver quality services. The first Technical session on Service Tax – Negative List and Exemptions was addressed by Shri Rajesh Kumar T.R. and the second Technical session on Service Tax – Reverse Mechanism was addressed by Shri Harish Bindu Madhavan who dealt with important issues in the area.

CMA T.L. Sangameswaran, Chairman, MCCA, welcomed the gathering and CMA K.M. Lalu, Secretary, MCCA proposed vote of thanks. Good number of delegates representing various industries participated in the deliberations.

Ukkunagaram Chapter of Cost Accountants (UCCA)

UCCA, Vishakapatnam has organized a 'Members Meet' on 27th December 2012 which was attended by CMA T.C.A. Srinivasa Prasad, Council Member and CMA K. Sanyasi Rao, RCM of SIRC

CMA S.V. Rambabu, Chairman, UCCA delivered the welcome address. CMA Sanyasi Rao briefed the members about the activities and the initiatives taken by the Central and Regional Council.

The members while appreciating the major improvements that are taking place in the Institute also offered certain suggestions for further improvements especially in the area of memberships and students' coaching.

CMA T.C.A. Srinivasa Prasad provided with valuable insights into Institute activities including placements, membership, journal etc. He requested the members present to contribute more articles to the Institute Journal. He also requested the members to take part in the Members in Industry Survey.

EIRC

Ranchi Chapter of Cost Accountants (RCCA)

A workshop on XBRL was organized by RCCA on 1st December 2012 at CCL, HRD Hall, Ranchi. The key note speakers were CMA Chandra Wadhwa, past President of the Institute and CMA Ashwini Dalwadi, past CCM, of the Institute. The Chief Guest was CMA Amit Das, GM (Finance), Central Coalfields Ltd and guest of Honour was CMA T.K.Sen GM (Finance), Central Coalfields Ltd.

CMA Ajay Deep Wadhwa, past Chairman, EIRC inaugurated the function and CMA S.K.Singh, Vice Chairman, RCCA delivered the welcome address. CMA Chandra Wadhwa discussed in depth the 'CARR' and apprised the members that henceforth, the cost audit report has to be submitted in XBRL (extensible Business Reporting Language) format to the MCA.

CMA Ashwini Dalwadi spoke on XBRL and thanked the Institute for issuing tailor-made software to enable the members to file their reports in XBRL format. He stated that XBRL is a language for electronic communication of business and financial data which is revolutionizing business reporting around the world. It offers major benefits to all those who have to create, transmit, use or analyze such information. XBRL India is working closely with regulators, stock exchanges and software companies for promotion of XBRL as a Standard Business Reporting Language.

CMA Ranjeet Kumar Agarwal, Secretary, RCCA proposed vote of thanks. The programme was attended by CMAs and CAs from CCL, CMPDIL, MECON, HEC etc and also by many practitioners from Ranchi and Jamshedpur.

NIRC

Patiala Chapter of Cost Accountants (PCCA)

PCCA organized a Seminar on 25th November 2012 on 'Service Tax & Cost Accounting Record Rules' at C-Hall, Thapar University, Patiala. Present in the seminar were CMA Rakesh Singh, President of the institute, Shri B.B.Goyal Advisor (Cost) Ministry of Corporate Affairs, Govt. of India, CMA S.C. Mohanty, Vice-President of the institute, CMA Vijender Sharma, Chairman, NIRC, CMA V. K.Goel, Chairman PCCA, delegates from various Companies like PSPCL, PSTCL, HPGCL etc. practicing CAs from the region and members of the other chapters.

CMA V. K. Goel, Chairman PCCA welcomed the participants. Dr. Ravi Kiran, Professor and Head, School of Behavioral Sciences and Business Studies, Thapar University gave an informative talk on the evolution of Service Tax and its impact on various sectors of society. The chapter felicitated our President, Advisor (Cost), Vice President and Chairman NIRC on the occasion.

Shri B.B.Goyal Advisor (Cost) Ministry of Corporate Affairs, gave an expert talk on the changing scenario in regard to need of costs accounts and their preparation. He explained that all the countries in the world are facing crunch in the economic side and they need the regulatory methods to be developed for this purpose. India is a leader in implementing the cost accounting record rules standards. The topic of discussion and implementation has changed from TQM to TCM. To implement all these, regulatory authorities would require the cost data of the industries covering major areas of process manufacturing and mining. Even service providers are to be covered by this requirement.

CMA Balwinder Singh, former Central Council Member of the Institute and CMA Rakesh Bhalla, Vice-Chairman, NIRC delivered talk on 'Cost Accounting Record Rules' &.'Service Tax. The occasion was also considered appropriate to honor our senior most Member CMA H.S. Arora FCMA, who has been actively involved in various aspects of running the chapter. He was presented with a shawl and memento.

CMA Monika Kansal Secretary PCCA proposed vole of thanks.

REVISED COURSE PLAN

ADVANCED STUDIES DIRECTORATE
CERTIFICATE COURSE ON

BUSINESS VALUATION AND CORPORATE RESTRUCTURING

Course Objective:

The New Companies Act has introduced the concept of Registered Valuer, who will provide services for valuing assets, securities etc when such valuation is required under the Companies Act. The Government will frame rules regarding the qualification and experience of persons who will be eligible to be registered as Valuers.

It is expected that with this Amendment in the Companies Act, the Valuation profession will evolve fast. Moreover, every General Manager is expected to understand Valuation models and value drivers to be able to evaluate corporate strategies. This course aims to develop proficiency in Business Valuation and Corporate Restructuring techniques and methods by undergoing a learning process with appropriate conceptual and practical blend.

Eligibility Criteria for Registration:

- Member of the Institute of Cost Accountants of India, or
- Member of any Accounting Body/Institute in India or outside (eg. ICAI, ICSI etc), or
- Senior Executives aspiring to acquire capabilities in Valuation Methods and Techniques, or
- Faculty members of business schools and universities.

The Board reserves the right to reject any nomination/application without assigning any reason.

Prerequisites:

Fundamental knowledge in corporate finance and management accounting
(Those executives who do not have accounting/ finance background, will be required to complete a Bridge Course of 20 learning hours)

Pedagogy:

Participative class room lectures and sessions, analysis and discussions on case studies, completion of a detailed project report/ case study write-up will be used as pedagogy for delivering the course

Faculty:

Faculty will be drawn from academicians associated with top academic Institutes, practitioners engaged in business valuation and corporate restructuring and others, including Government officials and Regulators

Learning Outcomes:

On successful completion of the course, participants will be able to apply the techniques and methods of business valuation and corporate restructuring in real life situations. In particular, participants shall:

1. Develop proficiency in valuation and corporate restructuring
2. Develop capabilities to offer advisory/consultancy services in the area of valuation and corporate restructuring

- By the end of this course, the participants should have answers to the following questions:
- What is valuation, why is it required and what are the different techniques for valuation
- Who performs a valuation exercise and how to write a valuation report
- What are the ethical concerns and duties of a valuer
- In a valuation exercise, what all is to be valued and what is the most appropriate technique to carry out valuation for each concern

- How to perform accounting analysis, financial analysis, strategic analysis and prospective analysis for purpose of valuation
- What are the advanced techniques of valuation
- What are the international standards and best practices in the field of valuation
- What is the Indian legal framework and regulatory issues in the field of business valuation
- How to value debt, equity, tangibles and intangibles of a business
- What is corporate restructuring
- What are the different forms of corporate restructuring
- What are mergers and acquisitions, their motives and strategies
- Valuation principles and mechanisms in mergers and acquisitions
- What are the legal aspects involved in corporate restructuring of enterprises
- How to value cross border businesses
- How to evaluate cross border projects
- How to evaluate cost of capital in a complex environment
- How to use real option techniques to value uncertainties
- How to use valuation to evaluate alternative strategies

Course Duration:

Course will be of 6 months duration and will involve investment of 84 hours in classroom learning. In addition, a participant will have to invest around 50 hours in completing a project.

Course Fee:

- For members of the Institute of Cost Accountants of India and other Accounting bodies and faculty members of business schools and universities, the course fee is Rs. 30,000/- (Rupees Thirty Thousand only)
- For others, the course fee is Rs. 40,000/- (Rupees Forty Thousand only)
- For Bridge Course, an additional fee of Rs. 10,000/- (Rupees Ten Thousand only) will be charged.

The course fee is inclusive of the examination and evaluation fee.
However, additional fee will be charged if any participant intends to appear in the comprehensive exam to improve his/her performance. Only one chance will be given to improve performance.

Centers:

The course will be offered at Chennai, Hyderabad and New Delhi. In New Delhi, sessions will be held at Chennai, Hyderabad and New Delhi. In New Delhi, sessions will be held at **The Institute of Cost Accountants of India, CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi- 110003** on Saturdays from 5 PM to 9PM or Sundays from 9.30 AM to 1.30 PM (4 hours a week).

Certification:

The participants will be evaluated continuously and issued a certificate which will mention the participant's CGPA **(Annexure)**. Appropriate grades shall be assigned to them based upon their performance in each component in the evaluation process.

Grading Scheme:

The grading scheme will be on a 9 point scale, as given below:

Points	Grade
9	A+
8	A
7	A-
6	B+
5	B
4	B-
3	C+
2	C
1	D

A participant will be declared successful only if he/she earns a CGPA of 5 and above and earns atleast C+ grade in each subject.

Evaluation Mechanism:

For successfully completing the course, the participants will have to:

a. undergo a process of evaluation, and
b. submit a detailed project/ case write-up in the 6th month of course followed by a viva-voce

The work on the project should commence from the 4nd month of the course.

The detailed guidelines and framework for writing the case study and preparing the project will be issued to the participants in due course. The originality and relevance of work shall be evaluated in the viva voce. Plagiarism of any kind will be punished severely.

Course Contents:

Paper I: The Principles of Business Valuation **[28 Hours]**
(100 marks)

1. **Valuation Fundamentals & Contexts** **[2 Hours]**
   Concept of Valuation - Fair market value, fair value, investment value, intrinsic value; Purpose and Role of Valuation, Valuation context, Distinction between Price and Value

2. **Restructuring and Analysis of Financial Statements** **[4 Hours]**
   Restructuring, Analysing Financial Statements to forecast Balance Sheet, Profit and Loss account and Cash Flows to be used in Valuation

3. **Forecasting Balance Sheet, Profit and Loss account and Cash Flows** **[6 Hours]**
   Identification of Value drivers , competitive advantage in the context of likely change in the business environment and industry dynamics

   PEST Analysis and Porter's Five Force Model to analyze industry, Analysis of the sources of past growth in ROIC and revenue and sustainability of the same in the context of capabilities of the company

   Establishing the relationship between each line item in the Profit and Loss account with revenue and other drivers of costs and expenses

4. **DCF Methods of Valuation** **[8 Hours]**
   Enterprise Value Approach, Capital cash Flow Approach, Equity Cash Flow Approach; Adjusted present value, Valuation based on residual income or economic value added ; forecasting cash flows, determining the cost of capital and discount rate; determining the terminal value and determining the value of equity from the enterprise value

5. **Techniques to manage Risk in Business Valuation** **[2 Hours]**
   Sensitivity analysis, Scenario analysis

6. **Non-DCF Valuation** **[2 Hours]**
   Asset approach, real option/contingent claim approach, relative valuation

7. **Criteria for selecting the appropriate Valuation Method** **[2 Hours]**
   Suitability of different valuation methods in different contexts,
   Choice of valuation method based on the growth stage of the firm, nature of the industry and availability of information

Paper II: Corporate Restructuring **[20 Hours]**
(70 marks)

1. **Fundamentals of Corporate Restructuring** **[4 Hours]**
   Corporate Restructuring, Forms of Corporate Restructuring- Mergers, Acquisitions, Consolidation, Joint Ventures Restructuring Equity, Ownership and Control of assets; Restructuring Debt Contracts, Restructuring Equity Contracts, Restructuring Assets

2. **Mergers and Acquisitions** **[2 Hours]**
   Strategies: Intensive Growth, Diversification Growth, Spin-offs, split-offs
   Motives and Synergies: Monopoly theory, Valuation theory

3. Takeover and Defense Mechanisms [2 Hours]
   Friendly takeovers, Hostile takeovers; Leveraged Buyouts, Poison Pill, Note of Clause, Buy back of shares and other defense mechanisms.

4. Legal, Taxation and Other Regulatory Issues in Corporate Restructuring [8 Hours]

   Taxation **[4 Hours]**
   Taxation Due Diligence, Direct and Indirect Tax issues in Corporate Restructuring, Double Taxation Avoidance Agreement, Tax Information Exchange Agreement in the context of cross border Acquisitions, Implications of Stamp Duty

   Other Regulatory issues **[4 Hours]**
   Legal Due Diligence, Companies Act, 1956: Mergers and Demergers, Reduction of Capital
   SEBI (Substantial Acquisition of shares and takeovers) regulations, 1997: Takeover Panel, Escrow Account

5. **Cultural due Diligence** **[2 Hours]**

6. **Information Technology Due Diligence** **[2 Hours]**

Paper III: Application of Valuation Principles **[28 Hours]**
(100 marks)

1. Fair Value in Financial Reporting [2 Hours]
2. Valuation of closely held companies (SMEs) [2 Hours]
3. Valuation of stressed companies [2 Hours]
4. Valuation of IPOs [2 Hours]
5. Valuation of financial institutions- banks and insurance companies [4 Hours]
6. Valuation of Intangibles **[2 Hours]**

7. Other Valuations
   Asset Valuation [2 Hours]
   Valuation of Derivatives [4 Hours]
   Bond Valuation and Valuation of securitized instruments including mortgage based securities [4 Hours]

Paper IV: Business Valuation Standards and Preparation of Business Valuation Reports **[8 Hours]**
(30 marks)

1. Local and International standards on Valuation [2 Hours]
2. Data collection for Business Valuation [2 Hours]
3. Writing a Business Valuation Report [2 Hours]
4. Engagement procedure for valuation assignment, term of reference and deliverable [2 Hours]

Paper IV: Project (Case Study on Valuation) **(100 Marks)**
Project (Case Study on Valuation)

Note:
i No CEP Credit Hours will be awarded to Members pursuing or completing this course.
ii Tentatively the class room delivery of lectures will be scheduled on Saturdays (5 PM to 9 PM/ Sundays(9.30 AM to 1.30 PM)- 4 hours a week.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(set up under an Act of Parliament)

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has successfully completed the

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Business Valuation and Corporate Restructuring
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with a CGPA of ………….. on a 9 point scale.

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Subject 2	*Grade*
|	|
|	|
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	Points	9	8	7	6	5	4	3	2	1

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The Institute of Cost accountants of India (ICAI) has announced the following three certificate courses:

Course Name	Course Duration	Tentative Fee (in Rs.)		Tentative Course Commencement	Last Date for Registration
		For Members of Professional Accounting Bodies	For Non-Members		
Businesses Valuation & Corporate Restructuring	*6 months*	*30,000/-*	*40,000/-*	*15th Feb 2013*	*31st Jan 2013*
Treasury & Financial Risk Management	*6 months*	*30,000/-*	*40,000/-*	*April' 2013*	*15th Mar 2013*
Enterprise Performance Management & Appraisal System	*3 months*	*15,000/-*	*20,000/-*	*April' 2013*	*15th Mar 2013*

Course Highlights:

- The advanced courses have been conceived and structured to reflect the Current trends in the Market. The courses are monitored by the Board of Advanced Studies constituted with eminent experts from Academia, Industry, Government and Consultancy. The Board is chaired by Dr. Asish K. Bhattacharyya, who was former Professor from IIM-Kolkata and Director of IMI-Kolkata.
- These Programs are advanced specialized courses designed to ensure a continuous supply chain of Capable and Competent Leaders, to cater to the demanding needs of Industry, Government and the Regulators.
- These courses will be delivered at an advanced level to develop expert knowledge.
- The courses will be open to members of the Institute of Cost Accountants of India, the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India and other Professionals who have relevant experience.
- The Courses will be delivered in class-room mode at New Delhi, Hyderabad, Chennai and Kolkata subject to participation of atleast 15 participants.
- Eminent experts from academia and industry will engage class room sessions.

- Students will be evaluated on continuous basis and will receive a successful completion certificate (with grades) from **The Institute of Cost Accountants of India,** if they pass in all evaluation tests.

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For any further information on these courses, contact:

CMA. M.P.S. Arun Kumar, Deputy Director (Advanced Studies) Phone No: 09700516350, (040)23002555, 23002557 e-Mail: advstudies@icwai.org	**Ms. Kimi Thareja** Assistant Director (Advanced Studies) Phone No: (011) 24622156 Ext: 141 e-Mail: advstudies.kimi@icwai.org

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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3, Institutional Area, Lodhi Road
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Directorate of Advanced Studies
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The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)
54th National Cost Convention-2013
Venue : Gujarat University Convention and Exhibition Center, Ahmedabad
Theme : India's Cost Competitiveness – Imperatives for CMAs
on 18-19 January, 2013 at Ahmedabad
Sustainable Development
Cost Competitiveness
NCC CMA 2013
Enterprise Performance
Professional Skills
Economic Growth
Behind Every Successful Business Decision, There is always a CMA

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

54th National Cost Convention-2013

Theme : India's Cost Competitiveness – Imperatives for CMAs

Dear Sir/Madam,

The business dynamics today is creating huge churning in the corporate world with each company striving for achieving its objective of sustained growth by unlocking business value and unleashing sweeping efforts and initiatives for bringing about excellence in all spheres of corporate functioning.

Competitiveness in operations and performance is the sole mantra which helps build great companies. It calls for a concerted and focused approach to developing business strategies which can be leveraged to deliver enhanced stakeholders value. It is the result of dedicated pursuit wherein the business is structured and managed in a way so as to bring about all round efficiencies and a culture of result orientation in economic, social and environmental dimensions of corporate activities.

The key objective of the companies is sustained growth which calls for a focused approach to Cost Management leading to all round efficiency in operations through appropriate leveraging of value drivers. The CMAs are the key professional resource for facilitating efficient management of scarce resources and providing a structure for continuous monitoring of the flow of cost information within the enterprise.

The survival and growth of the companies in this highly dynamic and volatile corporate world mandates a pragmatic and innovative approach to the management. Companies which assume leadership in Cost Management will be the winners of tomorrow. This poses as challenge for the CMAs to emerge as effective support for the companies in their efforts to steer through the highly competitive business environment.

Corporate competitiveness is essential for building world class organizations. Therefore, this year the Institute is organizing 54th National Cost Convention on the theme 'India's Cost Competitiveness – Imperatives for CMAs at Gujarat University Convention and Exhibition Center, Ahmedabad during 18-19 January 2013 in association with Western India Regional Council and Ahmedabad Chapter of Cost Accountants.

The Technical sessions will deliberate on the following themes — Cost Competitiveness – Key to Enterprise Survival and Growth, Building Enterprise competitiveness through enhancing professional skills set, Coping with the tardy growth of the economy, Analysing concern areas and the role of CMAs, Energising Infrastructure: Strategic options and action agenda, Availability of Adequate Power: Sine qua non for sustained economic development and Not everything is healthy in the HEALTH sector - imperatives for CMAs.

Looking forward for your co-operation and active participation and wishing you a very prosperous & eventful New Year 2013.

Thanking you,

With best regards,

CMA Shrenik S. Shah
Co-Chairman
Convention Committee

CMA Suresh Chandra Mohanty
Chairman
Convention Committee

54th National Cost Convention 2013

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NCC CMA 2013

The Institute of Cost Accountants of India

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Programme Schedule

Day 1 — 18th January, 2013 (Friday)

08:30 a.m. to 09:20 a.m.	**Registration**	
09:30 a.m. to 11:00 a.m.	**Inaugural Session**	
11:00 a.m. to 11:30 a.m.	**Tea Break**	
11:30 a.m. to 01:00 p.m.	**Plenary Session**	: Cost Competitiveness - Key to Enterprise survival and growth
01:00 p.m. to 02:00 p.m.	**Lunch Break**	
02:00 p.m. to 03:30 p.m.	**Technical Session I**	: Building Enterprise Competitiveness through enhancing professional skills set
03:30 p.m. to 04:00 p.m.	**Tea Break**	
04:00 p.m. to 05:30 p.m.	**Technical Session II**	: Coping with the tardy growth of the economy-Analysing concern areas and the role of CMAs
7:30 p.m. to 10:00 p.m.	Cultural Programme followed by Conference Dinner	

Day 2 — 19th January, 2013 (Saturday)

09:30 a.m. to 11:00 a.m.	**Technical Session III**	: Energising Infrastructure - Strategic options and action agenda
11:00 a.m. to 11:30 a.m.	**Tea Break**	
11:30 a.m. to 1:00 p.m.	**Technical Session IV**	: Availability of Adequate Power - Sine qua non for sustained economic development
1:00 a.m. to 2:00 p.m.	**Lunch Break**	
2:00 p.m. to 3:30 p.m.	**Technical Session V**	: Not everything is healthy in the Health sector : imperatives for CMAs
3:30 p.m. to 4:30 p.m.	**Valedictory Session**	

Venue : Gujarat University Convention and Exhibition Centre, Ahmedabad (GUJARAT)

Contact : **Institute of Cost Accountants of India**, CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi- 110003. Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

Western India Regional Council of ICAI, Rohit Chambers, 4th Floor, Janmabhoomi Marg, Fort Mumbai - 400 001

Ahmedabad Chapter of Cost Accountants, 402-403, Shopper's Plaza-III, 4th Floor, Opp. Municipal Market, C.G. Road, Navrangpura, Ahmedabad-380009

CEP Credit : 6 Hours

54th National Cost Convention 2013

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The Institute of Cost Accountants of India
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Delegate For Convention

Dear Sir,

We invite you/ your Company to register / sponsor delegates for the 54th National Cost Convention-2013 to be held on 18th and 19th January, 2013 at Gujarat University Convention and Exhibition Center, Ahmedabad (Gujarat) in association with the Western India Regional Council and Ahmedabad Chapter of Cost Accountants.

Participants

Corporates Directors, CFOs, Cost and Management Accountants and other Senior Management Executive in the Corporate Sector, Practicing Professionals in Secretarial, Financial, Legal and Management Discipline, Researchers and Academicians would benefit from participation in the Convention.

Delegate Fee and Registration Procedure

Particulars	Fees (₹)
Corporate Delegates	5,500/-
Members	4,500/-
Cost Accountant-in-Practice/Academicians	3,000/-
Student	2,000/-
Spouse	2,000/-
Foreign Delegates	US$200/-

The entire fee is payable in advance and is not refundable once the nomination is received. The enclosed Delegate Registration Form duly completed along with delegation fees may please be sent to:

The Chairman
Delegate Committee
The Institute of Cost Accountants of India
CMA Bhawan, 3, Institutional Area,
Lodhi Road, New Delhi-110003

Thanking you,

Yours sincerely,

(CMA Amit A. Apte)
Chairman
Delegate Committee

Payment

The Cheque / Demand Draft to be drawn in favour of **"ICAI-National Cost Convention-2013"** payable at New Delhi. Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi-110003

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The Institute of Cost Accountants of India
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54th National Cost Convention- 2013

THEME : India's Cost Competitiveness – Imperatives for CMAs

Advertisement Tariff for Souvenir

Dear Sir,

The Institute of Cost Accountants of India established under an Act of Parliament is the premier professional body imparting Education, training and propagating Cost and Management Accountancy in India and abroad. There are over 60,000 members in Service and Practice. The members in service with Government, Public and Private Sectors, are occupying high positions like Chairman & Managing, Directors, CEOs, CFOs and so on.

We are proud to inform you that the **54th National Cost Convention- 2013** is being organized by the Institute of Cost Accountants of India in association with the Western India Regional Council & Ahmedabad Chapter of Cost Accountants.

The theme of the Convention is **"India's Cost Competitiveness – Imperatives for CMAs"** and the convention is scheduled for 18th and 19th January, 2013 at Gujarat University Convention and Exhibition Center, Ahmedabad (Gujarat). This mega Convention will be attended by a large number of delegates from India and abroad.

The Convention will be addressed by eminent personalities both from India and abroad. On the occasion of this Convention, the Committee has decided to bring out a Souvenir which will be released at the Valedictory Function. The Convention of this nature can be a success only with your participation through Advertisements.

We request you to participate in this mega convention by releasing an **advertisement in the souvenir**. A souvenir advertisement form is enclosed.

Looking forward to your kind co-operation and active participation.

Advertisement Space	Size	Tariff (₹)
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Thanking you,

Yours Sincerely,

(CMA T.C.A. Srinivasa Prasad)
Chairman
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Sponsorship Details

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For enquiry and further details, please contact at:

- **The Institute of Cost Accountants of India**, CMA Bhawan 12, Sudder Street, Kolkata-700 016
  Phone : 033-22521031-34-35, Fax No : 033-22527993, E-mail : ncc2013@icwai.org, Website : www.icwai.org
- **Delhi Office,** CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi- 110003
  Phone : 011-24622156-58 Fax : 011-43583642
- **Western Indian Regional Council of ICAI,** Rohit Chambers, 4th Floor, Janmabhoomi Marg, Fort Mumbai - 400 001
  Phone : 022-22043406 / 3416, 22841138
- **Ahmedabad Chapter of Cost Accountants**, 402-403, Shopper's Plaza-III, 4th Floor, Opp. Municipal Market, C.G. Road, Navrangpura, Ahmedabad-380009. Phone : 079-26403616

54th National Cost Convention 2013

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The Institute of Cost Accountants of India

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54th NATIONAL COST CONVENTION-2013

Theme : India's Cost Competitiveness – Imperatives for CMA's

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The Institute of Cost Accountants of India
3 Institutional Area, Lodhi Road, New Delhi-110003

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I / We wish to Sponsor.. in connection with **the "National Cost Convention -2013"** on 18th and 19th January, 2013 at Ahmedabad.

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Platinum	10,00,000/-	Gold	5,00,000/-
Silver	3,00,000/-	Dinner	3,00,000/-
Lunch	2,50,000/-	Convention Kit	2,00,000/-
Mementoes	1,00,000/-	Cultural Event	1,00,000/-
Other Sponsorships	50,000/-		

*Taxes Extra as applicable

Payment

The Cheque/ Demand Draft to be drawn in favour of **"National Cost Convention 2013"** payable at New Delhi. Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi- 110003

Current A/C No. :.. IFS Code: ....

Contact Detail : Institute of Cost Accountants of India, 3, Institutional Area, Lodhi Road, New Delhi- 110003
Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

54th NATIONAL COST CONVENTION-2013

Theme : India's Cost Competitiveness – Imperatives for CMA's

DELEGATES REGISTRATION FORM

The Chairman,
Delegation Committee,
National Cost Convention- 2013
The Institute of Cost Accountant of India
Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

Please register the following delegates for attending the 54th National Cost Convention -2013 on 18th and 19th January, 2013 at Ahmedabad. The particulars of the delegates are as under:

1. Name of the delegates(s)

Name of The Delegates	Designation	Address of the Delegate (for Convention Correspondence)

Membership No./ Student Regn. No.	Practicing Non Practicing	Tel. No.	Mobile No.	E-mail

2. Details of the payment

Payment

The Cheque/ Demand Draft to be drawn in favour of **"National Cost Convention 2013, (ICAI)"** payable at New Delhi.

Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi- 110003

Current A/C No. : 149801000056073 IFS Code: IOBA0001498

Contact Detail : Institute of Cost Accountants of India, 3, Institutional Area, Lodhi Road, New Delhi- 110003
Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

Inaugural session of Regional Cost Convention-2012 at Hyderabad. Seen (L – R), CMA K.K. Rao, Chairman, HCCA, CMA (Dr). P.V.S. Jagan Mohan Rao, Council Member, CMA S.C. Mohanty, Vice President, CMA G.V.S. Subrahmanyam, Chairman, SIRC, CMA Rakesh Singh, President, CMA S. Srinivasan, MD, Shriram Venture Ltd, Chennai, CMA M. Gopalakrishnan, immediate past President, CMA A.S. Durga Prasad, Council Member & CMA Padmanabhan H, Secretary, SIRC.

CMA Rakesh Singh, President of the Institute, inaugurating the RCC-2012 by lighting the traditional lamp. Also seen, CMA S.C. Mohanty, Vice President, CMA Sanjay Gupta, Council Member, CMA K.K. Rao, Chairman, HCCA, CMA G.V.S. Subrahmanyam, Chairman, SIRC and Council Members, CMA A.S. Durga Prasad & CMA (Dr). P.V.S. Jagan Mohan Rao.

The plenary session of RCC-2012 in progress at Hyderabad. Seen (L to R) CMA B.R. Prabhakar, past Chairman, SIRC, CMA A.V.N.S. Nageswara Rao, former Chairman, SIRC, CMA K. Narsimha Murthy, practicing Cost Accountant, CMA M. Gopalakrishnan, immediate past President of the Institute & other officials.

CMA S.C. Mohanty, Vice President, (2nd from left), CMA A.S. Durga Prasad, Council Member, CMA Rakesh Singh, President of the Institute, CMA G.V.S. Subrahmanyam, Chairman, SIRC, CMA T.C.A. Srinivasa Prasad, Council member and other officials at the program on expansion of CoE, Hyderabad on 22.12.12.

CMA Manas Kr. Thakur, Council Member, speaking at a State level seminar at Derozio Memorial College, Kolkata on 6.12.12. Also seen on the dias Dr. Dibyendu Talapatra, Principal, Derozio Memorial College and Dr. Kaushik Gupta, Vice Chancellor, West Bengal State University, Kolkata.

Shri G. Pal Singh, Manager & Unit Head, Hindustan Unilever Ltd, CMA Manas Kr. Takur, Council Member, Shri A.K. Dey, Chairman, Haldia Development Authority & Shri P. Ghosh, Dy. Director & Zonal Head, Haldia Development Authority at the CII-ICAI seminar on 'Mandatory Cost Audit' held at Haldia, WB on 6.11.12.

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CMA B.B. Goyal Advisor (Cost) MCA, GoI lighting lamp at a seminar on 'Service Tax & Cost Accounting Record Rules' at Patiala. Seen, CMA Rakesh Singh President of the Institute, CMA V.K. Goel, Chairman, PCCA, CMA S.C. Mohanty Vice President of the Institute, CMA Vijender Sharma, Chairman NIRC and other senior members of PCCA and Regional Council.

CMA Rakesh Singh, President of the Institute inaugurating the seminar by lighting lamp with CMA V.K. Goel, Chairman, PCCA, CMA S.C. Mohanty, Vice president, of the Institute, CMA Vijender Sharma, Chairman, NIRC, CMA B.B. Goyal, Advisor(Cost) MCA, GoI and other senior members of PCCA and Regional Council.

CMA Santhosh Kumar V, Vice Chairman, CCCA, CMA T.C.A. Srinivasa Prasad, Council Member, Shri Rajeev Khandelwal, XBRL Trainer at a programme on 'Cost Compliance & Cost Audit' held at Cochin Chapter on 05.11.12.

'Members Meet' in progress at Ukkunagaram Chapter on 27.12.12. Seen CMA T.C.A. Srinivasa Prasad, Council Member, along with CMA K. Sanyasi Rao, RCM, SIRC, CMA S.V. Rambabu, Chairman of the Chapter along with other members of UCCA.

CMA Rakesh Singh, President of the Institute, CMA Sanjay Gupta, Council Member. Shri Anil Bhardwaj, Director, MCA, Shri B. B. Goyal, Advisor (Cost), Cost Audit Branch, MCA at a programme on 'Filing of Cost Audit & Compliance Report in XBRL' held at New Delhi on 5.12.12.

Signed MOU for providing web contents by Taxmann to CMA students is being exchanged in the presence of CMA Rakesh Singh, President of the Institute and CMA P.V. Bhattad, Council Member and other officials of the Institute

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Editor : Rajendra Bose