June 2012 • Vol. 47 No. 6
Price Rs. 60.00

The Management Accountant

The Journal for CMAs

The Institute of Cost Accountants of India • www.icwai.org

FDI in Multi-Brand Retail

Inaugural session of SAFA Conference 2012 held at Senate Bhaban, University of Dhaka during May 2012.


Shri T.C.A. Srinivasa Prasad, Council Member (extreme left) and Shri Rakesh Singh, Vice President of the Institute (sitting next to Shri T.C.A. Srinivasa Prasad) at the 21st SAFA Board Meeting held at Dhaka on 3rd May 2012.


21st Meeting of SAFA Board in progress at Dhaka during May 2012. Seen Shri Rakesh Singh, Vice President of the Institute on the extreme left.

Shri Rakesh Singh, Vice President of the Institute (3rd from left) and Shri T.C.A. Srinivasa Prasad, Council Member (5th from left) at the 21st SAFA Board Meeting held at Dhaka on 3rd May 2012.


Shri T. C. A. Srinivasa Prasad, Chairman, PAIB of SAFA, addressing the delegates at University of Dhaka, Bangladesh


21st Meeting of SAFA Board in progress at University of Dhaka, Bangladesh.

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The Management Accountant

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

Volume 47 ■ No. 6 ■ June 2012

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IDEALS THE INSTITUTE STANDS FOR

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

MISSION STATEMENT

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

VISION STATEMENT

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

DISCLAIMER

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

The Management Accountant Technical Data

Periodicity Monthly
Language English

Overall size – 26.5 cm. x 19.5 cm.
Printed Area – 24 cm. x 17 cm.
Screens – up to 130

Subscription
Rs. 600/- (Inland) p.a.
Single Copy: Rs. 60/-

Overseas
US $150 for Airmail
US $ 100 for Surface Mail

Concessional Subscription Rates for Registered Students & Grads of the Institute
Rs. 300/- p.a.
Single Copy: Rs. 30/- (for Students & Grads)

Revised Rates for Advertisement The Management Accountant

	Rs.	(US $)
Back Cover (colour only)	50,000	2,500
Inside Cover (colour only)	35,000	2,000
Ordy. Fullpage (B/W only)	20,000	1,500
Ordy. Halfpage (B/W only)	12,000	1,250
Ordy. Qrtr. page (B/W only)	7,500	750

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As I embark upon to pen this editorial, the overall mood of the economy is pretty pensive and somber as the blood bath at the bourses continue to shed the flab – thanks to the unending worries over Euro zone crisis in Greece which continued to hammer the partially convertible rupee that is hovering around the 56 mark and plunging steadily downwards. The Indian rupee is now the worst performing Asian currency this year, falling as much as 6.35% in the month of May, the biggest monthly fall in six months. Amidst such disappointing sentiments, one of the silver linings is perhaps the burgeoning middle class purchasing power with the salaried class enjoying steady income which in turn, has given a boost to the Retail industry bringing humungous opportunities for this sector.

The retail industry in India, often hailed as the most promising sunrise sectors in the economy has a tremendous potential. One may recollect that since 2005 many single-brand retailers such as Christian Dior, Louis Vuitton, Gucci and Tommy Hilfiger have entered the Indian market when 51% FDI was allowed in the sector

The retail industry in India, often hailed as the most promising sunrise sectors in the economy has a tremendous potential. One may recollect that since 2005 many single-brand retailers such as Christian Dior, Louis Vuitton, Gucci and Tommy Hilfiger have entered the Indian market when 51% FDI was allowed in the sector. Over the last few years the debate about increasing this amount has been contentious. However, in November 2011, the Government of India has issued a notification allowing the foreigners 100% ownership in the single-brand retail chains. Along this proposal, there also came a proposal to open the multi-brand retail sectors to the foreigners and allow them a 51 percent stake initially. The sector is at present closed to FDI. The proposed opening up of the retail sector for the International retailing giants like Wal-Mart, Kmart, Carrefour and a number of similar organizations had evoked vociferous protests from different corners including the Opposition Party in Parliament. In view of mounting protests from the opposition and public outcry the proposal is being shelved for the time being. But can it be kept in abeyance forever? Several other questions also surface in relation to the FDI in retail sector: Is the FDI in the retail sector an option or an imperative? If the sector is opened up to the foreign capital, what will be its effects on small retailers and vendors in the unorganized sector? Is it labour displacing? What will be its impact on the consumers? Should foreigners be allowed to move around the nook and corner of the country to procure their merchandise?

The current issue of the Management Accountant is themed upon such an important issue. A galaxy of scholars and experts has joined us to deliberate on such a vital issue. We hope our dear readers will have a rewarding experience as this will enrich them with the desired knowledge base.

Happy reading!

> Nahi Jnanena sadrusham pavitramiha vidyate
> There is nothing more enabling than knowledge in this world and a person gathers it throughout his life.
> Bhagadvad Gita

M. Gopalakrishnan, President

Dear Professional Colleagues,

The above verse aptly describes the need for the continued education which is needed by the professionals, if they have to add value either to the practice or organizations in which they are employed. This has become crucial, as our profession gets opened up to more opportunities. I am amazed at the wisdom in our ancient scripts which identified the need for CEP long back.

Our Institute became a recognized professional accounting body in the month of May in 1959, when the then Honourable President of India Dr. Rajendra Prasad, signed the Act of Parliament establishing our Institute as statutory body. We have celebrated the day of signing as the 'Foundation Day' all over the country at various locations on 19th May 2012. The true spirit of the celeberations was reflected, when the members and their family congregated to enjoy cultural shows and used the opportunity to interact with each other. The Institute has faced many a turbulent times, reaching the pinnacle when the Parliament passed the much awaited Bill for change of name of our Institute and recognizing us as CMAs in the designation. The year 2011-12 was also year of reckoning as the new form of cost accounting records and cost audit mechanism also emerged successfully in the new reformed form. Many reforms on the Cost Accounting standards, Cost Audit and Assurance Standards, student facilities, examination reforms, major improvement in journal, formation of CEP 2 for countrywide class rooms, opening of the first Centre of Excellence at Hyderabad (COE), announcing Advanced Studies Courses, re-starting the much awaited Navi Mumbai Centre of Excellence building process, integrating chapter accounts with HQ, introducing connect with four regions through Video Conferencing and building up closer co-ordination with sister institutes (specially ICSI) were also initiated during the year. The year also saw the recognition of the Institute in the form admission to Accounting Bodies Network of Prince of Wales A4s Foundation, admission to Government Accounting Standards Board, Institute becoming a member of Committee on Corporate Governance Policy, etc.

All these point out to the solid work that has to be put before us in the forthcoming period, which will be the time of consolidation and retention of the gains so far. While the efforts are on in strengthening the executive of the Institute, I feel that it is important that the members in practice as well as industry reconnect with the Institute in our efforts on institution building. Towards this, the Council has also established Regional coordinators who will assist better connect between the Region and headquarters in spreading the initiatives from the HQ to the regions and chapters. The Council in continuation of the outreach programme has decided to establish "CMA Support Centres" in cities, where there is no presence from the Institute. The publicity campaigns aimed at spreading the profession as a preferred qualification for the youth is on and this will improve the much needed CMA professionals who are in great demand from the industry. With the acceleration of e-governance in membership and student matters, I am sure that the gap in communication between the HQ and others will be the thing of the past.

Technical Directorate

I am pleased that the Technical Directorate is continuing the scorching pace it has set for itself and have released the Guidance Note on CAS 7 on Employees Cost as recommended by the CASB, 2 Cost Audit and Assurance Standard (CAAS - 101) on Planning an Audit of Cost Statements as recommended by CAASB and Cost Audit and Assurance Standard (CAAS - 102) Cost Audit Documentation as recommended by CAASB. With the audit season looming large, I also extolled the Directorate to come out with some form of Generally Accepted Cost Audit and Assurance Principles, which will bring out the unique requirements of the Cost Audit as a general guidance to the practicing members till the final standards emerge.

Professional Development Directorate

Guidance Note on Maintenance of Cost Accounting Records

I am also pleased to inform the members that the Institute has brought out Guidance Note on Maintenance of Cost Accounting Records. Since the Ministry of Corporate Affairs—Cost Audit Branch has extended to all companies engaged in production, processing manufacturing and mining activities and regulated industries, through a series of notifications, it was necessary for the Institute to explain the extent, scope and methodology of preparation and maintenance of requisite cost accounting records by the companies. The Guidance Note issued by the Institute is an attempt to guide the members employed in various organizations and also those engaged in public practice to ensure that they follow a well-structured cost accounting system suited to the type, size & scale of operations that 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 structure followed should also enable the Cost Auditor to audit and certify the cost statements for each product/activity in accordance with the notified Cost Accounting Records Rules and Cost Audit Report Rules. The Guidance Note has primarily focused on the uniform Cost Accounting Records Rules notified by the Ministry of Corporate Affairs vide GSR 429(E) dated 3rd June, 2011. In addition, the common principles as embedded in the other six industry specific Cost Accounting Records Rules notified on 7th December, 2011 also remain covered; but the formats as prescribed in these industry specific Cost Accounting Records Rules have to be followed and complied with fully by the regulated industries.

I am sure that the Guidance Note will assist the members in practice, employment and industries in preparation of cost accounting records as required by the Cost Accounting Records Rules. The Guidance Note can be downloaded from the Institute website. The printed version of this Guidance Note will also be available very soon.

It is necessary for the members to understand that as a body regulating the profession, the Institute's publication has to be a well discussed and fully vetted publication as they represent the views of the Institute. While I understand the members' impatience as is being expressed in various e-groups, the Institute has to follow the due process and cannot not follow the process of instant expression of opinions, as is being done in the e-groups.

Practitioners' Kit

As members are aware that the Cost Audit Branch of MCA revised the procedure for appointment of Cost Auditor vide General Circular No. 15/2011 dated 11th April, 2011and also notified revised Companies (Cost Audit Report) Rules, 2011 vide G.S.R 429 (E) dated 3rd June 2011. To guide and help the members in practice, the Institute has hosted at its website the Practitioners' Kit which includes inter-alia the procedure of cost audit, revised e-Form 23C & 23D and instructions for filing of these forms, draft formats of various certificates required to be submitted by the cost auditors to companies appointing them, draft Board Resolution to appoint cost auditor, suggestive list of documents/certificates/records required from the company for conduct of cost audit etc. Members may download this Practitioners' Kit from the Institute website.

Filing of Cost Audit Report and Compliance Report in XBRL Mode

It has been decided by the Ministry of Corporate Affairs vide General Circular No. 8/2012 dated 10th May, 2012 to mandate the cost auditors and the companies to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A) for the year 2011-12 onwards (including the overdue reports relating to any previous year) in eXtensible Business Reporting Language (XBRL) mode. The Institute has already developed the XBRL Taxonomy for Cost Audit Report and Compliance Report and under discussion with Ministry of Corporate Affairs (MCA). Once these Taxonomies are finalized with MCA, the Institute would conduct series of programs in association with Regional Councils and Chapters to impart the necessary technical knowledge on filing and creation of Instance documents in XBRL mode.

The detailed information about these courses is available on the Institute's website and the registration to these courses has already commenced.

Membership Directorate

For the benefit of the practicing members, the Council at its 274th Meeting held on 18th May, 2012 has decided that in pursuance of proviso to sub-regulation (1) of

Regulation 10 of the Cost and Works Accountants Regulations, 1959, the Certificate of Practice of the members who have paid the prescribed fees and submitted the prescribed form for renewal of Certificate of Practice for 2012-2013 within due date but not having requisite CEP credit hours, shall be renewed up to 31st March, 2013 without creating a precedence. The Certificate of Practice so renewed shall be valid subject to their obtaining requisite CEP credit hours within 30th June, 2012 positively. It is not a positive sign for professional development if the Council has to regularly come out with such extensions, which shows that some members in practice do not take updating themselves seriously. This is a matter of concern as with the current plethora of opportunities available, the need for capacity building and updating has become vital. The demand from the profession is high, and unless the members take the CEP programmes held seriously it will be difficult for them to discharge their professional responsibilities. On this matter, I am also concerned that many chapters continue to concentrate only on oral coaching, with scant regard for conducting any professional development programmes for updating the members. The profession is recognized only on the knowledge dissemination and the depth and breadth of the programmes it conducts. In spite of the financial aspect being taken care of by the HQ through the CEP-2 not many chapters have come forward to take advantage of this facility by the Institute.

I am also concerned that in spite of the humungous opportunities created, single person practice continues to rule the roost. The vital DNA of the Cost Audit profession is in enterprise performance appraisal and management, where good practices assessed by a team of CMA professionals add value to the enterprises. It has become more important now, as many enterprises are going to face trying times due to the downturn in economy and provides a major opportunity for cost accounting profession to establish as a bean grower than as a bean counter. It is very important for the new entrants to realize this aspect and build capacity through partnerships or the LLPs which are emerging the next generation professional entities. As I have highlighted in many forums, ours is not merely a compliance oriented profession, but have to play the role of a value enhancer to the entire spectrum of business from small to large.

CEP Directorate

CEP Department (1)

The second workshop of revised schedule VI to the Companies Act, 1956 by Dr. T P Ghosh was organized during May 17-18, 2012 at New Delhi which was well received by the participants. Programme on 'Contracts and Their Management' and 'Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI' was also organized at Gangtok during May 23-26, 2012.

Proposals for various in-house programmes have been sent to Indian Railways, Central Warehousing Corporation, Nepal Electricity Authority, Oil and Natural Gas Corporation Limited, National Highways Authority Limited and Punjab State Power Corporation Limited. While the CEP 1 has a strong foothold with the public sector companies, I extol our members to help the Institute extend the reach to private sector also.

CEP Department (2)

The Institute and Confederation of Indian Industry (CII-ITC Centre of Excellence for Sustainability Development) has jointly organized an Account Ability Accredited 'Certified Sustainability Assurance Practitioner' (CSAP) Training Course during 14-18 May 2012 at Chennai, which was very much appreciated by the participants. This course completion authorizes the participant to be a certified practitioner for sustainability engagements.

The Continuing Education Programme Committee in association with Indirect Taxation Committee has announced a series of One day Workshops on Indirect Taxation for CMAs at Delhi, Chandigarh, Mumbai, Kolkata, Hyderabad, Bangalore and Chennai in May and June 2012. On 24th May 2012, workshop at New Delhi was inaugurated by Shri V. K. Garg, Joint Secretary (TRU), CBEC, Ministry of Finance and on 25th May 2012, workshop at Chandigarh was inaugurated by Shri Prosenjit Deb, Deputy Director (Cost), CBEC. There was active participation of CMAs and many aspirants for the forthcoming workshops.

The Department has announced second Batch for Two days Seminar on 'Risk Based Internal Audit of Banks' (RBIA) during 15-16 June 2012 at Bengaluru after a successful Seminar for first Batch at Hyderabad Centre for Excellence in April 2012.

International Affairs

The Institute is making its presence felt in accounting community in International Arena in a big way. During 2-4 May, 2012 delegation from the Institute attended the meetings of SAFA Board, Committees and International Seminar at Dhaka, Bangladesh. Shri Rakesh Singh, Vice President led the team consisting of Shri T.C.A. Srinivasa Prasad, Council Member and Chairman of PAIB Committee of SAFA; Shri A. Om Prakash, Council Member; Smt. Chandana Bose, Senior Director and Shri Sudhir Sharma, Joint Director. Shri Rakesh Singh was part of SAFA Board representatives group which met HE Mr. Zillur Rahman, Hon'ble President of the Republic of Bangladesh on 3rd May, 2012 at Dhaka. Smt. Chandana Bose presented a paper on behalf of Shri A. N. Raman, Past President, SAFA.

Members may recall Institute organized first Joint Seminar of EFAA-SAFA Alliance in November, 2011 at

New Delhi. In continuation of the efforts, Vice President Shri Rakesh Singh attended the International Conference organized by European Federation of Accountants and Auditors for SMEs (EFAA) at Rome, Italy on May 9-10, 2012, as a part of the SAFA delegation.

Shri Sanjay Gupta, Council Member and Shri J. P. Singh, Director (Technical) represented the Institute in 3rd Arab India Conference organized by FICCI at Abu Dhabi, UAE on May 22-23, 2012. This was a rare occasion when big entourage of Ministers from India and Arabic Countries, industrialists and corporate executives shared the forum providing Institute an opportunity to expand its strong presence in Gulf region.

Advanced Studies Directorate

I am glad that Prof.(Dr) Asish Bhattacharya, former Professor of IIM-Calcutta and Director International Management Institute has joined the Institute as Advisor-Advanced Studies. He brings with him the rich experience with the management institutions in conducting industry oriented practical management development programmes. Under his Chairmanship the Board of Advanced Studies has announced the launch of the following three advanced certificate courses:

(I) Business Valuation and Corporate Restructuring;

(II) Treasury and Financial Risk Management; and

(III) Enterprise Performance Management and Appraisal System

All the three courses have been designed and developed in tandem with the market needs. The Board of Advanced Studies comprising eminent academicians, bureaucrats and practitioners have put in their expertise and guidance in structuring these courses in order to make them relevant and contextual to the members and industry. I would urge my professional brethren to understand the need to develop skills and knowledge in emerging areas of management accounting to serve the economy better. I am sure that members shall make the most out of this initiative of the Institute, for getting advanced training on these practical courses.

PR Directorate

The Public Relations Directorate of the Institute has also established a series of connect with various media, and regular news about the Institute is appearing in the news papers. The institute in collaboration with "careers 360" has come out with a publication on "Cost Accountancy Course", which will be made available to all the regions and chapters for distribution during the career fairs or student counseling sessions. The various interviews that have been organized by the PR are already available in the Institute website.

CMA Connect

As a part of the CMA Connect, I am happy to inform the members that the Video Conferencing facility has been launched connecting HQ at Kolkata, New Delhi, Mumbai and Chennai on 31st May 2012. This will enable closer interaction between the four arms of the Institute, as well as use the platform conduct the expert meetings for various professional development initiatives. This will be a green initiative which will save travel, time and other resources and will enable experts from industry and other organization to share their knowledge and thoughts on the various PD projects of the Institute.

I find that the Institute and CMA profession is blossoming into a full fledged bloom with emerging capability to spawn many more blooms. But this capability can be nurtured only by the members at large taking advantage of the capacity building opportunities provided by the Institute through its programmes and not merely looking at them from the CEP credits to be fulfilled.

I wish members and their families for the festivals of Hazrat Ali's Birthday and Jagannath Rath Yatra during the month of June, 2012.

With warm regards,

M. Gopalakrishnan
President
Institute of Cost Accountants of India
31st May, 2012

A. Om Prakash
Chairman–TEF
Committee on Training & Educational Facilities Committee

Dear Professional Colleagues,

The Training Education Facilities committee is one of the most important committees of the institute which will be the first contact of the student after enrollment. As such the departments coming under this committee i.e., Studies, Training and placements should do their best.

Many innovative steps have been taken by Directorate of Studies. The admission has been made on line, the study materials is being dispatched directly by the studies after admission. All other student materials are uploaded on the website of the institute for the studies for down loading. The coaching completion certificates are being given and uploaded on line by Regional councils.

The soft skills training is being updated regularly as per institute guidelines. The computer training is being imparted at the place nearer to the student.

Form last year the placement is being centralized with common brochure all India dates, soft skills training and centralized data base. The placements have been greater success after the changes.

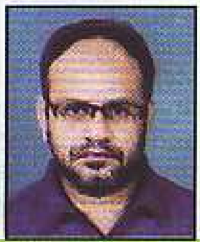
Many of our departments have worked together to achieve this. The coordination of Directorate of Studies, Directorate of Training and Placement and Directorate of IT is important for the success. The successful implementation of different innovates shows the same.

The change of syllabus is quite important for being correct as such the syllabus is being revised. A task force has been formed for syllabus change, which is expected to propose a new syllabus to the council for adaptation.

As always team sprit wins

Regards
A. Om Prakash
Chairman-TEF
1st June 2012

Foreign Direct Investment : An Impetus for Indian Retail Sector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Introduction

Retailing is an interface between the manufacturer or supplier and the consumer of the product. It is the retailer through whom the customer gets the glimpse of the product, makes the purchase decision, and does the final transaction. On the other side, the suppliers use the retail platform to interact with the customers, understand their preferences and promote their offerings.

Indian Retailing is the largest private sector in India comprising 14 to 15% of the country's GDP. It contributes to 8% of the total employment. Worth of Indian retail industry is estimated to be $411.28 bn, which is expected to reach over $800 bn in 2015. Indian retail sector is highly fragmented with 96% of the market being dominated by unorganized retailers. The share of organised retailing in India is mere 4% as compared to 66% in Japan, 55% in Malaysia, 30% in Indonesia and 20% in China. The inorganised retailing uncludes local kirana shops, local mom and pop stores, paan/ beedi shops, street vendors, convenience stores etc. Most of the shopping takes place in local bazaars, small independent grocery shops and retail stores in the locality. These shops are mainly family-run business employing very few personnel and access to the shelf or product area is limited. Often the customers are left with very few choices to make up his buying decision.

Though India has a large numbers of retail shops—11 shop outlets for every 1,000 people—most of these are very small in size with the average shop size being 217 sq.ft. Almost 95% of these shops have area less than 500 sq.ft. Typically, an Indian retail shop employs 3-4 persons with yearly business outcome being $30,000.

The unorganized retailers source their products from a chain of middlemen who scale up the price after subsequent transaction with the producer getting a mere 1/3rd of the final price paid by the customer. Though the country has a huge retail consumer base as there is a lack of infrastructure, proper logistics, efficient supply chain and improved storage facilities there is a huge waste in terms of foodgrains, fruits and vegetables. Yet huge capital infusion is required from the domestic private retail players along with the global retail giants to built up this infrastructure.

Socio-Economic Pattern of Indian Retail Market

India is the second largest country in the world in terms of population. Indian economy has survived the turmoil period of global recession and even registered a high growth during that period. Consumer expenditure is increasing over the years which shows a positive sign for the producers who want to sell their products in the Indian market. Table 1 shows some key economic data of the Indian market.

Table 1 : Key Economic Data of Indian Market

Items	2008	2009	2010	2011	2012 (Extimated)
Real GDP Growth (% growth)	6.2	5.7	10.3	7.3	7.2
Population	1,231,580,187	1250581167	1269898830	1288899810	1,308,217,473
GDP Measured at Purchasing Power Parity (international $ million)	3490427.8	3842059.9	4145276.3	4554932	4913084.5
Consumer Expenditure (US$ million)	750,837.9	767,989.7	951,060.7	1078,867.9	1,176,671.5
Annual Gross Income (US$ million)	1,080,849.1	1,091,743.9	1,359,923.3	1,520,459.6	1,639,337.9
Per Capita Annual Disposable Income (US$)	871.44	858.80	1,053.03	1,159.51	1,231.22

The Table shows that the consumer expenditure in 2012 is estimated to be $1,176 bn which is an increase of 56% over the 2008 value. Also, the annual gross income is expected to increase by around 8% in 2012 over the previous year's value. Annual disposable income is a very important parameter which implies the consumers' spending capacity. These parameters have increased at a compound annual growth rate (CAGP) of around 10% over the past 3 years. These numbers will surely make the retailers more enthusiastic in investing in India.

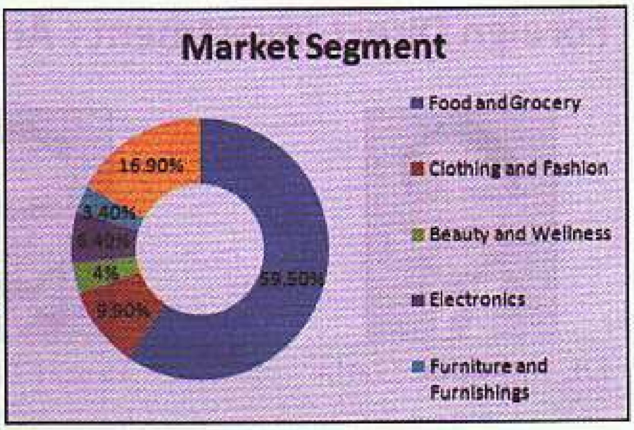
Increasing urbanization and surging youth population are a boost for the Indian retail sector. Urban population stands at more than 30% of the overall population and is increasing at a CAGR of almost 1%. India's population is dominated by the youth—50% of the population comprises of people below 25 and more than 65% hovers below 35. It is forecasted that in 2020, the average age of an Indian will be 29 years, which is way below the estimated value of 37 for China and 48 for Japan. These numbers will surely encourage mainly the clothing and fashion, beauty and wellness, as also electronics segment of the Indian retail industry.

Retail Sector Structure

The retail sector structure in India may be divided into two parts: (i) Unorganized retailing, and (ii) Organized retailing. Unorganized retailing is those which are operating under traditional formats of low-cost retailing and normally not registered for sales tax, income tax etc. These include local kirana shops, owner-manned general stores, handcraft, pavement vendors, paan-beedi shops, convenience stores etc. In India, 96% market of retail sector is dominated by unorganized retailing. Organized retailing is those which are operating their retailing activities taking license from the Government and registered for sales tax, income tax etc. These include the corporate-backed supermarkets, hypermarkets and retail chains, and privately owned large retail business houses like Tata Group, Reliance Retail Group (RRG), and RPG Group etc. It accounts for only 4% of retail market share.

Market Segmentation and Domestic Retail Players

Indian retail market is broadly divided into six segments which has been shown in the given figure —Food and Grocery segment dominating with almost 60% of the overall market, followed by clothing & fashion (9.9%), Electronics (6.4%), Beauty & Wellness (4.0%), and Furniture & Furnishing (3.4%). About 17% of the market belongs to the 'others' segment which comprises of Jewellery & Watches, Restaurants & Food Joints, and few others.



Food & Grocery

This is the dominant segment in the retail industry as Indian households spen around 48% of their income on food and grocery. Mostly unorganized retailers like bazaar vendors and kirana stores serve the bulk of the demand. Modern retail stores have only 1% penetration in this segment; with growing urbanization and changing consumer behavior, this segment poses a great opportunity for retail giants.

Clothing & Fashion

This is a highly growing segment with the consumers' demand for readymade and Western outfit growing 40-45% annually. Various global brands have come up in India over the past few years and catering to the Indian market with value added service to sustain consumers. This segment is the most promising for the big retailers which are proven by the fact that the organized retailers have a footprint in 23% of the overall apparel market.

Beauty & Wellness

This segment incorporates both pharmacy retail and beauty care retailing. Indian pharmacy retailing is largely dominated by local chemists. But now-a-days organized retailers are entering this segment and captivating the consumers through their better value added services. Currently 4% of the market is being served by the organized retails. Some of these players are Appolo Pharmacy, Guardian Pharmacy, Medplus, and Trust etc.

Electronic or Consumer Durable

This segment comprises of consumer electronics goods like TV, audio system, camera, mobile phones etc. and appliances like washing machine, refrigerators, ACs, microphone etc. At present this segment stands at $6.5bn and is expected to grow at a CAGP of 18%. Modern retailers like e-zone, Croma, Mobile Store are serving 12% of the overall electronic retail market in India.

Furniture & Furnishings

This segment is dominated by the traditional retails as well as individual carpenters/furnishers. The modern retailers have a market share of only 11% of the overall Furniture & Furnishing market. But this segment has witnessed high growth in recent time mainly through the organized retailing. Godrej, Zuari, Durian are among the organized retails present in this segment.

Major Indian Retail Players

Pantaloon's Retail has scripted Indian retailing in a new way through introduction of various types of retail chain catering to varied needs of the consumers. It has both lifestyle and value retail chains which includes Pantaloons, Central, Brand Factory, Home Town, e-Zone, Big Bazaar, Food Bazaar and KB's Fair price. Madura Fashion & Lifestyle owns Planet Fashion, which is in 86 cities through 144 stores. Its brands are the like of Peter England, Allen Solly, Louis Philippe, Van Heusen etc. Spencer's Retail is multi-format retail chain and spread across 45 cities with 200 stores. They are expected to add 25 hyper-markets through 2012. Trent, a retail arm of Tale Sons, own a life style retail chain Westside hypermarket chain Star Bazaar and the book and music retail store Land-mark. With entry of the foreign retails in Indian market, the domestic players will face competition and try to improve their offerings and provide better service. This will benefit the customers who will get better value for their money.

Investors' Outlook towards Indian Retail Sector

The critics of the Indian economy say that India is passing through a gloomy period where there is dip in many macroeconomic indicators—yet the issue sector's perspective about the country and more over the retail sector has been very positive. The 2012 A.T. Kearney FDI confidence Index®, which examines the country-wise future prospects for FDI flows, ranks India as the 2nd best country in its global ranking. India scores 1.73 on a scale of 3 and is behind only to China. It is evident that with the successful survival of global recession, India has earned the investors' confidence over the developed retailers.

Table 2 : Global Retail Development Index in 2011

2011 Rank	Country	Market Attractiveness	Country Risk	Market Saturation	Time Pressure	GRDI Score
1	Brazil	100	79.4	42.9	63.9	71.5
2	Uruguay	85	73.8	63.6	39.6	65.5
3	Chile	84.3	100	30.3	44.3	64.7
4	India	28.9	59.9	63.1	100	63
5	Kuwait	80.4	80.6	57.3	27.1	61.3
6	China	49.5	76.5	31	87.7	61.2
7	Saudi Arabia	70.9	80.7	50.6	35.7	59.5
8	Peru	39.8	61.5	72	59.5	58.2
9	UAE	87.6	88.9	12.6	42.9	58
10	Turkey	83.8	65.5	45	37	57.8

Source : Compiled from the data available in the 2011 A.T. Kearney GRDI

The 2011 A.T. Kearney Global Retail Development Index (GRDI) put India in the 4th position (vide Table 2) among the 30 developing countries in terms of the retail sector's prospect in those nations. India is logging behind Brazil, Uruguay and Chile with an overall GRDI score of 63.0 on a scale of 100.

The GRDI score has been calculated based on four variables :

i. Country and business risk,
ii. Market attractiveness
iii. Market saturation, and
iv. Time Pressure.

The study shows that Indian retail sector is advancing very quickly and poses a short term opportunity for the investors. There exists a huge opportunity in the organized retailing in India in the supermarket segment which will help the investors reap dividend in the long term as well.

FDI in Retailing

India being a signatory to World Trade Organization's General Agreement on Trade in Services—which include wholesale and retailing services—had to open up the retail trade sector for foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, competition from international market, and loss of entrepreneurial opportunities. However, the Government has opened up a series of moves towards FDI in retail sector. Growing liberalization of FDI policy since 90s has been one of the key factors for transforming India from a closed economy into one of the favored destination of FDI. The FDI policy governs and regulates the entire inflow of foreign investments into the country. As per the Feb 2012 FDI data available from DIPP, since 2000, the total amount of FDI inflows in the single brand retail trading has been $44.45 mn which is only 0.03% of the overall FDI amount received by India in the same time span. The FDI cap across various sectors in retail in August 2011 is given in Table 3 :

Table 3 : FDI Policy in Retail (August 2011)

Sector/Activity	FDI Cap	Entry Route
Wholesale Cash-and-Carry trading	100%*	Automatic
Single brand product retailing	51%*	Foreign Investment Promotion Brand (FIPB)
Multi-brand, front and retail	Currently not allowed	

* Subject to fulfilment of certain conditions

Department of Industrial Policy and Promotion (DIPP) released a discussion paper in July 2010 on opening the multi-brand retail sector for foreign investment in India. Thus the Government of India has proposed to allow 51% FDI in retail sector with imposing certain mandatory conditions such as :

- To open new stores permission is necessary from the respective State Government.
- For multi-brand retailing minimum limit of FDI is $100 million.
- To allot half of the total investment for the back-end infrastructure like cold storage, soil testing laboratories and seed forming.
- A certain percentage of manufactured products (30%) should be sourced from small and medium enterprises (SMEs).
- Presently FDI is permitted to only six big metros of Delhi, Mumbai, Kolkata, Bengaluru, Chennai and Hyderabad.

The Government of India has withdrawn the 51% cap on FDI into single brand product retailing in December 2011 and opened the retail market fully to the foreign investors by allowing 100% FDI in this area. At present, multi-brand retailing is restricted to 49% foreign equity participation. The progress and development of the newly single brand retailing will be watched for further possible liberalization in the multi-brand area.

According to V.G. Narayanan, 'Thomas Casserly Professor' of Business Administration of Harvard Business School, allowing of FDI in multi-brand retail would serve India very well by bringing the culture of discount stores and large international players entering in India's retail sector, logistics and supply chain management practices will improve considerably, which, in turn, will benefit farmers and manufacturers; and reduce waste. This will create a large number of jobs, not just in the retail sector but also in logistics, construction and manufacturing as well.

If the Government allows international retailers in multi-brand retailing like Wal-Mart and Carrefour—which have already set up wholesale operations in India—they will keep food and commodity price under control to a certain stage. On the other hand, like their foreign counterparts, Indian customers will get quality which are processed and handled under a hygienic environment through professionally managed outlets. In that case, millions of Indian customers will access to products that meet global standards.

Future Plans of Foreign Retailers in India

Wal-Mart is among the first large global retailers entering in Indian retail market and had been working with Bharti retail as a Joint Venture for wholesale cash and carry & back-end supplying chain management operation. The company is looking forward at opening at least 15 more cash-and-carry stores. It is also planning to enter the retail e-commerce space as it considers Indian market having great potential for online retailing. Carrefour, world's second largest retailer, has opened their second cash & carry outlet in Jaipur in mid-2011, and is also planning to expand their operation in India. They are also in a talk with Future group to provide them back-end support. UK's retail giant Tesco has a plan of setting up cash-&-carry outlets and are having agreement with Trent. Through this, Trent's hypermarket chain, Star Bazaar can use Tesco's supply chain, retail expertise inventory & infrastructure management. Tesco also supplies merchandise to Star Bazaar wholesale outlets.

Australian retailer Woolworths has signed agreement with Tata's Infinity Retail to develop a network of consumer electronic retail store and will also provide some retail management expertise to its Indian counterpart. Germany's Metro Cash & Carry—which presently operates in 8 Indian cities—have planned to open 8-10 stores annually in the next four years with an overall investment of 2,400 crore and looking for presence in 40 cities. These facts tell about the growth prospect of Indian retail sector which will also create a huge employment opportunity in organized retail sector.

Conclusion

The Indian Council of Research in International Economic Relations (ICRIER), a premier think-tank of the century, which was entrusted to look into the impact of large capital inflows in retail sector, has pointed out that investment of huge money in the retail sector would be in long run not harm interests of small traditional retailers. The growing middle class society is an important factor for the continuous growth of retail sector in India. By 2030 it is estimated that 91 million households will be 'middle class' up from 21 million today. In addition to that, by 2030, 570 million people are expected to live in cities, nearly double the population of the United States today.

To avail this opportunity a number of global retail giants are waiting to enter the Indian retail sector. Growth rate of this sector along with the changing consumer trends such as increased use of credit cards, brand consciousness, and the growth of population under the age of 35 are factors that encourage the foreign players to establish outlets in India. The FDI in retail sector would not only invite huge foreign capital into the economy but also offer multiple benefits to produces and customers.

FDI in retail sector ensures a wider variety of products at lower cost to consumers; ensures higher quality controls, customer guarantees and safeguards. Multinational retailers would purchase products directly from farmers and producers—thus they can realize better price than sell to the middlemen. Moreover, multinational retailers will create a steady supply chain for their product and invest in logistics and technology for their suppliers. They will also try to improve the storage facility, which will protect the foodgrains and fruits from spoilage. This will also lessen the inflationary pressure, and help in bringing down cost.

Also, with entry of branded retailers, the market will increase and create additional employment in retail and tertiary sectors. Indian SME sectors, mainly in the textile and leather segment will get a boost as the foreign retails will source their products from them. Not only the back-end operations, even the front-end retailing will create an enormous employment opportunity.

The critics of FDI in retail sector point out that entry of large global retailers will kill local shops and millions of jobs since the unorganized retail sector employs huge population just after the agriculture sector, they will exercise their monopolistic power to raise sales prices and reduce purchase prices. Many trading associations, political parties and industrial associations have argued against FDI in retailing due to these reasons.

On the other hand, the Economic Survey has made a strong recommendation for opening up gradually the FDI for multi-brand retail. FDI in multi-brand retail is required for improving the investment environment and setting up modern logistic system and create other infrastructure to ensure sustained benefits. As a survival strategy, moves towards allowing FDI in the multi-brand retailing sector are in process which will provide fresh flow of equity in this sector and definitely give the Indian retail sector a much-needed boost.

The advantages of allowing FDI in retail sector evidently outweigh the disadvantages attached to it. In Thailand and China, the issue of allowing FDI in the retail sector was first met with incessant protest but later turned out to be one of the most promising political and economic decisions of those governments. That decision not only led to the commendable rise in the level of employment but also led to enormous development of GDP of those.

The Government may seriously consider the FDI in multi-brand retailing considering all its merits and demerits and a gradual opening up could be made possible. Despite the country's wide speculation on the plight of small retailers, India needs to take a lesson from China and Thailand where organized and unorganized retail seems to co-exist and grow together. ❐

The Management Accountant – July, 2012 will be a special issue on

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FDI in Multi-Brand Retail : The Indian Context

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Background

The move by the Government of India for FDI in Retail Sector (single and multi-brand) has been a contentious issue. No denying the fact that Indian Retail Industry plays an important role for the economic growth of our country. It is a sunrise industry. To be remembered that Indian Retail Sector is basically of unorganized nature. The unorganized sector needs to be revived and in this regard the government has a great role to play. Our government did not initially allow FDI in the Retail Sector. Thereafter, the scenario changes.

The efforts taken by the government for FDI in Retail Sector are :

1995 : World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.

1997 : FDI in cash and carry (wholesale) with 100% rights allowed under the Government approval route.

April 2006 : 51% FDI was allowed in single brand retail and FDI up to 100% was allowed under the automatic route for cash and carry wholesale trading. At that time, FDI was not allowed in multi-brand retail.

July 2010 : Department of Industrial Policy and Promotion (DIIP) and the Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail and invited opinion in this regard.

July 2011 : After prolonged discussions, Committee of Secretaries (CoS) recommended 51% FDI multi-brand retail with riders.

November 2011 : Cabinet allowed 51% FDI in multi-brand retail and 100% FDI in single-brand retail.

December 2011 : Government puts on hold FDI in multi-brand retail due to lack of political consensus. 100% FDI in single brand retail is on.

January 2012 : The Government removed restrictions on FDI in the single-brand retail sector and notified 100% FDI in single brand retail.

The Finance Minister Pranab Mukherjee in his Union Budget 2012-13 speech said that efforts were on to arrive at a political consensus on the issue of allowing 51% FDI in multi-brand retail. Commerce and Industry Minister Anand Sharma said that FDI multi-brand retail would go ahead. It is unfortunate that the matter got strapped in partisan politics. But we have not gone back, there is only a pause, said Anand Sharma.

Aims of the Study

The aims of the study are

1. To discuss about the terms "Retailing", "FDI", "Brand", "Single Brand", and "Multi-Brand";
2. To find out the rationale behind allowing FDI in Retail Sector;
3. To unearth why global retailers are interested in investing capital in Indian Retail Sector;
4. To throw light on FDI policy towards FDI in Retail Sector (Single-Brand and Multi-Brand);
5. To make a critical analysis on the efficacy of implementing FDI policy in Retail Sector in India;
6. To make concluding remarks.

Methodology

The study on "FDI in Multi-Brand Retail : The Indian Context" is based on secondary sources of data. In order to enrich the study, different books, various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletins, journals, and newspapers have been consulted. The related websites have also been searched for information/data.

Meaning of 'FDI', 'Retailing', 'Brand', 'Single Brand Retailing' and 'Multi-Brand Retailing'

Retailing : The word "retail" has been derived from the French word *"retailer"* which means, "to cut a piece off" or "to break bulk". In common parlance, it means relating to the sale of goods directly to consumers. It is the sale of goods to end-users, not for resale, but for use and consumption by the purchaser. "Retailing" is the interface between the producer and the individual consumer buying for personal consumption. It is the last link that connects the individual consumer with the manufacturing and the distribution chain. The retail sector in India can be broadly classified into organized and unorganized retail sectors. Organized retailing refers to trading activities undertaken by licensed retailers, i.e. those who are registered for sales tax, income tax etc. These include the corporate-backed hypermarkets and retail chains and also the privately owned large retail businesses. It refers to businesses employing more than 10 persons. Unorganized retailing refers to the traditional formats of low-cost retailing such as the local kirana shops, paan/beedi shops, convenience stores, handcart and pavement vendors, owner-managed general stores etc.

Foreign Direct Investment (FDI) : Any investment flowing from one country to another country is called foreign investment. FDI is one of the types of foreign investment that occur when an investor based in one country acquires an asset in another country. In other words, it is any investment made by a country in another country. It is the type of investment that involves the injection of funds into an enterprise that operates in a different country of origin from the investor. This does not include foreign investments in stock markets. It usually involves participation in management, joint venture, transfer of technology and expertise.

Brand : It means 'trademark', 'design', 'distinctive name identifying a product or a manufacturer', 'an identifying symbol, words, or mark that distinguishes a product or company from its competitors'. Brands help the customers to identify specific products from among identical commodities. Brands have significant impact on developing customer perception and expectations.

Single Brand Retail : There is no clear-cut definition of the term 'single-brand retail' in any Indian government circular or notification. Single-brand retail generally refers to the selling of goods under a single brand name. It involves selling products under one brand, which are also sold internationally. FDI in 'single brand' retail implies that a retail store with foreign investment can only sell one brand. Nike is one of the examples.

Multi-Brand Retail : The Government of India has not clearly defined the term "multi-brand retail". FDI in multi-brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour, and Tesco can open stores offering a range of household items and/grocery directly to consumers in the same way as the ubiquitous "kirana" stores. Multi-brand retail comes in different formats like supermarket, hypermarket, and the ubiquitous shopping malls. Currently, this sector is limited to a maximum of 49% foreign equity participation.

FDI in Retail Sector in India : Its rationale

1. FDI in single and multi-brand retail will pave the way for improving supply chain infrastructure and logistics.
2. It will curb inflation.
3. It will result in reduced cost to the ultimate consumer and enable a fair return to the farmers.
4. Economy will get the benefit with capital inflows from global giants that will develop the front-end and back-end infrastructure in different segments.
5. It would act as an important employment absorber for the present social system.
6. The consumer will get access to some of the major global brands. Entry of foreign brands would also improve the quality and variety of products, increase competition and expand manufacturing.

Why do Global Retailers deem India as a promising investment (FDI) destination?

The retail sector has been at the helm of India's growth story. The Indian retail market has seen considerable growth in the organized segment. After the waves of liberalization, privatization, and globalization (LPG) marketing scenario particularly retailing has changed radically. Around 40 million people are engaged in retail trade in India. Small and medium enterprises dominate the Indian retail scene. Comprising of organized and unorganized sectors, this industry is one of the fastest growing industries in India, especially over the last few years. According to the 8th Annual Global Retail Development Index (GRDI) of A T Kearney, India retail industry is the most promising emerging market for investment.

Reasons

1. High consumer spending over the years by the young population;
2. Rising disposable income;
3. Rise in the purchasing power of Indians;
4. Improvements in infrastructure;
5. Liberalization of the Indian economy;
6. Increase in urbanization;
7. Rise of self-employed class;
8. Shift in consumer demand to foreign brands;
9. The Internet revolution making the Indian

consumer more accessible to the growing influence of domestic and foreign retail chains;
10. Strategic location and geography;
11. Vast growing economy.

FDI policy towards FDI in Retail Sector (single and multi-brand)

The recent clamour about opening up the retail sector to FDI becomes a very sensitive issue. FDI in single and multi-brand retail have become a cynosure of discussion. The FDI policy with regard to allowance of FDI in Retail Sector taken by the Government of India is :

A. FDI Policy towards Single-brand retail :

FDI in single-brand retail trading was allowed up to 51% under the Government Route subject to the fulfilment of the following conditions :

- Products to be sold should be of "Single Brand" only.
- Products should be sold under the same brand internationally, i.e. products should be sold under the same brand in one or more countries other than India.
- Only products which are branded during manufacturing would be covered.
- The foreign investor should be the owner of the brand.

As per the changes approved by the Cabinet, 100% FDI will be allowed in single brand retailing. The prior conditions identified in the earlier policy have been retained.

B. FDI Policy towards Multi-brand Retail :

Previously, India did not allow any FDI in multi-brand retail operations in India. The changes in FDI policy provide that 51% FDI in the multi-branding retail sector with the Foreign Investment Promotion Board (FIPB) Approval would be allowed, inter alia, subject to the fulfilment of the following conditions:

- Minimum amount to be brought in, as FDI, by the foreign investors, would be US$100 million.
- At least 50% of total FDI brought in shall be invested in back-end infrastructure.
- 30% of the procurement of manufacturing products should be from small industries.
- The retail stores will only be allowed in cities with a population of more than 10 lakh people as per the 2011 Census. As of now, there are only 53 such cities in India.
- The Government reserves the first right to procure agricultural products.
- Fresh agricultural produce including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products may be unbranded.

FDI in Retail Sector in India : Critiques' Views

For :

- FDI in retail sector is a major step towards providing liberation to the farmers from middlemen and ensuring remunerative prices for their product.
- It will help create 10 million jobs and billions of dollars in investments and will not affect smaller and domestic retailers.
- Minimum investment in multi-brand retail will be 100 million American dollars. This is minimum and not the maximum. 50% will be in developing rural infrastructure and 30% of sourcing will be from small and medium enterprises.This signals the development of infrastructure and the initiative to give fresh blood to SMEs.
- Retail trade in India is a capital starved sector. Provision of FDI provides an effective solution to the problem of capital deficiency.
- Foreign retail chains would bring the much-needed investment in the back-end infrastructure, like cold storage, which the country currently lacks. FDI in multi-brand retail trade will help reduce wastages in the farm produce sector.
- This will bring modern technology to the country.
- The deep pocket and expertise of Wal-Mart's to establish supply chain will make rural areas and farmers prosperous.
- With entry of foreign retailers, consumers will experience more variety of products with improved quality.
- Expectations are that it would create jobs not only in the retail industry but also in related areas like real estate and construction.

Against :

The entry of MNC giants like Wal-Mart, Tesco and Carrefour will throw hundreds of thousands of the neighbourhood kirana storeowners out of business and that will result in millions of job losses.

A total of 58.8 million of small and marginal farming families that is over 32 crore rural people live on farming in India. Their farm size is 5 acres or less. In contrast, some developed countries' farm size as compared to our country is notable :

Country's Name	Farm Size (acres)
Canada	1,798
USA	1,089
Australia	17,975
France	274
UK	432

So a country like ours should not allow FDI in retail sector.

In UK, it was reported that 3 retail chains controlled 65% of the entire retail market. Similarly, in Thailand, over 30% of the local shops were forced to shut within 10 years of the entry of foreign retailers. If this happens, FDI should not be allowed in retail sector.

The foreign retail majors will hurt domestic players with the practice of predatory pricing and become monopolies.

The FDI in retail sector would make the country economically subservient to foreigners.

It will destroy food security in rural India.

It would destroy the livelihood of crores of small retailers. More than 5 crore traders and 20 crore people are directly dependent on retail trade for their livelihood. There are 22 crore hawkers and street vendors in the country. The move will hit the domestic retail sector hard. This step will be disastrous.

Conclusion

The retail industry is definitely one of the pillars of the Indian economy. It contributes a lot to the national GDP. Retail sector in India is one of the major employment providers. The move for opening up the retail sector to FDI has become a hotly debated issue. Opening up of FDI in multi-brand retail in India could possibly be a mixed blessing for domestic players. The proponents of allowing FDI in retail sector are of the view that it will increase transfer of technology, enhance supply chain efficiencies, increase employment opportunities and curtail inflation etc. Opponents feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses, which can adversely affect the pricing, and availability of goods. Permitting FDI in retail sector can displace the unorganized retailers leading to loss of livelihood. So utmost care needs to be taken by the government so that the people engaged in retail sector are not affected. No denying the fact that India needs a widespread and efficient supply chain. It is highly improbable that a few retail giants can enable the desired outcome. If FDI in multi-brand (51%) retail is allowed, it will pave the way for global groups such as Wal-Mart, Carrefour and Tesco to open supermarkets in India. The entry of such top retailers may displace lakhs of people who are associated with this sector. The Indian economy needs reform but, more importantly, there should be focus on the poor. The sudden decision of the Centre has come as a rude shock to the thunderstruck millions of traditional retail vendors in the country. FDI in multi-brand retailing must be dealt cautiously as it has direct impact on a large chunk of the population.

The proliferation of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation for India. The move needs to be monitored in the wake of the current opposition by several political parties. All that is needed here is a strong political will and effective implementation of the policy. ❐

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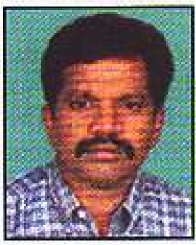
Foreign Direct Investments in Multi-brand Retailing in India is Multi-panacea for Economy



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Introduction

Foreign direct investment is the best means of transferring business knowledge from the developed countries. This consists not only of technology defined in the conventional sense of production processes for existing and new products, but also organisational, managerial, marketing, distribution, procurement and logistics knowledge and systems. Skills and technology diffuse from such foreign companies into the rest of the economy through movement of skilled personnel, through demands on input suppliers, through supplies of superior output to users, and by imitation. FDI flows are preferred over other forms of external finance because they are non-debt creating, less volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology. This paper brings some constructive ideas relating to Multi brand retailing in India and its contribution towards India's economy.

FDI In Multi-Brand Retailing In India : A Vision

The Indian retail industry is the 5th largest in the world. The size of the retail industry in India is around USD 590 bn as reported by Indian Council for Research and International Economic Relations (ICRIER). It is projected to grow at a pace of 20-30% annually and will reach USD 785 bn by 2015. Currently more than 80% of the retail industry is concentrated in large metros. The unorganized/self-employed retail constitutes around 96% of the market. The unorganized retailers are spread across the country and are numbered at around 10 million. The share of organized retail in India is just over 4% as compared to 66% in Japan, 55% in Malaysia, 30% in Indonesia, and 20% in China.

The retail industry in India is expected to grow at a rate of 14% by 2013. The first step towards allowing Foreign Direct Investment in Retail was taken in 2006. Since then 54 FDI approvals have been accepted by the government and the country has received cash inflow to the tune of about Rs. 901.64 crore. Retailing consists of all business activities involving the sale of goods and services to ultimate consumers. Retailing involves a retailer—traditionally a store or a service establishment, dealing with consumers who are acquiring goods and services for their own use rather than for resale. Consumers are always hungry for modern ways of shopping. Indian retail sector is growing fast and its employment potential is growing fast. The retail scene is changing really fast. Retailers are rethinking their approaches towards the suppliers so that they can get the best pricing strategies for themselves and for tapping customers by creating points of sales displays. So we can say that India is a rising star and going to be one of the fastest growing regions of the future.

National Council of Applied Economic Research has shown that 2010 FDI has played an important role in the process of globalization during the past two decades. The rapid expansion of FDI by multinational enterprises (MNEs) since the mid-eighties may be attributed to significant changes in technologies, liberalization of trade and investment regimes, and deregulation and privatization of markets in many countries including developing countries like India.

FDI is an important stimulus for the economic growth of India.

Contributions of FDI In Multi-Brand Retailing

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills, and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new guarantees or the willingness of governments to bail-out the banking system. Foreign Direct Investment refers to the physical Investment made by a foreign investor belonging to a certain country into a sector of foreign nation. It is the transfer of foreign assets into a country's Financial Accounts. This can be done in four ways— (i) by acquisitions and merger, (ii) by incorporating a wholly owned subsidiary, (iii) by being part of a joint venture, and (iv) by acquiring at least 10% share in the domestic company. If the share acquisition is less than 10%, then it wouldn't be called FDI, but would be known as Portfolio Investment.

To begin with, one should assess the pros and cons of FDI in multi-brand retail over the next 10 to 20 years, not in immediate terms. In the short term, there is no denying that foreign capital will flow into the country and the government can claim that its economic reform agenda is intact. However, the adverse implications will be felt over long time in terms of job loss and the displacement of small retailers and traditional supply chains. A large number of countries (rich and poor) have experienced negative impacts of multinational retail chains. Therefore, it is important for Indian policymakers to learn lessons from such experiences and adopt a cautious approach towards opening up the multi-brand retail sector. It is imperative that policy making with respect to FDI in multi-brand retail must take into account the unique situation of India, and not blindly follow Western practices. No other country (except China) faces the challenge of meeting the needs of 1.2 billion people. No other country has close to 400 million people below the poverty level, to be given some basic livelihood. No other country has the social complexity coupled with a fractious polity, which can erupt into social unrest with ease, when inherent balance is disturbed. In such a scenario, policymakers must serve the needs of the broadest base of the population, not just those at the top of the economic pyramid.

Multi-Brand retailing refers to the marketing of the different unrelated competitive products under the same firm though, being under the same firm, the various brands tend to bite into each other's sales.

Multi brand retailing has certain advantages :

- Obtaining greater shelf space and leaving little for competitor's product.
- Saturating a market by filling all price and quality gaps.
- Catering to brand-switching users who like to experiment with different brands.
- Keeping the firm's managers on their toes by generating internal competition.
- Leading to increase in the imports and exports.
- Competition will improve the competitors' know-how and technology, further increasing the standards.
- India will become a global shopping destination, leading to increase in economic benefits.
- The consumers will be able to reap the benefits of global industries.
- The consumer will get wide assortment/range of quality products.
- The Domestic Retailers will be able to develop their technology by joint ventures with MNCs.

Challenges to FDI In Multi Brand Retailing

According to various economists and researchers, the conclusion has been drawn that if FDI has to be set-up in Multi-Brand retailing, then it is going to have various negative impacts which will act as a constraint in establishment of FDI in Multi brand retailing. Some of the constraints are :

- Political scenario in the country
- The competition from the Indian Multi-brand retailers
- Distribution Channel
- As time passes, big retailers may become dominant and start having more bargaining power.

Since 2006, India has been allowing FDI in single brand retail to the extent of 51%. In January 2012, the government removed restrictions on FDI in the single brand retail sector, allowing 100% FDI. The government has, however, put a condition in respect of proposals involving FDI beyond 51%, making mandatory sourcing of at least 30% of the value of products sold from Indian 'small industries/village and cottage industries, artisans and craftsmen'. The value of trade (inclusive of wholesale and retail in the organised and unorganised sectors) in India's GDP at constant prices has grown from Rs. 433,967 crore in 2004-05 to Rs. 7,42,621 crore in 2010-11, at a CAGR of 9.4%.

The Committee of Secretaries has recently recommended that the sector be opened, with some riders that are easy to meet. Understandably, big domestic players in the retail business would welcome such a step, as they will be direct beneficiaries of investments into India's growing retail boom—a success story. With strong fundamentals developing in the Indian economy in the liberalized environment since 1991 with changes in income levels, lifestyles, taste and habits of consumers with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, India has also observed a major retail boom in recent years. Being encouraged by India's growing retail boom many multinational companies also started making beeline to enter India's retail market. Investment from abroad has also been hailed by Indian industry, by and large, as the same has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects.

Till recently, Government of India allowed 51% FDI in single brand retail and 100% in cash-and-carry only. But FDI in multi-brand retail has not yet been allowed. One of the major steps taken by the Government recently to encourage the organized retailing in the country was the recent decision of the cabinet to allow 51% FDI in multi-brand retail and 100% in single brand retail in November 2011. The decision was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country. The government has ultimately taken the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%.

The CII Survey conducted during December 2011 January 2012 on the impact of FDI on SMEs is based on a large sample size of 250 companies covering different categories of SMEs according to sales turnover including SMEs with a turnover of Rs. 25 lakhs to 1 crores, between Rs. 1 crore to Rs. 5 crore, Rs. 5 crore to 25 crore and SMEs having turnover between Rs. 25 crore and 100 crore and above, from different regions of the country. The CII Survey confirms that almost 96% of the respondents from SME sector are aware of the Government's earlier decision to allow 100% FDI in single brand retail and 51% FDI in multi-brand retail and also of the latest notification in January this year. The SME Industry, according to the survey, is in favour of the government's decision to allow 51% Foreign Direct Investment (FDI) in multi-brand retail and 100% in single brand retail. A majority of the SME companies surveyed have supported the government's decision and the notification allowing 100% FDI in single brand retail and about 52 percent of respondents hope for early implementation of 51% FDI in multi-brand retail.

India's retail industry is divided into organized and unorganized sectors. Post-liberalization, organized retail has grown exponentially and is a testament of the Indian middle class's burgeoning purchasing power. Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the ubiquitous mall. The success of this sector is best reflected in the fact that the shares of retail companies are well-represented in all top mutual funds. However, the sector is constrained by several factors, primarily by a highly restrictive licensing regime and overall poor infrastructure. These factors have contributed to restrict organized retail to only about 3% of the total retail industry. This newsletter examines the prospects of FDI in multi-brand retail in India, and builds a case as to why the sector needs to be opened.

The Government has finally, after much dilly-dallying, given its approval to 51% Foreign Direct Investment (FDI) in multi-brand retail, paving way for the likes of Wal-Mart and Tesco to set retail shops in India. When one weighs the benefits of Foreign Direct Investment in multi-brand retail with its costs and disadvantages, one cannot help but wonder what has kept the government to put it on hold for so long. The first big benefit of FDI in retail will be that it will bring down inflation in the country. It will cut down the number of middlemen in food supply chain and will bridge the farm gate prices and retail prices of agricultural items. The gap between the farm gate prices and retail prices of food items in India is among the highest in the world. China opened its retail sector to foreign investment in 2004. Since then, its food price inflation has come down considerably.

FDI in multi-brand retail will give a boost to manufacturing in India, as it has done in China. The product portfolio of retailers like Wal-Mart and Tesco consists of a large number of private labels. Private labels are owned by the retailers themselves and they are expected to outsource their manufacturing to Indian companies, once they set their retail chains in India. This will create employment for India's young labor force. The manufacturing in China got a tremendous boost after Wal-Mart entered the Chinese market.

The flow of dollars in the Indian economy will increase and this will arrest the decline in the value of rupee against the US dollar. The capital flow into retail will help bridge the burgeoning current account deficit of the country. The pressure on India's current account will be further eased. It will create valuable supply chain infrastructure in a country where around 20% of GDP goes to paying for logistics due to lack of state-of-the-art supply chain infrastructure.

Critics of FDI in multi-brand retail have only one argument—that it will kill the small retailers.

Conclusion

India's domestic entrepreneurs and companies are fairly strong and competent compared to those in many other emerging economies, including China. China has, however, successfully overcome the domestic weakness created by 30 years of communist economics by laying out the red carpet for FDI in general and export-oriented FDI in particular. There is absolutely no other way in which China could have grown at over 9% per annum for 24 years. India in contrast has been stuck at a growth rate of 5.8% per annum over the same 24-year period. Though we do not need FDI to maintain this rate of growth for the next few decades, FDI can play a critical role in helping us to break-out of this growth band to a higher one. Further, a sustained growth rate of over 7.5% will be near impossible without a much greater inflow of FDI. The recommendations made in the previous section can help bring about a quantum change in both domestic and foreign (FDI) investment and lead to a sustainable and sustained increase in the growth rate.

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Trading on Inequity : FDI in Multi-brand Retail

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India is eyed as one of the most attractive destinations for investment by the global retail biggies. The burgeoning consuming class has put India on the world map with every large multinational scurrying to reach India. It is the twelfth largest consumer market in the world, according to a study by McKinsey Global Institute (2010). The study estimated that India is likely to join the premier league of world's consumer markets by 2025. The retail market in India has witnessed an astronomical growth in the post-liberalization period, thanks to the rising purchasing power of the Indian middle class coupled with the change in consumer mindset. The face of changing India is reflected across all the sectors from airlines to FMCG. The organized retail in India is growing at rates over 30% (IBEF study). Therefore, opening up of the retail sector to Foreign Direct Investment (FDI) is quite an inevitable policy measure. After a prolonged debate, Indian Cabinet has recently declared its FDI policy that allows multi-brand retail in India. The present paper attempts to analyze the impacts of the controversial policy initiative for FDI in multi-brand retail on the economic health of India.

Methodology

The present paper aims at revisiting the scenario of Indian economy in the context of FDI in multi-brand retail from a historical analytical approach. The initial tenet is formed by the policy prescriptions pronounced by the Govt. of India. An attempt has been made to appraise the opportunities and threats of the policy initiative for the Indian economy from sociological perspectives. Various government notifications, announcements, OECD and World Bank pronouncements and statistics, newspapers and scholarly articles served as the inputs for the analysis. The scope of the analysis ranged from the beginning of the last decade till date.

Liberalization of retail

The Economic Survey 2011-12 recommended the introduction of the FDI in multi-brand retail in a "phased" manner, starting from the metro cities. According to the survey :

"This (FDI in multi-brand retail) could begin in a phased manner in the metros, with the cap at a lower level coupled with incentivising the existing 'mom-and-pop' stores (kirana stores) to modernise and compete effectively with the retail shops, foreign or domestic." (The Economic Times, 15 March, 2012).

During the period from April 2006 to March 2010, the retail sector in India recorded an FDI inflow of $194.69 million, accounting for 0.21 per cent of total FDI inflows in the country during the same period. Out of a total of 94 FDI proposals received, 57 had been approved till May 2010 (The Economic Times, 25 Feb, 2011). Retail sector in India has been started to be viewed as a 'sunrise sector' owing to the steady GDP rate over the past few years. Quite naturally, the Indian subcontinent with enormous consuming population is attracting the global retail giants. A large section of Indian population prefers anything Western to the domestic ones, call it a colonial hangover or not. Moreover, rising disposable incomes of the Indian middle class triggers an upward shift in their standard of living. As an obvious outcome of this shift, they show an increasing tendency to access to one-stop-shop, the western model of shopping, which offers them a wide range of products in the formats like super-market, hyper-markets or malls. Therefore, the huge middle class population of the country rationalize the introduction of multi-brand retail business while the State justify this policy as a solution to the nagging problem of food inflation. But only time will say what happens to the poor and the working class due to this FDI invasion.

Many of the developing countries have already opened up their retail sector for foreign investments. The countries with liberal retail sectors include China, Brazil, Mexico, Thailand, Singapore, Russia, Argentina and Indonesia among others. India is following the way China introduced FDI in multi-brand retail. China allowed more than 10 years to get its domestic companies equipped to face competition from the foreign players before it lifted the restrictions in 2005. That is why Chinese companies did not face much difficulty in competing with the global giants, even when the door was left fully open to the foreign investment. The domestic companies of China enjoy an economically viable coexistence with the giants. India has a similar story to share so far the telecom sector is concerned. But when it comes to the retail sector, there are many ifs and buts to ponder over.

FDI as a percentage of GDP : India vs. China

Year	China	India
2001	3.3	1.1
2001	3.4	1.1
2003	2.9	0.7
2004	2.8	0.8
2005	5.2	0.9
2006	4.6	2.1
2007	4.6	2.1
2008	3.9	3.4
2009	2.3	2.6
2010	3.1	1.6
2011	3.3	1.7

Source : OECD, 2012.

Policy prescriptions

The regulations currently in vogue in India permit 100% FDI in wholesale cash-and-carry trading. Following the China model, India has been allowing FDI in single-brand retail up to 51 percent since 2006. The government removed this restriction on FDI only in January, 2012 when it left the sector open to 100 per cent FDI. The Economic Survey 2011-12 reasoned that foreign investment could help in curbing food inflation in a significant way (India Today, 15 March, 2012). While lifting the restriction, the Government of India has, however, imposed a condition with respect to 'mandatory sourcing of at least 30 per cent of the value of products sold from Indian small industries/ village and cottage industries, artisans and craftsmen' (Verma, 2011). The proposals contain that the equity participation to the extent of 51percent of the stake has to move through 'government approval route'. It further stressed that the policy would be implemented only in the cities having a population of ten lakh or more. For that matter, fifty three cities qualified. The policy further required the investors to invest a minimum of $100 million, half of which would be meant for building up back-end and ancillary facilities like warehousing, cold storage, logistics and so on. With a view to promoting the small and medium domestic entrepreneurs, the corporate retail giants are to source at least 30 percent of their input requirements from the domestic micro and small industries with a capital of less than $1 million.

Opportunities

The Inter-Ministerial Group (IMG) on Inflation contemplated the FDI in multi-brand retail as one of the means to curb the high rates of food inflation and redress the poor earnings by the farmers (The Hindu, March 15, 2012). In fact, farmers are often forced to make sales of their produce at distress-price, which do not even break even, let alone generating surplus. The idea behind the recent FDI policy is to boost agricultural marketing in India with the modernization of the retail trade. At the same time, it might ensure higher revenue for the government. As of now, the retail generates poor revenue for the government as the sector is largely unorganized and features very low tax-compliance. According to the IMG on Inflation, FDI in multi-brand retail would help in developing a 'farm-to-fork' retail supply system, and help in addressing the investment gaps in the 'post harvest infrastructure for agricultural produce' (The Economic Times, 15 March, 2012). Suppliers may be better off following the entry of large retails provided they strengthen then their market position using their association with the large retails (Bloom and Perry, 2001). Corsten and Kumar (2005) stressed that the suppliers can potentially benefit from the competitive advantage in marketing shared by the retailers through their collaborative relationship with large retailers. A large amount of food grains rots in India's warehouses every year. Although India is one of the largest producers of fruits and vegetables in the world it has only 5,386 stand alone cold storage units with a capacity of 23.6 million tons, 80% of which are used just for potatoes (Verma, 2011). Extensive backward integration, along with their technical and operational expertise, may be expected to remedy these infrastructural deficiencies. The corporate retailers must be developing their own network of procurement and distribution and, therefore, eliminate the intermediaries from the process. This, on the one hand, might benefit the farmers in terms of the prices of their produce and, on the other, bring about stability in pricing. The farmers and the consumers, both are likely to reap the benefit of the globalization of retail trade. Besides, introduction of improved technologies in processing, grading, handling, billing or barcode scanning would add to the degree of sophistication and customer satisfaction. The business of various back-end service providers is also to get a stimulus with the onset of multi brand retailing.

Developing an efficient supply chain and eliminating intermediaries are, no doubt, beneficial for both consumers and farmers, as this will give both parties a better price. Hausman and Leitbag (2007) estimated that consumers gain about 25 percent of their expenditure on food in the supercentres. The emergence of the organized retail sector may generate more employment and ensure a better quality (Verma, 2011). A study by Basker (2002) shows that immediately after Wal-Marts's entry, local retail employment in the US increased significantly. There is likely to be a spurt in jobs in the short run since big retail chains hire a lot of people initially. The apprehension that organized retail would oust the small players may not be true as our present experience goes. Even now, organized domestic retail players are present in the market, but the traditional mom and pop stores have not shut their business either. Each has its own domain where they position themselves profitably. Besides, the unorganized small retail shops will have an urge to deliver the best at the most competitive price. This might add to the efficiency of the system as a whole.

Threats

The liberalization of FDI in retail clearly indicates a shift of power from manufacturing sector to retail sector (Ailawadi, 2001). For instance, in the USA, ten largest retailers now account for 80% of the average manufacturer's business (Boyle, 2003). Consequently, the suppliers are to face tremendous price pressure. Besides they find it increasingly difficult to develop their own marketing strategy independent of the large retailer's policy, which forces the suppliers to maintain close relationship with the retailers as a compromise formula (Kumar, 1996). An obvious apprehension regarding FDI in multi-brand retail is that it might result in the monopoly of the retail sector by a few foreign traders. Such a monopoly is bound to affect the consumers, small retailers and farmers in a big way. It will ultimately displace the unorganized retailers leading to their loss of livelihood. No monopolizing tendency has ever been beneficial for the mass. The control over the market by few corporate houses may adversely impact the pricing and the availability of the products, unless it is kept under continuous scrutiny.

Dominance of unorganized sector is a characteristic feature of Indian economy. The largest section of Indian mass is engaged in unorganized sector for their livelihood. The weakening of unorganized retail may play havoc on the employment scenario of India. The farmers, from whom the corporate retailers might procure, may ultimately end up becoming captive farmers. In such a case, the farmers will have to produce those crops repeatedly that their corporate clients stipulate. This may result in the destruction of biodiversity as is already evident in the outcome of Green Revolution. The loss of biodiversity is a grave threat to the mankind and this FDI policy of the government may act as a catalyst to this concern.

Not only to the farmers and retailers, the unorganized retail provides livelihood to many more in varied ways. Those who engage in transport, packaging and many other ancillary services will have their livelihood at stake. To minimize cost, the corporate retailers will develop their own support services, robbing many, directly or indirectly associated with unorganized retail, of their job, leaving them to starve.

Defenders of multi-brand retail advocate that prices will fall following the Wal-Mart mantra- Everyday Low Prices. But, we must keep in mind that big players do not have a magic wand that they can use to lower prices. Wal-Mart, the leader in corporate retail, is able to drive costs down because of its incredible logistics, superior technology and supply chains in their home country which are absent in India. Since the multinationals are highly profit-driven, our search for low price may remain an illusion if the benefit cost reduction is not shared with the customers. In that case, cost reduction will not yield any reduction in selling price; rather that will only add up to the corporate profits.

Concluding

FDI in multi-brand retail would potentially lead to a more comprehensive integration of India into the global market and, as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. But, what is causing worry is whether the economic landscape of India is matured enough to embrace this integration. However, introduction of FDI in multi-brand retail may have considerable cultural implication for a country like India. One may argue that in a globalised environment one cannot shut its door to the world. Notwithstanding, India has her own cultural heritage, which may have to face challenge from her brand-conscious youths. Anything indigenous may have to try hard to gain footing, as the choices and preferences of our youth are likely to be inclined towards foreign brands. Thus, it will not be altogether wrong if any conservative citizen fears the loss of the very identity of anything 'Indian'.

The dominance of foreign players in retail market may further enhance the class division among the masses. The poor will become poorer losing their livelihood opportunities and means of sustenance, whereas, those in the upper echelons of the society

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FDI in Multi-brand Retailing : What Are They Fighting About in India?



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Introduction

Foreign direct investment (FDI) in multi-brand retailing in India is a red-hot topic, yet the kerfuffle over it is hardly new. As a concomitant of globalization of the world economy since 1990s the barriers to international trade are fast disappearing and in consequence there is in an increasing and uninterrupted flow of goods and services across the world. Today, as much as two-thirds of the world trade, amounting to a whopping $2 trillion, is accounted for by some 1000-odd multinationals enterprises (MNEs) (Roy, 2012a). The Chinese frontier having been already won, there is no surprise that the MNEs will be vying for the lucrative retail market in an emerging economy like India where about 10 percent of the country's total GDP of USD 1 trillion comes from retail sales to Indian consumers (KPMG, 2010; Mukherjee and Patel, 2005). The size of the Indian retail market is, indeed, too big to be ignored. But at the same time, the inherent risk in allowing the MNEs entrée into the Indian retail market is far bigger and is not affordable without further thought about all its attendant hazards.

The objective of the paper is to understand, why is it at all necessary to allow FDI in the retail sector given the widespread fear that the livelihood of millions of people may be lost to the competition posed by the swanky malls and supermarkets? The Indian democracy and its Constitution are premised upon the trinity of political, social and economic justice. While the first has been met by and large through universal suffrage, the democratic deficit of India is manifest in its inability to tackle the other two components even after six decades since Independence. On the contrary, as Roy (2012) in a critical evaluation of the recent growth story of India pointed out, notwithstanding India's spectacular economic success, there are widespread poverty, hunger, malnutrition and health problems in India. In fact, the poor did not get much out of India's tinsel growth. Will Wal-Mart or Carrefour bring any cheer for the millions of poor in India - numbering more than twice the population of the country of origin of these MNEs- who eke out a daily living with less than what a packet of potato munch will cost in these stores? Will the juggernaut of globalization and its concomitant demand make us oblivious to the demand placed upon us by the poor people, "who wander about, find no work, no wages and starve, (and) whose lives are a continual round of sore affliction and pinching poverty…" ? It seems that on the FDI issue India is caught between the devil and the deep blue sea. However, to put the present political wrangling and peoples' ire over the FDI issue to its proper context and also to understand whether it is an option or imperative, we will touch upon the multilateral trading system underlying globalization of the world economy.

Uruguay Round and Its Fallout

Nearly two decades ago, when the Draft Final Act of the Uruguay Round (1986-1994) was signed by more than 100 countries in Marrakesh, inclusion of agriculture was one of the contentious issues. In the previous seven rounds of GATT domestic agricultural programme including their trade were given specific exemption in respect of market access and export competition. The Uruguay Round for the first time sought for reduction of import barriers, gradual reduction of all direct and indirect subsidies, and other measures affecting directly or indirectly agricultural trade by including agriculture within the GATT (a multilateral trade body superseded by the WTO in

1995) rules and discipline. To promote international trade in agriculture, Arthur Dunkel, the chief negotiator of the Uruguay Round, wanted reduction of domestic support in agriculture and compulsory import by all member countries. The elimination of subsidy, as many feared it that time, would not only undermine agriculture and the goals towards food sufficiency in the poor countries, but would also place them at the mercy of the rich countries. The opponents of the new GATT treaty also claimed that it would lead to massive loss of jobs in manufacturing and that the powerful WTO, that was in the making, would threaten independence of the small and weaker nations. A number of groups, including environmentalists, human-rights activists, and labour organizations around the world argued against the treaty, claiming that it failed to link trade preferences to protections for the environment and workers' rights. There was much dithering and, as it happened elsewhere, the anti-GAAT sentiment was quite palpable in the public mind in India. Emotionally surcharged, as it is now over the FDI in retailing in India (See for example, Roy, 2011, Choudhury, 2011), one of us had written in 1994, "In a liberalized economic situation the new world order of GAAT is tailored around the interests of the powerful multinationals who directly or indirectly control 80 percent of the world trade. Using Uruguay Round the industrialized countries, led by the USA, have imposed an agenda to restructure the rules of world trade to cater to the needs of the multinationals. They have forced the developing countries to open up key economic sectors and to surrender a large degree of their sovereignty in economic policy to the foreign companies and multinational institutions" (Roy, 1994).

It may be pointed out that the Uruguay Round not only had made radical propositions for the agricultural sector, but to pave way for integration of the global economy it also took steps toward opening trade in investments and services among the member nations. Before the Uruguay Round international trade was, in general, confined to cross-border movement of goods only. But with the gradual increase of the share of services in the global GDP, (currently around 60 percent) and owing to the innovation in transmission technologies, changing customer preferences and regulatory innovations, many services, which were traditionally considered as domestic activities, have witnessed enhanced tradability in the global arena. This gave rise to the need for GATS aiming at progressive liberalization in trade in services.

The term 'services' covers a wide range of economic activities. The WTO Secretariat has divided these divergent activities into the following 12 sectors: Business (including professional and computer) services; Communication services; Construction and engineering services; Distribution services; Educational services; Environmental services; Financial (insurance and banking) services; Health services; Tourism and travel services; Recreational, cultural and sporting services; Transport services; and other services not included elsewhere.

GATS is essentially based on the same principle in which the General Agreements in Tariffs and Trade (GATT) was based: guaranteed policy binding and non-discrimination in which one member cannot be treated more favourably than the other with respect to market access. However, unlike international transactions in goods which require a physical transit across a country's borders, services are supplied internationally according to one or a combination of four modes of supply, namely:

- cross-border movement of service products (e.g. transfer of money through banks or an architect's service);
- movement of consumers to the country of importation (e.g. tourists visiting countries of tourist interest or students visiting another country for education);
- the establishment of a commercial presence in the country where the service is to be provided (e.g. a Marks & Spencer's showroom in our South City Mall or a Wal-Mart retail chain in China); and
- temporary movement of natural persons to another country, in order to provide the service there (e.g. our IT professionals visiting foreign countries to provide service there).

Under Article XVI(2), market access is a negotiated commitment in specified sectors which may be subjected to limitations by national domestic regulations such as on the number of services suppliers, service operations or employees in the sector; the value of transactions; the legal form of the service supplier; or the participation of foreign capital. Members are also free to tailor the sector coverage, but they must have a Schedule of Specific Commitments which identifies the services for which the Member guarantees market access and national treatment and any limitations that may be attached.

Within the framework of the WTO multilateral trading system discussed above, the Indian official standpoint on market access in the field of trade in services is as follows :

- The multilateral legal instruments resulting from the Uruguay Round were treated as a single undertaking. India also signed all the WTO agreements under the single undertaking rule and GATS is a part of this whole package.

• In the Uruguay Round India had undertaken commitments in 33 sub-sectors, but India had no Scheduled Commitments in the Distributive Services which comprises Commission Agents' Services, Wholesale Services and Retailing Services [See Appendix- I for components of retail items].

• As a result of India's promise on progressive liberalization, in 2005 India has submitted to the WTO Revised Conditional Offer under the ongoing negotiations on Trade in Services under Article XIX of the GATS. This revised offer includes opening in the commission agents' services and wholesale services, but the retailing sector still remains in the unbounded category of commitments.

• Foreign Direct Investment in India is guided by the approval from RBI/Foreign Investment Promotion Board and FEMA guidelines. The overall monitoring authority is the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India.

• According to the latest circular of the DIPP [D/o IPP F. No. 5(19)/2011-FC-I Dated 30.09.2011], no FDI can be made in the retail sector. Sectors where FDI is permitted includes :

(a) Cash and Carry Wholesale Trading: Since 1997, 100% FDI is allowed under the Government approval route, and from 2006 it has been placed under automatic route.

(b) Single brand retail: From 2006, FDI in single-brand retailing has been permitted to the extent of 51% and early this year the limit has been enhanced to 100% with a rider that at least 30% of the company's sourcing has to be done from the local SME Sector [See Economic Times dt. May 8: 2012].

(c) Prior to 1997, when the current policy was laid down, approvals had been given to two companies for FDI in retail trading. The first approval was given to Nanz Foods Products in 1992, followed by Spencer and Company Ltd. in 1996. Subsequently a policy decision was taken not to allow FDI in retail trading and such proposals are not being approved [Cited in Federation of Associations of Maharashtra & Ors. V. Union of India: Delhi High Court W.P (C) Nos. 9568-70 of 2003].

Why Debate Over FDI in Retail?

As is evidenced from the current policy statements of the Ministry of Trade and Commerce, FDI in the retail sector is not within the scheme of things. Then, why is this debate? A straight answer to this question lies in the fact that Indian near double-digit growth trajectory has hit a plateau and currently it is a bit shy of the 7-8% mark. Compared to a target of 4% growth rate in agriculture, it has plummeted to 1.5%. Industrial growth rate is also not keeping with what was expected in the Eleventh Plan. More importantly, India's reforms agenda has been palsied due to the compulsion of a coalition government at Centre. To add insult to injury, India's rating has been downgraded by global rating agencies. Under the circumstances, to keep up its quest for growth, India must try to bag more FDI, which is considered to be the life blood and an important vehicle of economic development as far as the developing nations are concerned. In India, if the trend of FDI from 200-2010 is considered, it may be noted, maximum FDI has taken place in the service sector including the telecommunication, information technology, and travel. In 2006 when foreign companies were accorded 51% stake in single-brand retailing, it brought nearly 94 FDI proposals involving inflow of nearly USD 194 million. The vast Indian retail market, about USD 400 million in terms of annual sales and served mostly by the unorganised sector, is alluring for the top global retailers [See Appendix -II] who are bee-lining to enter the untapped Indian market. The hunger for FDI in the retail sector has been further fuelled by the relative success of China both in attracting FDI and generating growth in income and employment.

Against such a backdrop, in November, 2011 the Industry Ministry had floated a proposal for consideration by the Prime Minister, favouring 51% FDI in the retail sector. This proposal infused a new lease of life to the debate that was given a temporary quietus by the BJP while they were in power. Indeed, a Parliamentary Committee under the Chairmanship of Prof. Murli Monohar Joshi in June 2009 had completely ruled out the possibility of FDI in the retail sector [Rajya Sabha, 2009].

The proposal of the Industry Ministry came with some lagniappe and precautionary measures :

- Foreign companies will be allowed to open stores only in cities with population above one million.
- Minimum investment will have to be $100 million.
- Foreign investors will also have to ensure at least 50% of total investment in 'back-end infrastructure'.
- Multi-brand stores must source 30% of the value of their procurement of manufactured items from small and medium enterprises.
- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products may be unbranded.

- The government will have the first right to procure agricultural produce.

The Current Scenario of Retailing in India

Retailing is the interface between the producer and the individual consumer, which ends up with buying for personal consumption. Without doubting its antiquity, it can be said that it is one of the oldest enterprises and commercial endeavours that civilization has known. The importance of retail can be appreciated from the following scenario of retail business in India :

- Retail sector in India is estimated to account for about 10% share in GDP, as compared to 8% in China, 6% in Brazil and 10% in USA.
- India may be called the nation of the shopkeepers because, with 15 million outlets, it has the highest density of retail outlets in the world.
- Indian retail sector is highly fragmented in nature, only 4% of Indian retail outlets are larger than 500 sq. feet.
- Organised retail is just 5% of the total retail market, whereas 95% of the total retail trade in India is in the unorganised sector.
- Unorganised Retail industry in India is the second largest employer after agriculture, employing about 8 % of total work force (Around 40 million persons).

A Win-Win Situation?

The Oxford Advanced Learner's Dictionary has defined the term "win-win" as a situation in which there is a good result for each person or group involved. Tracing its origin to the early 1980s, the World English Dictionary has defined the term a guaranteeing a favourable outcome for everyone involved. Will FDI in retail guarantee a favourable outcome to everyone involved? Or, in the context of the current FDI proposal, is 'win-win' just a weasel word designed to camouflage more than it reveals? We will do some reality check on the arguments advanced by the Industry Ministry and others in favour of FDI.

- The government believes, this initiative will help reform the farm sector, bring modern technology in the much-needed back-end infrastructure. The defence in favour of FDI that it brings in new technology seems to be unassailable. Farrel et al. (2004) had studied the impact of FDI on local industries - manufacturing and service alike - in China, Mexico, India and Brazil. They found that in 13 out of the 14 sectors FDI helped the receiving economy by raising their productivity and output in the sector involved. In the Latin American countries, supermarkets, together with the large-scale food manufacturers, have deeply transformed the agro-food market. Changes in supply chain introduced by Wal-Mart and followed by other foreign companies put considerable pressure on the local companies to adopt the same, which in turn increased productivity in the sector and among the suppliers.

- FDI would help farmers get better remuneration for their produce and also help improve supplies. The claim that farmers get better remuneration for their produce in not an uncontested claim. The Parliamentary Committee (Rajya Sabha, 2009) has collected some anecdotal evidences that average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated Government mandi. In some cases, profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the mandi. The myth needs to be tested against what Choudhury (2011) observed : "Some time ago, newspapers in Britain carried full-page advertisements from the curiously named British Pig Association. This consortium of pig farmers was clamouring publicly that the supermarket chains were squeezing the farmers dry. Alongside them, Britain's dairy farmers complained that a supermarket cartel was paring down their prices, while production costs went up and up. These farmers too have powerful lobbies; they are still in business. To this end, Britain, like all European countries, spends vast sums as direct and indirect farming subsidies".

- As the Government argument goes on, the biggest beneficiary of this policy should be the consumer at large as it is expected to ensure development of adequate supply chain infrastructure and provide an efficient distribution channel to SMEs, both of which will have a positive impact on prices. Indeed, Wal-Mart's famous slogan says : "Low Prices. Every day. On everything", while their mission statement reiterates the slogan to say : "We save people money so they can live better". However, Choudhury (2011) observes to the contrary that, "Food prices in Britain are rising steadily, contrary to a slight fall in other consumer prices. Any rollbacks owing to price wars are palliative at best".

- According to some industry estimates, the lack of adequate back-end infrastructure leads to wastage of around 40% of farm produce, causing a loss of about 50,000 crores annually. The government claim and concern in this regard is also addressed by a report of McKinsey Global Institute (2011 : p. 94) : "Between 20 and 30 percent of food is wasted somewhere along the value chain, even before allowing for food waste at the point of consumption. In developed countries, the vast majority of waste occurs in processing, packaging, and distribution. In developing countries, poor storage facilities and insufficient infrastructure mean that a significant share of food is wasted after harvest". It is, however, not made clear by the Government report how this concern will be addressed if FDI is allowed in the retail sector. One also needs to know how far the problem has been addressed by the Cash-and- Carry type of whole sale arrangement, which is already in place in India.

• An inter-ministerial group set up by Prime Minister Manmohan Singh and headed by chief economic adviser to the finance ministry Kaushik Basu had backed FDI in multi-brand retail, holding that it will help in moderating the high level of food inflation in India. This view, however, is not without its critiques. For example, Prof Stiglitz's writes, "Corporate giants like Wal-Mart do not intend to weaken the communities in which they open stores. They intend only to bring goods at lower prices - and it is these lower prices that have earned them such success. But as they drive out small businesses, they may at the same time, hollow out the town. Small businesses are often the backbone of a community, and as Wal-Mart squelches its competitors, it breaks that backbone".

• The Government contention in support of FDI says that the increase in organised retail will also see a lead to newer employment opportunities both directly and indirectly. Further, the entry of foreign players can also lead to skill development. But how many existing jobs and self-employment opportunities must have to be annihilated for that? Do we know everything about retailing in India, which constitute almost a way of life and the rock-bed of our economic system? Indeed, there is very little understanding of what the impact of corporate retail will be on the unorganised retail sector and the agricultural sector, the country's two largest sources of employment. A small sample survey, carried out in the recent past (Kalhan, 2007), on the impact of malls on small shops and hawkers in Mumbai pointed to a decline in sales of groceries, fruits and vegetables, processed foods, garments, shoes, electronic and electrical goods in these retail outlets, ultimately threatening 50 per cent of them with closure or a major decline in business. The Survey further pointed out that only 14 per cent of the sample of small shops and hawkers had been able to respond to the competitive threat of the malls with the institution of fresh sales promotion initiatives. The crass quantitative description of job gain or loss projected by the proponents of FDI has probably missed on the qualitative aspects, which Choudhury (2011) has pointed out : "Total employment in a super-retail system would probably be lower than in the current network. And beyond the numbers, we must consider the quality of employment. A grocer's shop seldom fails. Its owner is his own master, with a low-profile but steady, often substantial income. The invisible anthill supplying such shops is a favourite resort for humble but active young people who make their way up to a better living. By contrast, in most societies, a supermarket stacker or till operator has a dead-end billet. Some chains may offer a marginally better deal than others; but increasingly, such jobs attract either students and other part-timers, or the growing number despairing of all other jobs. Such employment marks economic and human stagnation for the people it hires."

Conclusion

The purpose of our paper is not to take a side, but to bring to the fore the two sides of the arguments advanced both in favour and against FDI in the retail sector, which is a multi-faced issue. Kausik Basu, in one of lectures in Calcutta early this year said that the wing-span of an aircraft could not be decided like a voting system in the democracy, it must be decided by the engineers and experts. If the analogy is extended to the FDI issue, as a hard economic issue, it should be left to the economists. His view, however, is in conflict with the views of the Parliamentary Committee, which puts it on a far bigger canvas : "India is a land of retail democracy-hundreds of thousands of weekly haats and bazaars are located across the length and breadth of the country by people's own self-organizational capacities. Our streets are bazaars - lively, vibrant, safe and the source of livelihood for millions. In a country with large numbers of people, and high levels of poverty, the existing model of retail democracy is the most appropriate in terms of economic viability". ❐

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Appendices :

I. WTO classification of goods for retailing

UNCPC 631 Food Retailing Services	**631.00** : Retail sales of food, beverages and tobacco **631.01** : Retail sales of fruit and vegetables **631.02** : Retail sales of dairy products and eggs **631.03** : Retail sales of meat (incl. poultry) and meat products **631.04** : Retail sales of fish and other sea foods **631.05** : Retail sales of bread and flour confectionery **631.06** : Retail sales of sugar confectionery **631.07** : Retail sales of beverages not consumed on the spot **631.08** : Retail sales of tobacco products **631.09** : Specialized retail sales of food products n.e.c.
UNCPC 632 Non-food Retailing Services	**632.10** : Retail sales of pharmaceutical and medical goods and cosmetics **632.11** : Retail sales of pharmaceutical, medical and orthopedic goods **632.12** : Retail sales of perfumery articles, cosmetic articles and toilet soaps **632.20** : Retail sales of textiles, clothing, footwear and leather goods **632.21** : Retail sales of textiles **632.22** : Retail sales of articles of clothing, articles of fur and clothing accessories **632.23** : Retail sales of footwear **632.24** : Retail sales of leather goods and travel accessories **632.30** : Retail sales of household appliances, articles and equipment **632.31** : Retail sales of household furniture **632.32** : Retail sales of household appliances **632.33** : Retail sales of miscellaneous household utensils, cutlery, crockery, glassware, china and pottery **632.34** : Retail sales of radio and television equipment, musical instruments and records, music scores and tapes **632.35** : Retail sales of articles for lighting **632.36** : Retail sales of curtains, net curtains and divers household articles of textile materials

(contd.)

(contd.)

	632.37 : Retail sales of wood, cork goods and wickerwork goods **632.39** : Retail sales of household appliances, articles and equipment n.e.c. **632.40** : Retail sales of hardware, paints, varnishes and lacquers, glass, construction materials and do-it-yourself materials and equipment **632.41** : Retail sales of hardware **632.42** : Retail sales of paints, varnishes and lacquers **632.43** : Retail sales of glass **632.44** : Retail sales of do-it-yourself materials and equipment **632.45** : Retail sales of construction materials n.e.c. **632.50** : Retail sales of office equipment, books, newspapers and stationery and photographic, optical and precision equipment **632.51** : Retail sales of office supplies and equipment **632.52** : Retail sales of computers and non-customized software **632.53** : Retail sales of books, newspapers, magazines and stationery **632.54** : Retail sales of photographic, optical and precision equipment **632.90** : Other specialized retail sales of non-food products **632.91** : Retail sales of cleaning materials, wallpaper and floor coverings **632.92** : Retail sales of watches, clocks and jewellery **632.93** : Retail sales of sports goods (incl. bicycles) **632.94** : Retail sales of games and toys **632.95** : Retail sales of flowers, plants, seeds, fertilizers and pet animals **632.96** : Retail sales of souvenirs **632.97** : Retail sales of fuel oil, bottled gas, coal and wood **632.99** : Specialized retail sales of non-food products n.e.c.
UNCPC 6111 Wholesale trade services of motor vehicles	**6111.01** : Wholesale trade services of motor vehicles 6111.02: Retail sales of motor vehicles
UNCPC 6113 Sales of parts and accessories of motor vehicles	**6113.01** : Sales of parts and accessories of motor vehicles
UNCPC 6121 Sales of motor-cycles and snow-mobiles and related parts and accessories	**6121.01** : Sales of motorcycles and snowmobiles and related parts and accessories

Appendix-II

Top Ten Retailers in the Global Market

Rank	Company	Country of origin	Net sales (US$ million)	Grocery Sales	Domestic sale	Intnl. sales
1.	Wal-Mart	USA	256329	43.7	79.1	20.9
2.	Carrefour	France	79609	77.4	50.7	49.3
3.	Ahold	Netherlands	63325	84.0	15.8	84.2
4.	Metro Group	Germany	60332	50.5	52.9	47.1
5.	Kroger	USA	53791	70.2	100	--
6.	Tesco	UK	50326	74.6	80.1	19.9
7.	Target	USA	48163	17.8	100	--
8.	Rewe	Germany	44251	75.6	71.4	28.6
9.	Costco	USA	41011	61.00	81.5	18.5
10.	Aldi	Germany	41011	83.6	63.0	37.0

Source : Mukhejee and Patel (2005)

(contd. from page 651)

will spend more, adding to the profits of multinationals. The sharp divide between small shops and big brands is bound to widen the ugly differences between haves and have-nots. A welfare State cannot afford to indulge in such discrimination. Will our policy makers think twice before letting the multinationals trade on the inequity in our society? ❐

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FDI in Multi-brand Retail Trade : A Holistic Approach for Indian Economy

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Introduction

Indian economy was hunted by various socio-economic problems in the immediate aftermath of independence. Such socio-economic problems are: poor industrial production, raising population, food security, unemployment, division of country, rehabilitation problem, etc. To overcome these problems, there was an immediate need to make India stable and growth oriented. In underdeveloped economy resource are scarce, development work cannot be started in all the back-word sectors. First of all identified the leading sector and scarce resources are to be mobilized to the leading sector. Thus, an economy started development for a long period. Indian economy is the agricultural based economy. So agricultural developments of our country are more essential. Since Economic Reforms in 1991, job creation has grown significantly. But, nearly 93% of total employment in India is in the unorganized sector. FDI in retail trade could lead to a qualitative reform in employment across the country. We have enough scope to provide employment opportunities by FDI in retailing. FDI in retail business may lead sustained economic growth. So, FDI in retail business is one of the most important aspects in our national economy. Retailing refers to the all activities involved in selling goods and services to the customers directly. In retail business, there are no intermediaries and direct relationship between sellers and buyers. In retail business, customers can shop for goods and services in vast range of retail enterprises. Departmental store is the best example of retailing. FDI in retail would likely influence the country's decisions on land development and its use, irrigation and its expansion, priority given to up market foods vis-à-vis basic food grains. These are not little consequences for economic development of the nation.

Objectives of the Study

The main objectives of the study are as under :

- To elaborate the importance of FDI in retail sector in India.
- To state the pros & cons of FDI in retail trade.
- To narrate the future expectations about it.

Methodology

In order to analyze the impact of FDI in retailing, the relevant data have been collected from secondary sources like, Economic Survey, FDI Policy, Manual of FDI in India, Journals & Magazines, daily newspapers , websites etc. Inferences have been drawn accordingly on the basis data collected from the above mentioned sources.

Foreign Direct Investment (FDI)

According to international guidelines based on the recommendations by the IMF in its Balance of Payment manual, 5th ed., 1993, FDI is defined as international investment reflects the objectives of a resident entity in one economy obtaining a lasting interest and control in an enterprise resident in an economy other than that of the foreign direct investor. "Lasting interest" means the existence of a long term relationship between a direct investor and the enterprise and significant degree of influence on the management of the enterprise. The balance of payment manuals states that the direct investor should own or control at least 10% of the ordinary shares, voting power or equivalent.

Importance of FDI in Retail Trade in India

Modernization of retail business is more relevant for growth factor for rural area as well as economy of the country. We know that there is story linkage between the farm sector and the national economy of the country. It is fact that reforms in retail trade will push up the rural economy and also economy of the country as a whole. It would have multi-dimensional achievements to farmers, customers, small and medium business units and Government also. FDI in retail will benefit of the country widely as it will bring investments into development of fill back-end infrastructure such as, cold-chain and supply chain that will further enhance efficiencies in the food chain, reduce very high levels of wastage and help to control food prices. The modern retailers can, and do, prosper step by step, raising employment opportunities along with supply chain, increasing earnings of farmers, reducing damage of products and transporting the products to the customers without middlemen. Moreover, FDI in retail business would bring green and eco-friendly technology in farming. It would enable the case for genetically modified food.FDI in retail business will allow investment opportunities in agricultural sector. This would favour suppliers linked to the FDI houses. It will benefit the domestic farming for economies point of view. As the global corporate players find it advantages to import at low price from other part of the world, they will do that. This is no doubt a bright side of FDI in retail.

In recent times, FDI in retail business is the most relevant issue as we have been worried about economy of the country slowing growth phase, serious fall in the market, exit of foreign investment and gradual decline of the rupee value. Moreover, FDI in retail sector will integrate farmers and medium and small enterprises into the modern trading system. It also ensuring they received moderate price of their products. FDI in retail is healthy for farmers as well as customers because, it provides efficiency and choice.

Existing Policy of FDI in India

(1) FDI in MBRT is prohibited.

(2) FDI, up to 51%, in the Single Brand Retail Trading (SBRT) sector, is permitted, under the Government route, subject to the following conditions :

(a) Products to be sold should be of a 'Single Brand' only.

(b) Products should be sold under the same brand in one or more countries other than India.

(c) Single Brand' product-retailing would cover only products which are branded during manufacturing.

(d) The foreign investor should be the owner of the brand.

Government Decision

To permit FDI in MBRT in all products, in a calibrated manner, subject to the following conditions:

- FDI in MBRT may be permitted up to 51%, with Government approval.
- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded.
- Minimum amount to be brought in, as FDI, by the foreign investor, would be US $ 100 million.
- At least, 50% of total FDI brought in shall be invested in 'backend infrastructure', where 'back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure.
- At least, 30% of the procurement of manufactured products shall be sourced from 'small industries' which have a total investment in plant & machinery not exceeding US $ 1.00 million.
- Self-certification by the company is to ensure compliance of the condition as above, which could be cross-checked as and when required. Accordingly, the investors are to maintain accounts, duly certified by statutory auditors.
- Retail sales locations may be set up only in cities with a population of more than 10 lakh as per 2011 Census only 53 cities qualify for FDI in MBRT out of nearly 8000 towns and cities and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; retail locations will be restricted to conforming areas as per the Master Plans of the concerned cities and provision will be made for requisite facilities such as transport connectivity and parking.
- The FDI in MBRT is being opened in 53 cities only with population of 1 million and for the rest of the country, current policy regime will apply. In the current regime, 100% FDI is allowed up to wholesale cash and carry point from which small retailers are able to source quality products for sale to the public at large.
- Government will have the first right to procurement of agricultural products.

Expectations about FDI in Retail Sector

FDI in retail sector highlights a lot of expectations, such as :

- FDI and private investment in farm sector may be allowed in –

(a) Irrigation purpose,

(b) Mechanization and modernization in agricultural sector,

(c) R&D project for agro products,

(d) Other activities, like, fishery, poultry, animal husbandry/farm etc.,

- The annual growth rate of farm sector is nearly 3-3.5% as against the target of 4% in the 11th plan to achieve the target growth in retail sector; the FDI and private investment are welcome.
- FDI in retail business would fetch better price to cultivators and back-end infrastructure would reduce wastage, offering more customers at a reasonable prices of vegetables and fruits.
- It is expected that farmers will receive 25 - 30 % higher price if they sell their products to the retailers directly.
- Today more than 40 million staff employed in the organized retail trade in our country. It is expected that more than 10 million job will be added by the multinational retailers in the coming years.
- Now, nearly 95% of the retail business in India is in the unorganized sector. By FDI in retail sector, its share is expected to be 85% in the next 10 years.
- Now, $490 bn. is the volume of retail market in India. It is expected that it will be more than two times in the coming years.

Global Context

Now, FDI in retailing have been permitted without limits on equity participation in China, Indonesia, Brazil, Argentina, Singapore, Thailand etc.(table 1). It indicates that developing countries welcome the inflow of FDI in retail sector. As a result, there are impressive growth in retail, wholesale trade and agro processing industry.

Table 1 : Retail Trade in India & South East Asia (No. of Trade)

Countries	Organized	Unorganized
India	2	98
China	20	80
South Korea	15	85
Indonesia	25	75
Philippines	35	65
Thailand	40	60
Malaysia	50	50

Source : CRISIL

Indian Context

India currently allows 51% FDI in single-brand retail and 100% in cash-and-carry, but not in MBRT. Since 2006, FDI in single-brand retail trade (SBRT) has been allowed up to 51%. Till May 2010, only 57 proposals have been approved out of 94 proposals. During April 2006 to March 2010, FDI inflows valued at US $ 194.69 million have come in the SBRT sector, accounting nearly 0.21% of the total FDI in India during the same period

Table 2 shows that the comparison of FDI inflows in India during the two consecutive financial year 2009-10 and 2010-11. It indicates that FDI inflows only in mining and transport sector have increased but other sectors have decreased remarkably. FDI inflows in real estate activities, restaurants & hotels, business service and construction have decreasesd more than 50%. On an average 33.49% FDI flows are decrease in the 2010-11 than 2009-10.

Table 2 : FDI Flows in India (US $ million

Sector-wise Inflows	2009-10	2010-11	Change	% of Change
Manufacture	5,143	4,793	-350	-06.81
Construction	3,516	1,599	-1917	-54.52
Financial Services	2,206	1,353	-853	-38.67
Real Estate Activities	2,191	444	-1747	-79.74
Electricity and other Energy	1,877	1,338	-539	-28.72
Communication Services	1,852	1,228	-624	-33.69
Business Services	1,554	569	-985	-63.38
Miscellaneous Services	888	509	-379	-42.68
Computer Services	866	843	-23	-02.66
Restaurants & Hotels	671	218	-453	-67.51
Retail & Wholesale Trade	536	391	-145	-27.05
Mining	268	592	324	120.89
Transport	220	344	124	56.36
Trading	198	156	-42	-21.21
Education, R & D	91	56	-35	-38.46
Others	384	506	122	31.77
Total FDI	22,461	14,939	-7522	-33.49

Source : AnnualReport, RBI, Dated : 25.08.2011

Few examples

Single Brand Retailers in India

1. Already Active in India :
   - Jimmy Choo (UK)
   - Bottege Veneta Candy (Italy)
   - Louis Voitton Christian Dior (France), etc.
2. Waiting for entry in India :
   - GAP (US)
   - Prada (Italy)
   - I Keya (Sweden)
   - Arcadia (UK), etc.

Multi-Brand Retailers in India

1. Indian Retailers :
   - Kirana Stores

- Bigbazar
- Bazaar Kolkata
- More, etc.

2. Waiting for entry in India
   - Tesco (UK)
   - Carrefour (France)
   - Metro A G (Germany)
   - Lawson (Japan), etc.

Pros and Cons of FDI in Retail

In India, FDI in retailing is no doubt a controversial issue. Now, the country is divided into two categories for the recent issue. These are so many arguments for and against the issue of FDI in retailing. Now we can elaborate the arguments steps by steps.

Arguments in Favour

- Farmers can sale their products at their fields, it saves time and carrying cost.
- Proper application of mechanized seeds, fertilizer, pesticide etc. will be available from retailers.
- Agricultural machineries, technology, fertility test etc. will be achieved.
- Farmers have no tension about sale of their products; they have not paid any subscription in the market.
- Farmers will get moderate price of their products, and customers also will get the agricultural products regularly at reasonable prices, as there are no middlemen.
- It may helpful for rural development.
- A large volume of jobs will be created in the organized retail sector, terms and condition will be better than jobs in unorganized sector.
- FDI in retail trade will give farmers access to more markets and increasing their bargaining opportunities.

Arguments in Against

- FDI in retail, contract farming will not work.
- Farmers will be more dependent on seeds, fertilizer, pesticides, technology, instruments, etc., consequently retailers can cheat them with their ignorance.
- Retailer can impose certain conditions to farmers.
- Cost of agricultural products may increase due to high cost of components, instruments etc.
- Middlemen may act in the field indirectly, they can play hidden.
- Big corporations may act as middlemen.
- FDI in retail sector may be more profit motive.
- Multinational players can destroy the present system of domestic agricultural procedure. They can misbehave with farmers later on.
- Farmers may indebted with money lenders like.
- Both farmers and customers will be trap by the retailer.

Observations

- The study results indicate that FDI in agricultural segment is the most relevant issue.
- It is observed that India is now sensible enough to open the retail sector to 51 % FDI. The economy will benefit from this move. Government will earn more revenue through tax collection from MBRT.
- It is observed that the economy will benefit from this Governmental initiative, become advantages are numerous.
- It is observed that, the lack of cold storage infrastructure is a major issue that has to be addressed and looking to FDI to help create this necessary infrastructure seems like a reasonable path so long as the Government of India will manages it properly.
- It is observed that, the farmers and customers are not only benefited but also Government and our economy will be benefited.
- It also observed that, at this stage of our economic growth it is very essential to maintain a steady flow of FDI not only in retail sector alone but in other industrial sectors also. Formulating the guidelines to such massive FDI ventures by our Government must be competitive and transparent.
- The present study indicates not only bright side but also dark side.

Conclusion

We observed that new technology has helped to build more synergy between agriculture and industry. Economic and agricultural development of our country requires proper application of water, fertilizers, seeds, insecticides, weeding, bigger transportation, storage and marketing of agricultural products. All these chain of activities requires lot of employment. It will definitely increase income of grass root level workers, farmers, village transporters, etc. The Government should pursue such macro and stabilization policies that allow the maintenance of unified and realistic environment for FDI in MBRT to accelerate the sustainable growth of our economy. FDI in MBRT apart from positive impacts has its negative aspects too. But in a country like India, the gains of FDI in MBRT should be carried further for self sustained growth of agriculture and small scale industry with proper institutional reforms. We think the foreign direct investment should be allowed but till extend which doesn't hinder any small traders. But one thing is for sure every advantage has a disadvantage with in it. ❐

FDI in Multi-brand Retail : To be or not to be ...

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Introduction

Over the last one and half years or so, different levels in the government within their inherent capacities are seriously scrutinising the various pros and cons to further liberalise the regulatory framework governing foreign direct investment (FDI)in multi-brand retail trading. The issue has triggered divergent voices, both within the governmental set up as well as in the society. To make our senses ready to join any such divergent voices, let us trace the evolution of foreign direct investment in retail trading.

Evolution of the FDI in retail trading

India has taken a conservative approach towards allowing foreign players into the trading sector. In 1997 FDI in cash and carry wholesale trading was first permitted mandatorily under the government approval route, to the extent of 100 percent. At this stage, definition for "wholesale trading" was not provided, which restricted the Indian regulators to implement their resolution regarding the FDI in cash and carry wholesale trading. It was the Hon'ble Delhi High Court, who explored the demarcation between wholesale trading and retail trading in the case of Federation of Associations vs. Union of India (2005 (79) DRJ 426). Thereafter in the year 2006, FDI in cash and carry wholesale trading was implemented under the automatic route.

The Consolidated Foreign Direct Investment Policy of April 1, 2011 (FDI Policy), issued by the Department of Industrial Policy and Promotion (DIPP), "cash and carry wholesale trading/wholesale trading" itself has been defined following the judgement provided by the Hon'ble Delhi High Court in 2005.

DIPP in its Press Note 3 of the 2006 series, also provided the guidelines for FDI in retail trade of 'single brand' products, wherein the FDI participation was capped at 51 percent, subject to prior approval from the government. The objective of opening up the retail segment (single brand) to foreign participation was to attract investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices. The current FDI Policy, contains the following three points with respect to foreign direct investment in "single brand retail" :

(i) Products to be sold should be of a 'single brand' only.
(ii) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
(iii) 'Single brand' product-retailing would cover only products which are branded during manufacturing.

FDI in multi-brand retail continues to remain excluded for a foreign investor as Chapter 5 of the current FDI Policy, which lists the prohibited sectors, topped off by "retail trading (except single brand product retailing)".

Indian Contexts

With the advent of reformed outlook towards economy since 1991, India has made its repute as one of the most prior global destination for investment. India is developing in true terms. May be development is not being revealed in terms of standard of living of the people as a whole, India has rapidly developed since 1991. In developing country like India, there exist many diverse interest groups. To cater all such interests, India needs to indulge rapid infrastructural development, which in turn requires huge investment. Where will this investment come from? In search of such source of investment, over the past one and half years or more, the government has been critically looking at the prospect of opening up multi-brand retail to foreign investments. A discussion paper was released by the DIPP last year inviting comments from all concerns. This paper is put forth on the basis of recommendations in the mid-term appraisal of the Tenth Plan and the widely known ICRIER study. It also referred to case studies in other countries like China, Thailand and Russia. This discussion paper contains tricky issues like :

1. Should FDI in multi-brand retail be permitted?
2. If so, should a cap on investment be imposed?
3. If so, what should this cap be?
4. To ensure that the integrity if the public distribution system is not weakened and buffer stock is maintained at the desired level, should government reserve the right of first procurement for a part of the season or put in place a mechanism to collect a certain amount of levy from private traders in case the level of buffer stock falls below a certain level?

A Committee of Secretaries within the government was constituted in the first quarter of 2011. No changes in the FDI Policy came through till date with respect to FDI in multi-brand retail.

In this context, it will not be out of point to mention that India is a country where unorganised retail is the second largest bread winner. Fate of this huge sector will depend mostly on this tricky policy. Thus this delay in formulating the FDI policy with respect to multi-brand retail should not be regretted, as any hurried action towards this politically and economically sensitive policy can cause a furore across the country.

Different concerns have different perception regarding the behaviour of the foreign players. Most basic worries in this respect are as follows :

(i) In general, predatory pricing by such foreign investors could directly affect the sustainability of the standalone neighbourhood retail store;

(ii) In food retail, farmers (the producers right at the tip of the back end chain) are being left at the mercy of the foreign investors; and

(iii) For manufactured items, the possibility that foreign retailers would import items (especially electronic items) at cheaper rates and render the Indian manufacturers uncompetitive.

Indian Government is in favour of opening up FDI in multi-brand retail, because of certain benefits that it brings to the surface level. They are as follows:

(i) Boosting not just fund flow into the economy but also India's GDP;

(ii) Specifically in the sector of food retail, technology and infrastructure to ensure better storage of farm produce and improved supply chain. This is of particular significance in a country where the public distribution is infamous for its leakages while tonnes of farm produce get spoiled due to inadequate storage facilities;

(iii) Increasing healthy competition in the market; and

(iv) Enhanced employment opportunities.

Thus comparing the worries and benefits, the government has been assessing the various options to introduce a policy for multi-brand retail in the utmost foolproof manner.

Discussion update

It is a laudable effort from the government's end that they have tabled a discussion paper on this politically and economically sensitive issue of FDI in multi-brand retail. But as George Bernard Shaw writes, "If all the economists were laid end to end, they'd never reach a conclusion", various proposals that have been reported from time to time in news reports, a perception of uncertainty has been created about the steps that the government intends to take, going forward.

If reports are to be believed, following are the illustrations of recommendations regarding :

A. Operating Locations :

(a) Entry into the six major metros only; or
(b) Entry into all cities with a population of at least one million (this number being not less than 35).

It now appears that Committee of Secretaries is favouring a third model specifically covering only state capitals.

B. FDI Cap :

Various Ministries have reportedly conveyed their views on what extent FDI in multi-brand retail could be allowed. Reportedly, recommendations are i) 'nil', ii) 18 percent, iii) 49 percent and iv) 51 percent.

The Economic Outlook of 2011-12 states :

It is recommending that at least 49 percent should be permitted in all sectors except prohibited sectors and if multi-brand retail is opened up to foreign participation, the cap should be at least 49 percent.

C. Legislations and Regulators :

(a) Promulgation of Shopping Mall Regulation Act to protect the interests of the local standalone retail shops;
(b) Creation of a regulator that will act as a watchdog for the retail sector; and
(c) Creation of a committee that will specifically review all investments in sensitive sectors like retail and telecom.

D. Other Issues :

News reports seem to indicate that there are other issues in the pipeline that will ensure only serious foreign investors look at India. For example:

(a) Mandatory and dedicated investment in backend infrastructure development;
(b) Powers conferred upon the state government to take necessary steps to protect local traders;
(c) Setting up a minimum investment threshold; and
(d) Requirement to source part of the products from local producers.

Let's hope, recommendations yet to be received will not confuse us any more towards formulation of the policy.

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FDI Companies in India—A Review

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FDI is viewed as a stimulus to economic growth in developing countries. It is able to deal with two major short comings, namely, shortage of financial resources and technology and skills which are centre of attraction in the low-income countries. Countries of the world particularly developing economics, are striving for each other to attract foreign capital to boost their sizes of investment and also to acquire new technology and managerial skills. Intense competition is taking place to lure foreign investors by offering repatriation facilities, tax concession, and relaxation norms for foreign investors and enhancing sector-wise limit, continued liberlisation of FDI policy, simplification of procedure, opening up of various sectors through automatic route and other incentives. Indian is ranked as the most favored destination for foreign investment which can help in achieving self reliance in all the sectors of the economic policy, good market condition and highly skilled human resources make it destination for investment. FDI provides the much needed investible resources and forex for reviving Indian industry, improves the poor infrastructure, modernizes the technological base and fosters greater competition in Indian manufacturing.

As per the Balance of Payments and International Investment Position Manual, sixth edition (EPM6) of the international monetary fund (IMF), Foreign Direct Investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Further, in case of FDI, the investor's purpose is to gain an effective voice in the management of the enterprise through equity ownership arise when a direct- investor directly owns equity that entitles it to 10% or more of the voting power in the direct investment enterprise.

The growth of FDI flows to developing countries is unevenly distributed among regions and groups in these countries. Most of the inflows still continue to be concentrated in 10 to 15 host countries in Asia and Latin America. South Asia and South East Asia has experienced the fastest economic growth in the world and emerged as the most favorable regions for attracting FDI.

In the 90s and the beginning of the 20th century, FDI flows to developed countries declined, while those to emerging countries like India increased in response to rapid economic growth. The rate at which FDI inflow has grown during post liberlisation period is a clear indication that India is fast emerging as an attractive destination for overseas investors through opening up of automotive approval for projects with foreign equity participation up to 51% in high priority areas. In recent years, the government has initiated the second generation reforms under which measures have been taken to further facilitate and broaden the base of FDI in India.

Objective of the study

1. To study the country-wise performance of FDI companies in India with respect to capital structure, liquidity, assets utilization turnover, sources and uses of funds and profitability ratios.

2. To analyse the sector-wise performance of FDI companies in India.

Methodology

In order to achieve the objectives of the study, secondary data has been used. The main secondary data included annual report of Department of Economic Affairs in the Ministry of Finance, RBI bulletin, Business world, Business Today. Apart from publications, number of websites was also accessed to gather the information for the study. Selected 681 FDI companies' data of capital structure, liquidity, assets utilization turnover, sources and uses of funds and profitability ratios for the last three years from 2007-08 to 2009-10 from RBI Bulletin has been made available. From each group of ratio, five to seven ratios have been calculated. To analyse the data, statistical techniques like ratios, aggregate weighted average (Average of sum of weighted averages of given ratios in each group of ratio), coefficient of correlation of group of ratios and standard deviation of those ratios are used.

Findings

1. U.K. based FDI companies are toppers in terms of profitability, efficient utilization of assets and short term solvency position. It is followed by moderate performers – Switzerland, Netherland, Japan France, Germany and Mauritius.

2. FDI companies belonging to USA in India are the worst performers in respect of earning profits, efficient utilization of asset, short-term solvency position.

3. France and Germany based companies are second to none in risk taking ability of the usage of debt funds. This is followed by other countries with marginal differences.

4. FDI Companies belonging to U.K. and U.S.A are low positively correlated.

5. All FDI companies belonging to France, Germany, USA, UK, Switzerland, Netherland, Japan and Mauritius in India are highly positively correlated.

6. France and Japan and Germany and Mauritius are perfectly positively correlated.

7. Sources and the uses of funds is the highest in USA based FDI companies in India. This is followed by Switzerland (7.62), France (7.37), Japan (7.37), U.K. (7.18), Germany (6.64), Mauritius (6.64) and Netherland (4.45).

8. Food product and beverages and Transport storage and communication based FDI industries in India stood first in efficient utilization of funds, sound use of leverage benefit, effective acquisition and deployment of funds and profit generation. This is followed by Computer related activities, Whole sale and retail trade, Services, Construction, Motor vehicles and other transport equipment, Chemical and chemical product, Machinery and machine tools, Manufacturing, Rubber and plastic products and Electrical and apparatus industries.

9. The most short- term solvency FDI industries in India are service, construction and motor vehicles and other transport equipment. This is followed by marginal solvency firms are Computer related activities, Whole sale and retail trade, Food product and beverages, Transport storage and communication, Rubber and plastic products and Electrical and apparatus, Chemical and chemical product and Machinery and machine tools.

Conclusion

In nut shell, FDI in India undoubtedly helps in competence building, generation of employment opportunities, curbing inflation through integrated market, addressing investment gap, sharing research and development efforts and outcomes. Keeping in view these factors, decision to allow 51% FDI in multi-brand retail will create thousands of jobs through inclusive growth, increase farm productivity, an income and help small and medium industries to prosper and growth and bring down inflation. Currently, up to 40% of India's harvests rot because of inadequate cold storage. These bottle necks could be solved. Investment flow into India's farm-to-market supply chain which will enhance efficiencies in supply chain infrastructure. ❐

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Appendix-1

Country-wise Aggregate weighted Average of Financial Ratios of selected 681 Foreign Direct Investment Companies - 2007-09 to 2009-10.

Country	AWA of Capital Structure Ratios	AWA of Liquidity Ratios	AWA of Assets Utilisation Turnover Ratios	AWA of Source and Uses of Fund Ratios	AWA of Profitability and Profit allocation Ratios	Standard Deviation
France	18.7101	18.1372	2.59103	7.3777	0.3238	8.3352
Germany	14.8601	16.5933	2.3704	6.6405	0.2963	213.678
USA	12.9689	12.645	1.80642	11.0661	0.2258	7.3088
UK	11.7004	22.6172	3.2310	7.1844	7.1844	8.7061
Switzerland	10.7180	18.9011	2.7001	7.6244	0.3375	7.2998
Netherland	12.6569	18.8077	2.68682	4.4533	0.3358	7.7106
Japan	18.7101	18.1372	2.59103	7.3777	0.3238	10.2539
Mauritius	14.8601	16.5933	2.3704	6.6405	0.2963	9.2956

Appendix-2

Correlation Matrix

Country	France	Germany	USA	UK	Switzerland	Netherland	Japan	Mauritius
France	1	0.9940	0.9057	0.7916	0.9037	0.9452	1	0.9940
Germany	0.994	1	0.9080	0.8402	0.9449	0.9704	0.9940	1
USA	0.905	0.9080	1	0.6619	0.8576	0.8079	0.9057	0.9080
UK	0.791	0.8402	0.6619	1	0.9198	0.9214	0.7916	0.8402
Switzerland	0.903	0.9449	0.8576	0.9198	1	0.9715	0.903	0.9449
Netherland	0.945	0.9704	0.8079	0.9214	0.9715	1	0.9452	0.9704
Japan	1	0.9940	0.9057	0.9037	0.9037	0.9452	1	0.9940
Mauritius	0.994	1	0.9080	0.8402	0.9449	0.9704	0.9940	1

Appendix-3

Industry-wise Aggregate weighted Average of Financial Ratios of selected 681 Foreign Direct Investment Companies - 2007-09 to 2009-10.

Industry	AWA of Capital Structure Ratios	AWA of Liquidity Ratios	AWA of Assets Utilisation Turnover Ratios	AWA of Sources and Uses of Fund Ratios	AWA of Profitability and pforit allocation ratios	Standard Deviation
Manufacturing	7.4872	7.0105	11.1033	6.8811	9.2333	5.0092
Services	15.4828	32.5657	27.0527	15.579	13.8087	10.8551
Computer related activities	17.3033	12.1977	14.5788	13.5472	18.1711	9.5305
Food product and Beverages	17.9710	9.7146	29.2638	26.1829	20.0738	7.6855
Chemical and chemical product	8.4034	6.4479	8.2409	8.1270	10.2125	4.7681
Rubber and plastic products	7.4872	7.0105	11.1033	6.8811	9.2333	4.6141
Construction	15.4828	32.5657	27.0527	15.5791	13.8087	5.4549
Wholesale and Retail Trade	17.3033	12.1977	14.5788	13.5472	18.1711	7.9900
Transport Storage and Communication	17.9710	9.7146	29.2638	26.1829	20.0738	6.8873
Machinery and machine tools	8.4034	6.4479	8.2409	8.1270	10.212	7.2220
Electrical and apparatus	7.4872	7.0105	11.1033	6.8811	9.2333	133.1833
Motor vehicles and other transport equipment	15.4828	32.5657	27.0527	15.5791	13.8087	5.7702

(contd. from page 664)

Conclusion

Perceptions of News reports on such a sensitive issue will always create some confusion amongst people of different perception. But surely no one will support the government's decision to liberalise FDI, in multi-brand retail in haste at the cost of the local munny-puppy store or the Indian farmer—both, in ways, icons of Indian culture.

The debate is not to be conceived as a clash between helpless Indian traders and ruthless foreign players. Instead, the concerns about Big Retail are actually those over the perceived ability of organised retail (domestic players/foreign players) to out-place the unorganised sector (who are innumerable). They are significantly differentiated by their access to finances. Serious concerns will be to protect the interests of the unorganised sectors at the time of formulating the policy.

Whatever be the steps in formulating the policy, it is certain that we are to move towards the opening up of multi-brand retail in the coming days. Politicians and Social activists have to conceive the idea of accepting it and put some positive inputs towards the policy to protect the interest of the people they are concerned about. Otherwise, it should be nobody's case that foreign investment itself in this sector is against Indian interests. In a global marketplace where purse is empty and are possibly going to get emptier once again (courtesy: recession), one has no option but to attract FDI in all feasible domain of global business. So, with fingers crossed, let's hope that the government will move steadily and certainly towards not just opening up multi-brand retail to foreign players as a matter of policy but also create a regulatory environment that appears investor friendly and will protect the interest of the people of India at large. ❐

Co-opetition

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"You don't have to blow out the other person's light to let your own to shine"

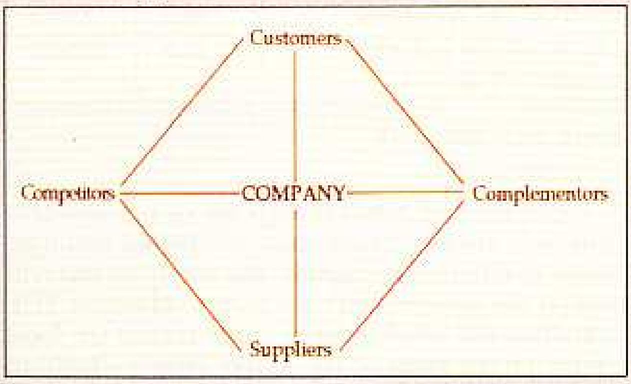
Bernard Baruch

In the inter-connected and interdependent networked economy of today, the appropriateness of unbridled competition is being questioned. There has been a growing realisation that engaging in continuous fight in the market space will be counterproductive and of no benefit to any player. It is in this background that the Coopetition strategy which recommends that the competing players come face to face with each other and explore avenues for 'Collaborative Advantage' for mutual benefit has been suggested. It is "a revolutionary mindset that combines competition and cooperation", say Barry Nalebuff & Branderburger who evolved the Co-opetition strategy. The word coopetition is a portmanteau word of cooperation and competition.

Coopetition represents an organisational behaviour that is both cooperative and competitive, between firms that offer the same type of product/ service to the same consumer segment. Competitors enter into strategic collaboration with rivals in some areas of their business, on the one hand, and compete with the same rivals in other areas, on the other hand.

We have a good example of this in the banking industry. Earlier a bank will not share the credit history of a client except with other banks in the lending consortium. This resulted in a delinquent client approaching a different bank and get credit facility from the other bank, which inevitably led to default again. Thus both the banks suffered. Realising the futility of such an endeavour, several banks have come together by forming an organization called Credit Information Bureau India Limited (CIBIL). CIBIL is a repository of information, which contains the credit history of commercial and consumer borrowers. CIBIL provides this information to its members in the form of credit information reports. A Credit Information Report (CIR) is a factual record of a borrower's credit payment history compiled from information received from different credit grantors. Its purpose is to help credit grantors make informed lending decisions – quickly and objectively – thus benefitting the entire banking industry.

Every organization functions in an ecosystem surrounded by customers, suppliers, competitors and "complementors". A complementor is a firm supplying products that are different but go with the products of the first firm, like coke and burger or hardware and software. Coopetition strategy suggests leveraging the relationships of the several players in a way to maximize value creation. We can identify these relationships along four forces, of the "Value Net", as described by Barry Nalebuff & Adam Brandenburger :



1. Competitors

In this situation direct rivals come together to reduce cost to all of them. In the telecom industry competing telecom firms create a shared tower infrastructure to minimize distribution cost. Recently Vodafone, Bharti and Idea have agreed to share 3G networks.

Since December 2005, IBM and Toshiba have collaborated on fundamental advanced research related to semiconductor process technologies at the

32nm technology generation and beyond at the research facilities in Yorktown and Albany, New York. Building on the success of this ongoing research collaboration, the two companies have agreed to extend the scope of the joint development work to now include 32nm bulk CMOS process technology. Through this collaboration IBM and Toshiba plan to accelerate development of next-generation technology to achieve high-performance, energy-efficient chips at the 32nm process level, and to enhance the companies' leadership in the global semiconductor industry.

2. Suppliers

There is an increasing realization that developing a partnering approach than an adversarial one, both suppliers will be beneficial to the manufacturer and also the suppliers. This can be seen at its best in the vertical kigyo keiretsu structure of Japanese automotive and consumer electronics industries. A large company sits on the top, dealing directly with a limited number of first tier suppliers who make major components and sub-assemblies. These first tier suppliers manage relations with a more numerous second-tier of rather specialized manufacturers, who, in turn, subcontract increasingly narrow tasks to a third, fourth tier. Thanks to their long-term relationships, suppliers, assemblers and consumers all enjoy the benefits of scale economies.

The intra kigyo keiretsu competition through long term evaluation and 'promotion' or 'relegation in the sub-contracting hierarchy' has an accelerating effect on the assembling company's improvement process, as do also the cooperative transfer of technologies and competencies. Suppliers will make every effort to stay competitive at their level of the vertical keiretsu. There are at least two or three suppliers for every component, ensuring coopetitive behaviour for optimal performance. Thus the coexistence of both competition and long-term cooperation promotes development of high-quality products at a faster pace.

3. Customers

Leveraging customer relationship by involving the customer in the business, such as in the design of the product, will result in a mutually satisfactory outcome. The Instant Mix developed by Asian Paints is a good example where the customer can choose any colour he wants and the seller could readily make it by mixing the different basic colours in this equipment. Thus even the most fastidious requirement of any customer could be met.

Ikea's ready to assemble kit leaves the job of assembling the furniture to the customer. This saves the assembling and transportation cost to IKEA, which is passed on to the customer by way of lower costs, making both happy with this arrangement. Apart from cost saving, the customer's self-esteem is boosted as he will have the satisfaction of making the product himself.

The key objective is to work in partnership with customers to create win-win alliances.

This is true even in respect of B 2 B transactions.

Large volume buyers and sellers often enter into special partnering arrangements that involve collaboration extending beyond purely transactional relationships.

An example of strategic collaboration between a large supplier/manufacturer (Procter & Gamble) and distributor/retailer (Walmart). is the Walmart's supply chain system. Before these two companies started in 1980s, the two giants built a data highway that linked P&G data to Walmart data driving down costs and sharing information to meet the consumer's needs. When the inventory level of P&G's products in Wal-Mart's shelves reaches reorder point, the system automatically alerts P&G to ship more products, saving ordering costs and better inventory management.

PepsiCo has entered into an active partnership with the Indian farmers, to buyback the potato produce at pre-agreed price, insulating the farmers from price fluctuations. The company also provides high quality seeds and technical expertise in getting good produce. This dynamic cooperation has contributed to the farmer's prosperity and also the company in getting assured supply of raw material and the nation by improving agricultural productivity.

4. Complementors

A complementor is a firm supplying products that are different but go with the products of the first firm, like coke and burger or hardware and software.

An outstanding example of leveraging complementary relationships is the original exclusive agreement between Apple and AT&T, wherein the latter's network carried the iPhone.The iPhone facilitated not only downloading of music but was a handheld computer enabling surfing the net and accessing videos. For Apple and AT&T, it is a mutually profitable relationship. While about 40 percent of iPhone buyers are new to AT&T's rolls, the iPhone has tripled the carrier's volume of data traffic in cities like New York and San Francisco.

(contd. to page 671)

Tax Titbits
Changes in the Finance Bill, 2012

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The Finance Bill, 2012, has undergone some major changes before it was passed by the Lok Sabha. It was suggested in these columns in the last month that the recommendations of the Standing Committee of the Parliament on Direct Taxes Code Bill, 2010, would require consideration in respect of those provisions in the Finance Bill lifted from the Code.

The objection of the Standing Committee to the General Anti-Avoidance Rule (GAAR) was on the ground that it lacks clarity because the provision has not defined without any ambiguity such expressions like "genuine purpose", "tax benefit", "bona fide business purpose" and "commercial substance". It was observed that even availing benefit under Double Taxation Avoidance Agreement could be treated as a benefit, so as to nullify the application of the Agreement with reference to this Rule. The response by the Finance Minister does not meet these objections, but postpones the application of the provision from A.Y.2013-2014 to A.Y.2014-2015. Probably the concerns expressed by the Committee may be considered in due course.

The Finance Minister conceded the other recommendations regarding application of GAAR by an amendment to the Bill restoring the burden of proof for application of this Rule on revenue. Recommendation that the approving Committee of three Commissioners for approval of application of the provision should consist one of them to be an independent person has been accepted by having an officer of Indian Legal Service as a member of the Committee in the place of a Commissioner, leaving the matter open, whether another Government nominee with no prescribed qualification could be an independent person.

The further recommendation that the benefit by Double Taxation Avoidance Agreement already availed should not be taken back by including a grandfathering provision has been met by the Finance Minister by a promise, while piloting the Bill, that it is not the intention to undo the past transactions to deprive the past benefits availed under the Double Taxation Avoidance Agreement, a promise impossible of implementation in the light of many retrospective amendments. The net result is that the amendments and the promise do not allay the apprehensions regarding potential litigation in respect of past assessments.

Accent on research

Income-tax law has a number of provisions encouraging scientific research. The Finance Bill (Act), 2012, has extended the concession under Section 35(2AB), which was to end with A.Y. 2011-2012 to A.Y.2017-2018. This provision grants weighted deduction at 200% for expenditure on scientific research in the business of bio-technology and other specified industries manufacturing drugs, phar-maceuticals, electronic and telecommunication equipments and chemicals with many industries notified being aircraft, computer and automobile industries. New concessions for weighted deduction for expenditure at 150% will be available for agricultural extension projects under Section 35CCC and skill development projects under Section 35CCD, subject to guidelines to be prescribed.

Current expenditure including capital expenditure (other than land) on scientific research is allowed under Section 35(1)(i), while deduction at 125% under Section 35(1)(ii), (iia) and (iii) for approved purposes, subject to conditions thereunder. Trade and industry would be greatly benefited if they bring their research programmes to be in tune with the various provisions under Section 35 and 35(2AB) and the new section 35CCC and 35CCD.

Mutuality principle – A conflict to be resolved

Should a club or any other association confining its activities to its members governed by the principle of mutuality lose exemption, if they park the surplus finds with a bank, which is not their member? This is an issue which arise in almost every case of a club, residents' association or other mutual associations like Chambers of Commerce. The Supreme Court in CIT v. Bankipur Club Ltd. [1997] 226 ITR 97 (SC) has held that there is no bar for incidental transactions with non-members, if there is no taint of commerciality in such transactions.

Permissibility of taxing interest from bank itself became subject matter of decisions in favour of taxpayer in CIT v. Ranchi Club Ltd. [1992] 196 ITR 137 (Patna) [FB] and Chelmsford Club v. CIT [2000] 243 ITR 89 (SC) with the issue decided directly by the Supreme Court in CIT v. Cawnpore Club Ltd. [2004] 140 Taxman 378 (SC) affirming the decision of the High Court wherein it had followed the decision in Ranchi Club Ltd.'s case (supra).

Even so, the Madras High Court in Madras Gymkhana Club v. Dy. CIT [2010] 328 ITR 348 (Mad) and the AP High Court in CIT v. Secunderabad Club Picket [2012] 340 ITR 121 (AP) held that mutuality is lost because of deposit with the bank, while the Delhi High Court in CIT v. Delhi Gymkhana Club Ltd. [2011] 339 ITR 525 (Del) decided in favour of the taxpayer.

There are number of decisions pending further adjudication from the Supreme Court unless the view favourable to the taxpayer is accepted by the Central Board of Direct Taxes. ❐

(contd. from page 669)

Realigning structure and relationships in industry

It might be noted that important as the iPhone has been to the fortunes of Apple and AT&T, its real impact is on the structure of the $11 billion-a-year US mobile phone industry. For decades, wireless carriers have treated manufacturers like serfs, using access to their networks as leverage to dictate what phones will get made, how much they will cost, and what features will be available on them. Handsets were viewed largely as cheap, disposable lures, massively subsidized to snare subscribers and lock them into using the carriers' proprietary services. But the iPhone upsets that balance of power. Carriers are learning that the right phone – even a pricey one – can win customers and bring in revenue as consumers will spend more time on devices, and thus on networks, racking up bigger bills and generating more revenue for everyone. The coopetition strategy has the effect of revolutionising industry structure.

It must be noted that the areas for cooperation must be clearly identified. These should be areas that offer little potential for competitive differentiation and in which the customer is really not interested, such as Research & Development. The prohibitive costs of R&D also propel such common endeavours. Coopetition – whereby companies collaborate in identifying best practices and sharing various steps in drug discovery to competing on generics – has been identified by all leading MNC players and their Indian counterparts. To cite an example, GSK and Ranbaxy have set up an early-stage partnership in drug research, under which GSK will provide the Indian firm with leads, Ranbaxy will conduct lead optimisation and animal trials, and GSK will take the drug through human trials. Similarly, Dr Reddy's has partnered with ClinTec International for clinical trials and co-development of its anti-cancer drug.

Many competing firms cooperate in holding exhibitions and fairs for their products and sharing the costs. Industry Associations that put forth the common issues of the particular industry are a normal feature in business.

A moot point that arises in this context is whether coopetitive behaviour will invite anti-trust action. Certainly there can be no cooperation in pricing or any other action that will amount to cartelisation – restricting the free supply of goods. So long as coopetition promotes public interest by reducing costs and promoting efficiency, governments will not object.

In conclusion it must be said that coopetition creates value by combining the advantages of competition and cooperation into a new and dynamic framework by capitalizing on each dimension of the industry environment; however it is for each pair of organizations to forge an effective and coherent strategy by blending the competitive and cooperative elements together in a mutually consistent and reinforcing manner. ❐

Tax Laws—Retrospective Legislation & The Rule of Law

K P C Rao

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"Certainty is integral to Rule of Law. Certainty and Stability form the basic foundation of any fiscal system. Tax policy certainty is crucial for taxpayers (including foreign investors) to make rational economic choices in the most efficient manner".

– Justice S.H. Kapadia, CJI

Background

The trend of introducing retrospective amendments continues ... as many as 24 proposals this year! There is a significant increase in the number compared to the last two budgets. Finance Bill, 2011 had proposed 5 retrospective amendments whereas 12 amendments were proposed in the Finance Bill, 2010.

The notable ones this year include amendment dating back to year 1962, seeking to tax 'offshore indirect share transfers'. Another significant proposal amending the law since 1976 relates to the change in the definition of 'royalty' to bring to tax, software and satellite income.

Over the last five years, the Government has undertaken about 150 odd retrospective amendments to direct taxes. While, in the initial years, the amendments were aimed at overcoming the judicial pronouncements of the Apex Court, the trend now seems to scuttle the decisions of the High Courts.

Retrospective Taxation

The Cardinal Principle of construction of a statute is that every statute was prima facie a prospective "unless it is expressly or by necessary implication made to have retrospective operation". When a procedural law is considered it is always retroactive i.e. came into effect from past date so the question of retrospective operation shall arise in substantive laws only. Also a criminal law shall always have retroactive operation whereas the civil law may have retrospective or retroactive operation. Therefore, only substantive civil laws can be operated retrospectively if the statute specifically prescribes it or there exists large interest of the public as whole otherwise all statutes shall be operated retroactively.

Examples of retrospective tax law amendments, particularly if they are anti-avoidance, are not uncommon. In fact, the famous Westminster principle is the supremacy of the Parliament-the right to enact a law includes the right to enact a law retrospectively or retroactively.

Global Scenario

Position in UK

In the UK, Section 58 of UK Finance Act, 2008, was changed retrospectively to affect the residential status of foreign partnerships and trusts. The amendment was challenged in R v. HMRC, where the question pertained to the residential status of Isle of Man trusts which, with a negligible contribution of capital from UK resident, was allegedly use to escape tax otherwise taxable in the UK. The Court of Appeal held : "If Section 58 were not made retrospective, the claimants would obtain a windfall at the expense of the general body of taxpayers. It would be unfair to the general body of resident taxpayers not to have given Section 58 retrospective effect. The claimants entered into schemes with the intention of deliberately avoiding UK Tax. HMRC never accepted that the schemes worked and the tax liabilities were not settled before the legislation was applied to them".

Position in Australia

Australia has also enacted retrospective laws, including those to overcome adverse rulings of courts. Australian Parliament's Legislation Handbook, which provides recommendations for legislative procedure, suggests the following with regard to retrospective legislation :

"Provisions that have a retrospective operation adversely affecting rights or imposing liabilities are to be included only in exceptional circumstances and on explicit policy authority."

Position in USA

By contrast, the US Constitution provides that both the Federal government and the State governments are prohibited from passing ex post facto laws (Article I, section 9 and section 10 respectively). However, substance due process amendments in taxation laws have been made retrospectively in certain cases. Notably, these are procedural issues-not issue of imposing a tax retrospectively.

Position in India

Article 20(1) of the Indian constitution provides necessary protection against ex post facto law . Art. 20(1) has two parts. Under the first part, no person is to be convicted of an offence except for violating 'a law in force' at the time of the commission of the of the act charged as an offence. A person is to be convicted for violating a law in force when the act charged is committed. A law enacted later, making an act done earlier (not an offence when done) as an offence, will not make the person liable for being convicted under it .The second part of Art. 20(1) immunizes a person from a penalty greater than what he might have incurred at the time of his committing the offence. Thus, a person cannot be made to suffer more by an ex-post-facto law than what he would be subjected to at the time he committed the offence . What is prohibited under Art. 20(1) is only conviction or sentence, but not trial, under an ex-post-facto law. The objection does not apply to a change of procedure or of court. A trial under a procedure different from what obtained at the time of the commission of the offence or by a court different from that which had competence ate then time cannot ipso facto be held unconstitutional. A person being accused of having committed an offence has no fundamental right of being tried by a particular court or procedure, except in so far as any constitutional objection by way of discrimination or violation of any other fundamental right may be involved.

Therefore, in India the legislature surely has the power to amend laws retrospectively. There is a plethora of case laws that recognize this power of the legislature to retrospectively amend a statute. However, as stated above :

(a) A legislature can by a retrospective amendment in law, validate such law which has been declared by court to be invalid provided the infirmities and vitiating factors noticed in the declaratory-judgment are removed or cured.

(b) If by such validating and curative exercise made by the legislature, the earlier judgment becomes irrelevant and unenforceable, that cannot be called an impermissible legislative overruling of the judicial decision.

Though an amendment presumes the constitutional validity of a statue, constitutional validity of a retrospective amendment may not be free from doubt. The Supreme Court, in case of Sri Prithvi Cotton Mills Vs Broach Borough Municipality , analyzed the validity of the retrospective amendment of a statute in light of Article 19(1)(g) of the Constitution of India, i.e. a fundamental right to practice any profession, or to carry on any occupation, trade or business. The court said :

"In testing whether a retrospective imposition of a tax operates so harshly as to violate fundamental rights under article 19(1)(g), the factors considered relevant include the context in which retroactivity was contemplated such as whether the law is one of validation of taxing statute struck-down by courts for certain defects; the period of such retroactivity, and the decree and extent of any unforeseen or unforeseeable financial burden imposed for the past period etc."

Vodafone Case

The demand for tax in the Vodafone case was a result of failing to understand the difference between the sale of shares in a company and the sale of assets of that company. The ownership of shares in a company does not mean ownership of the assets of the company. The assets belong to that company which is a separate legal entity. In the Vodafone case, 51 per cent of Hutchison Essar Ltd. (HEL) was directly owned by the Hutchison group of Hong Kong through a multiple layer of companies and ultimately by a company incorporated in the Cayman Islands. This was not the result of any devious tax planning scheme but the consequences of the growth of Hutchison Essar Ltd. by acquiring several telecom companies over the years. Hutchison International decided to exit its Indian operations and a public announcement was made to this effect.

Vodafone was the successful buyer of the share of the Cayman Island Company for $11 Billion. Consequently, by purchasing one share of the Cayman Island company, Vodafone came to own 51 per cent of share capital of HEL. The transfer of shares of one non-resident company (Hutchison) to another non-resident company (Vodafone) did not result in the transfer of any asset of HEL in India. All the telecom licenses and assets continued to belong to HEL or its subsidiaries.

The shares owned by Hutchison were sold to Vodafone indirectly purchasing 51 per cent of the share capital of Hutchison Essar Ltd., a company registered in Mumbai. Not a single asset of this Mumbai based company was transferred either in India or abroad. Indeed, there would be no transfer of any asset in India.

This is also exactly how several international transactions are concluded. Vodafone was not the first case where transfer of shares between non-resident overseas company resulted in a change in control of an Indian company. But controlling interest is not a capital asset; it is the consequence of the transfer of shares. The demand made by the Income Tax Department in the Vodafone case was thus contrary to elementary principles of company and tax law.

India-Mauritius treaty

There has been severe criticism of the India-Mauritius Treaty and it has been accused of depriving the Indian government of crores of rupees of tax revenue. If there is a policy decision to permit tax exemption for investments through Mauritus, one cannot blame the courts for any potential loss of revenue. The government is fully conscious of the so-called loss of direct tax revenue but these incentives are essential to foreign direct investments.

In the end, the Supreme Court's decision on 20th January, 2012 is absolutely correct and adheres to the fundamental principles of company and tax laws. In the Vodafone case the demand was for capital gains tax which never arose in India. Once the hollowness of the department's claim was exposed, the absence of any liability became clear.

The courts merely interpret the law and if a transaction is not liable to Indian income tax, one must graciously accept the result.

Rule of Law

According to Lord Bingham the 'rule of law' means —

"All persons and authorities within the state, whether public or private should be bound by and entitled to the benefit of laws publicly made taking effect (generally) in the future and publicly administered in the courts."

Arthur Chaskalson, the first President of the Constitutional Court and former Chief Justice of South Africa in an address said :

"Courts cannot be expected to carry the full burden of what might be required. In a democracy, parliament and civil society are also defenders of the 'rule of law' and it is essential that they should play their part in its protection."

In the celebrated Minerva Mills case in the Supreme Court of India Bhagwati J. said that if there was one feature of the Indian Constitution which more than any other was fundamental to democracy and the 'rule of law' it was the power of judicial review.

Therefore, the courts' inherent power of judicial review was the "fundamental mechanism for upholding the rule of law."

Amendment to Section 9(1) (VI)

In fact, the amendment made by the Finance Act, 2008, of the UK was very similar to the proposed amendment to Section 9 of the Indian I-T Act by Budget 2012. The amendment was to change the residential status of foreign partnerships which had UK partners. The amendment was done to override the Court rulings.

In India the amendment to Section 9(1)(vi), for instance, is aimed at scuttling the unfavourable decisions of the Delhi High Court in the EricssonAB case and Dynamic Vertical Software case, wherein, it had been held that payments for import of shrink wrapped software cannot be treated as 'royalty' taxable in the hands of the non-resident. Of course, in terms of the taxability of payments for import of packaged/shrink wrapped software, there have been conflicting decisions from the High Courts (including the decision of the Karnataka High Court in the Samsung and certain unreported decisions).

In Ishikawajma Harima Heavy Industries case the Supreme Court held that, for the non-resident to be taxable in India in terms of the fees paid for technical services, under Section 9(1)(vii), the technical services should have been rendered and utilized in India. Many High Courts had delivered similar decisions, based on this decision. The Government, upset with this development, came out with a retrospective amendment to Section 9(1) by the insertion of a badly worded Explanation, in the Finance Act, 2007 with effect from June 1, 1976, which read as under:

"Explanation : For the removal of doubts, it is hereby declared that for the purposes of this section, where income is deemed to accrue or arise in India under clauses (v), (vi) and (vii) of sub-section (1), such income shall be included in the total income of the non-resident, whether or not the non-resident has a residence or place of business or business connection in India."

That this badly worded Explanation was not enough to unsettle the Apex Court's decision in the Ishikawajma Heavy Industries case became clear when the Bombay High Court, in the Clifford Chance case and the Karnataka High Court, in the Jindal Thermal Power case , held that, the law laid down by the Apex Court was still good law even after the 2007 amendment.

Not one to give up, the Government came out with another retrospective amendment in the Finance Act, 2010, by inserting the following Explanation, in place of the Explanation inserted by the Finance Act, 2007:

[Explanation : For the removal of doubts, it is hereby declared that for the purposes of this section, income of a non-resident shall be deemed to accrue or arise in India under clause (v) or clause (vi) or clause (vii) of sub-section (1) and shall be included in the total income of the non-resident, whether or not :

(i) the non-resident has a residence or place of business or business connection in India; or

(ii) the non-resident has rendered services in India.]

This then, is a case of re-retrospective amendment, overcoming the effects arising out of a badly drafted law with an equally badly drafted amendment. That the Government would not hesitate going in for another re-retrospective amendment, if the earlier retrospective amendment is struck down by the Courts, should perhaps, come as warning signal for tax payers and other stakeholders who might want to contest the latest round of retrospective amendments.

One popular and unconvincing argument that the Government gives is that, these explanations are inserted in order to "remove the doubts". Doubts, in whose mind, one wonders. Clearly, the taxpayer and the Judiciary would seem to have no doubts about these provisions. And look at this irony the law related to the taxation of payments towards software imports is being retrospectively amended from 1976 ... How can somebody justify that the Legislature, in its wisdom, had thought of taxing software payments to non-residents in 1976 when computers were largely unknown in those days ...

Take the case of the retrospective amendments aimed at overcoming the Vodafone decision ... That these retrospective amendments take effect from April 1, 1962, when the concept of tax havens was unknown, is rather unfortunate. One essential test of a retrospective law is that, the law should have and be seen to have the same validity as on the date from which it is retrospectively applicable. This test would completely fail in the case of these retrospective amendments.

The policy of the current day tax administration seems to be, sadly, one of "Heads I Win ... Tails you lose" and this view is getting reinforced through the recent retrospective amendments. The tax payer, who has run his business and taken investment and business decisions based on the existing law for several years, is made to pay a heavy price even after spending considerable time, effort and money in pursuing litigation, even up to the High Courts and the Supreme Court. If the Government has been lax in terms of unclear statutory provisions and Rules, who is to be blamed? The executives who draft the laws and the rules or the tax payers who depend on the statutory provisions for running their businesses?

Conclusion

Legal doctrines like "Limitation of Benefits" and "look through" are matters of policy. It is for the Government of the day to have them incorporated in the Treaties and in the laws so as to avoid conflicting views. Investors should know where they stand. It also helps the tax administration in enforcing the provisions of the taxing laws.

Nothing prevents the Government from changing the law on a prospective basis, if it feels strongly that the legislative intent has not been well appreciated by the Judiciary. But, to unsettle the law by putting the clock back by 50 years in unheard of, in any legal system, in any part of the world.

At this rate, India would not need Courts and Tribunals to decide on tax matters. The Government would do well to take away the provisions related to appellate remedies. This would, at least, save the tax payers from spending effort and money on litigation. If this trend goes on, there would be no point in the Courts trying to interpret the law, as any decision which is not to the liking of the Government, could easily get retrospectively amended.

One fails to understand the so called 'legislative intent' getting reinforced through these retrospective amendments? All that one can see is the reinforcement of the 'Executive Will' rather than the 'Legislative Will', in as much as, it seems that the 'Executive Action' is prevailing over the 'Rule of Law'.

The most undesirable outcome of a retrospective amendment is that, it would affect all the concluded transactions which have attained finality. In the instant case, not only would Vodafone get affected but also a lot of other concluded transactions would also get affected, which seems rather unfair.

Let us not going into the merits of the Vodafone case and whether the facts contained in this case would promote to advance the case of 'tax avoidance'. But, once the Supreme Court had decided that this is a case of tax avoidance rather than tax evasion, all of us including the Government should respect it.

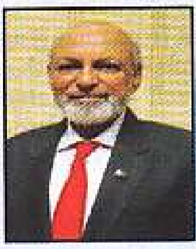
Retrospective amendment to the law may be cheap, quick and certain way of closing a tax loophole and the governments may find itself irresistibly tempting to use this remedy. India is one example where governments have gone overboard to use the power to undo court rulings with retrospective amendments.

The Apex Court still may or may not uphold the constitutional validity of all these retrospective amendments. But, as a nation, we would do well to remember and recollect what the great Nani Palkhivala has repeatedly said :

"Taxes are the lifeblood of the government, but it cannot be over-emphasized that the blood is taken from the arteries of the taxpayers and, therefore, the transfusion has to be accomplished in accordance with the principles of justice and fair play."

— Nani Palkhivala ❒

Enterprises Governance—Best Practices in SAFA Region



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SAFA

South Asian Federation of Accountants is a regional apex body of SAARC with its specialized role as Professional Body in the area of Accounting, Finance, Economy and related subjects. At present, statutory recognition has been given to some Chartered/Management Accountants Bodies in five countries namely; Bangladesh, India, Nepal, Pakistan and Sri Lanka. It is expected that in future Maldives, Bhutan and Afghanistan will also develop their statutory Professional Accounting Bodies and consequently, the scope of SAFA will be enlarged.

Concept of Enterprise Governance

Good Governance is the crying need at various levels including global, regional, macro, micro and enterprises. The role of Professional Accountants in general ought to focus on socio-economic develop-ment of the country but in particular they must concentrate on Enterprise Governance which is popularly known as Corporate Governance. Therefore, wherever the term "Corporate Government" is used, it may be taken to mean "Enterprise Governance".

This paper looks at Enterprise Governance with its Best Practices to be operational zed in SAFA Region with strategic dimension.

Concept of Enterprise Governance

Several definitions are available in respect of Enterprise Governance. However, we have included the definition by OECD which is quoted below :

"Corporate Governance Comprehends that structure of relationship and corresponding responsibilities among a core group consisting of :

- Shareholders
- Board Members
- Corporate Managers

designed to best poster the competitive performance required to achieve the corporation's primary objective".

Brief Historical Background

It may be of significant interest to refresh ones memories by having a brief historical rundown in respect of rise of Enterprise Governance in the world. SAFA region had a great influence from United Kingdom in the past. Tt is pertinent to mention that some developments which have served as a background and a source of motivation for developing Enterprise Governance in SAFA region are briefly summed up here. In this respect, in the early 1990's Cadbury Committee was set up in UK and they presented their report in the following four areas :

1. Board of Directors (BOD).
2. Non-Executive Directors.
3. Executive Directors.
4. Reporting & Controls.

Further in 1995, Hamphel Committee was set up in United Kingdom and their report was released in January 1998 with its scope extending to seven areas mentioned below :

1. Principles of Corporate Governance.
2. Application of Principles.
3. The Future.
4. Directors.
5. Directors Remuneration.
6. Shareholders and the AGM.
7. Recommendations

Hong Kong has also been ranked by the World Bank as the top scorer through World Governance Index. It may be stated that it scored 99% in Regulation, 92% in Corruption and 90,5% in Rule of Law giving it the top position as per No. 1 in Block-A in the above Index. In this respect, Various working groups work in Hong Kong and the Accountancy Professionals made significant contributions for strengthening the frontiers of Enterprise Governance. The following Table summarizes the position :

*This paper has been presented by the author at the SAFA Conference at Dhaka during May 2012

Table No : 1

Hong Kong : Strengthening Enterprise Governance

1	Compliance	Matters to be identified
2	Board	Same family members not to have more Than 50%
3	CFO	Mandatory for appointment
4	AGM	Attendance record was made mandatory
5	Board Meeting	Frequency of four Compulsory every year, Six preferred.
6	Auditors Other Fees	Separate disclosure
7	Annual Report	Separate Disclosure on : Corporate Governance
8	Audit Committee	Be established with Defined Functions
9	Interim Report	Be released. Scope : Balance Sheet, Income Statement and Cash Flow Statement
10	Auditors	To Review No. 9 above

Best Practices on Corporate Governance of South Asian Countries : A Comparative Analysis

The above project was conceived by SAFA in its 54th Assembly Meeting held on July 17, 2004 at Kathmandu, Nepal. Pakistan was assigned the duty of completing this assignment in collaboration with eight bodies from SAFA region. The objective was to identify areas that needed further improvement and develop The Best Practices that should be followed in SAFA region by Public Interest Entities (PIE). Based on work, the assignment was completed and approved in the 58th Assembly Meeting of SAFA held in New Delhi, India on September 03, 2005. This document is available on the net and was released by the President of Institute of Chartered Accountants of Pakistan on January 10, 2007. This document has two parts. The first one is a descriptive review in dealing with ten topics namely; Board of Directors, Oversight and Management of the Company, Orientation and Training of Directors, Performance and Evaluation of the Company, Remuneration Committee, Nominating Committee, Audit Committee, Disclosure of Interest of Directors and Executives holding company's shares, Annual Report and Relationship with the shareholders. The second part presents a Comparative Analysis of the Corporate Governance framework in South Asian countries with specific focus on topics such as Composition of Board, Number of Independent Directors, who is to be an Independent Director, Chairman/Lead Directors, Role of Chairman, Qualification and eligibility to act as Director, Tenure of BOD and Election of Directors, Appointment of Election of BOD, Powers, Functions and Responsibilities of BOD, Evaluation of Non-Executive Directors, Evaluation of BOD as a whole, Evaluation of CEO, Training of BOD, Committees of BOD, eligibility to act as a Committee Member, Code of Conduct, Meeting of BOD, Matters to be placed before BOD, Disclosure of Interest by Director, CEO and Executives holding Company's shares, disclosures of interest by Auditors holding company's shares, Composition of Audit Committee, Meeting of Audit Committee, Quorum of Audit Committee Meeting, Powers of Audit Committee, Internal Audit, CFO and CS and CIA, Appointment and qualifications of External Auditors, Directors' Report, Statement of Corporate Governance, Certification of External Auditors reporting framework, postal ballot, constructive use of AGM, and major transactions.

Countries selected for the above assignment included Bangladesh, India, Pakistan and Sri Lanka.

There is a need to review the foregoing document, update and develop it to share the experiences of Enterprise Governance in SAFA region. It is suggested that SAFA may commission this study and with its available resources, finalize it so that a broad framework for Enterprise Governance is developed for the guidance of stakeholders.

SAFA Countries Focus

SAFA member Accounting Professional Institutes have done an excellent work in the past in collaboration with respective regulatory agencies. This spirit needs to be kept up and accelerated so that improvement is ensured in Enterprise Governance as an on-going process to maintain the spirit of Kaizan.

However, with due acknowledgement to the foregoing work, a brief review, based on downloaded material from internet, is presented now relating to five SAFA Countries.

Bangladesh

Readers are suggested to study working paper series No. 2 entitled : "State of Corporate Governance in Bangladesh" released by Centre of Research and Training of East-West University, Dhaka in September 2007. An excellent analysis has been carried out in this research study with focus on "Corporate Governance - Best Practices and Guidelines" relating to public limited companies (financial and non-financial institutions) and State Owned Enterprises (SOEs).

India

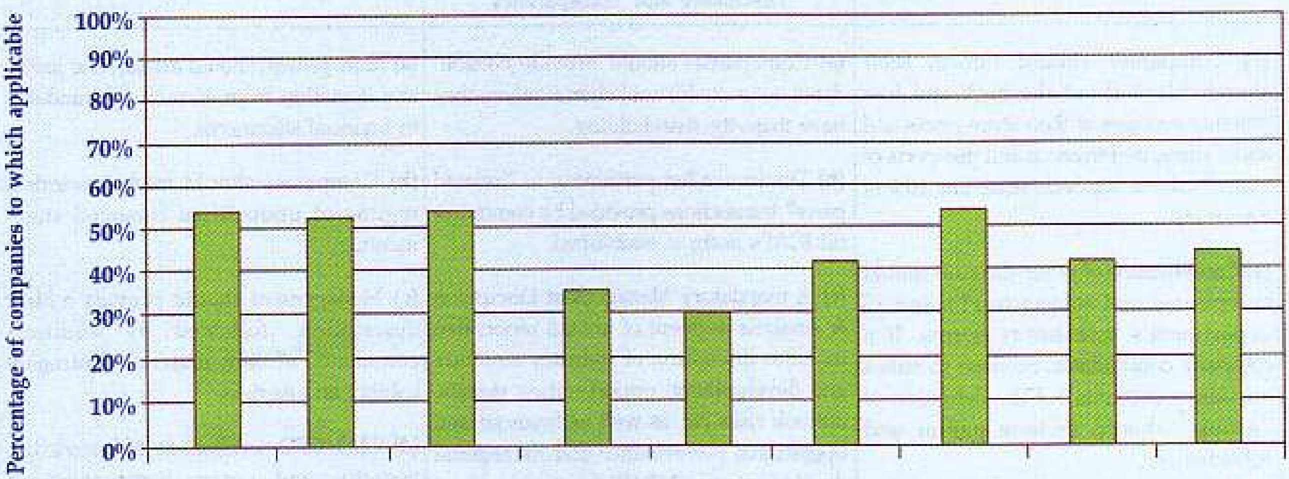
An excellent paper entitled : "Corporate Governance in India : Evolution and Challenges", released by College of Management, Georgia Tech, Atlanta, USA contains informative and useful material. It is interesting to note that besides, the excellent work of Institute of Chartered Accountants of India, several committees have done remarkable work. These recommendations are by CII Code Recommendation (1997), Birla Committee (SEBI) Recommendation (2000), and Narian Murthi Committee (SEBI) Recommendation (2003). These are available in tabulated shape alongwith Figure-1 and are reproduced in Table : 2

Table 1 : Recommendations of various committees on Corporate Governance in India

CII Code recommendations (1997)	Birla Committee (SEBI) recommendations (2000)	Narayana Murthy committee (SEBI) recommendations (2003)
	Board of Directors	
(a) No need for German style two-tiered board (b) For a listed company with turnover exceeding Rs. 100 crores, if the Chairman is also the MD, at least half of the board should be Independent directors, else at least 30%. (c) No single person should hold directorships in more than 10 listed companies. (d) Non-executive directors should be competent and active and have clearly defined responsiblities like in the Audit Committee. (e) Directors should be paid a commission not exceeding 1% (3%) of net profits for a company with (out) (f) Attendance record of directors should be made explicit at the time of re-appointment. Those with less than 50% attedance should not be re-appointed. (g) Key information that must be presented to the board is listed in the code. (h) **Audit Committee :** Listed companies with turnover over Rs. 100 crores or paid-up capital of Rs. 20 of crores should have an audit committee of at least three members, all non-excutive, competent and willing to work more than other non-executive directors, with clear terms of reference and access to all financial information in the company and should periodically interact with statutory auditors and internal auditors and assist the board in corporate accounting and reporting. (i) Reduction in number of nominee directors. FIs should withdraw nominee directors from companies with individual FI shareholding below 5% or total FI holding below 10%.	(a) At least 50% non-executive members. (b) For a company with an executive Chairman, at least half of the board should be independent directors, else at least one-thired. (c) Non-executive Chairman should have an office and be paid for job related expenses. (d) Maximum of 10 directorships and 5 chairmanships per person. (e) **Audit Committee :** A board must have an qualified and independent audit committee, of minimum 3 members, all non-executive, majority and aheir independent with at least one having financial and accounting knowledge. Its chairman should attend AGM to answer shareholder queries. the committee should confer with key executives as necessary and the company secretary should be he secretary of the committee. The committee should meet at least thrice a year – one before finalization of annual accounts and one necessarily every six months with the quorum being the higher of two members of two members or one-third of members with at least two independent directors. It should have access to information from any employee and can investigate any matter within its TOR, can seek outside legal/ professional service as well as secure attendance of outside experts in meetings. It should act as the bridge between the board, statutory auditors and internal auditors with farranging powers and responsiblities. (f) **Remueration Committee :** The remuneration committee should decide remuneration packages for excutive directors. It should have at least 3 directors, all non-excutive and be chaired by an independent director. (g) The board should decide on the remuneration of non-executive directors and all remuneration information should be disclosed in annual report. (h) At last 4 board meetings a year with a maimum gap of 4 months between any 2 meetings, Minimum information available to boards stipulated.	(a) Training of board members suggested. (b) There shall be no nominee directors. All directors to be elected by share-holders with same responsibilities and accountabilities. (c) Non-executive director compensation to be fixed by board and ratified by shareholders and reported. Stock options should be vested at least a year after their retirement. Indendent directors should be treated the same way as non-executive directors. (e) **Audit Committee :** Should comprise entriely of "financially literate" non-exeucitve members with at least one member having accounting or related financial management expertise. It should review a mandatory list of documents including information relating to subsidiary companis. "Whistle blowers" should have direct asccess to it and all employees be informed of such policy (and this should be affirmed annually by management). All "related party" transactions must be approved by audit committee. The committee should be responsible for th appointment, removal and remuneration of chief internal auditor. (f) Boards of subsidiaries should follow similar composition rules as that or parent and should have at least one independent directors of the parent company. (g) The Board report of a parent company should have access to minutes of board meeting in subsidiaries and should affirm revlewing its affairs. (h) Performance evaluation of non-executive directors by all his fellow Board members should inform a re-appointment decision. (i) While independent and non-executive directors should enjoy some protection from civil and criminal litigation, they may be held responsible of the legal compliance in the company's affairs. (j) Code of conduct for Board members and senior management and annual affirmation of compliance to it.

CII Code recommendations (1997)	Birla Committee (SEBI) recommendations (2000)	Narayana Murthy committee (SEBI) recommendations (2003)
	Disclosure and Transparency	
(a) Companies should inform their shareholders about the high and low monthly averages of their share prices and about share, performance and prospects of major business segments (exeeding 10% of turnover) (b) Consolidation of group accounts should be optional and subject to FI's and IT department's assessment norms. If a company consolidates, no need to annex subsidiary accounts but the definition of "group" should include parent and subsidiaries. (c) Stock exchanges should require compliance certificate from CEOs and CFOs on company accounts. (d) For companies with paid-up capital exceeding Rs. 20 crore, disclosure norms for domestic issuesn should be same as those for GDR issues.	(a) Comapanies should provide consolidated accounts for subsidiaries where they have majority shareholding. (b) Disclosure list pertaining to "related party" transactions provided by committee till ICAI's norm is established. (c) A mandatory Management Discussion & Analysis segment of annual report that includes discussion of industry structure and development, opportunities, threats, outlook risks etc. as well as financial and operational performance and managerial developments in HR/IR front. (d) Management should inform board of all potential conflict of interest situations. (e) On (re) appointment of directors, shareholders must be informed of their resume, expertise, and names of companies where they are directors.	(a) Management should explain and justify any deviation from accounting standards in financial statements. (b) Companies should move towards a regime of unqualified financial statements. (c) Management should provide a clear description, followed by auditor's comments, of each material contingent liability and its risks. (d) CEO/CFO certification of knowledge, veracity and comprehensiveness of financial statements and directors' reports and affirmation of maintaining proper internal control as well as appropriate disclosure to auditors and audit committee. (e) Security analysts must disclose the relationship of their employers with the client company as well as their actual or intended shareholding in the client company.
	Other issues	
Creditor's Rights (a) FIs should rewrite loan covenants eliminating nominee directors except in case of serious and systematic debt default or provision of insufficient information. (b) In case of multiple credit ratings, they should all be reported in a format showing relative position of the company (c) Same disclosure norms for foreign and domistic creditors. (d) Companies defaulting on fixed deposits should not be permitted to accept further deposits and make inter-corporate loans or investments or declare dividends until the default is made god.	**Shareholders' Rights** (a) Quarterly results, presentation to analysts etc. should be communicated to investors, possibly over the Internet. (b) Half-yearly financial results and significant events reports be mailed to shareholders. (c) A board committee headed by a non-executive director look into shareholder complanits/grievances. (d) Company should delegate share transfer power to an officer/committee/registrar/share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight.	**Special Disclosure for IPOs** (a) Companies making Initial Public Offering ("IPO") should inform the Audit Committee of category-wise uses of funds every quarter. It should get non-pre-specified uses approved by auditors on an annual basis. The audit committee should advise the Board for action in this matter.

Figure 1 : Compliance with Clause 49 of Listing Agreement, (Sep 30, 2002, BSE companies)



Nepal

Available information in respect of Nepal is contained in paper entitled : "Challenges of Governance in South Asia", presented in an International Conference during December 15-16, 2008 in Kathmandu.

Banks and Financial Institution Act, 2063 focuses on conflict of interest and transparency alongwith competent key personnel qualifications. NRB Directive No. 6 contains Code of Conduct for Directors and some aspects relating to Audit Committee.

Companies Act, 2063 deals with the conflict of interest and transparency, directors, audit and shareholders protection.

Pakistan

The first Code of Corporate Governance was issued in 2002 and the la test one has been released on April 10, 2012 by Securities and Exchange Commission of Pakistan, Islamabad. This is applicable to Listed Companies in Pakistan. Comparative salient features of both are given in table 3.

Table No. 3
Comparison of 2002 and 2012 Codes

S.#	Issue	Code 2002	Code 2012
1.	Independent Director	Encouraged a minimum of one independent director on the board of a listed company.	One independent director is mandatory while preference is for 1/3rd of the total members of the board to be independent directors.
2.	Criteria for assessment of independence	Very scanty criteria provided	Criteria has been substantially expanded
3.	Executive Directors	Number of Executive Directors not to be more than 75% of elected directors including CEO	Maximum number of Executive Directors cannot be more than 1/3rd of elected directors including CEO.
4.	Number of directorships	A director can be on the board of no more than 10 listed companies at any one time.	A director can be on the board of 7 listed companies at the most at any one time. However, the limit does not include directorship in listed subsidiaries of a listed holding company.
5.	Board evaluation	—	Within two years of the implementation of the Code 2012, the Board has to put in place a mechanism for undertaking annual evaluation of the performance of the Board.
6.	Office of Chairman and CEO	The Chairman of a listed company shall preferably be elected form among the non-executive directors of the listed company.	The Chairman and CEO shall not be the same person, unless specifically provided in any other law. The Chairman shall be elected from amongst the non-executive directors of the listed company.

(contd.)

S.#	Issue	Code 2002	Code 2012
7.	Training of the Board of Directors	It is mandatory for directors of listed companies to attain certification. Initially, the PICG was to provide the training but later it was opened to other institutions, provided they met the criteria specified by the SECP.	It will be mandatory for directors of listed companies to attain certification under any director training program (DTP) offered by any institution (local or foreign), which meets the criteria specified by the SECP. The criteria are available at the websites of the stock exchanges and the SECP.
8.	Appointment and removal and qualification criteria for Chief Financial Officer (CFO) and Company Secretary (CS)	Appointment, remuneration and terms and conditions of employment of CFO and CS determined by CEO and approved by Board. The same mechanism followed for removal.	The appointment, remuneration and terms and conditions of employment of the CFO, CS and the Head of Internal Audit (IA) of listed companies shall be determined by the Board. The removal will also be by the Board for CS and CFO.
9.	The Head of Internal Audit (IA)	–	Qualification introduced for Head of IA. The removal of Head of IA is with the approval of the Board only upon recommendation of the Chairman of the Audit Committee.
10.	Remuneration of Directors	–	A formal and transparent procedure to be followed and disclosure of aggregate remuneration in the annual report.
11.	Board Committees	Audit Committee: The Chairman of the audit committee shall preferably be a non-executive director. Reporting Procedure : The Audit Committee of a listed company shall appoint a secretary of the Committee	Audit Committee: The Chairman of the audit committee shall be an independent director, who shall not be the chairman of the board. Audit Committee shall comprise of non-executive directors. The secretary of Audit Committee shall either be the Company Secretary or Head of Internal Audit. However, the CFO shall not be appointed as the secretary to the Audit Committee. Human Resources and Remuneration Committee introduced.
12.	Internal Audit	There shall be an internal audit function in every listed company. The head of internal audit shall have access to the chair of the Audit Committee	The internal audit function may be outsourced by a listed company to a professional services firm or be performed by the internal audit staff of the holding company. In the event of outsourcing the internal audit function, the company shall appoint or designate a fulltime employee other than the CFO, as Head of Internal Audit, to act as coordinator between the firm providing internal audit services and the board.

Source : Annexure "C" attached with code of Corporate Governance 2012 released by Securities & Exchange Commission of Pakistan April 10, 2012. PP 43-44.

Currently the following documents are enclosed with the Annual Audited Financial Statements in Pakistan relating to listed companies on Stock Exchanges.

1. Statement of Compliance duly signed by the President / Chief Executive Officer.
2. Statement of Internal Control duly signed by Chief Compliance Officer, Chief Financial Officer and Chief Internal Auditor.
3. Review Report addressed to the Members, Statement of Compliance with the best practices of Code of Corporate Governance duly signed by external auditor.

Sri Lanka

The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka jointly issued Code of Best Practices on Corporate Governance on July 01, 2008. This code has two sections.

Section-1 is entitled : "The Company" and deals with the directors, directors' remuneration, relationship with shareholders and accountability and audit. Section-2 deals with shareholders and deals with institutional investors, shareholders voting, evaluation of governance disclosures, and other investors, investing/divesting the decision and shareholders voting. The Code is supported with the schedules shown in table 4.

Table : 4
Schedules Attached to Best Practices on Corporate Governance

Schedule	Particulars
A :	Terms of Reference for Nomination Committees.
B :	Board Performance Evaluation Check-List.

C:	Terms of Reference for Remuneration Committees.
D:	Provision on the determination of Performance related Remuneration.
E:	Matters for consideration when making "Going Concern" – Assumption.
F:	Summary of Disclosures.
G:	Code of Business Conduct and Ethics.
H:	Declaration of Independence.

Charter for Enterprise Governance : Suggsted Strategic Initiatives

There is a need to develop a Charter for Enterprise Governance for SAFA countries. All stakeholders may work together with a synergistic approach. From strategic angle, some thoughts for developing the above suggested Charter are as under :

1. Code of Corporate Governance as an Integral Part of Company Law

It is suggested that instead of issuing Codes of Corporate Governance by Regulatory Authorities or by Professional Institutes, it is suggested that specific provisions should be included in the Company Laws of respective SAFA countries. This thought is shared by some countries including Bangladesh. However, its implementation is through the Parliaments of various countries for which the SAFA Member Professional Institutes and relevant Regulatory Bodies e.g. Securities and Exchange Commission, or Securities Exchange Board etc. may kindly initiate the process to pave the way for implementation of the above suggested course of action. The scope of application should extend itself to a comprehensive perspective including Corporate Sector, Financial Sector or other sectors where Joint Stock Companies are operating.

It is generally believed that scope in some countries extend to only listed companies. The recent example is that of Code of Corporate Governance 2012, released in Pakistan is applicable only to all listed companies which as on April 17, 2012 numbered around 600 with market capitalization of US$ 39 billion.

Standardized format regarding Secretarial Compliance Survey and Statement of Compliance that the Code of Corporate Governance may be followed through the SAFA countries may be developed. In this respect, the most recently released formats included in the Code of Corporate Governance, 2012 are as under :

- Appendix–"A" : Secretarial Compliance Survey
- Appendix–"B" :Statement of Compliance with the Code of Corporate Governance.

These are attached now for the benefit of readers.

Any modification to suit specific requirement of any SAFA country be made in it.

2. Principles of Public Life For Enterprise Corporate Governance For SAFA

Chief Executives/Chief Financial Officers and others holding high management level positions are suggested to follow the seven principles of public life as suggested in the first report of Committee of Standards in Public Life and published in UK in May 1995 and are tabulated below :

Table : 5
The Seven Principles of Public Life

Selflessness :	Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
Integrity :	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for reward and benefits, holders of public office should make choice on merit.
Objectivity :	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might influence them in the performance of their official duties.
Accountability :	Holders of public office are accountable for their decisions and Actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openess :	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
Honesty:	Holders of public office have a duty to declare any private interests Relating to their public duties and to take steps to resolve any Conflicts arising in a way that protects the public interest.
Leadership:	Holders of public office should promote and support these Principles by leadership and example.

Source : First Report of Committee of Standards in Public Life (May 1995), published in UK.

3. World Bank's Contribution

Overall Corporate Governance Index was first released by the World Bank and was published in DAWN, Lahore on January 10, 2009. It ranked countries out of a maximum of 100. Germany scored 90.8% at the top. Selected ranking of some SAFA countries was as under :

Country		%
• 1. India	:	55.4
• 2. Pakistan	:	31.3
• 3. Bangladesh	:	24.3

Table No : 6 presents position of 14 ranked countries.

Table No. 6
Overall Corporate Governance Index

S. No.	Country	CGI (out of 100)
1	Germany	90.8
2	United States	89.8
3	Singapore	80.9
4	Hong Kong	69.2
5	Malaysia	66.7
6	India	55.4
7	South Korea	55.4
8	Thailand	49.7
9	Philippines	48.9
10	Indonesia	44.7
11	Vietnam	38.1
12	China	35.3
13	Pakistan	34.3
14	Bangladesh	24.3

Source : Extracted from the Dawn, Lahore, January 10, 2009.

Further, the World Bank also released World Governance Index. Four blocks were made. Block-A had four top countries namely; Hong Kong, Singapore, Germany and United States. The first position was held by Hong Kong. Block-B: consisted of six countries in which Sri Lanka ranked No. 5 in the above block. Block-C: Included five countries in which India obtained rank No. 1. Block-D: Included four countries with Pakistan scored rank No. 1. Three indicators were used for developing the above index namely; Regulations, Corruption and Rule of Law. Table No:7 shows overall position.

Table No. 7
World Governance Index

Country	Regulation	Corruption	Rule of Law
Block A	%	%	%
Hong Kong	99.0	92.3	90.5
Singapore	95.5	96.1	95.2
Germany	92.7	93.2	94.3
United States	90.8	91.3	91.9
Bock B			
Taiwan	79.6	70.0	70.5
South Korea	78.6	68.1	74.8
Malaysia	67.0	62.3	65.2
Thailand	56.3	44.0	52.9
Sri Lanka	51.5	57.5	55.7
Philippines	50.5	22.2	33.8
Block C			
India	46.1	47.3	56.2
China	45.6	30.9	42.4
Vietnam	43.7	27.1	27.1
Cambodia	35.9	28.0	38.6
Papu New Guinea	30.1	9.2	21.0
Block D			
Pakistan	28.6	21.3	19.5
Bangladesh	20.9	09.7	24.8
Laos	15.0	13.0	17.1
Myanmar	01.5	1.4	05.2

Source : Extracted from the Dawn, Lahore, January 10, 2009

It is suggested that taking into consideration the foregoing indicators, SAFA countries may develop their own index with parameters to be used uniformly on all the SAFA countries so that we may have an opportunity to benchmark themselves with the best in the world. For this, committed hard work will have to be reflected by the Professional Accounting Institutes and all other stakeholders in SAFA region of SAFA.

4. Research In SAFA Region

SAFA countries have gained some experience in the application of Code of Corporate Governance. It is high time that they may also initiate research work by highlighting the beneficial impact of the application of Best Enterprise Governance Practices in respective countries to inspire others to follow the same. Each country may commission a research and the SAFA Assembly/Executive Board may finalize this document for the guidance and benefit of respective professional accounting institutes, regulatory bodies and various governments in the region. In this respect, it may be interesting to note that International Finance Corporation (IFC), Securities and Exchange Commission of Pakistan (SECP), and Pakistan Institute of Corporate Governance (PICG) have commissioned a survey in Pakistan. The hope is to provide a baseline for future Corporate Governance requirements and initiatives under IFCs Pakistan Corporate Governance Project.

5. Implementation

It has generally been seen that excellent work is carried out while developing various Codes of

Corporate Governance. The crying need is to ensure the implementation which requires total commitment by all the stakeholders namely; Management of Corporates, Regulatory Bodies, Shareholders, Stock Exchanges, Society, Governments etc. and an all encompassing campaign ought to be carried out to reflect the spirit of various Codes of Corporate Governance in practical action with beneficially demonstrated results. This will help indoctrinating the spirit of translating various Codes of Corporate Governance of respective SAFA countries into real life situation with consequential benefits by all the stakeholders. ❒

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Ethics and profit go together : A study with CSR initiatives of Tata Steel Ltd.

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Introduction

Backed by over 100 glorious years of experiences in steel making, Tata Steel is the world's sixth largest steel making company with an existing annual crude steel production capacity of 30 million tons per annum. Established in 1907 by the vision of founder, Jamsetji Nusserwanji Tata, it is the first integrated steel plant in Asia and is now the world's second most geographically diversified steel producer and a Fortune 500 companies. Tata Steel has a balanced global presence in over 50 developed European, and fast growing Asian markets, with manufacturing units in 26 countries.

Multinational Corporations work out with different environments such as global, technological, economical, legal-political, social-cultural, and natural environment where they operate and take decisions. Operations in these environments are full of uncertainty and changing any environment makes decision obsolete. Apparently, business world is divided over the means of profit maximization. One group of business goes for fixing high price, under-weighting, food adulteration, sabotage and pay-offs while other group goes for efficiency of input and output ratio, effectiveness of standard output and actual output, retaining the managerial talents, customers' satisfaction, publicities etc. the areas of improving bottom line result. But, for large international companies, their opinions regarding profit maximization is the way of creating new products and customers, acquiring the market shares from others, standardization of products, international image, competitiveness, reducing the overhead burden and synergic effect through takeovers or mergers etc.

In globalization arena, no company can survive for long unless there is a strong ethical background. There are very few multinational corporations who consider "profit with ethics" and it is given top priority by their policy-makers. Microsoft in United States of America and Tata Steel in India are pioneers and source of inspiration in this regard.

Objectives

The objective in this paper is to provide the definitive study of the casual relationship between CSR (Corporate Sustainabillity Report) activities and corporate financial performance. Alternatively, the paper is to verify the statement – whether ethics and profit go together or not. Tata Steel believes that the primary purpose of the business is to improve the quality of people's life. The company will volunteer its resources to the extent it can reasonably afford, to sustain and improve healthy brand prosperous environment of the area in which it operates. The company is a pioneer in shaping of laws relating to labor welfare and its working conditions in India. It was the first to establish labor welfare practices even before these were made statutory laws across the world. The measure of its success is neither an administrative nor an economic unit, but its impact falls on the overall quality of life of all its stakeholders. It helps a lot to improve the financial performance of the company.

Significance

The important contribution made by the company in the area of labor market has changed its environment radically in India. It helps a lot to improve industrial peace and democracy in this region. Labor satisfaction brings higher productivity and it affects the key objective of a business positively. The admired company, Tata Steel, is highly recognized for its wide range of social obligations. In 1912 it invited Sidney and Beatrice Webb, the founders of the London School of Economics, to prepare a memorandum of health for the steel city. The company also instituted an eight-hour workday in 1912, free medical aid in 1915, a welfare department in 1917, leave with pay, workers' provident fund and workmen's compen-sation fund in 1920 and maternity benefit for ladies in 1928. These measures have been considered as 'epoch-making' attempts by the company for all-round development of employees and society at large. The changed system makes the employees loyal, efficient performers and highly satisfied. This impression must have positive impact over the performance of the company. So, there is a close and strong relationship between ethics and profit.

Positive Correlation Between Ethics and Profits

The service profit chain, Heskett et al (1997), has shown strong correlations between three internal and market place variables : (i) customer loyalty and profit (ii) employee loyalty and customer loyalty, and (iii) employee satisfaction and customer satisfaction. The following diagram (Fig. 1) illustrates these relationships :

Figure 1 : The Service Profit Chain

Internal Operating Strategy Service Delivery	→	Service Concept	→	External Target Market	→	Revenue Growth And Profitability
EMPLOYEES Satisfaction Loyalty Productivity Service Quality Capability		SERVICE VALUE				

The service profit chain model was specifically developed to explain the relationship between employees and customers in a service environment. **The model suggests that skilled employees who are highly satisfied with their jobs are much more loyal to the organization and far more productive in delivering high levels of quality service to customers.** As a result of this high level of service, the organization's customers hold positive attitude towards the company exhibited in high levels of customer satisfaction. Satisfaction brings loyalty in mind of the customers which is expressed in customers' behaviour such as repeat purchases and referrals of additional customers. The end result of this chain is long term and stable revenue growth and profitability.

While the service profit chain is applicable to organizations marketing services, we believe that the concept can be useful in managing for business growth and profitability in any type of organization in which employees have direct contact with and interact with customers. Thus we have extended the service profit chain model to include organizations marketing physical goods. The extended model is presented in Fig. 2 :

Fig. 2 : The Value Profit Chain

Internal Cluster of Satisfactions	→	Value Concept	→	External Target Market	→	Revenue Growth And Profitability
PRODUCT ORGANISATION EMPLOYEES		OVERALL VALUE				

Business ethics creates the corporate values within an organization that benefits directly through the CSR for which every organization must have to pay a huge cost. Those organizations that have a good track record about CSR have been getting or will get mammoth sympathy from society and government bodies. That means CSR bared organizations have advantageous position in all times over others. It is a win-win situation for today and tomorrow that we need to recognize it. Therefore, CSR is an outcome of ethics and there is a direct relationship between ethics and profit. The concept of CSR is almost changed. In the beginning of twentieth century most of the organizations thought that the amount spent for CSR is for society development only but that idea has been changed later on. In today's business, we admit that it is a future profit making investment. Hence, in short, earlier it was an option; now it is a must.

Was the Global Financial Crisis a Crisis of Ethics?

Professor Ed. Freeman believed at its heart it really is a crisis of ethics, because we have forgotten that business and ethics have to go together. And we see business today far too much in terms of the money, just profits; and we have forgotten about what the purpose of a business can be—and that is the problem. Until we put business and ethics together we're going to have another crisis that's going to be like this one. We were not hurt much by this sub-prime thing, we did not see how lending money to our customers who could not really afford to pay it back did any good. Somewhere the banks have forgotten that they exist to create value for their customers and their employees and others as well as their shareholders.

Goal, Mission and Vision of Tata Steel

The goal of the company is to improve the quality of people's life. The mission of the company is to ensure an overall development while maintaining high ethical standards. The company is committed to conducting the business in a way that prevents wasteful use of natural resources, improves the energy efficiency and reduces the emission of carbon dioxide. The vision of the company has outlined for 2012, among other things, doubling of returns on investment (ROI) from around 16 per cent to 32 per cent. By 2012, the group hopes to be the global industry benchmark for value creation and corporate citizenship. It involves strong focus on green-field projects and brown-field expansions.

The Company and CSR

"Tata Steel practically invented CSR much before the term became fashionable around the world" says Mahesh Kayak, a business analyst. As its operations have expanded to new geographies, the Tata Steel group has retained a collective focus on the various areas of corporate sustainability that impact the environment, people and their health and society at large.The Tata Steel group focus in the areas of corporate sustainability includes social sustainability, environment sustainability, social welfare, sports and inclusive growth. This last ensures that the group's successes are shared by all its constituents and stakeholders.

Now it is a billion dollar question, how much the company gets benefit through investment in CSR initiatives? Search for answers to this question may be made in two ways—net profit figures for past several years and foreign acquisitions by the company. Since debut of the company, there is no record of net loss in a single year to now. Even in 2001-02—when global steel prices touched one of the lowest points in history Tata Steel remained only one company in India and one of only five in the world to earn a net profit of Rs. 204.90 crore because of brand image, dynamic leadership and large scale modernization of the company at a cost of Rs. 10,000 crore. It was almost impossible unless customer's confidence reached to expectation level on company's products. In that direction, CSR has been played a very crucial role and maintained the financial statistics intact. Tata Steel's CSR initiatives has honored by United Kingdom's trade wings UK Trade and Investment (UKTI) in 2009 and, in the same year, the company has also retained International Golden Peacock award for excellent performance made in the area of CSR.

The national and international awards have huge impacts over brand names and reputations of the company. The company retained these awards due to important contribution made for the society. The awards create a national and international image that can be used as an entry mode in foreign countries. Similarly, it helps in mergers and acquisitions or takeovers to a great extent. During the acquisition of Corus, the board of directors of Corus Ltd. had selected only two companies—India's Tata Steel Ltd. and Brazil CSN Company—based on several factors including CSR track records which was given top agenda on the table. Because of thousands of employees and their future were directly attached, there were various issues faced by two counterparts in the areas of clean environment, pension scheme, technological capabilities etc. Tata Steel finally bagged the Corus as a highest bidder at a cost of $ 12.1 billion and simultaneously an accumulated debts amounting to $ 1.55 billion. This historic event establishes and recognizes the CSR initiatives of the company and its achievement.

Therefore, advantages from CSR initiatives will outweigh mere cost involved. This impact falls on profit positively. In a bit to boost the financial performance of a company, the role of CSR is inevitable. In every acquisition or merger, there is a parallel synergic effect which reduces cost and increases the combined value which is greater than sum of individual value of two merged firms. Here the role of CSR is well-known or well-informed. There is a world class CSR which helped Corus deal finalization by Tata Steel Ltd. The mystery of long-term performance by the company is not only based on parameters like management, technology and cost of production as most respected benchmarks in the steel world but CSR is equally given credence behind such performance. It is a fact that outcome from said benchmarks is determined accurately while CSR considerations to total outcome is not measured in terms of value. Over the past fifteen years, flagship Tata Steel has, on average, spent nearly 2 per cent of its revenues on such activities. The goal of CSR team is to empower people and to focus health care and hygiene in Jharkhand, Orissa and Chhattisgarh. Its carbon emission also comes down continuously and saves energy.

Creating employment is a first step in creating social sustainability. By the end of March 2008, in Europe, the company had directly employed 41,200 people and thousands more indirectly through contractors and suppliers. Contribution per employee is significant in shaping the net profit of the company. In a country like overs, government alone can't undertake the entire task of social progress. Lying under this obsequious, JRD Tata, the Chairman of the Tata Group from 1938 to 1991, believed that "to create good working conditions, to pay the best wages to its employees and provide decent housing to its employees is not enough for the industry". The aim of an industry should be to discharge its overall social responsibilities to the community and the society at large, where industry is located. Accordingly, the group takes all measures to satisfy the maximum requirements of stakeholders. The company is one of very few reputed multinationals that corporate citizenship has been giving top priority since inception. The corporate citizenship of Tata Steel covers almost all aspects of society.

The form and nature of Company's corporate citizenship is depicted :

Table 1 : Corporate Citizenship of Tata Steel Ltd.

1. Corporate Sustainability – Sustainability Overview – Sustainability Report – The Jamshedpur Story – Awards	2. Society – Building Community Network – Youth and Leadership – Sports – Employability Enhancement	3. Human – Development of Labor – Healthy People – Educated Population – Active Volunteering – Overseas Initiatives
4. Environment – Conservation Initiatives – Eco-citizen	5. Economic – Employment Generation – Infrastructure Development	6. Safety – At Tata Steel – In Mines & Collieries – Safety Committees
7. Finance – Financial Indicators – Enhancing Shareholder Value		

Code of Conduct of TATA Group

For the company: (i) To supply goods and services of the highest quality standards to ensure the total satisfaction of customers. (ii) To engage only in activities beneficial to the national interest of the country they operate in. (iii) To be fully transparent in accounting and financial reporting standards. (iv) To comply with all regulations regarding the preservation of the environment. (v) To neither give nor take any illegal payment, remuneration, gift, donation or comparable benefit to obtain business of favours. (vi) To fully strive for establishment and support of a competitive open market economy and to abhor unfair trade practices. (vii) To cooperate and share physical, human and management resources for its business interests and shareholder value.

For the employees: (i) conduct themselves professionally with professionalism, honesty; integrity as well as high moral and ethical standards and to be fair and transparent and to be seen so by third parties. (ii) Permits employees to pursue an active role in civic or political affairs as long as it does not affect the business or interests of the company or the group. (iii) Report to the management any actual or possible violation of the code or an event that the employee becomes aware of, that could affect the business or reputation of the company.

Needs of Business Ethics

What needs to be covered by a code? Work in Australia (Ryan 1994) suggested seven issues which managers saw as key:

(i) Protection of the environment (ii) Integrity and honesty (iii) Standards of fairness in relations with vendors and suppliers (iv) Providing a useful product or service to customers (v) Providing a fair and safe work place (vi) Providing opportunities for creativity and innovation, and (vii) Providing an opportunity for people to reach their own goals whilst working towards the company's goals.

Benefits of Business Ethics

Adherence to a rational code of ethics leads to several organizational benefits. Out of which a specific number of such benefits are :

(i) Increased motivation and commitment (ii) Enhanced job satisfaction (iii) Increased creativity and innovation (iv) Improved communication and team work (v) Greater trust throughout the corporation and between the corporation and its customers, suppliers and shareholders. (vi) Greater efficiency (vii) Reduced employee turnover (viii) Reduced stress and sick leave.

Present Position, Outlook and Experiences

Tata Steel Company had started business at Jamshedpur as a unit more than ten decades ago. After acquisition of one by one steel firms— Natsteel, Singapore, in August 2004; Millennium Steel, Thailand, in December 2005; and followed by Corus, UK, in January 2007 in different parts of the world, now the company would leapfrog from a lowly 56th on global pecking order of steel makers to the rarefied 5th spot and obtained second position from the net profit point of view for the first time in first half of 2007-08.

Tata Steel is the world's second-most geographically diversified steel producer, with operations in 26 countries and commercial presence over 50 countries. It also gives India a significant stake in the global steel indurtry, says Jitesh Gadhia, MD, corporate finance, ABN AMRO. Tata Steel continues to display the same vigour and the same sense of spirit as it has in the past—to face challenges, excel and lead by example in the years ahead, says Ratan. N. Tata, Chairman, Tata Steel. This confidence is growing because of people's trust over its products as well as the company's long drawn accountability towards society. In the history of Tata Steel it has never compromised in product quality and CSR initiatives including working environment and its associated entities. It is nothing new that socially responsible companies have got huge supports from all corners and will get it in similar fashion in the years to come. The largest steel producer in the private sector in India, Tata Steel Ltd enjoys the same all times.

It does not form any relationship that more ethics lead to more profit or less ethics might give less return. Rather, it should be consistent with internal and external requirements. How much amount to be spent in CSR initiatives depend on expectation level of different stakeholders and financial strength of the company. Tata's CSR covers from protection of employees' interest to clean environment, from product quality to service, from market expansion to employment generation, from authentic income determination to fair presentation; and from commitment to recognition. Profit with ethics stands for sustainable profit which is outcome of above mantras. This is crucial for all concerned and irrefutable. Ignoring this—profit without ethics—erstwhile Satyam Technologies is an example. The wide spectrum of CSR initiatives of Tata Steel towards society as a whole is set as a as example in front of others—a model organization. Even the company provides about 500 self-help groups in the manufacturing states to empower local people to start any venture including horticulture, floriculture, vegetables etc. Besides, the company has made a significant contribution in the adjacent places of Tata Steel plants regarding development of handicraft and cottage products including resin and candles.

The outlook of the company is very positive in order to achieve social progress and development. In this respect, an example will suffice. When the company has set up a plant which is started from land acquisition and ending on goods producing or service rendering, marketing the goods to the ultimate customers and after sale services, since then the company has given top priority to local development. In between two ends, all activities have been finalized with greater involvement of local people. The local people have been recruited, trained and given placement. Infrastructural developments including road, electricity, and drainage system have played a crucial role in order to make social progress. For old people, free health services through health card, making awareness by way of schedule programmes, entertainment facilities, playground etc i.e. participating actively in social functions that have been arranged by the company and, at the same time the company is encouraging subsidiaries through financial and technical helps that creates economic activities and huge employment.

Nevertheless, world's cheapest people's car, "Nano project" of Tata Motors came out from Singur in West Bengal, to Sanand in Gujrat. That was a major setback of West Bengal from economic point of view. People diverted Tata forcibly by a political party behind its own interest, supported back by some Auto Giants because of their possibility of losing business shares in near future—result is irrecoverable loss for general people who could not be united because of political violence. Singur was a chance to become a people's car city in the world map. That did not materialize because of political gain at the cost of people in West Bengal. It is very unfortunate that CSR initiatives of Tata Group acknowledged defeat for the first time by destructive politics. As unhealthy politics is a real problem for social progress and where Tata Group has made a significant contribution to it, so this kind of political environment should be avoided by avoiding or changing the political ideology or through people's revolution—consciously not emotionally. Private-Public-Partnership (PPP) is important for overall development of society because of dearth of capital and lack of know-how for an individual one. So far as steady progress is concerned, it requires huge investment in different sectors jointly, out of those, a significant amount is needed to be invested in the area of CSR initiatives. Otherwise, development would hardly be complete and it requires government initiatives and ethical minded private companies as Tata group.

How Long the CSR Initiatives of TATA Steel are Extended?

You can't imagine that there is none of operating areas in these cities where you are deceived from social touch of the company. It has spread over in accordance with needs of the people and plant expansion as well. The range of CSR initiatives of Tata Steel Ltd. are :

1. Social Sustainability **:** Community enrichment programmes through economic, social and educational development in India and outside. Creating employment directly and indirectly is the prime basis of social sustainability. Besides a rural focus on literacy and education, mentoring talent, well-being sports have been done by the company with spread and consistent basis. As part of the centenary celebrations, Tata Steel launched a Rs. 100 crore mega project during 2007-08, through which it will implement programmes targeted towards social and environmental sustainability.

2. Health care Initiatives **:** A group of medical teams have been giving curative, promotive and preventive health care services to improve levels of health amongst the community. There are several medical vans, known as "hospital on wheels" which provide surgical operations. Besides, medical teams have arranged blood donation camps throughout the year in order to meet the recognizing needs and to maintain a comfortable stock in blood bank. During 2007-08, the company constructed over 161 drinking water structures and 6,875 low cost toilets to improve rural sanitation. Tata Steel has served the community through various wings including HIV/AIDS preven-tion scheme, Building Beyond Borders (B3) and so on.

3. Environmental Sustainability **:** In order to protect clean environment from degradation and carbon emission, the company has continued to be an area of focus and priority. The company has worldwide reputation to bring down carbon emissions successfully and in strong measures. Tata Steel acts in the way of responding to the challenge of global warming, towards pollution control, afforestation, energy saving solutions etc.

Case Studies

Some business managers consider ethics programs in their organizations to be very expensive activities that are only societal rewarding or sacrificing profits. Examples from business community, however, suggest that companies viewed as ethical activities do enjoy several competitive advantages by the companies' stakeholders (i.e. customers, employees, suppliers and public). These advantages include higher levels of efficiency in operations, higher levels of commitment and loyalty from employees, higher levels of perceived product quality, higher levels of customers' loyalty and retention and better financial performance (Ferrell 2004). The link between ethics and profitability has been studied for several years. A study summarized 52 research projects examining the correlation between ethics and profits (Donaldson 2003). The results were encouraging for those supporting a positive linkage between two variables. Out of the 52 studies examined, 33 studies indicated a positive correlation between corporate ethics programs and profitability, 14 studies reported no effect or were inconclusive, and 5 studies favoured a negative relationship. Similarly in Meta-analysis of 82 studies, (Allouche and Laroche, 2005, pp.18-42) were found conclusive evidence that corporate social responsibility has a positive impact on corporate financial performance.

Findings

In the long run, ethics and profit will go together though it may lose money in a short run. The corporate citizenship of the company covers up the society where it locates including protection of financial interest of interested parties and safety environment. The motive of this steel company is to improve the quality of people's life, maintain high ethical standards and to provide clean environment. The wide range of CSR activities and its sophistication made Tatas into one of the two selected bidders and finally bagged the Corus. After Corus deal finalization, the company became sixth largest steel manufacturers in the globe. People in India and abroad are satisfied about high quality of Tata products. This aspect has enriched the brand value and still is growing. It is felt that global financial crisis is a crisis of ethics. Two factors have been identified for USA's "sub-prime" dilemma in reality business that is easy terms of credit on the part of the financial institutions and lack of obligations to pay the dues on the part of the borrowers. In either of the two cases, crisis of ethics is followed through immensely. So ethically business performance is considered as key to success and long survival. Hence ethics is not an optional issue. The concept of business ethics increases the cost burden is wrong, rather it actually enhances customers' value and results in increased profitability and performance for the firm.

Conclusion

The performance of Tata Steel in terms of net profit is outstanding and satisfactory. The stand-alone net profit figures for last three years ending on March 31st 2010, have crossed a benchmark level of US $ 1 billion and their actual amount tends to Rs. 4,687.03 crore, Rs. 5,201.74 crore and Rs. 5,046.80 respectively. As the company could never compromise the product quality and social accountability, therefore, demand of the various products are still growing. There are many factors which act behind such performance like booming economy, cost, technological ability and customers' confidence.

The key factors of customers' confidence are price, quality and social obligation of the company. During the journey of Tata Steel, many more companies were into the industry, but no one could seize or arrest the market share of the former. Surprisingly, the concept of "product life cycle" has lost their acceptability here. Corporate leaders believe that "where others can't, Tata can". Why? Because, positive outlook towards society and environmental sustainability by the company.

Cost cutting or cost control by way of retrenchment of labor has become a wider practice but Tata Steel has a different ideology in this respect. The crucial cost control measures of the company are in the way of increasing efficiency, effectiveness, people's acceptability and CSR initiatives. There is a significant role of CSR initiatives in case of wide people acceptability and the next generation of business leaders and managers are getting much keener on ethics. We can't deny such importance. In this direction, Tata Steel is much ahead of other competitors.

We live in an ever increasing e-commerce world where business organizations are becoming geographically far-removed from their customers. In such an environment, customer trust is based on firm's overall reputation in the market upon which future growth and profitability will be determined. Hence, contribution of CSR initiatives towards financial performance of the company is true, real and justified. ❐

Effective Cost Audit

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As an alert professional you must be aware by now that recent Government Orders/ Notifications/Circulars etc. from Ministry of Corporate Affairs, Cost Audit Branch, have expanded the horizon for Cost Audit and newly introduced Compliance Report.

Several new industries/products hitherto not covered have now come under Cost Audit/ Compliance Report. As a result, large number of professionals will get opportunities to conduct Cost Audit for the first time. Even for those who have already conducted Audit can improvise their methodology to meet the demand for efficient and effective Audit exercise. A structured approach outlining the step-by-step methodology for Cost Audit will yield crisp outcome through minimum hassle for auditor and auditee.

Further, new features of the Performance Appraisal Report have become integral part of the new Cost Audit Report and needs special attention.

The following is an attempt to provide guidance in this direction, based on our practical experience over a long period :

I. Pre-Cost Audit preparation

Once appointed as Cost Auditor, especially for a company covered by Cost Audit for the first time, the following steps should be taken :

- Study Annual Report copy of the previous year, along with notes to accounts to find out any peculiarity in the accounting system. This will also give a bird's-eye view about management, line of business and other activities.
- Collect a copy of organization chart of the company for Head Office and factory.
- Get a profile of the company, with number of factories, offices, branches, depots etc.
- Collect a note on process of manufacture and flow chart.
- Visit various factories and their production departments before the close of the year, so that the staff is free to spend time with you.
- Understand the process of manufacture and industry specific peculiarities.
- Study system and procedure manual of various functional areas, if available.
- In new industry, if Cost Auditor or his staff has no experience, involve as an associate/staff one who has experience in that industry. This will help to pick up special features of that industry, and learning process of the Auditor will be reduced.
- Update the knowledge of specific industries; make use of available literature and internet.
- Try to study through internet the Annual Report of other competitor companies who are in the same line of business and try to pick up good points about them.
- Carry out inter-firm comparison of the efficient, competing companies based on the available data. This may help in locating areas for improvement for your auditee company.
- Discuss schedule of annual closing of accounts and try to get prepared on similar line, schedule for completion of cost records and cost audit.
- Prepare cost audit program based on the above schedule.

II. Conducting Cost Audit—Areas to be covered before the close of the year

- To break the ice with the costing and other staff of the company, so as to take them into confidence and to develop friendly atmosphere. This will go a long way in understanding and obtaining the ideas for improvement in the costing system and other areas.
- System and procedure study of various departments — this aspect can also be covered before the close of the year.
- Visit to various departments to understand, review and test check the basic records of the departments such as —

- Stores – Raw material, packing material, stores & spares
- Production and production planning
- Engineering and Utilities
- Research and Development and Quality Control
- Human Resource Development, payroll etc.
- Finished Goods warehouse
- Purchase
- Finance
- Costing, Budgeting and MIS.

• To understand existing internal costing system and MIS system.

• System of establishment of cost centres – production and service – and scope for improvement e.g separate cost centre for slow speed machine and high speed machine.

• System for allocation of Raw Material and Packing Material cost to products, in quantity and value.

• System for apportionment of cost of various types of utility e.g power, steam, A.C. etc to various cost centres.

• System of apportionment and absorption of Administration overheads, Head Office overheads, Selling and Distribution overheads and Interest to cost centres and products.

• Basis of apportionment of common overheads and cost of interest to activity covered under Cost Audit and other activities.

• Review of abnormal, non-recurring and non-cost items.

• To understand bottleneck areas, if any, KRA/ key factor of production.

• Which are the elements of cost covered under 'A' category of cost and their variability factors.

• To carry out trend analysis of various cost and technical parameters – monthly to yearly and yearly to about 3 years to understand cause for variations in various parameters.

• To collect study/survey report of industry research association on this company or general study carried out by such associations. This will help to know standard efficiency parameters of specific industry and where company stands.

• To determine the Product groups for submission of cost statements under Para 5.

• To get filled up data for Para 3 o 11, including product-wise cost sheets for previous year. This will be a practical demo for the company staff.

• To determine service groups, trading activities and method of determining costing profit for such groups/activities for Para 7 – Profit Reconciliation.

• To handover to the company a questionnaire on CAS and GACAP for filling up.

• To submit the check list for Form III – Performance Appraisal Report to the company for obtaining the required information.

III. Conducting Cost Audit – Areas to be covered after the close of the year

When cost records are getting finalized, to carry out simultaneous audit of following aspects, as and when these records are ready.

• Reconciliation statement in terms of quantity and value – item-wise raw material, packing material, process material etc. consumption based on opening stock, purchases, consumption and closing stock.

• Product-wise quantity reconciliation statement based on – opening stock, production, sales and closing stock. Reasons for product-wise difference, if any.

• Product-wise input/output reconciliation statement and analysis of waste, scarp etc.

• Factory-wise P&L A/c (with grouping details) analysis into – direct to products, allocation to cost centers, factory overheads, administration overheads, Selling & Distribution overheads, Interest, Compliance Report activity, service activity, exempted activities, non cost items and omitted from cost items.

• Allocation/apportionment of Head Office expenses into

- Activities covered for Cost Audit, factory-wise
- Activities covered for Compliance Report
- Service activities
- Exempted activities
- Non cost items
- Omitted from cost items.

• In case of abnormal idle capacity of plant, check method of calculation of idle capacity cost, which has to be omitted from cost records.

• Allocation of item-wise raw material, packing material, process material etc. cost to various products in quantity and value.

• The Auditor should ensure that the company staff keeps the documentation and audit evidence for critical cost elements and basis of allocation.

(contd. to page 694)

Risk Management—How important it is? Is there a role for everyone?

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Setting the context

We come across various types of risks in our life time—health risks, financial risks, travel risks, business risks, enterprise risks etc. In this article we will deal with enterprise risks—be it in private or public sector.

Perspective

Though the topic of risk management is discussed in various organizations, the perspective with which the subject of risk management is addressed vary in their degree and therefore in their intensity and importance. Some believe that risk management is inbuilt in management processes and therefore, there is no need to have a separate initiative exclusively devoted to risk management. While there are others who hold a view that only high level risks are to be focused upon while the rest of the risks get managed on their own. However, there are those who believe that risk management is a philosophy which has to be imbibed in the value system of the organization with a role for each and every one in its management.

Scope

Based on the perspective the organization has towards risk management its scope is mapped out accordingly. Some organizations would like risk management to be covered in their internal audit program. The chief internal auditor and his team are left to decide as to what are the risks that the organization should be worried about and the various alternatives available to mitigate them. There are companies, who believe that only 'high level' risks are required to be addressed and possibly discussed at board meetings based on need and that there is no necessity to have a structured approach to risk management. However there are those who do believe in maintaining a comprehensive risk register wherein all critical risks are noted, mitigated and monitored.

Risk Maturity Index

Based on the perspectives that organizations hold on risk management and the scope they draw out from their perspectives one can gauge the risk maturity index of an organization. The index will carry a low score when there is no clarity amongst the employees about the various concepts in risk management—like risk owner, process owner, risk significant score, risk reporting, risk mitigation etc. If an organization is serious enough to introduce a comprehensive risk management program, it is critical that they attempt to raise their risk maturity index.

Role in risk management

The general belief is that risk management is a specialized subject and within the understanding reach of only senior management. There are several instances which can cause serious loss and disrepute to the organization if some basic processes are not followed correctly as explained below in two such illustrations.

In a listed company the subject of 'insurance' has been assigned to their 'Facilities' Department, who have to ensure that all property are safeguarded against loss and damage due to fire and other natural calamities. This organization has several distribution centers where the goods are stored at company's risk since the ownership is still with the company till the goods move out of the distributors' warehouse. It is also responsibility of the company to arrange for appropriate insurance for the goods stored in such warehouses.The supply chain department is responsible for effective distribution including having right number of distributors and at right locations. As part of expansion program, the supply chain department has recently added two distribution outlets and entered into warehousing agreement with the new distributors. Unfortunately the supply chain department has not passed on this information to their Facilities Department. As a sheer coincidence fire takes place in one of the new warehouses within one week of commencement of operations and the entire stock is lost in the fire accident. When approached for insurance claim, Facilities Dept respond saying that insurance claim cannot be preferred since the fire insurance policy does not carry endorsement for the two new warehouses recently added. A small slip in communicating the opening of new warehouse by supply chain to the facilities department has caused significant financial loss to the organization.

In one other instance, the PA forgot to type the word 'not' while finalizing the severance agreement with one of their board members who was stepping down under delicate circumstances. The sentence then read as.. 'The executive shall (not) engage himself in a similar business competing with the company.' One can imagine the embarrassment it would have caused to the organization directly impacting its reputation.

Risk Management as a philosophy

While it is difficult to include all conceivable processes in a structured risk management program, the philosophy underlying the risk management has to be explained and educated to all members of organization so that each one keeps at the back of his/her mind the risks that are likely be caused if he/she fails to bring in perfection in what he or she does. They need to be educated about various concepts of risk owner, process owner, risk significant score, actions and attitudes of cross functional team having an impact on a particular risk (like the one we saw in case of insurance of warehouse in our illustration above). Finally the concept of 'risk appetite' need to be explained very clearly so that the employees do not become over-sensitive to risks stifling the organization growth—some calculated risks are recommended as long as their impact would remain within acceptable level of risk appetite.

Can we now say that there is a role for everyone in a structured risk management program? ❐

(contd. from page 692)

- Allocation/apportionment of various items of conversion cost (wages, salaries, utilities, stores and spares, repairs and maintenance, depreciation etc.) to production and service cost centers.
- Apportionment of cost of various service cost centers to production cost centers.
- Calculation of unit cost of various production cost centers.
- Application of unit cost of production cost centers to various products.
- Product-wise sales analysis—quantity and value (net of Government levies).
- Checking of product-wise, pack-wise, type-wise Cost Sheets for cost of sales, sales realization and margin separately for domestic and export sales.
- Tally of product-wise margin with overall costing margin.
- Reconciliation of costing margin with audited financial accounts profit (Para 7).
- While finalizing the Cost Audit for the current year, to get generated through computer, exception report bringing out plus/minus 10% variation in cost versus previous year in following areas
  - Item-wise unit cost of Raw material and packing material for major items.
  - Cost centre-wise conversion cost per unit
  - Product-wise per unit cost, sales and margin
- Checking of Paras 1 to 10
- To broadly check data for Para 11—Reconciliation of Indirect Taxes with Excise and accounts records.
- To draw a conclusion about compliance with CAS and GACAP by the company.
- Preparing the draft of Form II—Cost Audit Report.

IV. Preparation for Audit Committee Meeting

- The Audit Committee meeting is very critical as the interaction with the Stakeholders is during this meeting.
- Drafting of conclusion for Form III—Performance Appraisal Report, based on the information received from the company.
- Discussion on Form II—Cost Audit Report, Annexure to CAR (Paras 1 to 11) & Form III—Performance Appraisal Report with management.
- To assist the management in preparation of the Executive Summary of Cost Audit Report for presenting to the Audit Committee. ❐

Indian Economy : All is not well!

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One important economic indicator causing serious concern to India is the fast increasing level of 'Trade Deficit'. The Trade Deficit of India is currently at the level of US $ 185 billion. It is estimated by industry and trade bodies that the trade deficit would increase sharply by over 40% to US $ 262 billion in the current year 2012-13. The projections are such that the exports would be around US $ 348 billion (at 15% growth) and imports would be around US $ 610 billion (at 25% growth). The exports and imports reported in 2011-12 were US $ 303 billion and US $ 488 billion respectively. This means the rupee would come under further pressure which has already lost over 20% against the US $ in the last one year.

What contributed for this large Trade Deficit in 2011-12?

As stated above, India's trade deficit is currently at a level of US $185 billion, 10.6 % of GDP, because of higher levels of oil imports and high crude oil prices. Added to that, large imports of gold and silver also contributed to the 32% growth in overall imports during the year 2011-12, whereas the exports increased by 21% only. Imports towards Crude oil and gold/silver alone were estimated at US $ 217 billion, about 44% of the total imports during the year. The fact that India, which is Asia's 3rd largest economy, imports nearly 80% of its crude oil is a serious matter of concern under the current scenario of rupee weakening drastically!

The next worry to India is the increasing 'External Debt' as against the level of 'Foreign Exchange Reserves'. India's external debt rose to US $ 334.9 billion as at December 31, 2011, against US $ 306.1 billion in the beginning of 2011-12, thus showing an increase of 9.4% in the first 9 months of 2011-12, owing largely to higher commercial borrowings and short-term trade credit. The 'external debt' of US $ 335 billion is about 20% of GDP as at that date.

India's rising external debt is becoming a concern for the government, especially when its foreign exchange reserves are around US $ 295 billion. The coverage is not even 90%. Even China has Trade Deficit of US $ 31.5 billion as of Feb 2012. But, the country has Foreign Exchange reserves of US $ 3,305 billions, thereby showing huge net surplus unlike India showing a net shortfall of foreign exchange. Even Japan also showing a Trade Deficit of US $ 31.4 billion, but having a Forex reserves of US $ 1,289 billion as at March 2012.

As may be seen from the table below, the Foreign Exchange reserves of India has been steadily declining from the level of US $ 321.98 billion in August 2011 to US $ 295.99 billion in Feb 2012, a reduction of almost 8% in 5 months.

		Figures in US$ billion
2009-10		279.06
2010-11		034.82
2011-12		
Months	**2010-11**	**2011-12**
April	279.63	313.51
May	273.54	311.52
June	275.71	315.71
July	284.18	319.09
August	283.14	321.98
September	292.87	311.48
October	297.96	316.21
November	292.39	307.88
December	297.33	296.69
January	299.22	292.77
February	301.59	295.99
March	304.82	—

Source : Reserve Bank of India (RBI)

Decline in GDP growth during 2011-12

All is not well for India during 2011-12 as is seen from the table below. As compared to 2010-11 the economic activities in 2011-12 have been affected in Agriculture, Mining, Manufacturing, Construction, Fishing, Real Estate etc both at 2004-05 and at current prices. The GDP growth is at a level of 6.9% compared to 8.4% in the previous year.

Percentage change for economic activities are depicted in table below :

S.No.	Industry	Percentage change over previous year			
		at 2004-05 prices		at current prices	
		2010-11	2011-12	2010-11	2011-12
1	Agriculture, forestry & fishing	7.0	2.5	17.7	12.6
2	Mining & quarrying	5.0	-2.2	21.5	15.0
3	Manufacturing	7.6	3.9	14.7	11.9
4	Electiricity, gas & water supply	3.0	8.3	10.2	9.2
5	Construction	8.0	4.8	16.5	14.6
6	Trade, hotels, trnsport & communication	11.1	11.2	18.2	18.7
7	Financing, insurance, real estate & business services	10.4	9.1	21.7	19.3
8	Community, social & personal services	4.5	5.9	15.3	15.6
	Total GDP	8.4	6.9	17.5	15.7

Source : Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, Government of India

Rupee at all time low against Dollar

Source: United States Federal Reserve Bank of New York

As is clear from the above table, the rupee has been weakening steadily last one year. And, it is predicted that the rupee would further weaken even to a level of 1 US $ = Rs 62 in next couple of months.

Inflation in India – need for policy action

As per data released by the Commerce Ministry in May '12, Inflation inched up in April on the back of high food, fuel and manufactured product prices. Data showed the annual rate of inflation, based on monthly wholesale price index, stood at 7.23% for April, 2012 (over April, 2011) compared to 6.89% for the previous month.

Food inflation stood at 10.5% compared to the previous month's 9.9% increase. Vegetable prices, which had shown some signs of easing in the previous, shot up an annual 61% in April compared to 31% rise in March while potato prices rose 53% in April from the previous month's 12%. Price of pulses also shot up an annual 11% in April from the previous month's 10%. Egg, meat, fish and milk prices also were on increase in April.

The Prime Minister's Economic Advisory Council Chairman Dr C Rangarajan said that there was need for policy action to control the price spiral as the high rate of inflation is unacceptable. The scope for action on the part of RBI gets narrowed when inflation is rising. The possibility of lowering interest rate will come only when inflation rate comes down.

China Factor

China is the biggest competitor to Indian manufactures in domestic as well as export markets as China enjoys advantages of scale. Also, China enjoys significant cost advantage in manufacturing. To name a few, low real wages and near absence of industrial disputes/lockouts, cross subsidization through government controlled financial institutions, undervalued exchange rate making imports costlier thereby prompting use of domestically produced inputs etc. Can India not adopt some of the proven policies of emerging nations?

India has been managing Trade deficits in goods by trade surpluses in services. However, despite services accounting for 60 % of India's GDP, IT sector contributing mainly, the share of IT services in India's total exports of goods and services is only one-third.

How solid is India in the BRIC?

As uniformly on many economic parameters India is losing out on the growth story, there is talk of India being replaced by Indonesia in the BRICS. If reforms in India are shelved permanently and the supply-side factors do not improve, eventually India can be replaced by Indonesia in the BRICS group if Indonesia's rate of reforms continues in right direction!

Is this what India wanted? With the intrinsic strengths the nation has, India has to bounce back. ❐

Social Business and Role of CMAs

Ajay Deep Wadhwa

M.Com., FCMA
Dy. Manager, CCL

Now-a-days, when everybody is talking about micro-financing for financial inclusion, social business is emerging as a new idea for the same purpose. It has been given a new dimension by Nobel prize winner Dr. Md. Yunus. Recently, I got a chance to meet him and hear him live on the topic at to Bangkok. I was on a trip to Singapore and went Bangkok to listen to Dr. Yunus in a conference. After meeting and listening to him, I have become sure about the success of social business in a country like India, if introduced with new ideas and using different techniques of cost control.

In many parts of the world, people have started thinking about social business and India cannot remain isolated in this area also. Rather, social business is emerging as more authenticated modality of micro financing.

And once this idea catches the attention of business houses in India, the services of Cost Accountants may be required to make this business more successful.

But, what is social business? Let us start our discussion with the meaning of social business.

What is social business ?

In fact, social business is a normal business, but done with the objective of serving the poor people or society, not to earn huge money. The business is started with the same vigor as a normal business with profit motive, but only earning profit never remains a motive in social business. The main idea is to serve the poor by providing the products or services, which are normally essential but un-affordable for them.

In social business, it is ensured that business should be self-sustainable. It should not be dependent upon the donation or some sort of subsidization from Government or private authority. Products and services are tried to be produced by social businesses at lowest possible cost with reasonable quality. A very low but affordable return is added to the cost of the products or the services, as the case may be, to keep the prices low so that it should remain affordable to poor. It is also kept in mind that products (or services) are for the use and comfort of common people (not for luxury) and help in improving their social, financial and/or health conditions in general.

Nobel prize winner Md. Yunus has given a lot of emphasis on social business. After listening to Md. Yunus and based on my assumptions, following prominent features of social business may be described –

1. Social Business is like any other normal business of producing a product or service.

2. All factors of production are strictly managed in this business like any other professional business.

3. But, social business is not philanthropy.

4. Profit is also earned in social business but that is kept very low because it is not ultimate objective. The ultimate objective is to serve the society by providing a quality product or service at reasonable and affordable price.

5. Social business produces useful and essential products, which are normally not available or financialy affordable by the poor.

6. Cost management to control prices of the products or services is the success mantra of social business.

7. Social business is also different from Government departments or companies engaged in providing social services to people. In latter cases, usually products are highly subsidized by the Government to control the prices which does make these Government organizations financially unsustainable. Moreover, continuous financial support from the Government snatches the tendency of serving the society from the employees of these Government departments. It results in poor products, low quality services, high corruption, bureaucracy, and, ultimately additional financial burden on the Government exchequer. On the other hand, social business does not create burden on public finance and keeps on providing quality products/services on financial sustainable basis.

Why Social business is not philanthropy?

Basically philanthropy is related with donations. HNIs (High Net-worth Individuals) donate some part of their income or wealth for charity. The basic idea behind the philanthropy may be religion or desire of earning name and fame in the society. All social organizations like Rotary or Lions Clubs believe in this theory and collect money for charity from donors for onwards distribution to poor through different modes.

No doubt such philanthropy is good, but it has its own demerits also. I am a Rotarian and I have seen the workings of these charitable organizations very closely. They are doing good job but all good job is dependent on charity and donation. The members visit door to door to collect donation but in most of the cases they suffer with complexity of "show business". Donation is given or charity is done in full media glare for wide publicity. Big charitable event is followed with grand parties by the donors with dance, music, house of friendship and fellowship. I am not saying that this is bad; poor needs charity and rich need fun and mental satisfaction. Philanthropy serves both the purposes successfully and it is win-win situation.

But, philanthropy is philanthropy and is neither self-sustainable nor sustainable for long period. Every donor has his own limitation because he is not Bill Gates! All the time, charitable organizations keep on searching new donors which is not an easy task.

Moreover, in many cases of philanthropy, the target beneficiaries suffer with low self-esteem. They always remain conscious of the fact that they are living not due to their own strengths but because of others' support.

Philanthropy makes the beneficiaries dull also. They become habituated in living on others' earnings. They never intend to stand on their own strengths. And once the sources of donations dry up, the beneficiaries become beggars. It has been seen in many cases the children of orphan schools, which sustain on donations, do not want to work hard in their lives and wait for the donations always.

Social business is free from all these demerits. It makes products which are affordable to poor. Poor purchase them with their hard earned money to fulfill their necessities and it increases their self-esteem also. Moreover, social business is a business which helps in increasing the employment opportunities, availability of products in the market and revenue of the Government apart from other benefits to society which a normal business brings.

Examples of Social Business

Gramin Danone of Bangla Desh is one of the appropriate examples of social business. The Gramin Bank of Nobel Laureate Md. Yunus started Gramin Danone in Bogra, a sleepy town of Bangla Desh, with French multinational Danone. Gramin Danone has a small but world class factory which produces healthy curd full of nutrition. Curd, which is made of milk, is a very popular dish among Bengalis. It is also full of nutrients and healthy components. But the purchasing capacity of the common citizens of Bangla Desh is very low and they cannot afford good quality curd or "DOI", as it is known there.

Moreover, most of the citizens of that country are suffering with malnutrition and curd can supplement their daily requirement of nutrition and health requirements.

Gramin Bank, a bank licensed by authority in Bangla Desh to provide services to poor people of rural area only, entered into joint venture with French Danone to produce good quality and healthy small cups of curds at very cheap and affordable price to fulfill the daily requirement of people. They are doing business at very minimal return, just for the motivation. For Danone, the business of Gramin Danone is a "Corporate Social Responsibility", but not in the form of donation or philanthropy but social business.

The more important point in this example is that Gramin Danone is not only serving the poor by providing them high nutrition food at a very affordable price, but providing job opportunity to several poor rural ladies also as engaging them as distribution channels of curd. These rural poor women collect the cups of curds at distribution centres of the company and sell them taking "One Takka" (Takka is the currency of Bangla Desh) as their commission. Due to reach of these local women in remote rural hinterland, their propensity to generate more income and low and affordable pricing, the sale of curd is increasing and proving to be a win-win formula for both—the poor people and the company.

Sulabh Shouchalya may be an Indian example of social business. This was started by Mr. Pathak of Patna. It is a chain of well-maintained wash-rooms in different but easily accessible locations of the country. Poor people, travellers and locals use them at a low fee. These keep the city clean, provide job opportunities to locals and save the visitors from humiliating situation of attending the "call of nature" at public places in full public glare.

Role of CMAs

If we analyze carefully, the whole social business is dependent on one pillar—producing product at lowest possible cost and ignoring profit to make and sale of products at affordable prices to poor people. And, here, we Cost Accountants come into the picture.

Cost analysis and its management is our core strength and we have to find out new ways to reduce the cost of production without reducing minimum required usefulness of the product.

The purchasing capacity of Indians is very low. Whatever may be the claim of different Government agencies, about half of Indians are still living below poverty line. These people are also entitled to use essential and consumer products of reasonable quality at affordable prices. No country can survive for long by ignoring the daily requirement and necessities of such huge population, which is as large as to the tune of more than 60 crores. These people must be given edible, health, clothing, shelter and recreation related products and services at affordable prices.

Affordable prices are possible only if cost is managed properly. And here comes the role of cost accountants.

I would also like to make one thing clear—whenever I talk about the role of Cost Accountants, I do not think about using prevailing techniques like marginal costing, activity based costing or budget and budgetary of cost control. Of course these tools will be used by us, but we have to think differently to manage the cost. We have to think out different innovative ideas to manage the cost and price.

Hundreds of obituaries have been written after the death of legendry Steve Jobs, only because he was an innovator. He believed in innovation during his whole life. And when he could not innovate anything new, he tried to find out others' silent innovations and gave it a shape for making them marketable. We cost accountants can learn lessons from Steve Jobs.

I have discussed about Gramin Danone curd earlier. For producing it, the producers ensured three things—good quality product, price with low margin, and easy accessibility of the product to consumers. This is a different type of cost management, where availability of good quality product at lower price from world class facilities has been ensured to the poor.

All across India, a lot of NGOs are working in different parts for the development of poor people. Most of these NGOs are helping the poor to produce low cost products like candles, envelops, milk products, paper bags, vegetables, pencils, edible items like pickles, stitched clothes, crockery, household items etc. But these items are sold at high prices to the elite of the society in specially arranged fairs or shows or in selected locations like Delhi Haat. Therefore a lot of customers are not available for these products. Some of the products are sold because of support from Government agencies and others are purchased by selected rich people to showcase their charity. So basically this is not a self-sustainable business. It can never sustain for long and can never serve the masses.

Cost Accountants may come forward to suggest ways to reduce the prices of such products/services to convert them into social business for their wide marketability. Low prices will attract large number of customers which will increase the sale.

Sulabh Shouchalya is another example of social business with cost management.

What I want to say is—by using innovation and costing techniques we can convert the NGOs and their products from charitable agencies to the products of social business.

I know one Cost Accountant who organizes classes of commerce subjects for poor students only at very nominal charges. The fee is as low as Rs.10.00 per day for two hours' class. The classes are organized every Sunday for 5-6 hours and only poor students are allowed to attend the classes. Since almost all of the students are very poor and the fee is very low, a neighborhood school has given its verandah free of cost for the purpose. You see the results—poor students of the city are happy as they get quality private tuition at a very nominal fee of Rs. 40-50 per month against the normal market fee of Rs.1,000.00 per month. Tutor is happy as it is giving him self-satisfaction of serving the poor and some good bucks also. About 250 to 300 students come every Sunday to learn accountancy in three different sessions which result in Rs. 2,500 to Rs. 3,000 per Sunday as earning to the tutor in maximum 6 hours. This is extra earning for tutor as he is already employed somewhere.

I think this is social business. With little support from the school, the seller (tutor) is earning reasonable money during his free time and giving the most valuable but scares product (education) to poor.

The above is a small example. There are many such entrepreneurs in the society who want to serve the poor against a very low return so that they can also maintain their livelihood. But they lack ideas and cost management to start such social business. We Cost Accountants can always help them by thinking and managing cost differently.

During my meeting with Md. Yunus, he also explained the role of innovation and cost effectiveness in social business. When each and every bank was approaching rich men in Bangle Desh for deposit and business; his Grameen Bank was approaching the poor people for business. The target customers of the other banks were rich and affluent people so that they can be given big loans; on the other hand Garmeen Bank was approaching villagers with small loans, may be of Rs. 1,500.00 only. Grameen Bank used various costing approach to make the loans cheaper, affordable and viable for the poor, resulting in default rate as low as less than 1%.

I hope Indian businessmen will come out with new ideas of social business and cost accountants will come out with new ideas to make this business viable. ❐

Institutional Finance to MSMEs Sector— Issues and Perspectives

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Introduction

MSMEs (Micro, Small and Medium Enterprises) sectors worldwide is considered the growth engine of economy. It is also true for developed countries and more applicable for developing and underdevelop countries where capital is scarce and labours are more plenty. More than 99% enterprises in European Union and near about 80% in USA were under this sector. India is not beyond this world-recognized remarkable word. Its contribution towards balanced regional development, proper uses of local resources and talent is more than remarkable. Contributions towards export are near about 40% of total export value, in indirect way it also contributes 15% of export value. More than 95% industrial units belong to MSMEs sectors and near about 45% industrial products are produced by this sector. Different category of products and services are supplied by this sector and its rage is more than 6,000 different types. Averagely 8% GDP is contribute by this sector and it is upward raising and in near future if MSMEs properly nurtured it may cross agricultural sector's contribution—it is currently 15%. Its biggest contribution towards economy is in employment generation. The organized industrial sector requires an investment of Rs. 6.66 lakh to generate employment of one person, whereas the MSME sector generates employment of 1.27 persons with the same investment.

Despite immense contribution of MSMEs sectors towards economic development, they are in verge of problems. Problems are many and they are multi-dimensional but amongst them financial problem is the most critical one as it can be considered the root problem of all other problems. This problem mainly arises due to lack of collateral security, lack of creditworthiness, poor past track record, poor financial statement records, proper records as an entrepreneur, information asymmetry, etc.

Meaning of MSME As per MSME Act, 2006

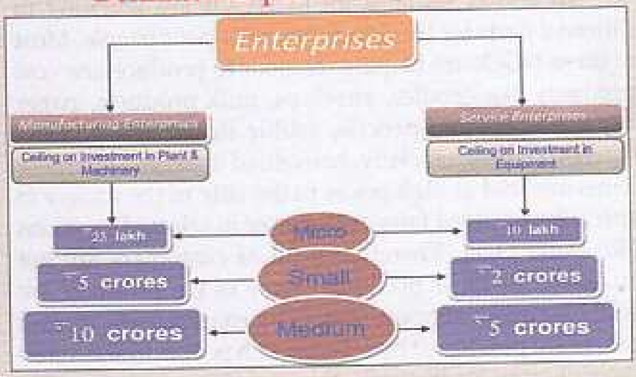
MSME can be defined from the aspect of number of persons employed and amount of investment in plant and machinery. From the viewpoint of number, micro-enterprise is defined as an enterprise which employs fewer than 10 persons, small enterprise is defined as an enterprise which employs fewer than 50 persons, and medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons. From the viewpoint of investment in plant and machinery, the Micro, Small and Medium Enterprises Development Act, 2006, is defined Micro, Small & Medium Enterprises.

The Act classified Micro, Small and Medium Enterprises (MSME) into two classes :

(a) Manufacturing Enterprises : The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the First Schedule to the industries (Development and Regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment in Plant Machinery.

(b) Service Enterprises : The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Definition as per MSME ACT, 2006



Fourth Census of MSMEs

As per results of the Fourth Census of MSMEs in 2006-07, the number of MSMEs was estimated at 261 lakh, employment at 597.29 lakh persons and 72 percent and 28 percent of the MSMEs are manufacturing enterprises and service enterprises, respectively, in the country. In terms of size of the enterprise, 94.67 percent are micro-enterprises, 5.05 percent are small enterprises, and the rest 0.25 percent are medium enterprises. The MSMEs have shown an average growth of 18 percent over the last five years, around 98 percent of the production units are in the MSMEs sector. On the basis of ownership, 94.49% are under Proprietary firm, 0.68% under Partnership, 0.52% under Private Company, 0.28% under Public Limited Company, 0.51% under Cooperatives and 3.51% others. Male employments are 81.76% and female employments are 18.24%. Highest numbers of MSMEs are in Tamil Nadu – 15.07%, and, at the same time, highest number of closed MSMEs is also in Tamil Nadu – 16.59%.

As per fourth census 2006-07, 92.77% MSMEs sectors arrange finance by self-sources, only 5.18% get advantages of institutional finance and 2.05% arrange their finance through non-institutional sources. So we can say that the position of institutional finance in India is in the dark.

Credit Structure of Institutional Finance in India

In India a multi-level institutional framework exists to provide financial support to MSMEs sectors. This framework is divided into national level and state level. National level Institutions include Small Industries Development Bank of India (SIDBI), it play apex role, Commercial Banks, Regional Rural Banks, Cooperative Banks, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Khadi and Village Industries Commission (KVIC), National Small Industries Corporation (NSIC) and North Eastern Development Finance Corporation Ltd. (NEDFi). And state level institutions include State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs)/The State Small Industries Development Corporations (SSIDCs). The 18 SFCs across the country provide financial assistance by way of term loans to MSMEs. At present, there are 28 SIDCs in the country. Moreover micro-financing institutions also play an active role to provide credit – particularly to small enterprises.

For smooth flow of credit and to improve credit facilities to MSMEs sectors the Government of India formed many high-powered committees, Notable among the committees are : Nayak Committee (1990 - 92) to examine institutional credit flow to SSI sector, Abid Hossain Committee (1997) on small scale enterprises, Kapoor Committee (1998) for credit to SSIs, Devi Dayal Committee (1999) on financial and fiscal measures on SSIs. At the same time, Reserve Bank of India has also appointed several committees for observing credit dispensation – TANDON Committee (1974) to frame guideline for follow-up of bank credit, Chore Committee (1979) to review cash credit, Narasimhan Committee I (1997) for financial system, Narasimhan Committee II (1998) for Banking sector reforms, Khan committee (1998) for harmonizing the role of DFI and bank, SIDBI report on small industrial sectors (2000), Ganguly Committee (2003-04) to observe flow of credit to SSIs sectors, Murthy Committee (2005) to review Guidelines on credit flow to SME sectors, working group on Rehabilitation of sick SMEs (2007) under chairmanship of Dr. K.C. Chakrabarty, Sharma Committee (2010) to review the credit Guarantee scheme of the Credit Guarantee Fund Trust for Micro and Small Enterprises, Nair Committee (Feb, 2012) to re-examine the existing classification and they suggest to revised guidelines with regard to priority sector lending classification and related issues are mentionable.

Current status of Institutional Credit Flow to MSMEs Sectors

The major issues relating to financial problems are non-availability of adequate and timely credit; High cost of credit; Collateral requirement; Access to equity capital and Rehabilitation of sick units. The failure rate in MSMEs sectors are relatively high and one of the reason is delayed/inadequate availability of credit. The status of MSMEs sectors and flow of credit will be clear from the following Tables.

Table 2 and Table 3 show the flows of credit by Public sector Banks to MSMEs sector and their year-wise position.

Table 1

Contributions of MSMEs Sector in India.

Year	Total MSMEs (lakh number)	Growth over the previous year	Production (Rs. Crore)	Employ (Lakh Person)	Exports (Rs. in Crore)
2000-01	101.10	–	261297	238.73	69797
2001-02	105.21	4.07	282270	249.33	71244
2002-03	109.49	4.07	314850	260.21	86014
2003-04	113.95	4.07	364547	271.42	97644
2004-05	118.59	4.07	429796	282.57	124417
2005-06	123.42	4.07	497842	294.91	150242
2006-07	261.01	111.48	709398	594.61	182538
2007-08	272.79	4.51	790759	626.34	202017
2008-09	285.16	4.53	880805	659.35	N.A
2009-10	298.08	4.53	982919	695.38	N.A

- *Sources: Annual Report, 2010-11, Govt. of India, Ministry of MSME enterprises*
- *The data for the period upto 2005-06 is of small-scale industries. Subsequent to 2005-06, data with reference to MSME are being compiled*

During the ten years period the number of MSMEs have increased by 196.98 lakhs, and in percentage it is 194.84%. Yearly average growth rate is 19.48%. In the year 2006-07 the number of MSMEs increased maximum as the new definition of MSME sectors was introduced in 2005-06. Production in the year 2000-01 was Rs. 261,297 crores where in 2009-10 it was Rs. 928,919 crores. In this ten-year period increase in production is Rs.667,522crores i.e. 255.50% and average yearly growth is 25.55%. Employment also increased in very high rate, in 2000-01 employment was 238.73 lakh persons and in 2009-10 it 695.38 lakhs. So in ten-year period the employment increased by 191.28%, and average yearly growth is 19.13%. Contribution towards export is also remarkable and it is increasing. In 2000-01 this sector made total export of Rs. 69,797crores where in 2007-08 it was Rs. 202,017 crores.

So MSMEs sector's contribution is remarkable. As importance of MSMEs sectors is very high so this sector deserves proper flow of credit to continue its growth pattern and to continue its contribution to the nation. One of the main sources of flow of credit to this sector is public sector banks. Table depicts the flow of credit by public sector banks to this sector :

Table 2

Credit Flow to the MSE Sectors from the Public Sectors Banks (PSBs)

As at the end of March **(Amount in Rs. Crore)**

Year	Net Bank Credit (NBC)	Year wise Improve-ment (%)	Credit to MSEs	Year-wise Improve-ment (%)	MSE credit to % of NBC
2000	3,16,427	–	46,045	–	14.6
2001	3,41,291	07.86	48,400	5.11	14.2
2002	3,96,654	16.22	49,743	2.77	12.5
2003	4,77,899	20.48	52,988	6.52	11.1
2004	5,58,849	16.94	58,278	9.98	10.4
2005	7,18,723	28.61	67,634	16.05	9.40
2006	10,17,614	41.59	82,492	21.97	8.10
2007	13,17,705	29.49	1,04,703	26.93	8.00
2008(P)	13,64,268	3.53	1,48,651	41.97	10.9
2009(P)	16,93,437	24.13	1,85,208	24.59	10.9

- *Sources: Report of PM Task Force on MSME, Govt. of India, Jan 2010*
- *P : Indicates provisional*

Average growth rate in MSME sector is 19.48% in ten-year period where growth rate of credit by Public sector banks (PSBs) to MSE sector is only 3.02% in this period. This is not a good indicator of financing assistance by public sector banks to MSE sector. Credit by PSB to MSE in 2000 were 14.6% (Table 2) of total net bank credit and after that it gradually declined year by year and in 2009 it was only 10.9% of total NBC of PSB. A sharp decline of 3.7% in the ten-year period, although quantum of loans increased year by year but not in real term. In the year 2000 loan by PSB to MSE was Rs. 46,045 crores and in the year 2009 it was Rs. 1, 85,208 crores. In the years 2006 and 2007 performance of PSB in respect of providing credit to MSE sector was very poor—only 8.1% and 8.00% of total NBC. So PSB should be more conscious about the credit to MSE sectors to keep the economic growth engine in proper track. Reserve Bank of India clearly mentioned in notification that every domestic bank should give at least 40% of its credit to priority sectors and MSE comes under priority sector.

Table 3

Credit Flow to Micro-Enterprises from the Public Sectors Banks (PSBs)

As at the end of March **(Amount in Rs. Crore)**

Year	Net Bank Credit (NBC)	Credit to Micro-Enterprises	Year-wise Improvement (%)	Micro-Enterprises Credit to NBC (%)
2000	3,16,425	24,742	–	7.8
2001	3,41,291	26,091	5.45	7.6
2002	3,96,654	27,030	3.60	6.8
2003	4,77,899	26,937	0.34	5.6
2004	5,58,849	30,826	14.43	5.5
2005	7,18,722	34,315	11.32	4.8
2006	10,17,614	33,314	02.92	3.3
2007	13,17,705	44,311	33.01	3.4
2008(P)	13,64,268	66,702	50.53	4.9
2009(P)	16,93,437	83,945	25.85	4.9

- *Sources: Report of PM Task Force on MSME, Govt. of India, Jan 2010*
- *P : Indicates provisional*

Credit flow to micro-enterprises from the PSB is also not much remarkable (Table 3) . Although RBI notified that 60% of total priority credit should reach the hand of micro-and small enterprises.

In the year 2000 only 7.8% credit of PSBs go to the hand of micro-enterprises and gradually it decline- and in 2009 it was only 4.9% of total bank credit. In quantum term, it is increasing year by year, Rs. 24,742 crores in the year of 2000 and Rs. 83,945 crores in the year of 2009. But in actual figure, when we compare in terms of %-wise of total bank credit, it is seen that performance is not so good. So it is clear that micro-enterprises do not get privilege in getting bank loan. Although, year-wise improvements are quite good. Obviously there are some problems to get loan by micro-enterprise from the PSBs. Government of India and RBI formed many committees to overcome such problems and they indicates many ways to overcome such problems but still we are not in a position to achieve our target relating to credit problems.

One of the main sources of finance to the MSMEs sector is Scheduled commercial banks (SCBs). Table 4 shows the flow of credit by scheduled commercial banks to Priority sector and performance of SCB in this respect. MSMEs are part of priority sector.

Table 4

Credit Flow to Priority Sectors from the Scheduled Commercial Bank (SCB)

As at the end of March (Amount in Rs. Crore)

Year	Net Bank Credit (NBC)	Credit to Priority	Year-wise	Share of NBC to (%)
2000	3,16,425	24,742	–	7.8
2003	7,46,432	2,18,251	–	29.5
2004	8,40,785	2,76,621	26.74	32.0
2005	11,00,428	3,70,603	33.98	32.2
2006	15,07,077	5,12,790	38.37	33.8
2007	19,31,190	6,55,317	27.79	33.1
2008	23,61,913	7,81,476	19.25	31.6
2009	27,75,549	9,08,929	16.31	30.3
2010	32,44,788	10,91,510	20.09	31.2
2011	39,42,082	13,15,861	20.55	30.6

- *Source : RBI*

In connection of credit flow to Priority sectors from SCBs, the Master Circular (consolidates the instructions issued) by the RBI up to June 30, 2011 is noticeable. The main circular is as follows :

- The domestic commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances (which include the micro and small enterprises (MSE) sector) constitute 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
- In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve a 20 percent year-on-year growth in credit to micro and small enterprises and a 10 per cent annual growth in the number of micro-enterprise accounts.

In 2003 the share of NBC to priority sectors was 29.50% and it is 30.60% in 2011. In these nine-year period, improvements in share of NBC to priority sectors are mixing one. From Table 4 it is clear that SCBs are not in a position to completely follow the circular of RBI in relation to lending to priority sectors. From year 2003 to 2011, not in a single year SCBs achieved the target 40% lending of its total lending to priority sectors, although there are some differences between NBC and ANBC, but bank in a position to achieve target improvement of 20% year-on-year basis. As it is seen from the, that year-wise improvement is 26.74% in 2003 and 20.55% in 2011. But performance from the view of Share of NBC to Priority Sectors is not much satisfactory compar with the RBI recommendation.

Micro-enterprises are the major part of MSMEs sectors. 94.67% of MSMEs are under micro-sectors. So they should get special privilege to get financial assistance from institutional finance. The position of credit flows from the PSBs, Private banks and SCB are shown in Table 5.

Table 5

Credit Flow to Micro-Enterprises from the Public Sectors Banks (PSBs), Private Bank & Domestic Scheduled Commercial Bank (SCB)

As at the end of March (Amount in Rs. Crore)

Year	ANBC			Micro Enterprise			Loan as % of ANBC		
	PSB	Private Bank	Domestic SCBs	PSB	Private Bank	Domestic SCBs	PSB	Private Bank	Domestic SCBs
2007	1317705	336589	1654294	44063	3256	47320	3.34	0.97	2.86
2008	1364267	343396	1707663	68937	8830	77767	5.05	2.57	4.55
2009	1693437	406543	2099980	89505	11130	100635	5.29	2.74	4.79
2010	2074472	468649	2543121	133154	16113	149268	6.42	3.44	5.87
2011	2493498	533560	3027058	173156	24911	198068	6.94	4.67	6.54

Sources : RBI.

As per RBI guideline, loan to micro-enterprises by banks comes under purview of priority sector lending. The following guideline are issued by RBI (1st July 2011) for credit to micro-enterprises:

(a) 40 per cent of the total advances to MSE sector should go to micro-(manufacturing) enterprises having investment in plant and machinery up to Rs. 5 lakh and micro-(service) enterprises having investment in equipment up to Rs. 2 lakh;

(b) 20 per cent of the total advances to MSE sector should go to micro-(manufacturing) enterprises with investment in plant and machinery above Rs. 5 lakh and up to Rs. 25 lakh, and micro-(service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. Thus, 60 per cent of MSE advances should go to the micro-enterprises.

(c) While banks are advised to achieve the 60% target as above, in terms of the recommendations of the Prime Minister's Task Force, the allocation of 60% of the MSE advances to the micro-enterprises is to be achieved in stages—50% in 2010-11, 55% in 2011-12 and 60% in 2012-13.

During the last 5 years, the share of micro-enterprises as percentage of ANBC has increased from 3.34 per cent to 6.94 per cent in respect of PSBs and from 0.97 per cent to 4.67 per cent in respect of private sector banks. In aggregate, the share has increased from 2.86 per cent to 6.54 per cent. But Inter-Ministerial Group (IMG) fix a separate sub-target of 6 per cent of ANBC for lending to micro-enterprises, and as per recommendation of Prime Minister's Task Force (Chairman: T K A Nair, Principal Secretary, GOI) on Micro, Small and Medium Enterprises, banks are required to increase the share of micro-enterprises in MSE lending to 60 percent, in stages, by March 2012-13. The Committee recommends a sub-target, equivalent to 7 per cent of ANBC, for lending to micro-enterprises to be achieved in stages latest by 2013-14. PSBs are able to achieve the target 6% of NABC in 2010 and 2011. Private banks were not able to achieve this target in any year of this five-year period and SCBs only achieved this target in the year of 2011. So banks should be more cautious to achieve this target and more particularly the target as fixed by Nair Committee.

Table 6 shows the credit flows to MSMEs sectors by SCB month-wise for the year 2010-2011.

Table 6
Credit Flow to MSMEs Sectors by Scheduled Commercial Bank (SCB)

(Amount in Rs. Crore)

Year	Total Non-food Credit by Commercial Bank	Credit to MSME Sector	Share of Credit to MSME %	Month-wise Improvement
Apr. 2010	3010638	341569	11.35	–
May 2010	3021481	341354	11.30	-0.063
June 2010	3100217	350816	11.32	2.77
July 2010	3135490	358146	11.42	2.09
Aug. 2010	3139296	359773	11.46	0.45
Sept. 2010	3199151	362509	11.33	0.76
Oct. 2010	3246448	363370	11.19	0.24
Nov. 2010	3315303	368862	11.13	1.51
Dec. 2010	3391860	379846	11.20	2.98
Jan. 2011	3485315	382876	10.99	0.80
Feb. 2011	3549744	388592	10.95	1.49
Mar. 2011	3667354	413700	11.23	6.46

- *Sources RBI*

SCBs credit to MSMEs sectors in April 2010 was Rs. 341,569 crores and in March 2011 it has increased to Rs. 413,700 (Table 6). And it is observed that it is only around 11% of total bank credit and month-wise improvement is also not remarkable. It is 11.35% in April 2011 and slowed down in the Jan & Feb. 2011—only 10.99% and 10.95%, and, finally, it is only 11.23% at year-end month. By taking the importance of MSMEs sectors in the growth of economy, SCBs should follow the guideline of RBI and Government of India relating credit to MSMEs sectors.

Other important sources of finance to MSMEs sectors are state financial corporations. Basically, state financial corporations were established to provide various financials and other assistance to MSMEs sector. At present 18 state financial corporations in India are continuously engaged to MSMEs sectors. But their performance level is not at all up to the mark, rather, credit to MSMEs sector more or less decline year by year, which is clear from Table 7.

Table 7
Credit Flow to MSMEs Sectors by State Financial Corporation (SFC)

(Amount in Rs. Crore)

Year	Loan Sanction By SFC	Growth rate in Loan Sanction %	Loan Disbursement	Growth rate in Disbursement %	Disbursement to Sanction %
1999-2000	2190.30	–	1536.80	–	70.16
2000-2001	2015.30	(8)	1557.40	1.3	77.27
2001-2002	1908.80	(5.30)	1563.40	0.4	81.88
2002-2003	2702.40	41.60	1880.90	20.30	69.92
2003-2004	4188.50	55.00	2961.10	57.4	70.69
2004-2005	3544.80	(15.40)	2782.70	(6.00)	78.50
2005-2006	2626.10	(25.90)	2110.20	(24.20)	80.35
2006-2007	1864.18	(29.00)	1624.65	(23.00)	87.18
2007-2008	2337.78	(20.00)	1825.09	12.30	81.55
2008-2009	2789.97	24.7	2005.06	9.90	71.86
Cumulative up to March 2009	26168.134		19847.30		75.85

Source : IDBI report on development banking in India—2008

The assistance and disbursement of loan in 1999 - 2000 were Rs. 2,190.30 crores and Rs. 1,536.80 crores but after that loan sanction and disbursement declined year by year, except few years. Out of ten-year, year-wise growth rate is negative for 6 years. In this ten-year period average growth rate in loan sanction and disbursement are only 2.73% and 3.04%, But MSME growth rate is very high compared to it. Out of ten years' growth rate in disbursement, 3 years are in negative growth. Average loan disbursement ratio is only 75.85%. So overall we can say that SFCs are also in some trouble to provide various assistance to MSMEs sector and this is mainly due to high NPA of SFCs.

Besides these regional rural banks, cooperative bank, micro-financial institutions also provide financial assistance to MSMEs sector. But comparing to actual needs of MSMEs sector they are not at satisfactory level. Most of the financial institutions are not much interested to grant loan to MSMEs sectors mainly due to (a) Lack of proper records (b) poor performance (c) high sickness of MSMEs sector (d) big information gap (e) poor assets structure to provide security (f) high transaction cost relating to small loan (g) institution not in a position to measure risk associated with MSMEs and this is mainly due to lack of proper information; (h) lack of awareness in the part of MSMEs sector regarding current various scheme for them (i) poor education of entrepreneur and many.

Steps taken by Government of India and Reserve Bank of India to overcome such problems

Government of India and RBI have taken many steps to overcome such problems, few are :

1. Priority sector lending :

Priority sector lending guideline set for bank is one of the main government policies affecting the delivery of credit to micro and small enterprises. RBI revised this guideline to ensure smooth credit to priority sectors in 2007. Loan to these sectors normally not profitable from the viewpoint of bank but considering MSMEs sectors' importance it is highly needed. As per this guidelines domestic and foreign banks have to extend 40% and 32%, respectively of the adjusted net bank credit (ANBC) or the credit-equivalent amount of off-balance sheet exposures (CEOBE), whichever is higher—to the priority sectors. Examples of priority sector lending are loan to agriculture, MSMEs, micro-credit, education, and housing etc. As on 31st March 2009, public sector banks had 42.5%, private sector banks had 46.5% and foreign banks had 34.3% of their ANBC to priority sectors.

2. Refinancing scheme

Reserve Bank of India had created two funds of Rs. 2,000 crore each with SIDBI for risk capital financing to MSMEs and to enhance MSMEs refinancing capabilities in June 2008. Schedule commercial banks have to deposit their shortfall money in this fund if they failed to lend money to priority sectors. In December 2008, SIDBI received Rs. 7,000 crores from RBI to refinance fund for smooth credit delivery to these sectors.

3. Credit Guarantee scheme

Credit guarantee scheme is extremely useful for first-time entrepreneur who is not a position to provide collateral or third party guarantees. Currently, several credit guarantee schemes are available to ensure bank finance. SIDBI's Credit Guarantee Scheme provides financial and deferred payment guarantees to MSMEs. As of March 2008, SIDBI had extended Rs. 2,700 crore in guarantees for over 97,200 Proposals.

4. SIDBI Venture Capital Ltd (SVCL)

SIDBI Venture Capital Ltd is a subsidiary of SIDBI incorporated in 1999. This fund aims to invest in smaller enterprises in the technology of SME sectors that may be overlooked by other Venture Capital because of their higher perceived risk. Under this scheme there are two funds—The National Venture Fund of Software and Information (NSFIT) and SME growth firm. NSFIT aims to provide funds to small-scale units in the IT sector. As of March 31, 2008, NSFIT had disbursed Rs. 84.4 crore and SGF had allocated Rs. 234 crore to 23 proposals.

5. Working Group on Rehabilitation of Sick SMEs

The Reserve Bank had constituted a Working Group on Rehabilitation of Sick SMEs under Chairman of Dr. K. C. Chakrabarty (2010) . Based on the recommendations of the Working Group, banks have been advised to undertake a review and put in place a Loan Policy governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises and a Non-discretionary one time Settlement scheme for recovery of non-performing loans etc.

6. Specialized MSME branches

Public sector banks have been advised to open at least one specialized branch in each district. Further, banks have been permitted to categorise their MSME general banking branches having 60% or more of their advances to MSME sector in order to encourage them to open more specialized MSME branches for providing better service to this sector as a whole. As per the policy package announced by the Government of India for stepping up credit to MSME sector, the public sector banks will ensure specialized MSME branches in identified clusters/ centers with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise. The existing specialized SSI branches may also be redesignated as MSME branches. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/ borrowers.

7. SME finance and development project

SME finance and development is a project between World Bank, SIDBI, and the UK's Department for International Development (DfID) begun in April 2005. The project focused on providing various financial and other assistances to Indian MSMEs sectors to increase their competitiveness, and employment. To provide these services the World Bank operates two main programs—a credit facility (CF) and a risk sharing facility (RSF) and the DfID runs the technical assistance (TA) component of the project. World Bank had allocated $115 million worth of credit to 927 SMEs in 10 states for an average loan amount of Rs. 55 lakh and average tenor of five years (as on June 2008). Credit facility project was most successful according to the bank's performance analysis metrics, which included growth in volume of lending to SMEs, growth in the volume of term loans to SMEs, and reduction in non-performing loans (NPL).

Conclusion

Though the MSMEs are in a big problem for inadequate availability of financial resources, at the same time it is expected that problems will be solved in near future. Government of India and RBI had taken many steps to overcome such problems. Many committees had been formed to investigate such problems and they also had provided many suggestions—but suggestions only becom actual when they are properly followed by financial institutions. RBI should be more rigid so that financial institutions follow these policies. But at the same time MSEs's entrepreneurs require giving special attention in regarding norms of financial institutions to obtain loan. They should be aware about needs of financial institutions in relation to various information and documents as they need to provide credit. At the same time, it is mentionable that separate attentions are required for very small entrepreneurs, particularly as most of them are in unorganized sector. Many time policies for MSMEs are overlapping by state government and Central Government. So proper care should take by the concerned authority to coordinate and harmonise the various policies as described by various committees to facilitate MSMEs finance. ❐

Valuation of Edelweiss Capital Limited Based on Capital Structure Formation

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Introduction

Edelweiss Capital Limited has been incorporated in the year 1995; and commenced its business in the year 1996, and is based in Mumbai, India. Edelweiss Capital Limited (ECL) provides investment banking, institutional equities, private client broking, asset management, wealth management, insurance broking and wholesale financing services to corporate, institutional and high net worth individual clients.

ECL operates 374 offices in over 170 cities. Over the years, ECL has grown into a diversified Indian financial services company organized under agency and capital business lines operated by the Company. The Edelweiss Group is a conglomerate of 48 entities including 43 Subsidiaries and 5 Associate companies, engaged in the business of providing financial services, primarily linked to the capital markets.

ECL group with a net worth of Rs 24 billion and a pre-tax profit of Rs 3.50 billion for Financial Year 2010-11, has emerged as India's leading diversified financial services company. ECL businesses are broadly divided into Credit, Capital Markets including Investment Banking and Brokerage Services - Institutional, HNI and Retail, Asset Management, Housing Finance and Life Insurance.

ECL is successful in managing the strong relationship with all groups of clients on account of research driven approach and proven history of innovation.

The ECL enters in to the Mutual Fund, Retail Broking, housing finance and Life insurance through the different acquisitions and financial and technical collaborations.

Integrated Financial Service Provider

ECL has been emerged as one of the India's leading integrated financial services conglomerates. It offers one of the largest ranges of products and services spanning varied asset classes and diversified consumer segments.

ECL group employs over 2600 employees, leveraging the talent and expertise of its employees, and in turn created a strong partnership culture and unique model professionalism.

ECL has one of the most extensive product offerings within Investment Banking in India, catering to different market and client segments. The verticals within Investment Banking include Equity Capital Markets, Mergers & Acquisitions Advisory, Private Equity Syndication, Structured Finance Advisory, Real Estate Advisory and Infrastructure Advisory.

Edelweiss' leadership position in Mid-market space is reflected in the # 1 ranking in both Bloomberg tables for Mid-market Private Equity placements in the year 2007 and Prime Database league tables for IPOs in Mid-market segment in the year 2008. It was adjudged winner in the Best Merchant Banker category in the Outlook Money NDTV Profit Awards in the year 2008.

ECL has one of the leading institutional equities businesses in India backed by a large and experienced research team and a large and diversified client base. Intense servicing, seamless execution and innovative research products have helped ECL to build strong relationships with over 300 institutional investors, including FIIs and domestic institutional investors. It also offers dedicated brokerage services to high net-worth individuals with a strong emphasis on building long-term relationships with clients.

ECL broad range of offerings includes asset allocation advisory to Structured Products, Portfolio Management, Mutual Funds, Insurance, Derivatives Strategies, Direct Equity, Private Equity, and Real Estate Funds etc. as part of wealth management. It also involves in treasury operations in the similar way like commercial bank and focuses on liquidity management and yield optimization. ECL specifically follows a disciplined and conservative approach to cash management with emphasis on strong risk policies and capital preservation.

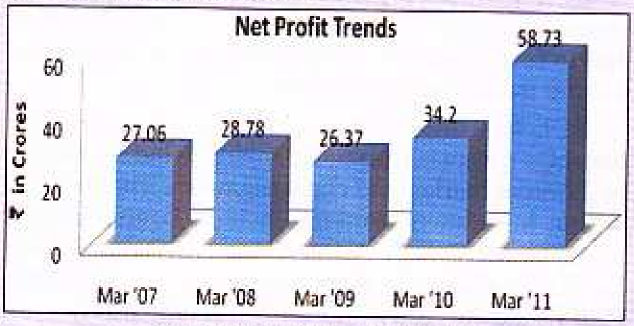
Future Prospects

ECL is planning to grow its loan book from the current Rs. 2640 crore to over Rs. 10,000 crore in the coming four or five years, as top line driver in the coming period.

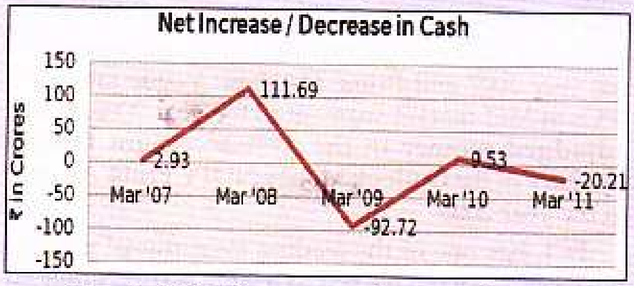
ECL has recently forayed into housing finance, the value of portfolio now stands at Rs.120 crore, expected to reach a size of Rs. 5000 crore by 2014.

Financial Information of ECL

The net profit trends of last five years 2006-07 to 2010-11; has been exhibited in Graph 1, while the net increase or decrease in cash over the same period has been exhibited in Graph 2.



Graph 1 : Net Profit Trends



Graph : 2 Net increase or decrease in cash

Valuation of ECL

The valuation of ECL is done through the analysis of the annual financial statements of the company over the period of 2006-07 to 2010-11 based on capital structure adopted. For this purpose, the following valuation approaches are applied, and valuation has been commented.

a. Net income approach
b. Net operating income approach
c. Traditional approach
d. Miller and Modigliani approach

Analytical Study of Financials

The cash flow of each year arrived have to be discounted at Weighted Average Cost of Capital (WACC). For this purpose the cost of each provider of capital has been determined, and based on that WACC calculated. The WACC reflects the business as well as financial risk of the enterprise.

Calculation of Cost of debt

Cost of Debt is the long-term cost of debt of an enterprise. Interest on the debt is a tax-deductible item. It can be observed from the given table no. 1 that company's Cost of Debt has increased over a period of last 5 years. It was highest in the year 2008-09 then it started decreasing. Company's secured loan has reduced whereas unsecured loan has increased over a period of time. Since both interest expenses and debt burden has increased, but increase in interest is quite higher than that of debt so the cost of debt has increased.

Rs in Crore	2010-11	2009-10	2008-09	2007-08	2006-07
Secured Loan	99.51	471.85	108.46	127.12	0.93
Unsecured Loan	3496.6	981.56	400.72	975.81	180
Total Debt	3596.11	1453.41	509.18	1102.93	180.93
Interest	300.11	137.22	97.82	77.32	2.13
Tax Rate	0.06	0.19	0.15	0.27	0.26
Cost of Debt (Kd) (%)	7.86%	7.63%	16.30%	5.13%	0.87%

Table : 1 Calculation of Cost of Debt

Calculation of Cost of Equity

The cost of equity can be derived either by the risk and return approach or by dividend expectation approach. In this case study, the risk return approach is used to work out the cost of equity. The calculation of Cost of Equity has been calculated as per Table no. 2. Under this approach, the cost of equity is defined as under :

Cost of equity = Risk Free Return + [Beta * Equity Risk Premium]

Where, Risk Free Return is the return expected by an investor where default risk is zero; it means rates applicable for Government Securities. In this study, case writer has taken the Repo rate as risk free rate of return.

Beta is the sensitivity of a particular stock, i.e., ECL V/s Market or Index. Beta value indicates the fluctuation in the market price of Company's shares. Arithmetically, beta can be calculated as follows

$$\text{Beta} = \frac{\text{Covariance (return of ECL, Return on market)}}{\text{Variance (Return on market)}}$$

Equity Risk Premium is the expectation of the investor over and above the risk free return.

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07
Risk Free Return	6.75%	6.25%	4.75%	6.50%	7.50%
Return Generated by Market	21.00%	15.00%	27.00%	17.00%	20.00%
Beta	0.68	1.64	0.95	1.78	1.91
Equity Risk Premium	14.25%	8.75%	22.25%	10.50%	12.50%
Cost of Equity (%)	16.44%	20.60%	25.89%	25.19%	31.38%

Table : 2 Calculation of Cost of Equity

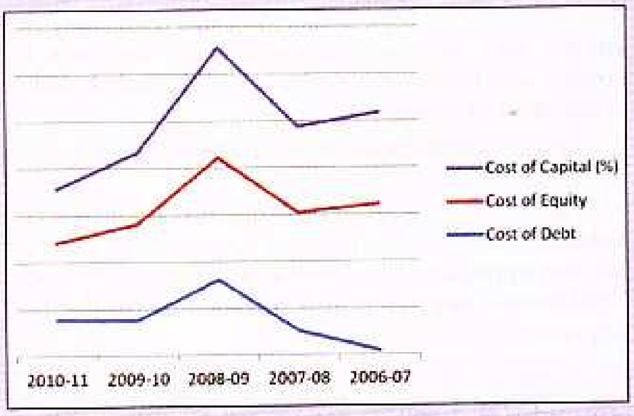
The company's cost of equity constantly decreasing through the application of Capital Asset Pricing Model, which is widely in use for the investors community for the publicly listed companies.

Calculation of weighted Average Cost of Capital

The following Table no. 3 indicates the calculation of weighted average cost of capital for the period from 2006-07 to 2010-11. The graph no. 3 indicates the graphical presentation of each elements of cost of capital including the WACC. The overall cost of capital decreasing since last two years. It was highest in the year 2008-09.

Rs in Crore	2010-11	2009-10	2008-09	2007-08	2006-07
Market Price Per Share	32.1	50.97	41.32	56.91	63
Number of Shares	75.2	37.54	37.47	37.47	4.49
Market Value of Share	2413.92	1913.4138	1548.2604	2132.4177	282.87
Total Debt	3596.11	1453.41	509.18	1102.93	180.93
Total	6010.03	3366.8238	2057.4404	3235.3477	463.8
Cost of Debt	7.86%	7.63%	16.30%	5.13%	0.87%
Cost of Equity	16.44%	20.60%	25.89%	25.19%	31.38%
Cost of Capital (%)	11.30%	15.00%	23.51%	18.35%	19.48%

Table : 3 Calculation of Weighted Average Cost of Capital



Graph : 3 Graphical presentation of Cost of Capital (WACC)

Application of Valuation Approaches

In the following paragraphs, the application of each approach has been made.

a. Net Income (NI) Approach

Net Income approach was introduced by David Durand. According to this approach, the capital structure decision is relevant to the valuation of the firm. This means that a change in the financial leverage (proportion of debt and equity in capital structure) will automatically lead to a corresponding change in the overall cost of capital as well as the total value of the firm. The following Table no. 4 shows the calculation of the same.

Rs in Crore	2010-11	2009-10	2008-09	2007-08	2006-07
Market Price Per Share	32.1	50.97	41.32	56.91	60
Number of Shares	75.2	37.54	37.47	37.47	4.49
Total Debt	3596.11	1453.41	509.18	1102.93	180.93
EBIT	362.49	179.58	128.89	116.65	38.64
Interest	300.11	137.22	97.82	77.32	2.13
Net Income before Tax	62.38	42.36	31.07	39.33	36.51
Equity Capital Rate	16.44%	20.60%	25.89%	25.19%	31.38%
Market Value of Equity Shares	379.44	205.63	120.02	156.13	116.37
Total Value of Company	3975.55	1659.04	629.20	1259.06	297.30
Overall Cost of Capital (%)	9.12%	10.82%	20.48%	9.26%	13.00%

Table : 4 Valuation of ECL as per Net Income Approach

It can be seen from above, that by the increase in debts, the total value of the firm increases and cost of capital reduces and vice versa. However, this will hold well only if the cost of debts, i.e., the rate of interest is less than the equity capitalization rate. The total value of ECL has increased over a period of time, and in turn Cost of capital has reduced over the years.

b. Net Operating Income Approach

Net Operating Income Approach was also suggested by David Durand. This approach suggests that the capital structure decision of a firm is irrelevant and that any change in the leverage or debt will not result in a change in the total value of the firm as well as the WACC. The following Table no. 5 shows the calculation of the same.

Rs in Crore	2010-11	2009-10	2008-09	2007-08	2006-07
Number of Shares	75.2	37.54	37.47	37.47	4.49
Total Debt	3596.11	1453.41	509.18	1102.93	180.93
Cost of Capital (%)	11.30%	15.00%	23.51%	18.35%	19.48%
EBIT	362.49	179.58	128.89	116.65	38.64
Total Value of Company	3206.63	1197.22	548.13	635.62	198.40
Market Value of total Debt	3596.11	1453.41	509.18	1102.93	180.93
Market Value of Equity Shares	-389.48	-256.19	38.95	-467.31	17.47
Interest	300.11	137.22	97.82	77.32	2.13
Net Income before Tax	62.38	42.36	31.07	39.33	36.51
Equity Capitalisation Rate	-16.02%	-16.53%	79.77%	-8.42%	209.01%

Table : 5 Valuation of ECL as per Net Operating Income Approach

The market value of the firm remains unaffected by the change in capital structure. However, the introduction of additional debt has increased the equity capitalization rate over a period of time. All years except the year 2008-09, indicates the total value of debt is greater than the company's total value based on earning potentiality and discount rate used by group of funds provider. This basically considered as a negative sign for the firm, according to the Net operating income approach.

c. Traditional Approach

The Net Income theory and Net Operating Income theory stand in extreme forms. Traditional approach stands in the midway between these two theories. This Traditional theory was advocated by financial experts Erza Solomon and Fred Weston. According to this theory a proper and right combination of debt and equity will always lead to market value enhancement of the firm. This approach accepts that the equity shareholders perceive financial risk and expect premiums for the risks undertaken. This theory also states that after a level of debt in the capital structure, the cost of equity capital increases. The following Table no. 6 shows the calculation of the same.

Rs in Crore	2010-11	2009-10	2008-09	2007-08	2006-07
EBIT	362.49	179.58	128.89	116.65	38.64
Interest	300.11	137.22	97.82	77.32	2.13
Net Income before Tax	62.38	42.36	31.07	39.33	36.51
Cost of Equity (%)	16.44%	20.60%	25.89%	25.19%	31.38%
Equity Shares	379.44	205.63	120.02	156.13	116.37
Market Value of Debt	3596.11	1453.41	509.18	1102.93	180.93
Market Value of Company	3975.55	1659.04	629.20	1259.06	297.30
Overall Cost of (%) Capital	9.12%	10.82%	20.48%	9.26%	13.00%

Table : 6 Valuation of ECL as per Traditional Approach

The value Edelweiss capital has increased with the increase in value of debts and market value of Equity shares. The company has highest overall cost of capital in the year 2008-09, whereas lowest in year 2010-11 as compared to last 5 years.

d. Miller and Modigliani (MM)Approach

MM approach is similar to the Net operating income approach. The MM approach favours the Net operating income approach and agrees with the fact that the cost of capital is independent of the degree of leverage. It provides operational or behavioral justification for constant cost of capital at any degree of leverage. The following Table no. 7 shows the calculation of the same.

Rs in Crore	2010-11	2009-10	2008-09	2007-08	2006-07
Total Capital Employed	4,919.13	2,763.54	1,865.28	2,453.28	631.06
Net Worth	1,323.01	1,310.14	1,356.11	1,350.36	450.12
Total Debt	3596.11	1453.41	509.18	1102.93	180.93
Net Operating Income	362.49	179.58	128.89	116.65	38.64
Interest	300.11	137.22	97.82	77.32	2.13
Market Value of Debt	3596.11	1453.41	509.18	1102.93	180.93
Equity Earnings	62.38	42.36	31.07	39.33	36.51
Cost of Capital (%)	11.30%	15.00%	23.51%	18.35%	19.48%
Market Value of Company	3206.63	1197.22	548.13	635.62	198.40
Market Value of Equity	-389.48	-256.19	38.95	-467.31	17.47
Equity Cost of (%) Capital	-16.02%	-16.53%	79.77%	-8.42%	209.01%

Table : 7 Valuation of ECL as per Miller and Modigliani Approach

As like other methods, in MM Approach also the value of Edelweiss capital has increased over past 5 years. It also indicates that firm's total value is less than the value of debt. It also indicates that, company should take necessary steps to swap the debt by equity; and further restructuring of capital structure is the need of hours.

Comparative Evaluation Matrix Showing The Valuation of ECL

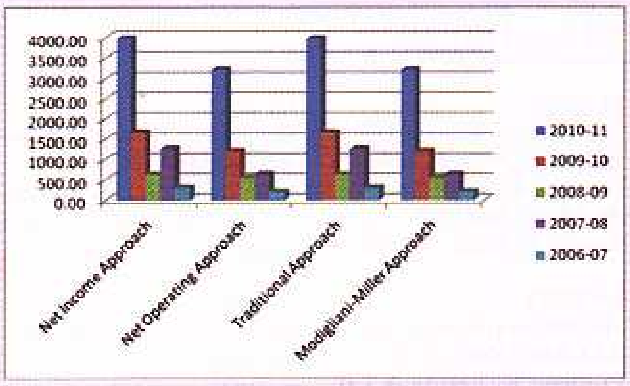
The following matrix table no. 8 shows the valuation of ECL by different approaches, like Net Income approach, Net Operating income Approach, Traditional approach and Miller and Modigliani approach.

Rs in Crore	Column 1	Column 2	Column 3	Column 4	Column 5
Approaches of Capital Structure	2010-11	2009-10	2008-09	2007-08	2006-07
Net Income Approach	3975.55	1659.04	629.20	1259.06	297.30
Net Operating Approach	3206.63	1197.22	548.13	635.62	198.40
Traditional Approach	3975.55	1659.04	629.20	1259.06	297.30
Milller and Modigliani Approach	3206.63	1197.22	548.13	635.62	198.40

Table : 7 Comparative Evaluation of ECL

Conclusions

The graph no. 4 indicates the graphical presentation of comparative evaluation of ECL through different approaches.



The Value of Edelweiss Capital has increased over a period of time. The Total value of Edelweiss Capital is highest as per all Approaches are highest in the year 2010-11. The above case study also support the general hypothesis and belief that net income approach and traditional approach are nearly same (results in to lower value of firm); while the net operating income approach and MM approach are nearly same (results into higher value of firm). The NI and Traditional approaches are based on the concept of residual earnings available to equity holders of the firm. The MM and NOI approach believes that residual assets of the firm are available to the equity shareholders after satisfying the debt providers. The NOI Approach is the exact opposite of the NI Approach. It does not take interest in to account, whereas NI Approach takes interest into the picture, because of which values generally given by NI Approach are lower than that of NOI Approach. The Traditional Approach takes into account only Equity Capitalization rate, where as MM Approach takes into account Weighted average cost of capital (overall capitalization rate) due to which Values by MM Approach are higher than that of Traditional Approach. The NOI approach and MM approach strongly suggest that ECL should take necessary steps to restructure their capital structure. ❐

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B Zone, Durgapur 713 205

M/32587
Shri Smruti Ranjan Sahoo
BCOM(HONS), MBA, ACMA
C/o Jayant Kumar Sahoo
At/PO : E6 - 01, Bolani,
Dist : Keonjhar
Bolani 758 037

M/32588
Ms Antim Jain
ACMA
12/446 Malviya Nagar
Jaipur 302 017

M/32589
Shri Dwarika Swain
BCOM, LLB, ACMA
S/o Bhimsen Swain At/PO :
Naindipur, Via : Baradapur
Kendrapara 754 153

M/32590
Ms Sujata Kumari Singh
ACMA
S-3, 5/866, Sector 5, Vaishali
Ghaziabad 201 010

M/32591
Shri Deepak Goyal
MCOM, ACMA
Ashwin Solanki & Associ-
ates, 601 Goyal Trade
Centre, Shantivan,
Nr. National Park,
Borivali East
Mumbai 400 066

M/32592
Ms Backia Lakshmi A
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11A/15 Avenue Road, S. S.
Colony, Madurai 625 010

M/32593
Ms N Vasudharini
BCOM, ACA, ACMA
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20/29 Neelakanta Mehta
Street, T. Nagar
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M/32594
Shri Manish Kumar Sahu
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Shri S Babu Velmurugan
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M/32597
Shri Ajay Kumar Pathak
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C 103, Street 08,
West Vinod Nagar
New Delhi 110 092

M/32598
Shri Ankit Sharma
MCOM, ACMA
135 Ganga Nagar,
Rishikesh, Dehradun
Rishikesh 249 201

The Institute of Cost Accountants of India
12, Sudder Street, Kolkata - 700 016

28th May, 2012

For Attention of Members
Election Reforms Committee

The members of the Institute are kindly aware that the Election to the 18th Council of the Institute of Cost Accountants of India were held in 2011 in accordance with the Cost and Works Accountants (Election to the Council) Rules, 2006 read with the Cost and Works Accountants Act, 1959 and the Cost and Works Accountants Regulations, 1959.

During the course of Elections, it was noted that the provisions of the Cost and Works Accountants (Election to the Council) Rules, 2006 are needed to be examined for reforms in the Election process.

Accordingly, the Council of the Institute at its 272nd Meeting held on 22nd January, 2012 considered the matter and constituted the Elections Reforms Committee comprising of the following members for the purpose of streamlining the process of conduct of Council elections and matters arising thereform :

1. Shri P. V. Bhattad, Chairman
2. Dr. P.V.S. Jagan Mohan Rao, Member
3. Shri T.C.A. Srinivasa Prasad, Member
4. Shri Sanjay Gupta, Member

Shri Kaushik Banerjee (Director & Joint Secretary) — Secretary

It was further decided that the Committee will invite suggestions from members of the Institute for proposing amendments to the Cost and Works Accountants (Election to the Council) Rules, 2006 (uploaded on our website www.icwai.org), fixing a time limit of six months. After receipt of the suggestions, the Committee will ascertain the various amendments that are needed to be made in the Election Rules for smooth conduct of Institute's Elections and place the same before the Council for recommending the amendments to the Central Government.

Accordingly, you are requested to send your valuable suggestions/comments on the Cost and Works Accountants (Election to the Council) Rules, 2006 for consideration of the Committee on or before 27th **November, 2012 :**

(i) by post addressed to Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India, 12 Sudder Street, Kolkata - 700 016 superscribing on the envelope "SUGGESTIONS FOR ELECTION REFORMS" and/or

(ii) on e-mail id of Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India : membership.kb@icwai.org with subject "SUGGESTIONS FOR ELECTION REFORMS".

Men at the Helm

Shri Mahesh Chand Bansal, M.Com., ACMA has recently joined National Building Construction Corporation Ltd, (NBCC) a premier PSU, as General Manager (Finance) and is based at its New Delhi corporate office overseeing the entire Finance & Accounting functions of the organization. Prior to this, Shri Bansal was the Addl. General Manager (Finance) in State Farms Corporation of India Ltd, where he served for more than two years. Earlier, Shri Bansal worked with ITI Ltd, at its Raibareli unit for more than fourteen years.

We wish him all the best in life.

Updates*

Direct Taxes

Serial no.	Bonafide Content	Case Law	Judicial Authority	Year
1.	Mutual Fund acquired by husband in wife's name can't be treated as unexplained investment of wife.	ITO v. Smt. Jayshreeben Vallabhbhai Patel	Rajkot - Tribunal	2012
2.	Provision for bad and doubtful debts newly created during the year under consideration should not be netted against the amount written back or reversed.	Kannur Distt. Co -op Bank Ltd. Vs Assistant Commissioner of Income-tax	Kannur - Tribunal	2012
3.	Assessment of excess amount kept in suspense account – to be taxed in three years instead of one year	The Catholic Syrian Bank Ltd. Vs The Addl.Commissioner Of Income Tax.	Delhi- High Court	2012
4.	For a contribution to be a 'Voluntary contribution' and to avail exemption u/s 11(1)(d), identity of donors need to be established	ITO V. Smt. Vidyawanti Labhuram Foundation For Science Research & Social Welfare	Jodhpur- ITAT	2012
5.	Double deduction' admissible to trust in respect of capital expenditure	GKR CHARITIES v. DDIT	Chennai - Tribunal	2012
6.	Notional interest on loan given to non-resident AE taxable under transfer pricing provisions.	TATA AUTOCOMP SYSTEMS LTD. v. ACIT	Mumbai- ITAT	2012
7.	Registration of trust is not cancelled automatically when receipts exceed threshold limit specified u/s 2(15)	RAJASTHAN HOUSING BOARD v. CIT	Jaipur - ITAT	2012
8.	Exemption Loss to a trust is limited to undue benefits extended to persons specified u/s13(3)	ACIT v. IDICULA TRUST SOCIETY	Delhi- Tribunal	2012
9.	Transaction with sister concern not a sham unless it is collusive or for tax evasion or not at arm's length	DCIT v. MALIBU ESTATES (P.) LTD	Delhi- Tribunal	2012
10.	Fee for subscription to 'Social media monitoring services' is taxable as Royalty	DTAA - THOUGHTBUZZ (P.) LTD	AAR - New Delhi	2012

*This write up has been prepared by Taxation Committee of the Institute

Corporate Law

Serial no.	Bonafide Contents	Notification no.	Case Law	Judicial Authority
1.	Prosecuting Director in cheque bouncing case, without assigning the issuer-company, is unjustified.	–	Aneeta Hada V. Godfather Travels & Tours (P.) Ltd.	Supreme Court
2.	Substitution of Forms 23C and 23D	G.S.R.313(E), dated 24.04.2012	–	–
3.	Amendment in paragraphs 27, 27A, 27AA, 36, 36A, 38, 42, 43, 72, 82 and 83 of Provident Funds (Second Amendment) Scheme, 2012.	G.S.R. 336(E), dated 4-5-2012	–	–
4.	Amendments in Schedule XIV of Companies Act, 1956, inclusion of Intangible asset.	F.no. 17/292/2011.cl-v dated 17-01-2012	–	–
5.	Constitution of National Advisory Committee on Accounting	F.no. 1/5/20011-CL.V, dated 11.04.2012	–	–

Central Excise, Customs & Service Tax

Serial No.	Bonafide Contents	Case Law	Judicial Authority	Year
1.	Penalty imposed on the Petitioner Company and also suspended the Importer Exporter Code	Xtra Clean cities Ltd Vs UoI and others	Delhi- High Court	2012
2.	Exemption from 2% BCD on cut and polished diamonds sent abroad and re-imported after certification/grading.	–	–	2012
3.	If recipient of services is required to pay service tax then provider of services is not required to pay.	Raj Ratan Castings Pvt Ltd Vs Commissioner of Customs & Excise	CESTAT- New Delhi	2012
4.	Shifting of Service tax Liability	Rashtriya Ispat Nigam Limited vs Dewan Chand Ram Saran	Supreme Court	2012
5.	Exemption from service tax for specified service in the negative list extends to Agricultural produce	–	–	2012
6.	Professionals to Pay Service Tax @ 12% for Invoice Raised before 01.04.2012	–	–	2012

RBI

Circular/ Notification no.	Date	Detail
DBOD.AML. BC. No. 97/14.01.001/2011-12	–	Intra-bank Deposit Accounts Portability
Circular DBOD.No.BP.BC.98 /21.06.201/2011-12,	2-5-2012	Guidelines on Implementation of Basel III Capital Regulations in India
Circular DBOD.No.BP.BC.98 /21.06.201/2011-12,	2-5-2012	Interest Rates on FCNR(B) Deposits
Circular DBOD.DIR.No.100/04.02.0 01/2011-12,	4-5-2012	Deregulation of Interest Rates on Export Credit in Foreign Currency.
DBOD. No RET.BC.95/12.02.001/ 2011-12	17-04-2012	Maintenance of statutory Liquidity Ratio- Marginal standing facility

DGFT

Circular/ Notification no.	Date	Detail
112 (RE-2010)/2009-2014	01-05-2012	Amendment in policy for export of Casein and casein product
61(RE-2010)2009/2014	01-05-2012	Clarification regarding withdrawal of provision of revalidation of RCs by RAs for export of cotton and cotton yarn.
Policy Circular No. 59 (RE-2010) /2009-14	24.04.2012	File application for 53 SEZ port codes

SEBI

Circular/ Notification no.	Date	Detail
CFD/DIL/5/2012	03-05-2012	Filling offer documents up to Rs 500 crore with concerned regional offices of the Board.
IMD-DOF-1/11/2012,	16-04-2012	Processing of investor complaints against companies applying for listing of Debt Securities in SEBI score system
MRD/DP/13/2012,	23.04.2012	Establishment of connectivity with both depositories NSDL and CDSL- companies eligible for shifting from trade for trade settlement (TFTS) to normal rolling settlement.

FEMA

Circular/ Notification no.	Date	Detail
A.P. (DIR SERIES 2011-12) c.no. 113,	24.04.2012	External Commercial borrowings for civil aviation.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(statutory body under an Act of Parliament)

MANAGEMENT DEVELOPMENT PROGRAMMES 2012-13

DURATION	TOPIC	VENUE	FEE (RS.) NON – RESIDENTIAL	FEE (RS.) RESIDENTIAL SINGLE ROOM BASIS
JUNE, 2012				
11-12	Updates on Direct and Indirect Taxation	Chennai	8000*	
12-15	IFRS Updates & Converged Indian Accounting Standards by Dr. T. P. Ghosh	Srinagar	-	35000*
12-15	Finance for Junior Finance and Accounts Officers and Non Executives(F & A)	Srinagar	-	35000*
19-22	Risk Based Internal Audit and Corporate Governance	Ooty, T.N	-	35000*
19-22	Emerging Issues in Direct & Indirect Taxation	Ooty, T.N		35000*
27-1st July	Certificate Course on IFRS and Converged Indian Accounting Standards	Bangalore	25000*	
JULY, 2012				
11-13	Project - Appraisal, Financing and Management	Delhi	15000*	-
18-22	Certificate Course on IFRS and Converged Indian Accounting Standards	Kolkata	25000*	-
24-27	Issues in Corporate Taxation– Planning, Compliance and Management	Udaipur		35000*
24-27	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Udaipur	-	35000*
26-28	Workshop on Accounting for Financial Instruments	Delhi	15000*	-
AUGUST, 2012				
06-09	Contracts and their Management	Portblair	-	38000*
06-09	Emerging Issues in Direct and Indirect Taxation	Portblair	-	38000*
22-26	Certificate Course on IFRS and Converged Indian Accounting Standards	Hyderabad	25000*	
28-31	Basic Financial Skills for Non Finance Executives and Engineers	Hyderabad		35000*
28-29	Performance reporting- A Way forward in Corporate Governance	Hyderabad	8000*	
SEPTEMBER, 2012				
11-14	Risk Based Internal Audit and corporate Governance	Pondicherry	-	35000*
11-14	Issues in Direct Taxation- Advance Tax, TDS and Tax Planning	Pondicherry		35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	New Delhi	25000*	
OCTOBER, 2012				
09-12	Recent Trends in Corporate Reporting and corporate Finance including IFRS	Vayalar, (Backwater) Kerala	-	38000*
15-18	Emerging Issues in Management of Taxation	Goa	-	35000*
15-18	Activity Based Costing and Management	Goa	-	35000*
NOVEMBER, 2012				
20-23	Basic Financial Skills for Non Finance Executives and Engineers	Mysore		35000*
29 Nov. – Dec.8	International Programme on 'Strategic Financial Management'	Singapore, Kualalumpur & Bangkok	-	250000*

DECEMBER, 2012

11-14	Recent Trends in Financial Management	Amritsar		35000*
18-21	Contracts and their Management	Shirdi	-	35000*
18-21	Emerging Issues in Direct and Indirect Taxation	Shirdi	-	35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	Mumbai	25000*	-

JANUARY, 2013

02-04	Costing for Engineers	Chennai	15000*	40000*
08-12	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Hyderabad	-	35000*
08-12	Advance Tax, TDS and Tax Planning	Hyderabad	-	35000*

FEBRUARY, 2013

19-22	Risk Based Internal Audit for Effective Management Control	Puri	-	35000*
19-22	Emerging Issues in Management of Taxation	Puri	-	35000*

Note :- *Plus 12.36% Service Tax.

For Non-Residential Programmes - Fee includes course fee, course material, lunch, tea/coffee etc.
For Residential Programmes - Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.
CEP Credit Hours - (For 1 Day Prog. - 4 Hours) (For 2 Days Prpg. - 6 Hours) (For 3 Days & more Prog.-10 Hours)
For Kind Information:
For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programmes without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programmes, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
For residential programmes normally the first day check-in is at 12.00 noon and last day check-out is at 12.00noon
The Payment of the Fee is to be made by Cheque/DD in favour of 'The Institute of Cost Accountants of India' payable at New Delhi.
Details for ECS Payment: State Bank of India (60321), Andhra Association Building, 24-25 Institutional Area, Lodhi Road, New Delhi- 110003
Current A/c No. 30678404793 MICR Code : 110002493 IFCS Code : SBIN0060321

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

12 Sudder Street, Kolkata 700 016

Notification No. CWR 10(1)/05/2012 Kolkata, 21st May 2012

FOR ATTENTION OF PRACTISING MEMBERS – CEP CREDIT HOURS

In pursuance of proviso to sub-regulation (1) of Regulation 10 of the Cost and Works Accountants Regulations, 1959, as amended, the Council of the Institute at its 274th Meeting held on 18th May 2012 has decided that the Certificate of Practice of the members who have paid the prescribed fees and submitted the prescribed form for renewal of Certificate of Practice for 2012-2013 within due date but not having requisite CEP credit hours, shall be renewed up to 31st March 2013 without creating a precedence and their Certificate of Practice so renewed shall be valid – subject to their obtaining requisite CEP credit hours within 30th June, 2012 positively.

M. Gopalakrishnan
President

REGIONS & CHAPTERS NEWS

WIRC

Surat South Gujarat Chapter of Cost Accountants (SSGCCA)

SSGCCA organized an annual function and seminar on recent changes in statutory cost accounting and Service Tax Rules on 5.04.12 which was chaired by Shri Rakesh Singh, Vice President of the Institute. Shri Vijay P. Joshi, Chairman, WIRC, Shri Shrenik S. Shah, Vice Chairman and Dr. Heena Oza, Chairperson of the Chapter graced the occasion. As a part of Annual function, the meritorious students of the Chapter for Foundation, Inter and Final examination were felicitated. The Chapter has just completed 20 years of establishment, and hence as a part of annual function, founder members of the Chapter were honoured.

Dr. Heena Oza, Chairperson of the Chapter, welcomed the guest speakers, members and students and gave a brief account of the activities during the year and acknowledged the co-operation of all those who contributed to winning the best chapter award for the year 2011. Shri Rakesh Singh, Vice President in his presidential address, discussed the new developments, opportunities and threats to the profession. He covered salient aspects of statutory cost accounting in his key note address. Founder Chairman of the Chapter Shri R N Bhave, delivered a lecture on 'impact on IFRS on Cost Audit'. Eminent Taxation & Corporate Law expert Shri V S Datey touched upon the new developments in Service Tax.

The vote of thanks was proposed by Ms. Leena Painter, a member of the Chapter. The programme was well attended by members and students alike.

SIRC

Hyderabad Chapter of Cost Accountants (HCCA)

The first meeting of the Board of Advanced Study Committee was held on 'Advanced Studies' at Hyderabad Centre of Excellence, Hyderabad on 7.04.2012 at 11.00 am. Shri M. Gopalakrishnan, President, of the Institute Shri Rakesh Singh, Vice President, Dr.Asish K. Bhattacharya, Advisor (Advanced Studies) and other members viz. Shri. Sunder Ram Korivi, Dr. V. Shunmugam, Prof. D Jagannathan, Shri. Sanjay Dhamija, and other employees of the Institute participated in the meeting.

Commemorating the 42nd World Earth Day celebrations, Dr. P.V.S. Jaganmohan Rao, Council Member of the Institute has taken a lead in conducting a Green Walk & Green Cycling and organizing seminars for members and students. About 42 saplings were presented to eminent personalities on that day. Shri A.S. Nageswar Rao, Chairman of the Chapter, K.K. Rao, Vice-Chairman of HCCA, members, students and staff members of Hyderabad Chapters of both our Institute and ICSI joyfully participated in the programme. Respected Swamy Bheethiharanandaji Maharaj of Ramakrishna Mutt blessed the students as Chief Guest. Shri BL Kumar, Secretary of HCCA proposed vote of thanks.

EIRC

EIRC organized a chapter's meet on 22.04.12 at EIRC premises, Kolkata Shri Saswata Dasgupta, Chairman, EIRC welcomed the members. Also present were Shri Ashok Kr Mukherjee, Vice Chairman, Shri Srikanta Kr Sahoo, Secretary, Shri Shyamal Bhattacharya, Shri Pallab Bhattacharya, Shri Bibekananda Mukhopadhyay and Shri S.P.Padhi, RCM's, Shri Manas Kr Thakur, Dr Sanjiban Bandyopadhyaya and, Shri S.C.Mohanty, Council Members of the Institute. Representatives of various chapters viz Agartala, Asansol, Bokaro, Cuttack Bhubaneswar, Dhanbad-Sindri, Durgapur, Guwahati, Hazaribag, Howrah, Jamshedpur, Naihati-Ichapur, Patna, Sambalpur, Siliguri-Gangtok, South Orissa and Commerce College, Kokrajhar, were present in the meet. All the chapter representatives delivered their views on the development activities undertaken by them for the improvement and betterment of the students, members & the profession. EIRC extended best wishes and appreciated the chapters for taking active participation for the development of the profession.

NIRC

NIRC of the Institute organized a Study Circle Meeting on 'Practical Approach of Compliance Report' on 14th April, 2012 at CMA Bhawan, New Delhi. Shri Vijender Sharma, Secretary, NIRC welcomed all the participants and coordinated the programme and discussed relevant issues on the subject. Shri Subhash Agarwal, past Chairman of NIRC was also present in the programme and shared his views on the topic.

Jaipur Chapter of Cost Accountants (JCCA)

JCCA organized a Seminar on Central Budget and Schedule VI to the Companies Act 1956 on 31.03.12. The Key Speaker was Shri Sanjeev Agarwal, a leading Chartered Accountant who explained in detail various amendments proposed by the Union Finance Minister in the Direct & Indirect Taxes, Service Tax and Central Excise.

In the second session, Shri Rajeev Sogani, a leading Chartered Accountant dealt with various changes in new Schedule VI of the Companies Act 1956 and its impact. Shri Sunil Goyal, Director, United Bank of India and past President of Institute of Chartered Accountants of India presided both the sessions of the Seminars and shared his views on Central Budget as well as Schedule VI of Companies Act.

Both the seminars were very interactive. The Seminar was attended by large number of members and students. The Seminar was conducted by Shri P.D. Agarwal, Director of Coaching. At the end of the Seminar, Shri Sanjay Jain Secretary, JCCA presented vote of thanks to the Speakers and all the participants who attended the Seminar.

General Circular No. 8/2012

52/17/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi-110 003

Dated the May 20,2012

To

The President,
Institute of Cost Accountants of India,
12, Sudder Street,
Kolkata - 700 016

Subject : Filing of Cost Audit Report (Form-I) and Compliance Report (Form-A) in the extensible Business Reporting Language (XBRL) mode.

Sir,

It has been decided by the Ministry of Corporate Affairs to mandate the cost auditors and the companies to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A) for the year 2011-12 onwards (including the overdue reports relating to any previous year) by using the XBRL taxonomy. These reports, required to be filed i the XBRL format, would be based on the Taxonomy on, XBRL being developed for the formats (Form-I & Form-A) given in the following Rules :

(i) Companies (Cost Accounting Records) Rules, 2011.
(ii) Cost Accounting Records (Telecommunication Industry) Rules 2011.
(iii) Cost Accounting Records (Petroleum Industry) Rules 2011.
(iv) Cost Accounting Records (Electricity Industry) Rules 2011.
(v) Cost Accounting Records (Sugar Industry) Rules 2011.
(vi) Cost Accounting Records (Fertilizer Industry) Rules 2011.
(vii) Cost Accounting Records (Pharmaceutical Industry) Rules 2011.
(viii) Companies (Cost Audit Report) Rules, 2011.

Hence, all cost auditors and companies, which are liable to file Cost Audit Reports (Form-I) and Compliance Reports (Form-A), are requested to file their reports with the Central Government after 30th June, 2012 in the XBRL mode by which time the relevant taxonomy together with Form-I & Form-A in XBRL format is likely to be ready and notified.

The Institute is requested to circulate this General Circular for the information of all concerned.

(B. B. Goyal)
Adviser (Cost)
Tel : 011-24366005

General Circular No. 11/2012

F. No. 52/1/CAB-2012
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

B-1 Wing, 2nd Floor,
Paryavaran Bhavan,
CGO Complex,
New Delhi-110003

Dated the 25th May, 2012

To,

The President,
Institute of Cost Accountants of India,
12, Sudder Street,
Kolkata - 700 016

Subject : Cost Accounting Records and Cost Audit — clarifications about coverage of certain sectors thereunder.

Sir,

In partial modification of para (b) (iii) of the General Circular No. 67/2011 dated 30th November, 2011, it has been decided to extend exemption from mandatory cost audit to all units located in the specified zones such as Special Economic Zones (SEZs), Export Processing Zones (EPZs) and Free Trade Zones (FTZs) and also to the 100% Export Oriented Units (EOUs), subject to the following :

(a) Exemption from mandatory cost audit will be available only to those units of a company that are either located in the specified Zones or qualify as 100% EOUs and not to all other units of the same company.

(b) There will be no exemption from maintenance of cost accounting records and filing of compliance report with the MCA in compliance with the applicable Cost Accounting Records Rules.

(c) In case any regulatory body seeks cost data in respect of exempted units of any industry, then all relevant units of such industry would be subject to cost audit in accordance with the provisions of applicable Rules/Orders.

(d) The DTA (domestic tariff area) sales in all such exempted units for each year shall not exceed the permissible limits as per the policy in force. In case their DTA sales for any year exceeds the permissible limits, then the exemption from cost audit available to the unit shall stand withdrawn and the unit would be subject to cost audit in accordance with the provisions of applicable Rules/Orders starting with the year in which exemption stood withdrawn and for every subsequent year thereafter.

(e) If any such exempted unit either relocates outside the specified Zones or lose 100% EOU status, then the mandatory cost audit would become applicable from the year in which such change has taken place and for every subsequent year thereafter.

The Institute is requested to circulate this General Circular for the information of all concerned.

B. B. Goyal
Adviser (Cost)
Tel : 011-24366005

F. No. 52/1/CAB-2012
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

B-1 Wing, 2nd Floor,
Paryavaran Bhavan,
CGO Complex,
New Delhi-110003

Dated the 25th May, 2012

To,

The Secretary General,
Construction Federation of India,
1103, Antriksh Bhawan,
22, K. G. Marg,
New Delhi - 110 001

Subject : Exemption from applicability of Cost Accounting Records Rules to the Construction Industry.

Sir,

Please refer your letter dated 23rd March, 2012 on the subject cited. CFI had earlier made a similar reference on 19th December, 2011 and the matter was discussed in MCA on 11th January, 2012 with the representatives of CFI and of few leading construction/development companies wherein it was observed that all such companies are already maintaining cost accounting records for their internal requirements. Cost Accounting Records Rules 2011 do not visualize companies to change their cost accounting system if already in-place; but they are required to comply with the Generally Accepted Cost Accounting Principles and Cost Accounting Standards issued by the Institute of Cost Accountants of India, to the extent these are found to be relevant and applicable and also file compliance report with the Central Government. It was also observed that existence of structured & verified cost accounting records would enable the companies to fulfill regulatory requirements; comply with the Tax Accounting Standards; and assist is their tax assessments.

Based on the discussions held, detailed clarifications were issued on 16th January 2012 and also conveyed to all their member companies for implementation.

However, the matter has been once again examined in the Ministry and it has been decided that there appear no reasons for granting any special exemption to the construction (incl. development or real estate) industry from the applicability of the Companies (Cost Accounting Records) Rules 2011. Hence the decisions already conveyed earlier vide letter dated 16th January, 2012 are being reiterated as under :

(a) All companies engaged in the construction and/or development (real estate) businesses who meet with the threshold limits laid down in Rule 3 of the Companies (Cost Accounting Records) Rules, 2011 shall be required to maintain cost accounting records and file compliance report with the Central Government in accordance with the provisions of these Rules. This includes companies undertaking construction jobs with the use of own materials [whether self manufactured/produced or procured from outside] and/or development of residential, commercial or industrial estates i.e. development of township, residential units, commercial complex, office blocks, industrial parks [including SEZ], etc. or construction of highways, rails, roads, bridges, industrial & non-industrial strcutures, or other infrastructure facilities etc or construction activities undertaken under BOT/BOOT mode, or the projects undertaken as EPC contractor or the projects undertaken abroad by a company incorporated in India.

(b) As per MCA's General Circular No. 67/2011 dated 30th November 2011, companies engaged in construction business as contractors or sub-contractors wherein they are paid only the conversion charges are exempted from the applicability of Companies (Cost Accounting Records) Rules, 2011.

(c) Companies (Cost Accounting Records) Rules, 2011 do not apply to such Joint Ventures that are non-corporate entities [i.e. not companies registered under the Companies Act] or to unlisted companies that are belowthe specified threshold limits orr to a body corporate governed by any special Act.

(d) As on date, no cost audit is applicable on the companies engaged in the construction and/or development (real estate) business. Hence, these companies are only required to maintain cost accounting records and file compliance report with the Central Government that can be signed by their employee cost accountant as defined in Rule 2(c) of the Companies (Cost Accounting Records) Rules, 2011.

Yours faithfully,

(B. B. Goyal)
Adviser (Cost)
Tel : 011-24366005

ADVANCED CERTIFICATE COURSES BY THE DIRECTORATE OF ADVANCED STUDIES

The Directorate of Advanced Studies of the Institute has recently announced the following three advanced certificate courses :

- Course on Business Valuation and Corporate Restructuring;
- Course on Treasury and Financial Risk Management; and
- Course on Enterprise Performance Management and Appraisal System

The registration to these courses is open for members of the Institute, members of any Accounting Body/Institute in India or outside and other senior executives with relevant experience. All the three courses have been designed and structured, keeping in mind the market demand for knowledge and skills in these areas. The information relating to the eligibility criteria, course fee, course duration, course contents and other pertinent details for each of these courses is available on the Institute's website.

The last date for registration to all the three courses is 25th June 2012 .

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

The Institute of Cost Accountants of India is a premier, dynamic and vibrant professional Institution actively associating itself in the industrial and economic development of the nation. The profession places itself at the service of the nation, government, industry, and the society to realise the objectives of a welfare state resulting in the prosperity and the well being of its people - a fact increasingly realised with the opening up of the country's economy and change in the economic scenario of the world. In today's world, the profession of conventional accounting and auditing has taken a back seat and accountants increasingly contribute towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for Cost and Management Accountants in India and abroad. Members of the Institute, today, play a driving force in the management of businesses by assuming pertinent positions in the corporate; they are also playing the role of key consultants, effective Cost and Management Auditors and adept advisers in various specialized fields. This is why Cost Accountants in India are also called Management Accountants all over the world.

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally"

MISSION STATEMENT

"ICWAI 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."

OBJECTIVES OF THE INSTITUTE

- To develop the Cost and Management Accountancy function as a powerful tool of management control in all spheres of economic activities.
- To promote and develop the adoption of scientific methods in cost and management accountancy
- To develop the professional body of members and equip them fully to discharge their functions and fulfill the objectives of the Institute in the context of the developing economy
- To keep abreast of the latest developments in the cost and management accounting principles and practices, to incorporate such changes are essential for sustained vitality of the industry and other economic activities
- To exercise supervision for the entrants to the profession and to ensure strict adherence to the best ethical standards by the profession
- To organise seminars and conferences on subjects of professional interest in different parts of the country for cross-fertilisation of ideas for professional growth
- To carry out research and publication activities covering various economic spheres and the publishing of books and booklets for spreading information of professional interest to members in industrial, education and commercial units in India and abroad.

ABOUT THE DIRECTORATE OF ADVANCED STUDIES

The Directorate of Advanced Studies has been constituted by the Institute in order to provide advanced knowledge and specialized training on various topics on cost and management accountancy, including finance and other allied areas.

Objectives:

- Capacity Building by designing and initiating specific Certificate/ Post-Qualification courses in the areas falling under the domain of cost and management accountancy, finance and other allied areas.
- Entering into MoUs and Agreements with Institutes of national and international importance for fostering joint educational programmes and collaborative research in the upcoming pertinent areas
- Entering into dialogue with various government agencies and government institutions for collaborative research and issue based training assignments
- Organizing an annual international conference with focus on advance practices and development in the area of cost and management accountancy, finance and other allied areas.
- Publishing the proceedings of the conference as a compendium of the papers presented in the International Conference.

THE BOARD OF ADVANCED STUDIES

The Council of the Institute has created 'Board of Advanced Studies' to act as the guide-post in the technical matters pertaining to the Directorate of Advanced Studies. The constitution of the Board involves representation from people at top echelons in academics, industry, bureaucracy and consultancy business. The primary function of the Board will be to oversee the functioning of the Directorate. It will approve new courses and shall periodically review feedback on courses that will be offered by the Directorate and course materials prepared by the Directorate.

The composition of the 'Board of Advanced Studies' is as under:

Prof. Asish Bhattacharyya
Advisor (Advanced Studies) — Chairman

Prof. Sanjay Kallapur
Indian School of Business — Member

Prof. Sanjay Dhamija
International Management Institute — Member

Prof. Sunder Ram Korivi
National Institute of Securities Markets — Member

Dr. V. Shunmugam
Chief Economist and Senior Vice President
Multi Commodity Stock Exchange Limited — Member

Dr. D. Jagannathan
Practicing Cost Accountant — Member

CMA. S.A. Muraliprasad
Director, Sam Consultancy Services Pvt. Ltd. — Member

CMA. A.N. Raman
Past Central Council Member & Past President, SAFA — Member

CMA. B.B. Goyal
Advisor (Cost), Ministry of Corporate Affairs — Member

Permanent Invitees:

CMA. M. Gopalakrishnan — President

CMA. Rakesh Singh — Vice-President

CMA. A.S. Durga Prasad — Central Council Member

ADVANCED CERTIFICATE COURSES BY THE DIRECTORATE OF ADVANCED STUDIES

The Directorate of Advanced Studies has launched the following three advanced certificate courses:

- Course on Business Valuation and Corporate Restructuring
- Course on Treasury and Financial Risk Management
- Course on Enterprise Performance Management and Appraisal System

The information relating to the eligibility criteria, course fee, course duration, course contents and other pertinent details for each of these courses may be referred to in the detailed course structure.

The last date for registration for all the three courses is 25th June 2012.

Provision for pouch

REGISTRATION PROCEDURE

- The eligibility criteria for Registration to the three advanced certificate courses is explicitly mentioned in their respective Course Plans. The candidates are advised to go through the eligibility criteria and pre-requisites before applying to the course

- The Brochure for the advanced certificate courses will be available at Regional Council Offices, Hyderabad Center of Excellence and New Delhi office of the Institute. The Brochures are also available on the Institute's website www.icwai.org

- There is a common Registration Form to apply for Registration to the advanced certificate courses. The candidate may indicate the name of the course applied for in the appropriate column in the Registration Form.

- Details of Course Duration and Course Fee applicable for the three advanced certificate courses are as follows:

Course Name	Course Duration	Applicable fee for Members (in Rs.)	Applicable fee for Non-Members (in Rs.)
Businesses Valuation & Corporate Restructuring	6 months	30,000/-	40,000/-
Treasury & Financial Risk Management	6 months	30,000/-	40,000/-
Enterprise Performance Management & Appraisal System	3 months	15,000/-	20,000/-

- The Course Fee can be paid through Demand Draft or through NEFT / RTGS. The Demand Draft should be made in favor of 'The Institute of Cost Accountants of India' payable at New Delhi.

  Details of ECS Payment: State Bank of India (60321), Andhra Association Building, 24-25 Institutional Area, Lodhi Road, New Delhi - 110003.

  Current A/c No. 30678404793 MICR Code: 110002493 IFSC Code: SBIN0060321

- In the Registration Form, the candidates can either place their scanned passport size photograph in the indicated area; or, can affix their passport size photograph on the electronically generated hard-copy of the Registration form. In both the cases, the candidates have to self attest their photographs.

- The candidates have to submit hard-copy of the duly filled in Registration form (In case of online registration, the hard copy of the electronically generated filled-in Registration form) to: CMA. M.P.S. Arun Kumar, Assistant Director (Advanced Studies), Hyderabad Center of Excellence, The Institute of Cost Accountants of India, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad - 500032.

- The completed Registration Forms alongwith the self attested copies of the certificates and testimonials of qualifications mentioned in the Registration Form, should reach the Directorate latest by 25th June 2012. Members of the Institute should enclose a self attested copy of the Institute I-Card and Membership Certificate.

DIRECTORATE OF ADVANCED STUDIES

Head Quarter
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
12, Sudder Street, Kolkata - 700 016.
Phone: 033-2252 1031-34/35,
22521602 22521492
Fax: 91 33 2252 7993 / 91 33 2252 1026
Website: www.icwai.org

Delhi Office
3, Institutional Area,
Lodhi Road,
New Delhi - 110 003.
Phones: 011-24622156, 24618645
Fax: 011-43583642

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Nanakramguda Village,
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Gachibowli, Ranga Reddy District,
Hyderabad-500 032.
Phone: 040-23002555, 23002557

website: www.icwai.org

MEMBERS OF THE 'BOARD OF ADVANCED STUDIES'

Prof. Asish K. Bhattacharyya, Chairman

Prof. Asish K Bhattacharyya has long experience in the area of Accounting. He has worked in industry for twenty years and then in academia for nineteen years. He was a Professor of Finance & Control in IIM Calcutta before getting associated with the Institute as Advisor (Advanced Studies). He is a Fellow Member of the Institute. He obtained his doctoral degree from Allahabad University.

Prof. Sanjay Kallapur, Member

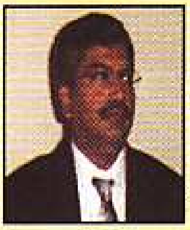
Dr. Sanjay Kallapur is a professor of accounting at the Indian School of Business (ISB). He is also the Senior Associate Dean for Faculty & Research at the School. Prior to joining the ISB, he was a tenured associate professor at the Krannert School of Management, Purdue University. He has previously taught Financial and Managerial A ccounting at the bachelors', masters' and PhD levels at leading universities in USA, Hong Kong, and Singapore. He is currently an Editor of The Accounting Review, one of the three top accounting journals worldwide.

Prof. Sanjay Dhamija, Member

Professor Dhamija is currently Professor and Chairperson of Finance and Accounting Area at International Management Institute. He is Fellow member of the Institute and as Associate Member of the ICSI. He has about 17 years of experience in industry and 10 years in academics. He has handled a number of training and consulting assignments with organizations in government, public sector and private sector.

Prof. Sunder Ram Korivi, Member

Prof. Sunder Ram Korivi is an M.A. (Economics & Political Science) and a PhD from the University of Mumbai. He is a Fellow Member of the Institute of Chartered Accountants of India and an Associate Member of Institute of Cost Accountants of India. He has 15 years experience in academics and is currently Dean-School for Securities Education at the National Institute of Securities Markets (NISM, Navi Mumbai). His area of interest is Fixed Income Securities and he has two recent international publications to his credit.

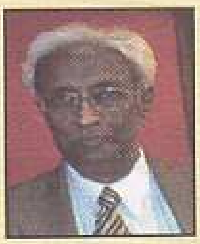


Dr. V. Shunmugam, Member

After competing his doctoral program, Dr Shunmugam had been with the USDA for 9 years. Thereafter, he joined MCX as Chief Economist to head their research and publication function where he was until August 2011. Since then, Dr Shunmugam joined the MCX Stock Exchange in the same position to head the research function of the exchange.

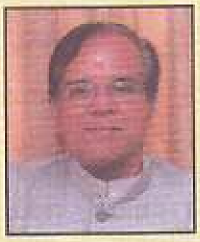
Dr. D. Jagannathan, Member

Dr. D. Jagannathan, currently a practising Cost Accountant, had been in academics for over 30 years



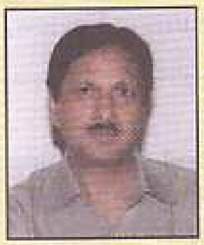
CMA. S. A. Muraliprasad, Member

A Chartered and Cost Accountant, Shri Muraliprasad is the Founder Director of a consulting company catering to large and medium corporates on Finance and Information systems. He is a director on the Boards of reputed companies. He is a Speaker on IFRS, Valuation of business and corporate Governance at national level.



CMA. A.N. Raman, Member

CMA. A.N. Raman is past Central Council Member of the Institute of Cost Accountants of India. He has also been the President of South Asian Federation of Accountants (SAFA) in the year 2011.



CMA. B.B. Goyal, Member

CMA B.B.Goyal, presently working as Cost Adviser in the Ministry of Corporate Affairs, is a Fellow Member of the Institute of Cost Accountants of India and has done Masters in Economics with distinction. He has obtained specialized training from Strathclyde University, UK; International Law Institute, USA and National Law School of India, Bangalore. CMA. Goyal has 35 years of professional experience with 28 years in Government and 7 years in the Corporate Sector.

Permanent Invitees :

CMA. M. Gopalakrishnan, President

CMA. Rakesh Singh, Vice President

CMA. Durga Prasad, Central Council Member
Chairman, Cost & Management Accounting Committee

ABOUT THE ADVANCED CERTIFICATE COURSES BY THE DIRECTORATE

The Directorate of Advanced Studies will design, develop and deliver advanced courses in the areas of Management Accounting at the proficiency level (Level-III).

CIMA has defined Management accounting as "the practical science of value creation within organizations in both the private and public sectors". It combines accounting, finance and management with the leading edge techniques needed to achieve high level of performance of enterprises. Management accounting cuts across all the functional areas and also covers top management functions. Therefore, the Directorate shall design, develop and deliver advanced courses in all the areas that are of interest to Management Accountants.

Advanced courses will be designed for up-gradation of existing knowledge and skills and for acquiring new knowledge and skills. The courses shall aim to prepare practicing members to take up new areas of practice and for members in industry to shoulder higher responsibilities.

In particular:

- The scope and level of the advanced studies courses will be distinctively much beyond the scope and level of the courses being offered under Continuing Education Programmes of the Institute. Therefore, no CPE credit will be awarded to those who will participate in the courses to be offered by the Directorate of Advanced Studies.
- The Directorate shall offer advanced studies courses in areas of interest to the Management Accountant and shall offer courses at the Proficiency level (Level-III) only. No courses shall be offered at the Appreciation level (Level-I) or Understanding level (Level-II).
- The Directorate shall focus on application oriented courses and application oriented research, which will benefit the profession of management accountancy.
- The Directorate shall identify the areas for theoretical researches which can be taken up further through Management Accountancy Research Foundation (MARF).
- The Directorate will offer certificate courses. The certification shall be based at the minimum, on a written test and a Viva-voce on the project.
- The Directorate of Advanced Studies shall build capabilities in areas other than the conventional areas in which the members of the Institute operate, to provide support to the Council, whenever required.

DIRECTORATE OF ADVANCED STUDIES

website: www.icwai.org

Plot No. 35, Financial District,
Nanakramguda Village, Serilingampally Mandal,
Gachibowli, Ranga Reddy District,
Hyderabad-500 032.
Phone: 040-23002555, 23002557

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

ADVANCED STUDIES DIRECTORATE

CERTIFICATE COURSE ON BUSINESS VALUATION AND CORPORATE RESTRUCTURING

Course Objective:
Business Valuation, today, has emerged as a specialized discipline in the field of corporate finance. Most pertinently, this is because of:
- the extensive use of valuation in corporate financial reporting and business combinations,
- appropriate security valuation to improve market efficiency,
- the increasing use of complex business models and reporting structures being used by the companies, and also
- the extensive use of fair valuation in IFRS and IND AS

Therefore, the Institute has decided to deliver a specialized course package having a practical and holistic approach towards business valuation and corporate restructuring.

The 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. The course is an advanced knowledge module that presupposes understanding of management accounting and corporate finance. The participants will get extensive exposure through project work on Business Valuation and Corporate Restructuring and by analyzing case studies.

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 with relevant experience in Management, Accounting and Finance functions

The Board reserves the right to reject any nomination/application without assigning any reason.

Prerequisites:
Fundamental knowledge in corporate finance and management accounting

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 areas of business valuation and corporate restructuring
2. Develop capabilities to offer advisory/consultancy services in the area of business 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 120 hours in classroom learning. In addition, a participant will have to invest around 50 hours in completing a real life project.

Course Fee:

For members of the Institute of Cost accountants of India, the course fee is Rs. 30,000/- (Rupees Thirty Thousand only)
For non-members, the course fee is Rs. 40,000/- (Rupees Forty Thousand only)

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, Delhi, Hyderabad, Kolkata and Mumbai and other Centers across India depending on adequacy of number of applicants

Certification:

The participants will be evaluated continuously and issued a certificate of successful course completion which will mention the participant's CGPA. Appropriate grades shall be assigned to them based upon their performance in each component in the evaluation process.

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.

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

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 5th month of course followed by a viva-voce

The work on the project should commence from the 2nd 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 project or case submitted should be an original piece of work with extensive research and hard work put into it. 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

(100 marks)

1. **Valuation Fundamentals & Contexts**
   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**
   Restructuring and analysis to cull out economic information from accounting information provided in financial statements

3. **DCF Methods of Valuation**
   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

4. **Non-DCF Valuation**
   Asset approach, real option/contingent claim approach, relative valuation; Direct and indirect tax issues in business valuation and corporate restructuring, double taxation avoidance agreement, tax information exchange agreement in the context of cross border acquisitions, implications of stamp duty

5. **Techniques to manage Risk in Business Valuation**
   Sensitivity analysis, Scenario analysis, Simulation, Regression analysis

6. **Criteria for selecting the appropriate Valuation Method**
   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

(50 marks)

1. **Fundamentals of Corporate Restructuring**
   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**
   Strategies; Intensive Growth, Diversification Growth, Spin-offs, split-offs
   Motives and Synergies: Monopoly theory, Valuation theory

3. **Take Over and Defense Mechanisms**
   Friendly takeovers, Hostile takeovers; Leveraged Buyouts, Poison Pill, Note of Clause, Buy back of shares and other defense mechanisms.

4. **Due Diligence**
   Financial due diligence, Taxation due diligence, Legal due diligence, Cultural due diligence and Information technology (IT) due diligence

5. **Legal, Taxation and Other Regulatory Issues in Corporate Restructuring**
   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
   Companies Act, 1956: Mergers and Demergers, Reduction of Capital
   SEBI (Substantial Acquisition of shares and takeovers) regulations, 1997: Takeover Panel, Escrow Account

Paper III: Application of Valuation Principles

(50 marks)

1. Fair Value in Financial Reporting
2. Valuation of closely held companies (SMEs)
3. Valuation of stressed companies
4. Valuation of IPOs
5. Valuation of Intangibles
   - IPR
   - Brand Valuation
   - Goodwill

5. **Other Valuations**

Asset Valuation, Share Valuation, Valuation of Derivatives, Valuation of securitized instruments including mortgage based securities, liabilities valuation, ESOP/option valuation, valuation of financial instruments including bank and insurance companies

Paper IV: Business Valuation Standards and Preparation of Business Valuation Reports

(50 marks)

1. Ethics in Valuation
2. International Standards and local norms for Business Valuation.
3. Local and International standards on Valuation
4. Data collection for Business Valuation
5. Writing a Business Valuation Report
6. Engagement procedure for valuation assignment, term of reference and deliverable

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 Friday evenings (6:45 - 8:45pm) and Saturdays (9am-1pm)**

DIRECTORATE OF ADVANCED STUDIES

website: www.icwai.org

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

ADVANCED STUDIES DIRECTORATE

CERTIFICATE COURSE ON TREASURY AND FINANCIAL RISK MANAGEMENT

Course Objective:
Treasury management has become an essential skill set for finance managers in non-finance companies these days. This is because of increasing number of options for short term fund management available, and, significant amount of cash flows, to and from the companies. With the increased volatility in money markets, the associated financial risks have also increased considerably. Therefore, with the availability of hedging opportunities in financial markets, a treasury manager should necessarily have capabilities to manage financial risk.

As such, Treasury and Financial Risk Management function is discretely emerging to be a specialized discipline of finance operations in organizations. This trend can comprehensively be attributed to:
(a) the increase in volatility and uncertainty in financial markets
(b) the enhancing complexity of business environment
(c) the tightening legal and regulatory controls on treasury and financial risk management functions, and
(d) the importance of the function of the finance department of non-financial firms in managing cash flows, ensuring liquidity and generating profits

This course is an advanced knowledge module to build capabilities of finance personnel to assume the role of a Proficient Treasury Managers. The participants to this course will get extensive practical exposure through the practical and online training sessions by the Multi-Commodity Stock Exchange (MCX-SX) during the concluding phase of the course.

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 with relevant experience in Treasury and Financial Risk Management functions

The Board reserves the right to reject any nomination/application without assigning any reason.

Prerequisites:
This course presupposes basic understanding of financial markets, various financial instruments, international finance and basics of international financial management

Pedagogy:
Participative class room lectures and sessions, analysis and discussions on case studies, practical and online training sessions by the Multi-Commodity Stock Exchange (MCX-SX), completion of a detailed project report will be used as pedagogy for delivering the course

Faculty:
Faculty will be drawn from academicians associated with top business schools and senior market practitioners in treasury and financial risk management operations. However, a majority of the faculty will also be shared from the Multi-Commodity Stock Exchange (MCX-SX)

Learning Outcomes:
On successful completion of the course, participants will be able to manage treasury and financial risk management function efficiently and optimally after evaluating all associated risk- return trade offs. In particular, participants shall:

1. Acquire expert knowledge on treasury, treasury operations and treasury management
2. Develop capabilities in identifying and quantifying financial risks and formulating cost-effective risk management strategies
3. Develop capabilities for advising corporates in Treasury and Financial Risk Management'

By the end of this course, the participants should have answers to the following questions:

- What are money markets and capital markets
- What are the various types of financial instruments in the financial markets
- What should be the ideal capital structure of a firm at different stages of growth
- What are the techniques to design an optimal capital structure of a firm
- What are derivatives and how are they traded
- What are Forwards, Options, Futures and Swaps
- How are Derivatives valued
- What is hedging
- What are commodity derivatives markets
- How to account for derivatives including hedge accounting
- How financial and commodity markets operate in India and abroad
- What are treasury management systems and techniques
- What are different types of risk in treasury management
- What are the different risk management strategies for effective treasury management
- What are the regulatory and legal environment for treasury and financial risk management

Course Duration :
Course will be of 6 months duration and will involve investment of 120 hours in classroom learning. In addition, a participant will have to invest around 50 hours in completing a real life project.

Study materials
The enrolled candidates will be provided the detailed syllabus, reference books and study materials. There would also be a section of suggested readings that the candidates can further refer to from the website.

Course Fee:
For members of the Institute of Cost Accountants of India, the course fee is Rs. 30,000/- (Rupees Thirty Thousand only)

For non-members, the course fee is Rs. 40,000/- (Rupees Forty Thousand only)

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.

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

Centers:
The course will be offered at New Delhi and Mumbai.

Certification:
The participants will be evaluated continuously and will be issued a certificate (jointly from the Institute of Cost Accountants of India and MCX-SX) of successful course completion which will mention the participant's CGPA. Appropriate grades shall be assigned to them based upon their performance in each component in the evaluation process.

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 followed by a viva-voce

The detailed guidelines and framework for preparing the project will be issued to the students upon registration. The project submitted should be an original piece of work with extensive research and hard work put into it. 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: TREASURY AND FINANCIAL RISK MANAGEMENT (50 marks)

Part A: Treasury Management

1. What is Treasury, Role of Treasury, What are Treasury Functions, Role of a Treasury Manager
2. What is Money Market and Money Market instruments
3. What is Capital market and Capital Market instruments
4. Foreign Exchange and Foreign Exchange Market
5. Cross-border Financing
6. Risks in investing in Mutual Funds

Part B: Financial Risk Management

1. What is Risk, Types and sources of Risk
2. Risk Measurement Tools and Techniques
3. Value at Risk (VaR)
4. Risk Management Framework

PAPER II: CORPORATE FUNDING AND CORPORATE FINANCE (50 marks)

1. **Capital Structure**
   Concepts, Debt and Equity, Dividend Policy
   Working Capital Financing
   Liquidity and Cash-flow Management (core tools for cash management such as cash and liquidity forecasting)
   Investment Appraisals

2. **Risk, Return and Cost of Capital**
   Return and Risk: The Capital Asset Pricing Model (CAPM), Risk, Return and Capital Budgeting

3. **Fixed Income Securities**
   Types of securities, the concept of duration, interest rate theory and valuation, construction of yield curve and Bond market in India

PAPER III: DERIVATIVES AND VALUATION OF DERIVATIVES

(100 marks)

1. Introduction to derivatives and derivative markets
2. Products and Risk Management Practices in Derivative Markets
3. Concepts in Financial Derivatives
4. Forwards, Futures, Options and Swaps
5. Valuation of Derivatives
6. Black-Scholes and Beyond In Options
7. Hedging and Hedge Accounting
8. Evaluation of ESOPs

PAPER IV: LEGAL AND REGULATORY FRAMEWORK

(50 marks)

1. Ethics and Compliance in Treasury and Financial Risk Management
2. FEMA, Anti Money Laundering
3. RBI guidelines on Derivatives
4. Accounting norms and tax treatment of financial derivative profits/losses
5. Standard International Agreements
6. Remittances and Documentary Credit
7. IFRS and Treasury Management

PAPER V: CASE STUDIES/ PROJECT WORK

(100 marks)

Case studies shall be picked up from real time market incidents such as European sovereign debt crisis, Elections-2012 and their impact on financial markets eg. French Election etc. Senior market practitioners would be able to appropriately guide them in such case studies.

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 friday evenings (6:45-8:45 pm) and Saturdays (9am -1pm)**

DIRECTORATE OF ADVANCED STUDIES

website: www.icwai.org

Plot No. 35, Financial District,
Nanakramguda Village, Serilingampally Mandal,
Gachibowli, Ranga Reddy District,
Hyderabad-500 032.
Phone: 040-23002555, 23002557

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

ADVANCED STUDIES DIRECTORATE

CERTIFICATE COURSE ON
ENTERPRISE PERFORMANCE MANAGEMENT AND APPRAISAL SYSTEMS

Course Objective:

Performance management and appraisal assumes a very important role in the complex and competitive business environment. Managers at different levels constantly monitor implementation of corporate and functional strategies and operational performance. Therefore, it is important for managers to develop a clear understanding of tools being used for performance management and appraisal.

The course aims to develop proficiency in Enterprise Performance Management & Appraisal System and IT tools by undergoing a learning process with appropriate conceptual and practical blend. The course is an advanced knowledge module that presupposes understanding of management accounting concepts and techniques. The participants will get extensive exposure to the application of tools and metrics through practical case studies and project work.

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 with relevant experience in Management Accounting

The Board reserves the right to reject any nomination/application without assigning any reason.

Prerequisites:

Fundamental knowledge in management accounting, corporate reporting and IT (e.g., working on spreadsheets and SQL)

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 business schools and practitioners engaged in the Performance Management and Appraisal in the corporate sector.

Learning Outcomes:

On successful completion of the course, participants will understand the frameworks and the techniques of used for performance management and able to apply them in real life situations. In particular, participants shall:

1. Develop proficiency in driving a practical view of the performance management, advise improvements and provide means to recognize the next levels of initiatives for improving performance,
2. Develop capabilities to offer advisory/consultancy services in the areas of performance management and appraisal systems.

By the end of this course, the participants should have answers to the following questions:

- What is the scope of Enterprise Performance Management and Appraisal System
- Who is responsible for evaluating enterprise performance
- What are the strengths and deficiencies of metrics being used by companies in measuring enterprise performance in a complex business environment

- What are the non financial metrics being used by different industries to measure enterprise performance
- What is the lean management accounting system
- How to make budgetary control system more relevant and contextual
- How an effective management control system depends on the organization structure
- What are the types of risks for business organizations, particularly those which operate across borders
- How risks flow from the strategy
- How Board of Directors determine and communicate risk appetite
- What are the concepts of strategy map, balanced scorecard and dash board
- How a balanced scorecard is designed to support strategy implementation
- How to establish targets against KPIs at different levels, which are derived from KSFs
- How to use IT infrastructure and information management systems around the Enterprise Performance Management and Appraisal System
- What are the impediments in implementing an Enterprise Performance Management and Appraisal System
- How to write an Appraisal Report

Course Duration:
Course will be of 3 months duration and will involve investment of 70 hours in classroom learning. In addition, a participant will have to invest around 30 hours in completing a real life project.

Course Fee:
For members of the Institute of Cost Accountants of India, the course fee is Rs. 15,000/- (Rupees Fifteen Thousand only)
For non-members, the course fee is Rs. 20,000/- (Rupees Twenty Thousand only)

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, Delhi, Hyderabad, Kolkata and Mumbai and other Centers across India depending on adequacy of the number of applicants

Certification:
The participants will be evaluated continuously and will be issued a certificate of successful course completion which will mention the participant's CGPA. Appropriate grades shall be assigned to them based upon their performance in each component in the evaluation process.

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 followed by a viva-voce

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

The work on the project should be carried out in parallel to the class room teaching.
The detailed guidelines and framework for writing the case study and preparing the project will be issued to the students in due course. The project or case submitted should be an original piece of work with extensive research and hard work put into it. 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: CONCEPTUAL FRAMEWORK OF PERFORMANCE MANAGEMENT & APPRAISAL SYSTEM

(50 Marks)

Understanding the components of Performance Management Framework and related Metrics:

Strategic Management- Strategic assessment, Business environment analysis, competitive intelligence, communication of strategy, result analysis

Operational Management- operational planning, resource allocation, setting targets, monitor measures.

Financial Management- budgeting, financial performance analysis.

Risk Management- risk mapping and key risk indicators

Process Management - process identification, measurement/analytics, continuous improvement

Information Management- Identification of KPIs, modeling and data acquisition

Customer Relationship Management- customer profitability analysis, customer intelligence etc.

PAPER II: PERFORMANCE MANAGEMENT TECHNIQUES

(50 Marks)

Understanding of the techniques and their importance in Enterprise Performance Management:

Benchmarking- comparative analysis of business practices and resulting outcomes

Balance Score Card- setting up objectives and measurement through metrics

Value Chain- understanding of all chain of activities and the value gained at each activity

Target Costing- profit planning and cost management

Activity Based Management.- understand cost to improve customers value .

Lean Management; Process Mapping

Whole life costing and Lifecycle costing

Paper III: Importance of IT tools in Performance Management

(50 Marks)

Information leads to more efficient monitoring of the business performance drivers and hence Information management is the key for Performance management and Appraisal.

Understanding of:

Data Availability (Capturing relevant data which is interpretable)

Data Quality (How technology and IT applications are efficient in ensuring data quality)

Software tools (Spread sheets to BI applications)

Different resources of technology: Data Warehouse, Business Intelligence Systems, Scorecards and Dashboards, Decision Support Systems, Management Information Systems ,OLAP - Online Analytical Processing tools

PAPER IV: PERFORMANCE APPRAISAL REPORT

(50 Marks)

Deep understanding of the key components of Performance Appraisal Report:

Capacity Utilization Analysis
Productivity/Efficiency Analysis
Utilities/Energy Efficiency Analysis
Key Costs & Contribution Analysis
Product/Service Profitability Analysis
Market/Customer Profitability Analysis
Working Capital & Inventory Management Analysis
Manpower Analysis
Impact of IFRS on the Cost structure, cash flows and profitability.
Application of Management Accounting tools
Inventory Analysis
Input price volatility
Price Sensitivity Analysis
Environment, sustainability and CSR analysis
Risk Mapping Analysis.

PROJECT (CASE STUDY ON PERFORMANCE APPRAISAL REPORT)

(100 Marks)

(a) Paper I will be taught over 10 hours of classroom teaching since it involves a recap of the course on 'Performance Management Systems' of the final stage of the CMA course. This will be followed by an exam of 50 marks.

(b) Paper II, III and IV will be taught over 20 hours of classroom teaching each.

(c) For the completion of the course, the participants will have to submit three assignments:

* On EPMAS based on Cost Accounting Report Rules and Cost Audit Record Rules, 2011
* Risk Management
* Balanced Scorecard

(d) The evaluation for Paper III will be based on Practical Examination

(e) The participants will have to bring their own Wi-Fi enabled laptops to the classrooms

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 friday evenings (6:45-8:45pm) and saturdays (9am-1pm)

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Financial Accounting Vol. 1

By S. K. Paul & Chandrani Paul
Publisher :
New Central Book Agency (P) Ltd.
8/1, Chintamoni Das Lane,
Kolkata-700 009
Sixth Edition : July 2011,
Price : Rs. 385.00

In the era of liberalization, privatization and globalization where the business is too much competitive financial accounting has assumed critical importance because accounting is the language of business and financial accounting is intended to provide meaningful information to the stakeholders which are vital in making business decisions. To know the business language of each and every country attempts have been taken to introduce universally accepted accounting standards—IAS and IFRS issued by the International Accounting Standard Board. Most of the countries are trying to adopt those IFRSs or converge their internal Accounting Standards with the IFRSs. Indian Accounting Standards (Ind As) are issued by the Institute of Chartered Accountants of India. As a result, the dimension of financial accounting has been changing day by day to cope with the changes in the business and economic activities throughout the world.

The book under review has incorporated thoroughly the rules, regulations, laws and by-laws of Companies Act, SEBI Guidelines and Accounting Standards framed by the ICAI. The book has made an attempt in the right direction to make the students well versed of modern world of financial accounting. Though the book is primarily meant for B. Com. Part I students yet the students of ICWA and other professional examinations will find this book very much effective because current question papers with solutions of those examinations have also been incorporated.

The book has been divided into 28 chapters starting from fundamentals of accounting, theory and practical base of accounting, and covering subsidiary books, capital and revenue transactions, Cash Book, Bank Reconciliation Statement, Journal Paper, rectification of errors, inventory valuation, negotiable instruments, Consignment, Joint Ventures, Final Accounts of Trading and Non-Trading concerns Insurance Claims, Accounts of Professional Men, Accounts from Incomplete Records etc. and ended with the chapter Partnership Accounts.

Problems of this book have been solved as per latest SEBI Guidelines and Accounting Standards. For the benefit of the students 547 illustrations have been solved with detailed working notes and 201 unsolved problems have been set with answer for practice. Multiple Choice, short answer type and essay type questions provided at the end of each chapter to make the students ready for their examinations. For better understanding of students, at the end of each and every chapter hints would have been given as "guide to answers".

The authors have to be commended for their perseverance with simplicity of language and clarity of presentation. The book has got a good get up and is reasonably priced.

Dr. Sukamal Datta
M.Com, Ph.D

Information technology for Management

By Ramesh Behl
Published by : Tata McGraw-Hill
Education on Private Limited,
New-Delhi
2nd Print 2011
Price : 275.00

Information Technology (IT) is the branch of engineering that deals with the use of computers and telecommunications to store, retrieve and transmit information. The acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications are its main fields. Today IT has become one of the essential tools of management.

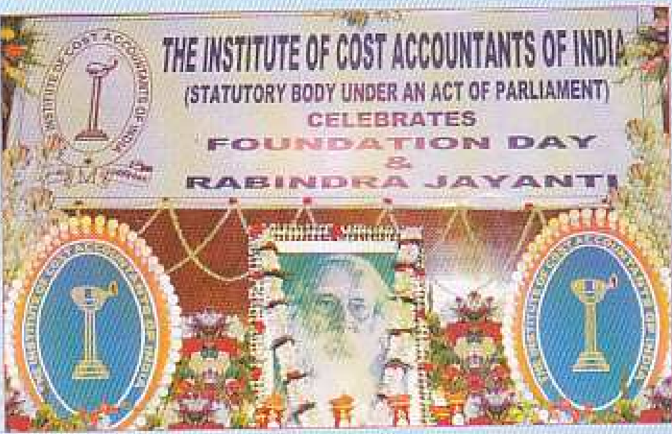
The book is designed for introductory courses on information technology for students of different universities and professional courses. The book has been written to create an understanding of how IT and technology networks work, how they are used for management functions, what they can and cannot do and how the manager or user should use this to gain competitive advantage. The book also covers the application of technology in management and the opportunities it can provide for more effective performance, as well as covers the emerging technologies and addresses the concerns about data integrity, security, and privacy.

The book is divided into six sections and twelve chapters. The first section —"Business Organization and Role of Information Technology" provides an overview of IT. The second—"Technology Infrastructure" covers the technological topics from inception to latest trends. The next section—"Information Technology for Decision Making" is about business application. The fourth one—"Inter and Intra-organizational Systems" focuses on the role of Internet based business models and also enterprise wide information system. The "Building Intelligent Systems for Businesses" section focuses on decision theories and IT based decision models. The last section—"Planning, Implementation and Managing Information Systems" covers the concept of information system planning and development.

The book is expected to serve as a good text book as each chapter starts with a set of questions thereby laying a scenario ahead followed by lucid explanation of the concepts. And there is wealth of staff at the end of each chapter. Management summary, keywords, review questions, questions for discussions, exercises, group projects and case lets are also expected to provide scope for brain storming after the text has been read.

Subir Chakrabarty
B.E. (Mech), FCMA

Glimpses of Foundation Day Celebration, Kolkata, HQ



Glimpses of Foundation Day Celebration, Kolkata, HQ

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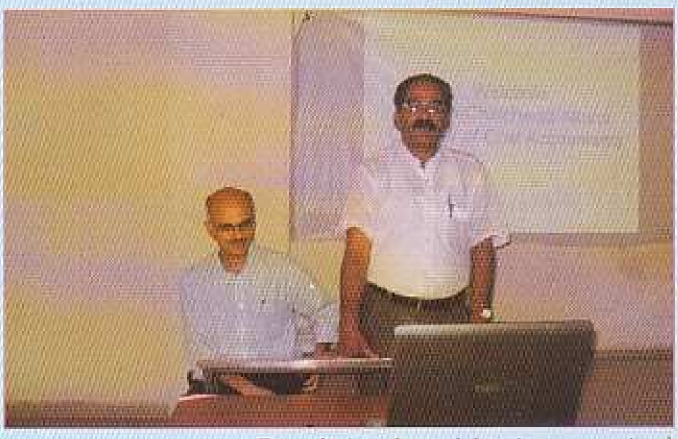
Glimpses of Foundation Day Celebration



Foundation day celebrations organized by Pimpri-Chinchwad-Akurdi Chapter

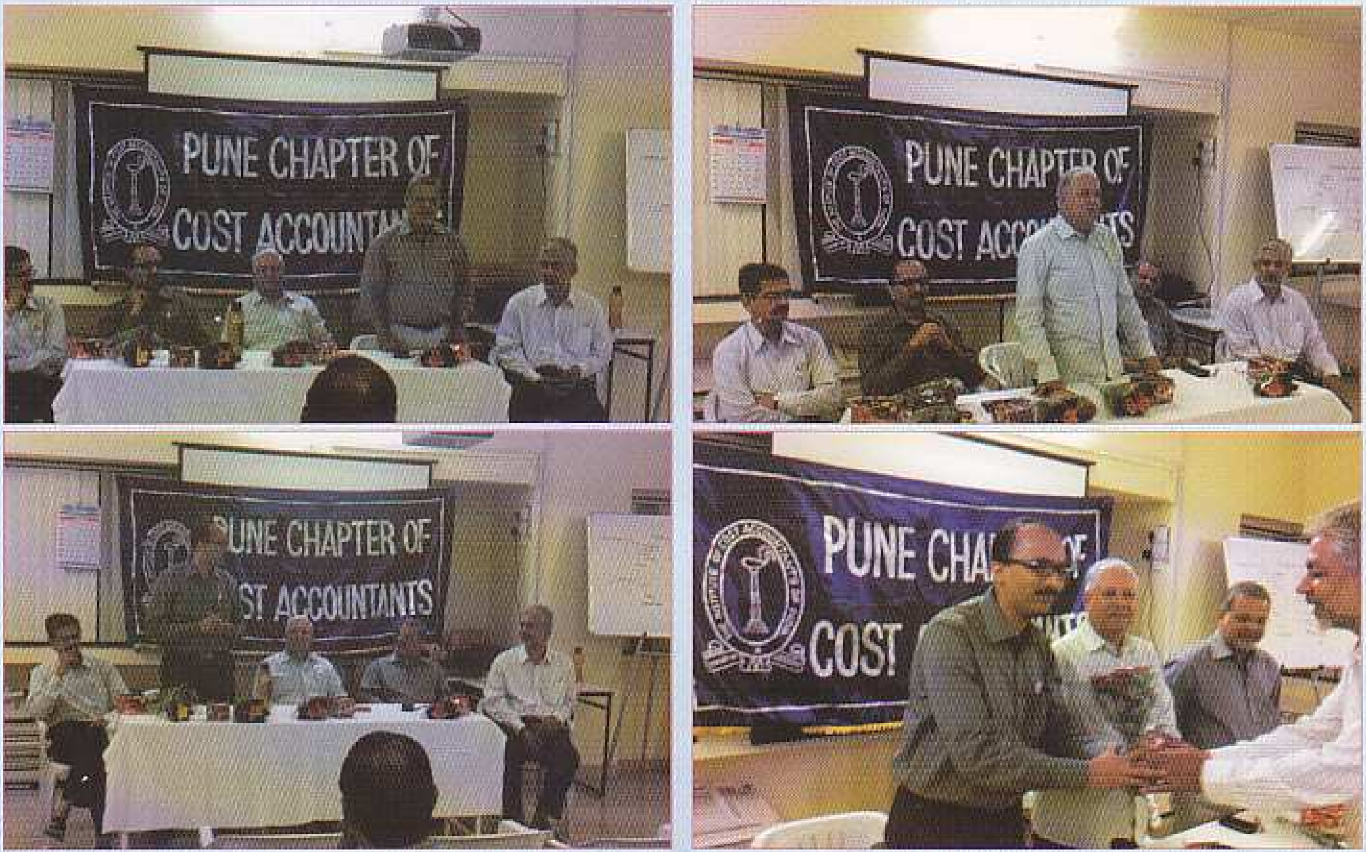
Foundation Day celebrations organized by **Hyderabad Chapter of Cost Accountants**

Glimpses of Foundation Day Celebration

Foundation Day celebrations organized by **Visakhapatnam Chapter of Cost Accountants**

Foundation Day celebrations organized by **Allahabad Chapter of Cost Accountants**

Glimpses of Foundation Day Celebration



Foundation Day Celebrations organized by Pune Chapter

Foundation Day celebrations organized by Kota Chapter

Glimpses of Foundation Day Celebration

Foundation Day celebrations organized by SIRC

Foundation Day celebrations organized by WIRC

Foundation Day celebrations at South OdishaChapter

Shri Rakesh Singh Vice President of the Institute, (standing 3rd from right) and the SAFA delegates with the Hon'ble President of People's Republic of Bangladesh.

A joint seminar on 'Sustainable Industrial Growth through Strategic Cost Management' organized by CII & our Institute jointly at Haldia on 11.04.12. Seen are Shri M. Gopalakrishnan, President, Shri Rakesh Singh, Vice President of the Institute & Dr. Sanjiban Bandyopadhyaya, Council Member.

Dr. P.V.S. Jagan Mohan Rao, Council Member with the members, students and staff members of HCCA & Hyderabad Chapter of ICSI on the occasion of 42nd World Earth Day celebrations on 22.04.12.

Shri A.S. Nageswar Rao, Chairman, Hyderabad Chapter and Dr. P.V.S. Jagan Mohan Rao, Council Member presenting a sapling to Shri S. Bhattacharya, I.A.S., Principal secretary to Govt. of A.P. Infrastructure & Investments on the occasion of 42nd World Earth Day on 22.04.12.

Shri V.K. Garg, Jt. Secretary, TRU, CBEC, MoF addressing the audience at a workshop on Indirect Taxation held at New Delhi on 24.05.12. Also seen Shri Manas Kr. Thakur, Council Member and other officials.

Workshop on Indirect Taxation in progress at New Delhi on 24.05.12. Seen are Shri V.K. Garg, Jt. Secretary, TRU, CBEC, MoF, Shri Manas Kr. Thakur, Council Member and other officials.

REGISTERED KOL RMS/139/2010-2012
Publication Date : 10th June 2012 R.N.I. 12032/66

Shri B.R. Prabhakar, Chairman, SIRC lighting the sacred lamp at a seminar on "Recent Developments in CAR & CARR" organized by Visakhapatnam and Ukkunagaram Chapter of Cost Accountants at VSP auditorium, Visakhapatnam.

Inauguration of the seminar on "Recent Changes in CAR & Service Tax" organized by Surat-South Gujarat Chapter of Cost Accountants. Seen Shri Rakesh Singh, Vice President of the Institute, Dr. Heena Oza, Chairperson of the Chapter, with Shri Vijay. P. Joshi, Chairman, WIRC.

Shri T.C.A. Srinivasa Prasad, Council Member addressing the gathering at a seminar on "Cost Accounting Technique in Analysis of Balance Sheet for Fraud Identification" held at EIRC premises on 12.05.12.

A seminar on "Cost Accounting Technique in Analysis of Balance Sheet for Fraud Identification" held at EIRC premises on 12.05.12. Seen are Shri Manas Kr. Thakur (extreme left), Shri T.C.A. Srinivasa Prasad, Council Members along with senior journalists.

Members of the Screening Committee of the "National award for Excellence in Cost Management - 2011" presenting bouquet to Shri Rajeev Mehrotra, Chairman, Screening Committee on his selection as CMD of Rites Ltd.

A seminar on "Recent Developments in CAR & CARR" organized by Visakhapatnam and Ukkunagaram Chapter of Cost Accountants at VSP auditorium, Visakhapatnam. Seen (from L to R) are Shri S.C. Mohanty, Council Member, Shri B.B. Goyal, Cost Advisor, GoI, Shri Madhusudan, Director (F), RINL/VSP, Shri J.K. Puri, past president and Shri B.R. Prabhakar, Chairman, SIRC

Printed and Published by M. Gopalakrishnan, President of the Institute of Cost Accountants of India, 12 Sudder Street, Kolkata-700 016
for and on behalf of the Institute and Printed at Das Printers, 61, Surya Sen Street, Kolkata-700 009
ISSN 0972-3528
Editor : Rajendra Bose