SPECIAL FOCUS INSIDE
55th National Cost Convention 2014

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs
MARCH 2014 VOL 49 NO. 3 ₹100

"Where fiscal governance is concerned, CMAs can help the government on the cost-benefit approach to government expenditure, help corporations in their tax planning and help the government in efficient tax collection and its management"

- Padma Bhushan CMA Dr. M.B. Athreya

Strategic cost management in Transport and Logistics

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)
www.icmai.in

Editorial Office
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063
Headquarters
CMA Bhawan, 12, Sudder Street
Kolkata 700 016
Tel: +91 33 2252-1031/34/35
Fax: +91 33 2252-7993/1026
Delhi Office
CMA Bhawan, 3, Institutional Area
Lodi Road, New Delhi-110003
Tel: +91 11 24622156, 24618645
Fax: +91 11 4358-3642
WEBSITE
www.icmai.in

The Institute of Cost Accountants of India

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

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

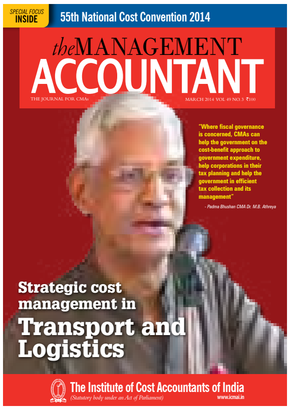
VISION STATEMENT

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

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

Behind every successful business decision, there is always a CMA



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EDITOR
CMA Dr. Debaprosanna Nandy
editor@icmai.in

PRINTER & PUBLISHER
CMA S C Mohanty
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EDITORIAL OFFICE
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

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Inside

COVER STORY

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FROM THE EDITOR'S DESK

Greetings!

Infrastructure is a major sector that enhances overall development of the Indian economy. India's focus on infrastructure over the last decade made the country the second fastest growing economy in the world. Planning commission of India has projected an investment of US$ 1 trillion for the infrastructure sector during the 12th Five Year Plan. The Secretariat for Infrastructure in the Planning Commission is involved in initiating policies that would ensure time-bound creation of world class infrastructure in the country. This section focuses on power, bridges, dams, roads and urban infrastructure development.

Transport has deep linkages with the economic development and social integration of the country. To maintain a sustainable development in economy India's focus is essential to strengthen transportation infrastructure facility such as airport, rail, and road connecting the domestic economy effectively and improving overall competitiveness. Good physical connectivity in the urban and rural areas is essential for economic growth. Since the early 1990s, India's growing economy has witnessed a rise in demand for transport infrastructure and services.

Transportation cost can be analyzed from two point of view: (i) Cost to the operator and (ii) User cost. Cost to operator consists of cost of operation, repair and maintenance cost, overheads, replacement costs, depreciation and investment cost in up-gradation of the system. User cost varies with mode of transport. In the case of Road Transport, user cost includes cost of ingress and egress in the nature of local travel and portage fee at the terminals at either end. In the case of goods transport by Rail, transport cost consists of packing of goods, cartage (local transit) from consignor's godown to loading terminal at origin and from unloading terminal to consignee's godown at destination, handling of goods at either end, transit losses, rail siding and transit inventory costs. Cost elements are similar in the case of Coastal Shipping and Airways except that rail siding cost gets excluded. Sum of the two cost components i.e. operator and user cost reflects the total cost of transport of a tonne of goods or a passenger by a particular mode for an identified distance slab.

Further, transportation cost again can be defined into two other aspects. These are financial costs and economic or resource costs. Financial cost includes total expenditure actually incurred by an operator or user including tax and duties. There are also modal variations in cost inputs like the cost of way. On the other hand economic or resource costs include all kind of social cost such as pollution cost, accident cost etc.

Various approaches to cost and performance monitoring for logistics and distribution operations can be linked wherever possible to actual company practice. The need for monitoring and control procedures to measure the effectiveness of actual distribution performance against a prescribed distribution plan has been identified within the context of the framework of a planning and control cycle. These include:

- the balanced scorecard;
- the SCOR model (Supply Chain Operations Reference model);
- an integrated supply chain model;
- an operational approach;

This issue presents a good number of articles by distinguished experts and authors on the 'Strategic Cost Management in Transport and Logistics', the cover story theme of this issue. A new section, 'Letters to the Editor' that started a few issues ago, continues. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

COST MANAGEMENT IS A CULTURE - IT HAS TO BE IMBIBED IN THE ORGANIZATIONS FOR SUSTAINABLE GROWTH

CMA Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack of will. – Vincent Thomas Lombardi

My Dear Professional Colleagues,

I take this opportunity to share with all the members the stupendous success of the 55th National Cost Convention of Institute held at Bhubaneswar on 23-24 February 2014. The Convention was inaugurated by the Chief Guest Shri Surya Narayan Patro, Hon'ble Minister for Revenue and Disaster Management, Government of Odisha. In his address to the participants he mentioned that cost accountants through their expert knowledge of cost management can help the State in effective management of its huge mineral resources and execution of projects in time without the cost overrun. What is most important is business strategy that facilitates sustainable growth and in that sense ICAI has become the pillar in country's growth.

Introducing the theme CMA M. Gopalakrishnan, Past President, Council Member and Chairman, Technical Committee stated that the theme was chosen keeping in view the emerging business environment which mandates cost competitiveness and responsible governance.

In the Presidential address, I reiterated that competition is not amongst companies but amongst supply chains. Cost Management is a culture. It is about influencing people's behavior towards cost management and has to be imbibed in the organizations for sustainable growth. Cost competencies have become critical to survival of businesses. Total Cost Management involves a holistic approach to optimize costs for competitive advantage.

ICON Award for 2013

The Institute started ICON Awards in the year 2011 to recognize CMA professionals who have achieved great heights of success in their chosen fields and contributed significantly to the furthering and implementation of the knowledge in enhancing organizational and societal value and have been instrumental in enhancing the image of the Cost and Management Accountancy profession. This year the ICON Awards were presented to Padma Bhushan CMA (Dr.) Mrityunjay B. Athreya, Management Adviser, CMA P. Madhusudan, Chairman cum Managing Director Rashtriya Ispat Nigam Limited, CMA R. Misra, Chairman cum Managing Director, Heavy Engineering Corporation Limited and CMA R.K. Jain, Additional Secretary, Ministry of Health and Family Welfare, Government of India. It was very heartening to note that Padma Bhushan CMA (Dr.) Mrityunjay B. Athreya in his key note address mentioned that Jigyasa (curiosity) is the most pertinent quality needed by CMAs. He further mentioned about the various dimensions in the world of cost management – Inclusive growth, affirmative corporate action, fiscal governance and self-actualization. He also emphasized that we need to have continuing and proactive approach in management, not just disaster management. He also indicated that the Professional Dharma of the CMAs is to be thought leaders in costing, evangelists of costing, developing role models in costing. I am sure that this will serve as a pointer to the direction the profession has to take to face the challenges of the future.

Felicitation

The occasion was very apt for felicitation of the CMA Luminaries who achieved portfolios of high importance by sheer hard work, ethics and integrity like CMA Kulamani Biswal, Director (Finance), NTPC Ltd, CMA Trinath Behera, Director (Finance), ITDC Ltd and CMA K.C. Samal, Director (Finance), Nalco Ltd. The felicitated guests shared their experience and truly inspired the participants with their pep talks.

Speakers from abroad

The convention was marked by the presence of International speakers such as Mr. Gulzari Lal Babbar, Immediate Past President, CIMA-UK, Mr. Adrian Parera and Prof. Lakshman R. Watawala of CMA Sri Lanka. Speaking on the occasion, Mr. Gulzari Lal Babbar mentioned that Management Accounting is the buzz word for today and tomorrow. He explained the principles of management accounting with focus on enterprise performance. Prof. Lakshman R. Watawala, President CMA Sri Lanka opined that CMAs are the key resource which can step up the development process through efficiency studies and effective cost management. He mentioned that Sri Lanka is very keen to adopt and implement Cost Accounting Standards developed by the Institute and is looking forward to seek professional support from the Institute.

> "Cost competency includes revenue management, cost containment and yield maximization. It requires unbundling of the costs and breaking them into pieces for better control. This is the essence of activity-based cost management system.

Speakers speak

CMA (Dr.) Asish K. Bhattacharya mentioned that Empowered board members must have knowledge, power, information and time. Independent Directors are the ears and eyes of the Board. The company must have a structured CSR policy and its monitoring system.

CMA (Dr.) S K Gupta focused on the role of CMAs in energizing MSMEs. Small is beautiful, but is it viable (Purta khata hai kya?). He mentioned that the SMEs must focus on making their businesses viable and in his regard CMAs are the best professional support option for the SMEs as they can help improve efficiency and productivity of resources.

Mr. A.K. Singh, Deputy C&AG, Government of India, elaborated the need of State spending while stating the need of transparency in accounting for the expenditure incurred on various social schemes. The Government should spend more funds on higher education for enhancing competitiveness of the country. Private sector should supplement Government's efforts in this direction to bridge the gap between requirement and availability of skilled resources.

Mr. Sunil S. Dadhe, Principal AG, Odisha underlined the role of cost audit in India by stating that it has emerged through the amendment to the Companies Act in 1965. CMAs Role is in ensuring compliance with various laws, reporting when required, checking evasions / fraud related matters. Emerging Opportunities for CMAs are in the areas of International agreements relating to trade / Imposition of safeguard duty, anti-dumping duties and International arbitration.

Mr. Amar Patnaik, Principal AG, Odisha opined that CMAs can help in managing and monitoring various social schemes as internal auditors, internal advisors, have to think out of the box and have a role in social sector oversight function.

Mr. D.N. Panda, Member CESTAT advocated that CMAs should explore their professional expertise further by providing consultancy services in areas of Customs, Anti-dumping, Central Excise and Service Tax Laws. Proper understanding of the various tax laws by CMAs is very essential. CMAs can guide the management for preventive litigation management system, help in proper adjudication through detailed and effective representations.

Prof. (Dr.) R.K. Bal stated that CMAs need to be distinct otherwise they will become extinct. Professional outlook with high ethical values is the need of the hour.

Hon'ble Member of Parliament Shri B. Mahatab, Chief Guest for the Valedictory session mentioned that CMAs have a big role in development of economy as efficiency in utilization of scarce resources is vital in both government and private sector. Monitoring of the various government schemes should be done regularly so as to ensure that the expenditure meets the desired outcomes.

Release of Publications

The following publications of the Institute, prepared by the Tax Research Department, were released during the convention:

- Anti – dumping – Relevance of cost information
- Service Tax – Technical Guide
- Guidance Note on CENVAT audit under Central Excise Law (4th Revised edition)
- Guidance Note on Value Added Tax – Its accounting and Auditing (3rd revised edition)

The **Knowledge Pack** compiled by the Research & Journal Dept. in form of CD consisting of resource metarials, standards and articles was distributed to all the participant along with the delegate kit.

Take Away

On the whole it was a very well planned and well managed national event of the Institute and I must mention that there emerged a lot of key take-away, some of which are as follows:

- CMAs can help in identifying cost drivers and eliminate sources of wastages. They help in cost benefit analysis and thus improve quality of decision making. Islands of prosperity cannot survive in ocean of poverty.

- CMAs should work in companies not as employees but as partners in progress. Adequate information must be provided to the Board members. Failure to carry out CSR is the Board's responsibility and not that of the Company.
- Risk Based Internal Audit is the key to enterprise survival and growth. The model of Modern Internal audit has moved away from Compliance to Risk management.
- CMAs must guide on pricing. Pricing should not be based on cost. Businesses have to be connected and responsive to sustain.
- CMAs can help in focusing on Productivity and revenue generation. CMAs must think big to provide big skills and not to engage in post mortem of costs but provide futuristic guidance, support and guide the client on growth path trajectory.

Way ahead

In my view, it is time to use the mileage we got by organizing such a vibrant event. We have to move ahead with times on the following new aspects along with the current assignments:

- The Accounting Technicians Course (CAT) launched by the Institute would prepare Accounting support for the MSME and the NGOs.
- The Institute has to work very closely with the Government. The Institute is developing a template for the Costing of the Health Care Procedures for the Ministry of Health and Family Welfare.
- The Institute is carrying out a study of the various airports.
- Projects for Railways, Banking & Insurance, Power and Education Sector are being carried out. This will open up wide ranging new avenues for the CMA professionals.

On behalf of the Institute and on my personal behalf I would like to extend my heartfelt gratitude to CCMs, RCMs, Members of the profession, Past Presidents, Guests & Speakers, employees of the Bhubaneswar Chapter and executives of the Institute for making this convention a grand success. I am thankful to all the sponsors for enabling us organize such an event that showcased to the world the strength of the CMA fraternity.

I am grateful to all of you for joining us in the NCC 2014 and sincerely look forward to your continuous support to the Institute.

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

Advanced Studies Department

The directorate of Advanced Studies has announced One year Diploma in Information Systems Audit and Control and the last date for enrolment is extended to February 28.

The results of the Dip MA examinations are being announced.

I am happy to inform that the certificates were distributed by me to the successful candidates of the Business Valuation and Corporate Restructuring program at Kolkata in the presence of Prof. Asish Bhattacharyya, Chairman, Board of Advanced Studies. At Hyderabad, certificates were distributed by Vice President, CMA Dr. A.S. Durga Prasad in the presence of Shri H. Sambasiva Rao, Principal, Andhra Bank Apex College.

CAT Directorate

I am happy to inform that the first online examination for CAT students under revised syllabus was successfully conducted on 2nd February 2014 and the results declared on 19th February 2014.

CPD Activities

I am proud to inform that during the month our Regional Councils and Chapters actively organized many programs, seminars and discussions for the members on the relevant subject matter such as on Issues in Corporate Taxation-Planning, Compliance and Management, The Stock and Revenue Audit, CAS-4 Valuations - Recent Developments, CAS 6 - Material Cost, CAS 17 - Interest & Financing Charges, Relevance of Cost Records and Cost Audits in Controlling Inflation and Implementation of Supreme Court Judgment in case of Fiat India and its implication on Industry, Methods and Techniques of Costing, Designing a bill of material and its practical utilities, An Insight into Special Economic Zones and Foreign Trade Policy, The Companies Act 2013, CAS 18 - Research & Development and CAS 2 - Capacity Determination, Service tax overview, Credit Evaluation - Value Based Approach and so on.

Examinations Directorate

The results of CAT Part II, Intermediate and Final examinations for December 2013 term were declared on scheduled date of 21st February 2014. I congratulate the students who passed the examinations and advice others to work harder and concentrate more on studies.

ICWAI MARF Programs

The promotional training program of AG-II for the post of AG-I, organized for Delhi Transco Limited during 20-24 January 2014 at New Delhi was attended by 40 Officers. The promotional training program of Section Officer for the post of Assistant Manager has been organized for Delhi Transco Limited during 21-25 January, 2014 at CMA Bhawan, New Delhi. The programs on 'Issues in Corporate Taxation-Planning, Compliance and Management' and on 'Recent Trends in Financial Management' organized during 28-31 January 2014 at Port Blair were attended by Senior and Middle Level officers of different organizations. The program on 'Finance for Non-Finance Executives' organized for 'Punjab State Power Corporation Limited (PSPCL)' during 03-08 February, 2014 at Delhi/NCR was attended by 19 Officers. The programs on 'Contracts and Their Management' and 'Finance for Junior Finance and Accounts Officers & Non-Executives (F&A)' organized during 11-14 February, 2014 at Puriand was attended by 49 Senior and Middle Level officers of different organizations. The program on 'Service Tax, VAT and CST' organized for National Buildings Construction Corporation at New Delhi during 19-20 February, 2014, was attended by 28 officers.

Membership Department

I am happy to share that the Institute has entered into a Memorandum of Understanding (MoU) with The New India Assurance Company Ltd, which is one of the largest non-life Insurance companies in India, exclusively for the benefit of members and students of the Institute at the 55th National Cost Convention – 2014 at Bhubaneswar on 23rd February 2014. The MoU was signed by Shri Rakesh Kumar, General Manager representing The New India Assurance Co. Ltd and by me representing the Institute. The signing of the MoU was in the presence of distinguished personalities comprising of various Guests and Speakers, Council Member, other dignitaries present at the Convention and the Chairman and Managing Director, New India Assurance Company Ltd. The MoU has been posted on the Institute website www.icmai.in

In regard to payment of membership fee for FY 2013-14 which became due on 1st April 2013, I once again urge the esteemed members to make payment of their membership fees at the earliest to avoid removal of name from the Register of Members.

Placement Directorate

The campus placement program for the December 2013 final qualified is being scheduled in the month of April / May 2014 at Delhi, Chennai, Kolkata, Mumbai, Jaipur, Bhubnasewar, Nagpur, Ahmedabad, Vijayawada and Kochi. I am sure this campus placement program will attract more and more employers and students will get the benefit as being availed in the previous Campus placements.

Research and Journal Department

I am happy to inform that the Institute participated in a UGC sponsored two day National Seminar on "Ethics of Accountants -a reality check" on February 11 & 12, 2014 at Abanindra Sabhagriha, Kolkata Information Centre as a collaborating partner with Department of Commerce, Ramsaday College, Howrah. Dr. Dhrubajyoti Chattopadhyay, Pro Vice Chancellor, Calcutta University, Shri Praloy Talapatra, Teacher-in-Charge of the college and CMA Manas Kumar Thakur, Chairman, Research, Innovation & Journal Committee, ICAI were present on the dais for the inaugural session. CMA Chiranjib Das, Joint Director (Academics, Tax Research & Studies) was one of the resource persons in the seminar and CMA Dr. Debaprosanna Nandy, Director (Research and Journal) chaired an important session of the seminar.

In another function the Knowledge Study on "Exchanges for SMEs - Emerging Needs vs. Future Challenges" was released in association with ASSOCHAM on February 20, 2014 at India Habitat Centre, New Delhi. Shri S.C. Agarwal, Chairman, Micro Finance Council, ASSOCHAM, Dr. H.P. Kumar, Chairman & Managing Director, National Small Industries Corporation, CMA Manas Kumar Thakur, Chairman, Research, Innovation & Journal Committee, ICAI and other eminent dignitaries were present in the seminar.

Institute's research publication "Research Bulletin, Volume XXXVIII" was released at the 55th National Cost Convention - 2014 at Bhubaneswar on February 24, 2014. Articles of eminent authors had been published in the Bulletin.

Studies Directorate

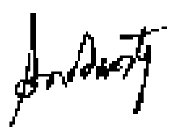
I am happy to announce that to facilitate the payment of Admission Fees by the prospective students, arrangements have also been made with Central Bank of India in addition to Punjab National Bank and IDBI Bank, through any of the branches of these banks.

Technical Directorate

In the 67th Meeting of CASB held on 14th February 2014, the Board decided to recommend the CAS -20 on Royalty and Technical Know-how fee & CAS 21 on Cost of Quality Control for the approval of the Council of the Institute. The Technical Group Meeting held on 17th February 2014 in which Annexure to appendix 1 of CAS-4 was finalized.

I wish all the members, students and their families on the occasion of festival of colors Holi, Gudi Padava, Ugadi, and Cheti Chand.

With warm regards,



(CMA Suresh Chandra Mohanty)
1st March 2014

ICAI-CMA SNAPSHOTS

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1. CMA S. C. Mohanty, President with Shri Surya Narayan Patro, Minister, Revenue and Disaster Management, Odisha and Shri G. Srinivasan, CMD, New India Assurance Co. Ltd. at the MoU signing ceremony on the inaugural day of the 55th National Cost Convention – 2014, January 23, 2014

2. At the inaugural session of 55th National Cost Convention 2014 in Bhubaneswar, January 23, 2014. (Left to Right) CMA Chitra Agarwal, Chairperson, EIRC of the Institute and Co-Chairperson of Convention Committee, CMA M. Gopalakrishnan, Past President of the Institute and Chairman, Technical Committee, CMA S.C Mohanty, President, Shri Surya Narayan Patro, Minister, Revenue and Disaster Management, Odisha, Padma Bhushan CMA Dr. Mrityunjay B Athreya, Dr. B C Tripathy, Vice Chancellor, Revenshaw University, CMA TCA Srinivasa Prasad, Council Member and Convener of Convention Committee.

3. CMA S.C. Mohanty, President congratulating CMA Dr. M.B. Athreya, Renowned Management Consultant and also member of the Institute, on being

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conferred the prestigious Padma Bhushan Award by the Government of India on February 14, 2014 at his residence

4. CMA S.C Mohanty, President of the Institute, and Shri Subir Dutta, President, The Institute of Internal Auditors India, congratulating each other on signing the MoU. Also seen in the photo CMA Kaushik Banerjee, Secretary (Acting) and other officials of both the Institutes.

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5. CMA S.C. Mohanty, President delivering his speech at the National Conference 2014, on January 9, 2014 in Kolkata. Shri Subir Dutta, President of the Institute of Internal Auditors of India, and Shri. Mohan V Tanksale, Chief Executive, Indian Bank's Association were among the dignitaries attending the seminar

6. At the concluding ceremony of the Advanced Certificate Course on Business Valuation & Corporate Restructuring, conducted by Directorate of Advanced Studies at EIRC Auditorium on February 18, 2014. (Left to Right) CMA Dr. Asish Kr. Bhattacharyya, Advisor, Advanced Studies, CMA S.C Mohanty, President, CMA Bibekananda Mukhopadhyay, Secretary, EIRC, and CMA Chitra Agarwal, Chairperson, EIRC

7. Release of the Knowledge study 'Exchanges for SMEs - Emerging Needs vs Future Challenges' by CMA Manas Kumar Thakur, Council Member, CMA H.P Kumar, Chairman and Managing Director, National Small Industries Corporation, Shri S.C Agarwal, Chairman, Micro Finance Council, ASSOCHAM on February 20, 2014 in New Delhi

8. A Round Table Discussion held on 'Strategic Cost Management in Transport and Logistics' by Directorate of Research, Innovation and Journal of the Institute on February 27, 2014 at EIRC Auditorium. From Left, CMA Dr. Debaprosanna Nandy, Director, Research and Journal, Shri Subrata Saha, Senior Assistant Financial Advisor, Eastern Railways, CMA Debtosh Dey, Director, Ripley and Co. Ltd, CMA B.N Chatterjee, General Manager, Marine Container Services Ltd, CMA Manas Kumar Thakur, Council Member, CMA Chitra Agarwal, Chairperson, EIRC were among the eminent dignitaries present in the discussion

Glimpses of 55th National Cost Convention 2014, Bhubaneswar, 23rd - 24th February 2014

Glimpses of 55th National Cost Convention 2014, Bhubaneswar, 23rd - 24th February 2014

LETTERS TO THE EDITOR

Dear Sir,

I'm the member of our Institute and a regular reader of "The Management Accountant". I really thank all editorial team members for continuously improving quality of the Journal. Economy Update section and CMA Dossier are helpful to members and students also. Please keep it up. Thanks again for your good performance. Thanks to the whole team.

CMA Sandip Shewale

Respected Sir,

First of all accept my heartfelt wishes for the new get up and look of our esteemed Journal 'The Management Accountant' which is improving month to month, besides being very informative, it is also getting glossier technically. My suggestion is that it regularly publishes vacancies for esteemed members in Public Sector Enterprises, published through PESB for information and better career prospects. To be on the lighter side, a cartoon without malice to one and all may also be introduced like that of R. K. Laxman for the pleasure of the readers.

CMA R. Sekar

NALCO, Visakhapatnam

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

CLARIFICATION

Ref. No: BOS/01-12/13-14 Dated: Kolkata, 18th December,2013

Clarification on applicability of Companies Act,2013 for CMA Examinations

In continuation with the earlier clarification reference no.BOS/01-08/13-14, which was already hosted in the website on 26th August,2013.

It is further clarified for general information that the provisions of "The Companies Act,2013" shall not be applicable for the CMA Intermediate and Final Course Examinations for June,2014 term of Examination.

Regarding applicability of the Companies Act,2013, for/from December 2014 CMA Examination, necessary communication would be intimated in due course.

All concerned are hereby requested to make a proper and wide publicity to meet the concern of stakeholders on this stated subject.

This issues with an approval of the competent authority.

CMA Chiranjib Das
Secretary to the Board of Studies Committee

AT THE HELM

CMA Dr. Mrityunjay B. Athreya, a member of The Institute of Cost Accountants of India has been awarded Padma Bhushan for Literature and Education in January, 2014.
CMA Dr. Athreya was earlier a Professor at the Indian Institute of Management, Kolkata, the London Business School, England and the Strathclyde Business School, Glasgow.

He holds a Doctorate in Business Administration from Harvard Business School.
He is also recognized as one of the founders and pioneers of the Indian Management movement including Education, Research and consulting.
Since his return from U.K, in 1978, he has been available nationally to Corporates, National and State Governments, and NGO's as an independent resource person. He has been on several Government Committees advocating major reforms and liberalization in the Indian economy including Telecom, Banking, Aviation and Civilian Nuclear Power.
Our heartiest congratulations to CMA Dr. Athreya on receiving this prestigious honor and wish him every success for all his future endeavours.

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PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the four forthcoming months.

Issue months	Themes	Subtopics
April 2014	Cost Management in the Education sector	• Performance Management System • Regulatory aspects of education in India and abroad • Public vs. Private Education system • Cost effectiveness as a strategic priority • Equity of access to quality education • Pricing Mechanism • Governance and Management
May 2014	Price and Cost Competitiveness	• Global perspective • Strategic price setting • Relative price indicators and benchmarking • Competitive pricing • Turning cost cutting into cost competitiveness • Cost efficiency • Competitive cost reduction and sustainable growth • Cost competitive index • Case studies
June 2014	Ethics of Accountants	• Standards in Professional Conduct • Financial fraud prevention tools and procedures • Financial Literacy and Ethics • Accounting Scandals and Ethics • Corporate Governance and Professional Ethics • Competition and Ethics • Legitimate Conduct vs. Ethical Conduct • Code of Ethics for Professional Accountants
July 2014	Government Accounting and Role of CMAs	• Government Accounting Processes and System • Traditional methods Vs. Modern methods of government accounting. • Government accounting and financial reporting • Gap analysis of government accounting based on accounting standards • Ethical considerations in government accounting • The constitutional and financial responsibilities of principal government officers • Professional opportunities for Cost and Management Accountants in government accounting

The above subtopics are only suggestive and hence the articles may not be limited to them only. Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in by the 1st of the previous month.

Directorate of Research, Innovation & Journal
The Institute of Cost Accountants of India (Statutory body under an Act of Parliament)
CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025, India
Board: +91-33- 2454 0086 / 87 / 0184, Tel-Fax: +91-33- 2454 0063
www.icmai.in

ECONOMY UPDATES

Income Tax

- Central Board of Direct Taxes hereby clarifies that additional income-tax under sub-section (2) of section 115R of the Act is to be levied on income distributed by way of dividend to unit-holders of mutual funds or specified companies and receipts from redemption/ repurchase of units or allotment of additional units by way of bonus units would not be subjected to levy of additional income tax under the above section vide circular no. *6/2014 dated: 11th February 2014.*
- In order to mitigate the grievances of the taxpayers pertaining to non-receipt of tax refunds, CBDT in exercise of powers under section 119(2) (a) of the Act, hereby further relaxes and extends the date for filing ITR-V Form for Assessment Years 2009-10, 2010-11 and 2011-12 till 31.032014 for returns e-Filed with refund claims within the time allowed under section 139 of the Act. Central Board of Direct Taxes also relaxes the time-frame of issuing the intimation as provided in second proviso to sub section (1) of Section 143 of the Act and directs that such returns shall be processed within a period of six months from end of the month in which ITR-V is received and the intimation of processing of such returns shall be sent to the assessee concerned as per laid down procedure vide circular no. *04/2014 dated: 10th February 2014.*
- Central Board of Direct Taxes, in exercise of its powers under section 119 of the Act hereby clarifies that Rule 8D read with section 14A of the Act provides for disallowance of the expenditure even where taxpayer in a particular year has not earned any exempt income vide circular no. *05/2014 dated: 11th February 2014*

Central Excise

- Clarification regarding effective date for levy of excise duty on cigarettes at the enhanced rates vide Finance Act, 2012 – *Circular no. 981/5/2014 dated 11-02-2014.*
- As per notification no. 03/2014-Central Excise, dated: 3rd February, 2014 hereby makes the further amendments in the notification of the Government of India, in the Ministry of Finance (Department of Revenue), No. 12/2012-Central Excise, dated the 17th March, 2012. CBEC further exempts the excisable goods of the description specified in column (3) of the Table below from so much of the duty of excise specified thereon under the First Schedule to the Excise Tariff Act as is in excess of the amount calculated at the rate specified in the corresponding entry in column (4) of the said Table and subject to the relevant conditions specified in column (5) of the Table aforesaid.

Sl.No (1)	Chapter or heading or sub-heading or tariff item of the First Schedule (2)	Description of excisable goods (3)	Rate (4)	Condition No. (5)
94A	28	Dicalcium phosphate (DCP) of animal feed grade confirming to IS specification No. 5470:2002	Nil	
205A	7302 or 8530	Railway or tramway track construction material of iron and steel. Explanation - For the purposes of this exemption, the value of the goods shall be the value of goods excluding the value of rails.	12%	49, i.e. if manufactured out of rails on which duty of excise has been paid and no credit of duty paid on such rails has been taken under rule 3 or rule 13 of the Cenvat Credit Rules, 2004.

Customs

In exercise of powers conferred by clause (a) of section 81 of the Customs Act, 1962, the Central Board of Excise and Customs hereby makes further amendment in the Customs Baggage Declaration Regulations, 2013 called Customs Baggage Declaration (Amendment) Regulations, 2014 vide *notification no. 10/2014-Cus (NT), dt. 10-02-2014.*

Service Tax

- In exercise of the powers conferred by section 11C of the Central Excise Act, 1944 (1 of 1944), read with section 83 of the Finance Act, the Central Government hereby directs that the service tax payable on the services provided by an authorized person or sub-broker to the member of a recognized association or a registered association, in relation to a forward contract, shall not be required to be paid in respect of such taxable service on which the service tax was not being levied during the aforesaid period in accordance with the said practice vide notification - 03/2014-ST, dated: 03-02-2014.

- As per Circular No.177/03/2014 – ST, dated: 17th February, 2014 rice is exempted from service tax.

SEBI

- FII/QFI investments in Commercial Papers - eligible investors shall be permitted to invest upto US$ 2 billion in Commercial Papers within the Corporate Debt limit of US$ 51 billion – *Circular CIR/IMD/FIIC/4/2014, February 14, 2014*
- Establishment of Connectivity with both depositories NSDL and CDSL – Companies eligible for shifting from Trade for Trade Settlement (TFTS) to Normal Rolling Settlement – *Circular CIR/MRD/DP/ 08 /2013, dated: February 11, 2014*
- Individual scrip wise price bands on non-F&O eligible scrip's in Index Derivatives: Subsequent to the recommendation of SMAC, as a measure to protect against excessive price movements, with respect to those scrips on which no derivatives products are available but which are part of Index Derivatives, it has been decided to implement appropriate individual scrip wise price bands upto 20% on such scrips vide Circular - *CIR/MRD/DP/04/2014, dated: February 06, 2014*
- Safeguards to avoid trading disruption in case of failure of software vendor - *Circular - CIR/MRD/DP/07/2014, dated: February 11, 2014*
- Guidelines for inspection of Depository Participants (DPs) by Depositories – Circular - *CIR/MRD/DMS / 05 /2014, dated: February 07, 2014*

NSDL

Change in Pay-in & Pay-out time for NSE, BSE and MCX-SX settlements vide *Circular No.: NSDL/POLICY/2014/0017, dated: February 18, 2014.*

Banking

- Third party payments for export / import transactions - RBI/2013-14/479, A.P. (DIR Series) *Circular No.100 dated: Feb 04, 2014.*
- Alteration in the name of "Mizuho Corporate Bank Ltd." to "Mizuho Bank Ltd." in the Second Schedule to the Reserve Bank of India Act, 1934 - RBI/2013-14/480, Ref. DBOD.No.Ret.BC/ 94/12.07.108/2013-14, dated: Feb 04, 2014
- Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions – Modifications in "Pricing of Credit - RBI/2013-14/482, DNBS (PD) CC.No.369/03.10.038/2013-14, dated: Feb 04, 2014
- RRB/RCB- FCNR (B)/NRE deposits – Exemption from maintenance of CRR/SLR and Exclusion from Outstanding Advances for Priority Sector Lending for RRBs - RBI/2013-14/486, RPCD.CO.RRB/RCB.BC.No.83/03.05.33/2013-14, dated: Feb 04, 2014
- Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits-RBI/2013-14/488, RPCD.CO.RRB.RCB.BC.NO.85/03.05.33/2013-14, dated: Feb 11, 2014
- Interest Rates on FCNR (B) Deposits - It has been decided that the interest rate ceiling on FCNR (B) deposits prescribed vide circular dated August 19, 2013 and August 22, 2013 will continue till February 28, 2014 and will revert to the ceiling prior to August 19 and August 22, 2013, refer to table above.

Maturity Period	Existing	With effect from March 1, 2014
1 year to less than 3 years	LIBOR/Swap plus 200 basis points	No change
3 - 5 years	LIBOR/Swap plus 400 basis points	LIBOR/SWAP plus 300 basis points
Source: RBI/2013-14/489, RPCD.CO.RRB.RCB.BC.NO.87/03.05.33/2013-14, Date: Feb 11, 2014		

- Foreign Direct Investment – Reporting under FDI Scheme: Amendments in form FC-GPR - It has been decided to revise the timings of the Term Repo auctions from 2.30-3.00 PM to 11.00 -11.30 AM vide it has been decided to revise the timings of the Term Repo auctions from 2.30-3.00 PM to 11.00 -11.30 AM dated: Feb 13, 2014.

Source: RBI/2013-14/490, A.P. (DIR Series) Circular No.102, dated: Feb 11, 2014

- Central Repository of Information on Large Credits (CRILC) – Revision in Reporting

RBI/2013-14/492, DBS.No.OSMOS. 9862/33.01.018/2013-14, dated: Feb 13, 2014.

Indian Economy News

- The finance minister chided the central bank over its focus on fighting inflation, saying the Reserve Bank of India (RBI) also needed to abide by the government policy to promote economic growth.

Source: Reuters, 18 Feb 2014

- Reserve Bank of India (RBI) Governor Raghuram Rajan's surprise decision to raise interest rates last month was opposed by most external members of an advisory committee, minutes released on Monday showed.

Source: Reuters, 17 Feb 2014

- Finance Minister P. Chidambaram presented the interim budget for the fiscal year 2014/15 to cover expenditure until a new government is formed after elections due by May.

Source: Reuters, 17 Feb 2014

- Finance Minister P. Chidambaram told parliament that India's petroleum subsidy would be contained at 634.27 billion rupees in 2014/15, from a revised figure of 854.8 billion rupees in the current fiscal year - Source: Reuters, 17 Feb 2014
- India's economic outlook for 2014/15 looks better than the current fiscal year due to resurgence in exports, global economic revival and moderation in inflation, Finance Minister P. Chidambaram said in his interim

budget on Monday.

Source: Reuters, 17 Feb 2014

- Finance Minister P. Chidambaram said he would propose setting up a non-statuary public debt management office that could start from fiscal 2014/15.

Source: Business, Economy, 17 Feb 2014

- Finance Minister P. Chidambaram told parliament that India's 2013/14 agricultural exports were likely to touch $45 billion vs. $41 billion in 2012/13.

Source: Economy, Business , 17 Feb 2014

- Economic Affairs Secretary Arvind Mayaram said he hopes policymakers will try to bolster growth with wholesale price index inflation easing to an eight-month low in January.

Source: Business Economy, 14 Feb 2014

- Finance Minister P. Chidambaram presents an interim budget for the coming fiscal year.

Source: Business, Economy, 14 Feb 2014

- India's high inflation probably eased to a seven-month low last month as food and fuel prices showed signs of moderating, providing some respite to the Reserve Bank of India which has been hiking interest rates to curb soaring prices, Reuters polls showed on Tuesday.

Source: Reuters, 11 Feb 2014

- India on Friday cut its estimate of annual growth for the fiscal year to 4.9 percent from 5 percent because of a contraction in the manufacturing and mining sectors.

Source: Reuters, 07 Feb 2014

- U.S. authorities have downgraded India's aviation safety rating, citing a lack of safety oversight, meaning the country's carriers cannot increase flights to the world's biggest aviation market and face extra checks for existing ones.

Source: Aerospace & Defence, Top News, Business Economy ,01 Feb 2014

Employees Provident Fund

- The Labour Ministry has asked EPFO to provide permanent PF account numbers to its 5 crore members in a time-bound manner so that they don't need to transfer provident fund accounts after changing jobs. The EPFO expects 1.2 crore claims in 2013-14, including around 13 lakh PF transfer claims. During 2012-13, it settled 107.62 lakh claims. Eighty eight per cent of these were processed within 30 days, as prescribed by the body's citizen charter.

Source: Press Trust of India, February 09, 2014

- Trustees of retirement fund body Employees Provident Fund Organization (EPFO) approved a proposal to provide a monthly pension of minimum Rs 1,000, a decision that will immediately benefit about its 28 lakh pensioners.

Source: Press Trust of India , February 06, 2014

Major Highlights of Interim Finance Budget 2014 on tax front

Finance Minister P. Chidambaram has presented the Interim Union Finance Budget for F.Y. 2014-15. Major Highlight of the same on tax front and other areas is as follows:-

TAX PROPOSALS

Excise Duty

- The Excise Duty on all goods falling under Chapter 84 & 85 of the Schedule to the Central Excise Tariff Act is reduced from 12 percent to 10 percent for the period up to 30.06.20 14. The rates can be reviewed at the time of regular Budget.
- To give relief to the Automobile Industry, which is registering unprecended negative growth, the excise duty is reduced for the period up to 30.06.2014 as follows:

1. Small Cars, Motorcycle, Scooters and Commercial Vehicles - from 12 % to 8%
2. SUVs - from 30% to 24%
3. Large and Mid-segment Cars – from 27/24% to 24/20%

It is also proposed to make appropriate reductions in the excise duties on chassis and trailors – The rates can be reviewed at the time of regular Budget.

- To encourage domestic production of mobile handsets, the excise duties for all categories of mobile handsets is restructured. The rates will be 6% with CENVAT credit or 1 percent without CENVAT credit.

Service Tax

- The loading and un-loading, packing, storage and warehousing of rice is exempted from Service Tax.
- The services provided by cord blood banks are exempted from Service Tax.

Custom Duty

- To encourage domestic production of soaps and oleo chemicals, the custom duty structure on non-edible grade industrial oils and its fractions, fatty acids and fatty alcohols is rationalized at 7.5 percent.
- To encourage domestic production of specified road construction machinery, the exemption from CVD on similar imported machinery is withdrawn.
- A concessional custom duty 5 percent on capital goods imported by the Bank Note Paper Mill India Private Limited is provided to encourage domestic production of security paper for printing currency notes.

Income Tax

- No changes in Direct tax laws in interim budget

State of Economy

Deficit and Inflation

- The fiscal deficit for 2013-14 contained at 4.6 percent.
- The correct account deficit projected to be at USD 45 billion in 2013-14 down from USD 88 billion in 2012-13.
- Foreign exchange reserve to grow by USD 15 billion in this Financial Year
- No more talk of down grade of Indian Economy by Rating Agencies.
- Fiscal stability at the top of the Agenda.
- Government and RBI have acted in tandem to bring down inflation.
- WPI inflation down to 5.05 percent and core inflation down to 3.0 percent in January 2014.
- Food inflation down to 6.2 percent from a high of 13.8 per cent. Agriculture
- Agricultural sector has performed remarkably well.
- Food grain production estimated for the current year is 263 million tonnes compared to 255.36 million tonnes in 2012-13.
- Agriculture export likely to cross USD 45 billion higher from USD 41 billion in 2012-13.
- Agricultural credit to exceed the target of Rs. 7 lakh crores.
- Agricultural GDP growth for the current year estimated at 4.6 percent compared to 4.0 percent in the last four years.

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA E-Bulletin, March 2014, Vol 2, No. 3, at 'Research and Publications' section.)

Advisory for Renewal of Certificate of Practice 2014 - 15

The members of the Institute holding Certificate of Practice having validity up to 31st March, 2014 are requested to comply with the following guidelines for renewal of their Certificate of Practice:

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

- The validity of a Certificate of Practice (COP) is for the period 1st April to 31st March every year unless it is cancelled under the provisions of the Cost and Works Accountants Act and Regulations, 1959 as amended.
- The Certificate of Practice issued shall automatically be renewed subject to submission of prescribed Form M-3 and payment of renewal fee and annual membership fee.
- From the year 2011-12 onwards, letter for renewal Certificate of Practice is not being issued.

However, the members concerned may download the renewal status from the Institute's website www.icmai.in.

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

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

4. If the Certificate of Practice of a member is not renewed within 31st March, 2014, his/her status of COP from 1st April 2014 till the date of renewal would be "Not Active" and he will neither be able to affix his digital signature on any cost audit report or compliance report nor will he be able to get approval of Form 23C or Form 23D and the forms will get rejected on the MCA Website.

5. Subject to what has been mentioned in Sl. No. 4 above, a member can get his/her Certificate of Practice for 2014-15 renewed within 30th June, 2014. If application for renewal of Certificate of Practice is made after 30th June 2014, the member's Certificate of Practice for 2014-15 will not be renewed but will be considered as a case of fresh issuance with effective date being the date of the application or receipt of the prescribed fee for Certificate of Practice, whichever is later.

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

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

The detailed guidelines in this connection are available on Institute's website www.icmai.in.

The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st April 2014.

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

- Application for renewal of Certificate of Practice upto 31st March 2014 has to be made in prescribed Form M-3 which may be filed online or through hard copy of form duly filled in and signed on both sides together with Renewal Certificate of Practice fee of Rs.2,000/- and all other dues to the Institute on account of annual membership fees and entrance fees.
- The annual membership fee for Associate and Fellow members are Rs.1,000/- and Rs.1,500/- respectively. The entrance fee for Associate and Fellow members is Rs. 1,000/- each payable at a time at the time of application for admission to Associateship or advancement to Fellowship, as the case may be.
- The fees may be paid online or by Demand Draft/Pay Order/at par cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. The fees may also be paid directly by cash at the Headquarters, Kolkata or by Cash/Demand Draft/pay Order/Cheque at the Regional Councils or Chapters of the Institute.
- Members should note that the renewal of Certificate of Practice can be effected only after receipt of the prescribed fees along with duly filled in form at the Headquarters of the Institute and on meeting the stipulated CEP credit hours. Mere submission of the same at the Regional Councils or Chapters will not be sufficient. Members are advised to make payment directly to the Headquarters or use the online facility of submission of application and payment to avoid any delay.
- All practicing members are advised to send their application for renewal of Certificate of Practice for the year 2014-15 along with other requirements as indicated above immediately so as to reach the Institute's Office at Kolkata by 28th March 2014 to enable the Institute to issue the renewal certificate by 31st March, 2014.

Renewal of Part-time Certificate of Practice

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

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

Signature of Employers with seal of Organisation"

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

INFORMATION TECHNOLOGY & QUALITY MODELS FOR MANAGING LOGISTICS

CMA Debtosh Dey
Director
Ripley & Co. Ltd. Kolkata

Logistics is the lifeline of an economy, supporting exchange of goods and services. This article focuses on the use of information technology and quality models for managing logistics as a service in product-making and trading or as a separate business, drawing examples from mining, manufacturing and port operations.

Prelude

'Logistics' refers to movement of people, goods and information. Infrastructure provides the conditions for logistics. As nature is unevenly distributed, development of basic infrastructure (roads, railways, ports, water supply, sewage, etc) is a prerequisite of logistics besides exploitation of nature.

Indian scenario of infrastructure:

- Excessive pressure on roads – Around 65% of goods (roughly 6,000 million tons p.a.) and 80% of passengers are carried on roads (Alarming situation with traffic growth @ 12% p.a.).
- Highways are not adequate (covering only 2% of total road of around 33 lakh Kms length).
- Railways need to address separate track for goods and increased rail speed (Only 22% of present track length of 67,000 Kms approximately has been built since independence).
- Ports' share in goods movement within the country (along coast) is negligible, despite India having a peninsular coastline of around 7,500 Kms with 13 major ports and 187 minor ports.
- Telecom sector has registered encouraging progress with around 950 million mobile subscribers and 14 million broadband subscribers.

Infrastructure development normally involves multi-projects and large investments with the issue of measurability of financial returns. These usually call for Government initiatives, specially in a developing economy like that of India. Recent trend shows growing Public-Private Partnerships (PPP) besides private participations with road sector reaching its peak in PPP while railways trail far behind. Airports also show some growth in PPP. Telecom sector leads the infrastructure sector in foreign direct investments (FDI) contributing to 6% of total inflow of India in 2013. FDI has been considerably liberalized by now.

Service sector in India today contributes to around 55% of GDP. Share of logistics in service sector is around 18%.

Learning from Supply Chain Management (SCM)

Today, business scenarios are fast changing for the ongoing market-globalization and rapid technological advancements. As a result, "adapt or perish" has become a rule. An adaptation principle fostered by SCM evolving since 90's, is "do your best, outsource the rest". In fact, there is hardly any enterprise today which is self-sufficient in resources for all situations. Therefore, an enterprise needs to complement its resources with those of key suppliers while continuously renewing its core resources (i.e. those yielding competitive advantage). SCM involves the following two-prong approach :

- Integrating supply process of purchasing-production-delivery (This has the effect of pooling of internal resources).
- Exploring and influencing supply network to which the enterprise belongs (This attunes the enterprise to external reality of suppliers, competitors, customers/ markets).

In either case, information & communication system with local and global networks is the major instrument.

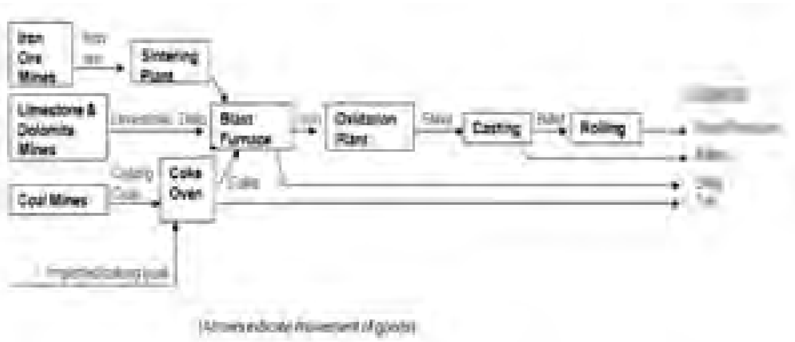
SCM divides the whole supply process into a chain of inbound logistics, in-house logistics and outbound logistics. Managing logistics starts with location and layout of plant. Sometimes, in-house logistics forms a part production processes e.g. materials handling in mechanized factory with automated in-process transfers (as in 'Flexible Manufacturing Systems').

Note : SCM may bear resemblance with Michael Porter's "Value-Chain" concept adopted for identifying weak links in the chain of supplies into and within the enterprise and stretching to customers.

Illustration of supply-chain in integrated steel plant

An integrated steel plant sources most of its raw materials (iron ore, coal, limestone and dolomite) from captive mines through railways (usually under "Own Your Wagon" scheme). In-house logistics is important in integrated steel plant for connecting different plants (through railways, trailers/ trucks, conveyors, pipelines, etc) and for movement of goods within a plant (through overhead cranes, conveyors, mobile equipment, etc). Outbound logistics involves delivery of steel products (sheets, wire-rods, structural, etc) to various stockyards/ customers through rakes/ trailers/ trucks or at plant (Ex-works delivery). In all these cases, wagon handling/ tippling, in-motion weighing, test certification, excise formalities, stock accountal are important elements of logistics.

A simplified overview of logistics for integrated steel plant is shown in a flow-chart next.



Decision-tree in supply-chain management impacting logistics

Focusing on its supply needs, an enterprise may evolve a decision-tree with various options for strategy-making. It throws into lights various sourcing options (both in-sourcing and outsourcing). An example is cited above.

Designing Information & Communication System in Logistics

Information & Communication Technology (ICT) enables an enterprise to interface changing environment and its adaptive organization. It is an indispensible instrument for gathering facts and for developing knowledge base for effective management. The areas of applications of ICT can be grouped as follows :

1. Operational Information (Production/ Work Done, Inventory of Inputs, Attendance, Machinery Utilization)
2. Commercial Information (Sales, Purchases, Inventory of Finished Goods, Feedback of Customers and Suppliers, Database on Customers and Suppliers)
3. Financial Information (Cost Management, Fund Management and Tax Management).

Integrated software (like ERP package) can be used with advantage for sharing information of one area by the other. Use of digital sensors are fast picking up for online tracking of various information. In logistics also, these are used in appropriate areas as exemplified below :

- Bar codes used for inventory management of enterprise's commodities.
- Face recognition of employees and regular visitors adopted for security and attendance records.
- Global Positioning System (GPS) – used for monitoring positions of mobile equipments (dumpers, loaders, excavators, dozers, etc) inside mines, construction sites, works, etc using local network.
- Monitoring of trips and loads of dumpers and other vehicles.
- In-motion electronic weighment of vehicles – adopted by plants, Railways, ports and others.
- Digital surveying – adopted in mining & geological surveys.
- Modern electronics also provide systems for sensing various physical conditions of machineries and for actuating motors, valves, cams, switches, etc in a plant for controlling motions of machineries through Programmable Logic Controller (PLC). Such PLC can be operated in a separate office cut-off from heat and dust.

The coded information on input-output through digital sensors can be decoded and used in enterprise's computerized information system.

Illustration of information system for logistics in port

A sea port facilitates anchoring of vessels at berths, movement of cargo to and fro berths and storage of cargo at plots inside port. There could be other facilities depending on the port e.g. handling systems (mobile shore cranes, stackers, conveyors, container handling facilities, etc), railway terminals, in-motion weighing, wagon tipping, etc.

Following paragraphs describe the needs and processes of information for logistics in ports (our discussion is restricted to only services in relation to goods being exported or imported).

Operational Information –

A) WORK TRACKING:

Activities inside a port can be tracked using a number of data fields like (a) Customer (Exporter/ Importer) (b) Cargo (c) Place (Berth/ Plot) (d) Vessel (e) Activity (loading, unloading, transportation, etc) (f) Unit of Measurement (tons, nos., shifts, hour, etc) (g) Quantity (h) Date (Start/ End), etc. A string of activity may be generated in a software combining desired fields. Let us examine the activity below :

"Transportation of iron ore fines from plot no. 1 to berth 'X' during 01-Apr-13 to 03-Apr-13"

Here the fields involved are : 'e' (transportation), 'b' (iron ore fines), 'c' (plot no. 1, berth X), 'h' (starting and ending dates).

Sometimes, dunnage and lashing materials are supplied for securing unit load cargo like steel items inside the hatch of a vessel. These can also be tracked using suitable fields. In fact, many other fields like source documents (e.g. Shipping Bill/ Bill of Entry, etc), vessel rotation number, sub-contractor, etc can also be provisioned depending on the needs of the enterprise (port, exporter, importer, stevedore, etc), facilities available and other factors.

B) LOG BOOK FOR MACHINERIES

Log book helps tracking machinery utilization and its operating costs. It also helps matching cost-revenue and analyzing economics of a machinery (dumper, loader, etc). Format for a sample log book is shown below :

SAMPLE MACHINERY LOG BOOK

Machinery Description :
Machinery/ Registration No. :
Chasis No. :
Make :
Year of Installation :
Original Cost : Rs

Date	Particulars	Hours	Diesel		Tyres		Lubricant		Radiator		Steel Spring Leaf		Overhauling	Others	Total
			Ltrs	Rs	Nos	Rs	Ltrs	Rs	Nos	Rs	Kgs	Rs	Rs	Rs	Rs

C) EMPLOYEE ATTENDANCE REORDS

Appropriate digital sensing arrangement as outlined above may be installed with local network for downloading attendance data. Such data may be programmed for integration with accounting module for pay-sheet preparation, leave records, advances and adjustments thereof, statutory deductions and accounting.

D) INVENTORY OF SPARES & CONSUMBALES

For diesel and petrol, underground tanks with pumps or mobile tankers may be arranged in collaboration with oil distribution companies. The dispensing arrangements may be digitalized for online recording. These apart, a central stores may cater to the needs of mobile equipments.

Commercial Information –

Modern software enables online transactions like ordering, billing, receipts, payments, etc. This aspect is generally applicable to all enterprises whether it is a port, mine or plant. In view of this, we will restrict our discussion here with an emphasis that carefully designed software can generate various reports on order-fulfillment, inventory, bill-wise receipts/ payments, etc.

Financial Information -

COST MANAGEMENT

In logistics, machinery log book is the basis for monitoring operating costs and idle hours for absenteeism (in combination with attendance records), breakdowns, lack of orders, etc. It also helps monitoring economics of machineries and deciding replacements. Integrated software can be designed for building up details of such information with the help of appropriate source documents like work orders, material issue challans, service receipt acknowledgements, attendance records, breakdown reports, bills, etc. Sub-contracting costs can also be tracked much as input-output matching. Overheads need to be tracked from accounts.

ASSETS-LIABILTIES AND INCOME-EXPENDITURE

a. Fixed Asset Register : We have seen in operational information above that machinery log book takes the help of machinery masters, which also form the basis of developing register for machineries. Masters for other fixed assets can be similarly developed. The register can be programmed on a software for updating written-down values (under both Companies Act and Income-Tax Act).

b. Ledgers : As operational and commercial information are tracked in an integrated software, these develop ledgers simultaneously, if double entry aspect is programmed for entries (excepting those which are not recognized as 'transaction' in accounting e.g. sales order or purchase order). Payroll is a part of integrated software and so also quantitative details as provisioned. The only area that remains to be monitored in finance is journal entries and tax management (see the next point).

3. TAX MANAGEMENT :

a. Service Tax – It is attracted on all service not included in the Negative List (presently @ 12% plus Cesses).

In logistics, a number of services may be involved like Port Services, Goods Transport Agency (GTA) service, Cargo-Handling, Mining service, Customs House Agency (CHA) service, etc. Categorization of services was thought to have ceased after Negative Listing of non-taxable services w.e.f. 1-Jul-12. But it is imperative to observe erstwhile categories for different conditions with respect to abatement, exemption, reverse-charge, Cenvat, accounting codes for payment, etc.

Cenvat accounting can be programmed on a software with bill-wise details including those for capital goods.

Service tax liability ledger can be designed for extracting Personal Ledger Account (PLA) with details of liability accrual and GAR-7 payments. Receipts from debtors against pre-Jul'11 invoices as well advance receipts and adjustments thereof need to be tracked using a suitable program (unless such cases are small and can be extracted from accounts).

It is noteworthy that TDS under Income-Tax is an element of receipt or payment.

b. VAT input-output - e.g. for dunnage materials narrated above.

c. Job workers and contract manufacturers may tie up with their principals for sharing of Cenvat benefits under Excise/ import duty saving under Customs (against principal's exports) on capital goods [Ref. DGFT policy & procedure]. This helps competitive pricing of service contracts.

d. Income-Tax – TDS on both income-expenditure can be tracked in a suitable software. (There is no TDS on transportation if PAN is furnished. Similarly, TDS on service portion is understood to have been clarified as not applicable).

It is noteworthy that Section 80-IA provides for 10-years' tax holiday for certain infrastructure projects and section 10(23G) exempts dividend and interest income of infrastructure capital fund.

Tax returns can also be developed in the software (Many software has this feature though such returns need not be recognized by tax authorities).

Quality Models In Logistics

An enterprise has to discover and influence its economics. There is no perfect science for doing so. Therefore, an enterprise has to bear the risks but it needs to encourage continuous learning from results and iterative innovations with positive human motivation.

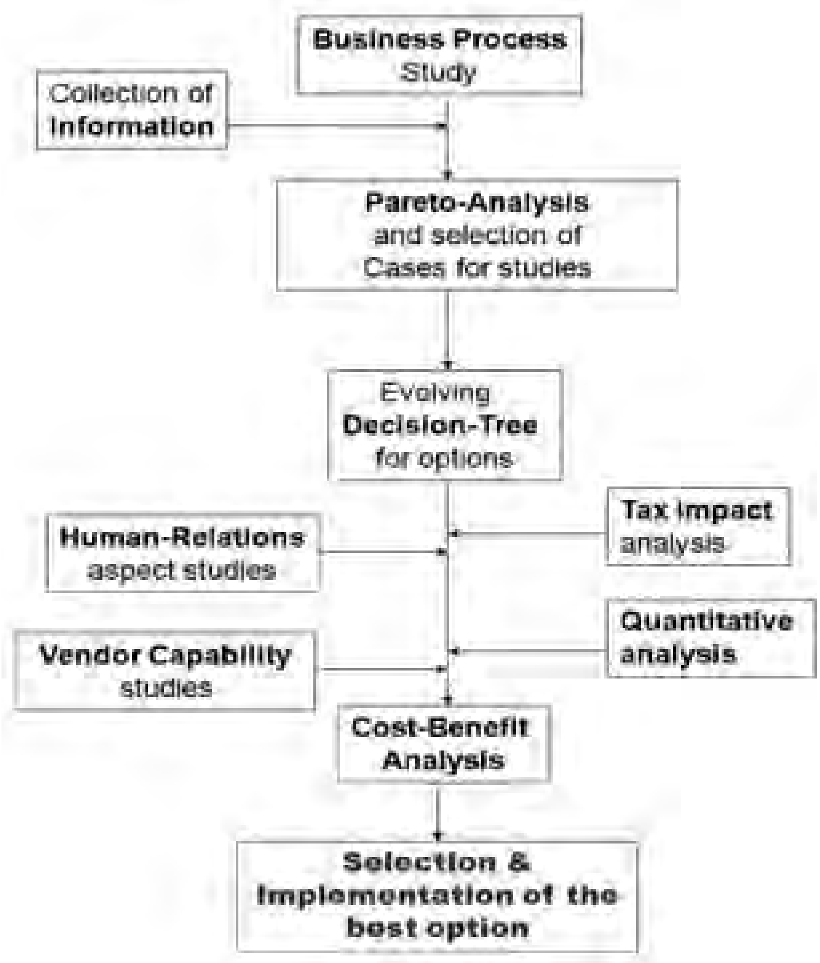
There are various quality models like that of Malcom-Baldrige, Deming, Kaizen, Six Sigma, Kaplan, ISO, 'Lean Organization', 'TPM', etc. We will not go into details of these but will consider the facts that there is always a better way of doing things and that the objectives of Total Quality Management (TQM) are achieved if all employees participate in continuous improvements. There are some models which suggest cascading top management's expectations down the hierarchy to all employees (even at bottom most levels). Such process requires sound information system for tracking individual performances.

GENERAL PROCESS FOR QUALITY IMPROVEMENT

Following flow chart, on the next page, shows the various elements in quality improvement.

ILLUSTRATION OF QUALITY MODEL FOR LOGISTICS IN MINING SECTOR

Let us take an example of handling & transportation in open cast mines (OCM). Handling & transportation constitute a major process of OCM. Even mechanized OCM requires handling & transportation through dumpers, loaders, excavators, etc from



mining faces. These are also required for site preparation and overburden removal. One special characteristic in mining is that its layout changes with progress of work and as new faces are exposed.

Notes: (1) Mines may have their own facilities and/ or outsourced facilities (sometimes, total outsourcing is resorted to including drilling of strata and/ or surface mining, loading of wagons (if not mechanically done by mines), delivery to customers, etc) (2) Mines may cater to plants under the same management and/ or sell minerals to various customers. In either case, mining regulations have to be observed.

A quality model for mining logistics should address the following aspects :

1. **Market and Competitors:** (a) Market opportunities and threats from competitors (b) Enterprise's strengths and weakness with regard to available resources (c) Order fulfillment or contract management process.
2. **Output:** (a) Measurability of output & inventory (b) Control of spillage & contamination (c) Customer feedback and analysis.
3. **Supply Process:** (a) Safe operations with fit equipments and trained operators in optimum numbers (b) Work discipline (c) Productivity Improvement & Cost Reduction drives.
4. **Input:** Since mines are usually located in remote areas, provisioning of various input materials like explosives, fuel, lubricant, spares and other consumables are important aspect of logistics management.These include timely replenishments. Vendor managed inventory and maintenance may also be provisioned.
5. **Vendors:** Procedures for selection and rejection of vendors, database on them, feedback from vendors and its analysis. Developing vendors is an important aspect.
6. **Organization:** 'Lean organization' as necessary for agility and reduced manpower costs, requires multi-skills, self-starters and stretched performance targets with adequate remuneration packages.
7. **Information & Communication System:** Selection of right software, integrated applications, networking, etc are the major enablers.
8. **Leadership:** Leadership should drive enterprise's mission with clear directions. Periodical reviews of performance with pre-defined and measured parameters should be rigorously followed. A culture for continuous learning from results and iterative innovations should be encouraged with positive human motivation.

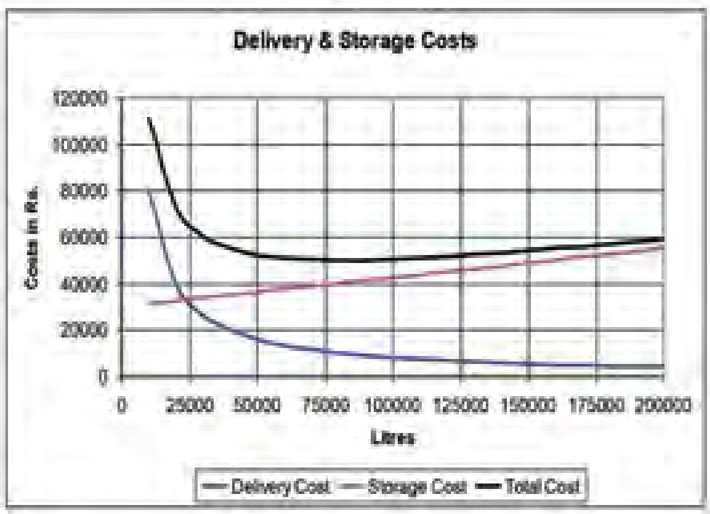
EXAMPLES OF QUNATITATIVE ANALYSIS IN QUALITY IMPROVEMENTS

a. Network analysis of mines development involving site preparation and overburden removal with the use of scrapers, dozers, excavators, loaders and dumpers (after necessary blasting of earth):

Mines development project comprises following activities :

(i) Geological Survey (ii) Statutory Clearance (iii) Site Office Building (iv) Site Preparation, (v) Overburden Removal (vi) Plant & Machineries Installation (vii) Trial Production.

The activities may be timed on



the basis of work study or acceptable time-standards specifying minimum and maximum times and costed on estimation basis, segregating direct and indirect costs. Time-cost trade off and resource leveling can be done for minimizing project cost. The representative net work may look like the following (with critical path indicated in red arrows).

b. A graphical example of modeling for vendor managed inventory (VMI) [Adapted from purchasing & storage of paints in bulk]

An improvement project is cited on VMI where a paint supplier in a works is contracted for delivering given liters of paints (aluminum paint, epoxy, enamels and thinners taken together in given proportions) in a year against a fixed freight per truckload of 10,000 liters (in 20-liters containers), fixed remuneration per annum and a fixed charge per container held in stock. The graph below shows the delivery and storage costs against various delivery sizes wherefrom the optimum delivery size can be easily read (data and algebraic solution are not shown) :

c. Life-Cycle Costing (LCC) of major improvement projects

One simple and useful technique of LCC is discounted cash-flow (DCF) analysis which enables to build up cash inflows and outflows over expected project life, taking into account addition/ deletion of fixed assets and changes in non-cash working capital. Depreciation does not enter DCF analysis but it is considered for estimating income-tax payments (with depreciation rates prescribed under Income-Tax Act) as outflows. Incidentally, tax computation virtually means separate computation of profit or loss.

As a planning tool, LCC with DCF technique is helpful for the following effects :

1. Identification of needs for additional funds (capital or loan).
2. Re-investment of surplus cash.
3. Justification of financial viability in terms of internal rate of return (IRR).
4. Long-term pricing with expected IRR : A workable price can be fixed for negotiating both purchase and sales on long-term basis (supply of equipment, long-term contracts for spares & consumables and service, etc). Thus, LCC with DCF technique is also a pricing model.

Conclusion

We have seen above that logistics is an important support service to industry and trade and an important element of service sector. Effective designing of logistics of an enterprise including its location, layout, materials handling, inbound and outbound chains have determinate bearing on enterprise's response time and costs. ICT is a part of logistics and it also plays an important role in managing logistics. In today's fast changing business scenarios, there is no substitute to continuous learning as a part of risk-bearing exercise. Therefore, appropriate quality model is not only desirable for effecting iterative improvements but it also reflects on enterprise's strategy-making process. Logistics is no exception to this rule. MA

debtoshdey@gmail.com

AN EVALUATIVE STUDY ON VRL LOGISTICS PVT LIMITED'S - COST REDUCTION AND VALUE CREATION

Yeshwant Rao N
Faculty Member
Sahyadri College
Karnataka

Anuradha.T.S
Faculty Member
Sahyadri College
Karnataka

Sandhya. C
Research Scholar
Kuvempu University
Karnataka

Rapid growth of industrialization process has provided immense challenge and opportunity to the various infrastructure sector in the country. This is a proven fact that transport industry is at its peak as it is considered as one of the mechanism in the channel of distribution. Firms now a days are very conscious about their cost of carrying the finished goods from one area to another area. As the needs of the firms is gaining more and more momentum to enhance its market share by the way of capitalizing the industry share as much as possible, this has given the birth to discovering new and newer market so as to ensure that sales go up and market shares are enhanced. Firms are striving there level best to take the most effective and efficient transport regime which could apart from providing solution to the various market challenges of the firms should act as a stimulator to reduce their respective cost of carrying the finished goods. This particular need of the firm has provided and enlighten the transport industry once again which still is considered as one of the safest avenue in transporting the commodity from one place to another place. Apart from that we can say the never ending needs and wants of the individual consumers has also paid its part in regaining the importance of transport industry as a whole. The easy affordability and continues availability with their innovative operation style has truly answered many questions of many consumers. The emergence of transport industry has provided an opportunity to the various private players to actively share the industry markets with a view to enhance the market share of their individual business. Firms have been competing at various level to attract the customers attention , but the prime facia factor of price in selecting the transport industry by the customer can't be ignored by any industry or firm at any cost. Various competitive pricing strategies are followed by the firms and this really has changed the whole context of the business. The best in the market is one who understands the customers perception and make changes in his service according to their respective requirements and provide the same with effective pricing policy.

Review of Literature

1. **Kitchin** analyzed operational activities of bus transport irrespective of the size of the organization engaged in bus transport and observed that it should have three main sections viz., traffic, secretarial and en-

gineering and each having clearly defined function

2. **Bonavia M.R** highlighted the role and significance of transport system for the development of a country and suggested the utility of good transport system for industrial, political, social and cultural angles.

3. A study by **Edwin Low** on the development of transportation system in Japan portrays the transport and communication system during the Tokugawa Era (1600-1686) and explained the process of the development with certain features which ultimately helped the establishment of modern transport system in Japan.

4. An attempt made by **Owen Wilfred** on the problems and potentials of transport system by focusing on the mobility of people and goods. A study made by the Ministry of Transport Scottish Development Department emphasizes the free flow of traffic at reasonable speed requires planned improvement of urban road systems. The study also suggested constructing secondary means of access enable goods and service vehicles to load and unload at the stops.

Objective of Study

1. To understand the strategic policies of VRL logistics as an tool for cost reduction

2. To analyze the efficiency of VRL logistics in creating value to its stakeholders

Research Methodology

The study relied mainly on the secondary data and the various information pertaining to the study was collected from annual manuals of VRL Pvt Ltd and past 2 years data that is financial statements pertaining to the year 2011 and 2012 were duly analyzed to achieve the stated objectives. Apart from that various journals and magazines were screened to arrive at an conclusion

Every firm operates its business with a predetermined objective and every activity of the firms is based on achieving that objective with the available factors of production. Firms are changing their style of business to create something innovative method to improve their operational efficiency which can act as an catalyst to reduce their cost . When it comes to cost , controlling various factors of production carries immense importance and firms who can do the same with greater efficiency always provides a greater value to their respective stakeholders for a longer period which is what wealth maximization teaches to us. Though in this competitive era it is difficult to achieve because ever growing prices are making it limited for the firm to earn a higher margin on the their finished goods. The transport industry is also in the facing with the same challenge where to increase their respective market shares firms have to find out new strategic alternatives to reduce their cost of input which if operated properly can provide higher amount of output and value to the shareholders.

The study is undertaken to understand the operational method of VRL logistics in reducing the cost of the business and to measure the efficient value the same is providing to the stakeholders of its concerned business.

Industry Potential

Transport industry has been regarded as one of the growing industry in the field of infrastructure study . The phase of 1990s was proven fact which has helped the industry to change its mode of operation. The excess accumulation of new and newer firms have thrown direct opportunities to the transport industry. Both passenger and freight sector have grown tremendously after the change in economic policies in the respective years of 1990s and further enhancement of FDI norms and deregulation of various policies of the Government have change the paradigm of conduction of the business. Basically the transport industry has distributed as Domestic Freight Transportation Industry and Domestic Passenger Transportation Industry. The demand for Domestic Freight is normally dependent on size, structure and demographic profile of the economy. The changing rules and regulations have created immense space for the transport to develop their respective share and growth of the economy has added to the benefit of the same. The demand for transshipment of freight have enhanced the opportunities for the sector. This can be further be divided on the basis of Small Fleet Owners who are considered with transportation operators owing up to 5 vehicles and for these type of owners business is mainly engaged by the brokers and the routes should not exceed more than 150-200 Km. Whereas Medium or Heavy Commercial Vehicle consist of the vehicles which are more than 150 - 200 Km. Due to the enhanced demand for the transportation of the finished goods from one place to another place . At the same time the role of passengers transshipment have also enhanced due to multi cultural human resources operating in the business houses. The transformation of passengers to the enhanced value expectation in the form of door to door delivery and value added services have created an positive environment among the industry to enhance the growth of the services in an positive and fruitful manner. The industry at this period of time demands analyzing its respective SWOT analysis for taking any steps for the improvement of the business as a whole.

Historical Background of VRL

VRL logistics is a transportation company which mainly imbibed in the transportation of freight from one place to another place. The company is registered in Registrar of Companies and is regarded as one of the largest single owner of commercial vehicles in

India , according to the Limca Books of Records. The company is dealing in transportation business from years together. The firm is also engaged in providing qualitative bus services in the State of Karnataka, Maharashtra , Goa and is actively in engaged in providing 256 buses to cater the need the need of the transporting industry. The firm is actively competing with various State Government and private players in this product line. Apart from this the firm is actively engaged in 3 other segments namely courier services , wind power generation and air charter business. The firm is regarded as one of the growing industry to cater the need of the ever enhancing need of the customers and is regarded as one of the prolific player in the industry when it comes to transportation of one product from one place to another place. The company has mainly imbibed itself with the competitive strength of excellent track record, larger scale of business and its never dependence attitude on any third party vehicle for transportation of the commodity. Its strong and differential operational model for the firm is an added benefit for achieving the objective of excellence. Strong in house capabilities with experienced motivation team has brought significant turnover in its path of growth. The firm is actively engaged in the prospective of development of its core business which is its transport facility so as to ensure its objective of long term growth of the business.

Strategic Policies Undertaken for Reduction of Cost

All firms are actively engaged in framing that type of strategy which can be instrumental in reduction of cost. Cost reduction always provide the opportunity to the firm to enhance their margin for the particular services. It is the large scale operation of the VRL Logistics which has always helped in maintaining the higher profit for the organization. The large scale operations imbibed the firms to charge lower amount of cost for there services as compared to the cost charged by the competitors for the same and due to the benefits of economic of scale principle VRL is always an proven destination for enhancement of profit. VRL mainly emphasis on its LTL services . LTL services stands for Less than Truck Load. This service help the VRL to distribute the consignments on a aggregate manner to different consumers to different places which is just opposite of FTL (Full Truck Load) which makes the VRL to carry consignments of only one consumer at a time due to which the market line of services is limited to only one part. Hence it is due to dealing in LTL enhances consumer line for the VRL and the same is very helpful the carriers of the goods as it does not provide that much burden on the carriers due to which we can say that the life span of the firms always enhances. Apart from the LTL services provided by VRL the firm is also providing the benefit of express cargo which refers providing the services to the customers with higher value added services in the form of time bounded, special packages, door to door consignments , web based tracking and tracing facilities. It acts as one of the basic model through high market holders are satisfied by providing them the benefits of value added services. But when it comes to price this ranked highest among all other services provided by the VRL. The price is estimated to be 4-5 times higher than the FTL services provided by the firms. The use of Hub and Spoke operating model is also an influential tool for reduction of the cost as the firms here consolidates there major consignments in certain major centers which are termed as hub and later firms deliver the same through different sub centers in hub which are called as spokes to the certain sub centers which are automatically imbibed with the responsibility to deliver the goods to the required centers . Here the firms are mainly dealing in express cargo basis which generates additional revenue to the VRL. Hence it proves to be an additional value creation for the business. The selection of profitable routes for the business is an added advantage for the firms as it helps the VRL to undertake those routes which proves to be economically stronger avenues for meeting their objectives of profit maximization. We can observe here that the passenger services is provided to the area of Karnataka, Goa and selected area for Maharashtra. This is due to the fact that here firms already enjoy a excellent brand positioning and hence it is an attributable venue for enhancement of the profit for the industry. Now after many years due to the positive brand enforcement about the VRL brand , VRL is planning to extend its business to various untapped area of the market which would definitely lead an extreme value to the business in coming days of its growth. VRL is all about to consider its investment in those avenues were still there is a gap exist between the customer requirements and current services operating in that particular market. Providing a safe , time bound and quality services are those qualities of the VRL which has made VRL an extraordinary firm with immense value proposition from years together . VRL has never compromise in these basic values of its which has made the market for the firms from the years together. VRL is also providing an divergent thinking in maintaining an holistic approach within its business units which provides the VRL an opportunity to be excellent among the bests in the market. It has provided space to unique importance to the customer relationship and is always focused on developing right spirit among its employees. It has been told many time that it is the qualitative work force which can either build the organization or can destroy the same. The training facilities always caters to the growing demand of the markets. Apart from all these we can say that firms interest in other line of activities may be in the form in wind energy, courier services have always strived their best part to meet the expectation of market in general and consumers in particular. VRL is proven to be an excellent market reader as it has created there niche in well phased manner and hence is regarded as one of the efficient player in the industry.

Firms are always striving there heart out to provide the best value to its various stakeholders so as to ensure that value of the stakeholders should be maximized and firms long term objectives of growth and development can be achieved. From VRL prospectus it is of immense importance that interest of the stakeholders should always be maintained in the organization. The above P&L a/c shows that firm's revenue from operation has gradually enhanced from the previous year to the current year due to the strategic decisions taken by the organization in the form of expanding its operations and adopting best pricing policies so as to ensure that firm is always above the competitors reach. At the same period of time we can also observe that income from other operations in the form of selection of profitable avenues have enhanced due to the positive approach adopted by the organization in developing value to the business. As the profit has enhanced firms operational expenses have also enhanced. The strategy of covering the untapped areas has broaden the expenses for the organization and will definitely provide positive results in the coming years. Cost of materials consumed, deprecation and finance cost have gradually increased from previous year. Apart from other expenses we can further observe that VRL has gradually expanded its operations for employee empowerment as human resources are the biggest asset of the organization. The table reflect that other expenses that it is those expenses which are not part of business operations have grad-

P& L A/C For The Year Ending of VRL Logistic Pvt Ltd		
Particulars	For the Year Ending 31st March 2012	For the Year Ending 31st March 2011
Revenue		
Revenue from Operations	112112.34	88196.38
Other Incomes	1415.49	1095.16
Total Revenue	113527.83	89291.54
Expenses		
Cost of materials consumed	6654.30	5228.13
Employee Benefits Expenses	12891.87	10448.23
Finance Cost	6625.98	4874.6
Depreciation & Amortization	6959.86	5093.32
Other Expenses	____	69.12
Total Expenses	107321.34	82246.74
Profit Before Tax	6206.49	7044.80
Tax Expenses		
Current Tax	1256.44	1407.22
Less: Minimum Alternative Tax Credit Entitlement	536.6	1104.80
Deferred Tax	768.37	1644.70
Tax adjustments pertaining to earlier Years	612.16	____
Net profit	4105.88	5097.68
Basic and diluted Earnings Per Share of Face Value Rs 10 each (In Rs)	5.81	7.21
Sources: VRL Manuals		

ually decreased due to the effective policies of the organization and the same has contributed to the growth of the business in a positive manner. Here we can also observe that as the VRL policies have changed significantly from previous year due to which the cost have enhance and the profit have declined as compared to previous year but the same can be made out as the policies taken by the VRL will always pay in long run of the business growth . Though the EPS have declined gradually the VRL can still take positive motivation from it and investors should be properly convinced for the same.

Though the VRL profit have declined gradually from the previous year but still the strategic decisions of the organizations will provide fruitful results as the time expires. It is understood that as the profit has declined the shareholders return have declined but investors can expect fruitful results on the coming years due to the positive growth in the transport industry.

Balance sheet is an instrumental tool for bringing long term stability in the business. The above reveals that firms have used more debt capital in their respective capital structure as majority of the business expenses have been financed through the usage of debt

Balance Sheet of VRL Logistics Pvt Limited		
Particulars	As at 31-03-2012	As at 31-03-2011
Equity and Liabilities		
Shareholders Funds		
Share Capital	7070.00	7070.00
Reserves and Capital	8203.00	6393.07
	15273.34	13463.07
Non Current Liabilities		
Long term Borrowings	40351. 15	25273.33
Deferred Tax liabilities (Net)	9998.42	9230.05
Other Tax Liabilities	857.62	780.53
Long Term Liabilities	158.73	______
	51365.92	35283.81
Current Liabilities		
Short Term Borrowings	7290.32	8857.21
Trade Payables	3545.39	2485.98
Other Current Liabilities	14565.46	12514.83
Short Term Provisions	818.00	301.52
Current Liabilities	26219.17	24159.51
Total	92858.43	72906.42
Assets		
Fixed Assets		
Tangible assets	69419.64	49881.24
Intangible Asset	37.54	116.85
Capital Work In Progress	1002.05	4025.42
Non Current Investments	12.75	12.50
Long Term Loans and Advances	8769.71	7266.39
Other Non Current Assets	122.67	31.18
Total	79364.36	61333.58
Current Assets		
Inventories	873.11	607.46
Bills Receivables	7802.50	6873.78
Cash and Bank Balance	1360.03	1536.76
Short term Loans and Advances	1636.45	1165.03
Sundry Debtors	1821.98	1389.81
Total	13494.07	11572.84
Total Asset	92858.43	72906.42
Sources : VRL Manuals		

capital which is considered as cheapest source of finance as compared to other sources of finances. Hence the short and long term liabilities have enhanced significantly. As the firm has taken the strategic choice of development of its business , we can find out that the cost of tangible assets have gradually increased and due to which we can find out that the investment in other area of fixed asset have declined gradually. The data further reveals that firms investment in the current assets have gradually increase which indicates that VRL has chosen best policy to meet its working capital expenses. The firms policies have stimulated the business to grow in a positive note . The usage of debt capital has been preferred to cater the growing needs of the organization and if under the normal conditions firms internal rate of return is more than the cost of capital , afterwards automatically the EPS of the firm will increase

The use of more debt capital will motivate the VRL to invest the additional sum of money in most appropriate avenues and with the progression of time the cost of earning the money will start additional revenue generation for the business.

Strategic Implications and Conclusion

VRL has provided itself with the best market opportunity so as to enhance the value of its business and has generated immense potential to its investors who were seeking the handsome returns for there respective investors. VRL has created positive brand perception in the consumers mind by providing quality service with value added benefits with years together. VRL has utilized its debt capital in an effective and efficient manner so as to make ensure that cheapest source of capital provides an way for enhancement of EPS in an significant manner. The strategic decision to expand the business out of its current capacity is an welcomed step , but it should be understandable here that VRL has to wait for some period of time to extract the fruit of their sincere effort. VRL has enhanced its employee empowerment expenses and is an attributable factor in bringing positive environment among the organization . The most significant decision from the VRLs point of view is that the firm still has no swap facilities available to minimise the risk caused by foreign exchange facilities. In recent market slowdown, where firms are striving there level best to protect there investors from the foreign currency exposure it is important that firm engaged in those agreements and arrangements which can help their respective investors to reduce there risk. VRL has excellent customer data base in both freight and passenger transportation, but the strategic decision to only operate in selected 3 city is definitely a question for which solutions have to be aggressively searched out . Apart from this VRL capital structure in the Year of 2012 does not show any role of equity share holdings part, it has been kept constant which suggests that firms has not infused any additional amount from owned capital, whereas firm has utilized more of debt capital in its structural policies though it is a welcomed step, but VRL has to understand that debt capital has certain limitations. Too much usage of debt capital can put extra burden on the organization. Hence that decision must be reconsidered by the organization. VRL should take adequate promotional activity in untapped area and working capital of the firm should be finance through undertaking long term sources of finance as it will provide more solitary to the structure of the business. The holistic approach of VRL towards their respective clients or human resources has to be appreciated at any given circumstances.

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rao.nyeshwant@gmail.com

MoU with New India Assurance Co. Ltd

The Institute is pleased to announce the signing of Memorandum of Understanding (MoU) with The New India Assurance Co. Ltd exclusively for the benefit of members and students of the Institute at the 55th National Cost Convention – 2014 at Bhubaneswar on 23rd February 2014.

The MoU was signed by CMA Suresh Chandra Mohanty, President of the Institute and Shri Rakesh Kumar, General Manager, The New India Assurance Co. Ltd in the presence of distinguished personalities comprising Shri Surya Narayan Patro, Hon'ble Minister, Revenue & Disaster Management, Government of Odisha, CMA G. Srinivasan, CMD, The New India Assurance Co. Ltd, Padma Bhushan CMA (Dr.) Mrityunjay B. Athreya, Management Advisor, CMA P. Madhusudan, CMD, Rashtriya Ispat Nigam Ltd, Prof (Dr.) B.C. Tripathy, Vice-Chancellor, Ravenshaw University, CMA M. Gopalakrishnan, CMA T.C.A. Srinivasa Prasad, Council Member of the Institute and other dignitaries present at the Convention.

The following policies will be offered:

1. Professional Indemnity policy for practicing Members of ICAI
2. Office Protection Shield Policy for Members of ICAI
3. Mediclaim policy for Members, Employees and Students of ICAI
4. Personal Accident Cover (for Self and Family members) for Members, Employees and Students of ICAI
5. Motor (Private car and Two wheelers) Insurance Policy for Members, Employees and Students of ICAI.

The information relating to the above is available on the Institute *website www.icmai.in*

MULTIMODAL TRANSPORT OPERATION IN INDIA - A PERSPECTIVE

CMA T. Kannan
Partner C.K Prusty & Associates
Kolkata

Transportation or logistics is the process of planning, implementing and controlling the efficient, cost effective flow and storage of raw materials, finished goods and related information from the point of origin to the point of consumption for the purpose of fulfilment of the customers requirement. Logistics helps to serve as a major enabler of growth of trade and commerce in an economy.

Multimodal Transport Operation can be defined as the chain that interconnects different links or modes of transport like sea, rail, air or road etc. or a combination thereof into one complete process that ensures an efficient and cost-effective door-to-door movement of goods under the responsibility of a single transport operator, known as a Multimodal Transport Operator. This is carried out on one transport document, which is a single contract for carriage of goods by two or more different modes of transport.

As transportation plays a key role for the socio-economic development of the country, the efficient multimodal transport operation helps furthering the economic growth of the country by simplifying the complex functions of this chain starting from carrying of various inputs like agriculture seeds, farm equipments, labourers, fertilizers, pesticides and in industry - limestone, iron ore, different chemicals and services etc., from the sources of supply to yards, assembling the final produce at the central locations or at the other appropriate nearer places for its further processing, moving the goods to local market or local store within the same location or to the wholesale market located at another location in same/varied geographies and from there to the warehouses/ godowns and finally to the ultimate consumption places.

Trends

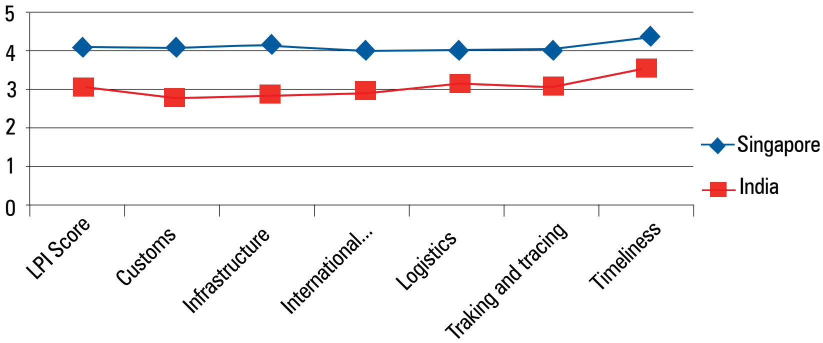
The major trends driving demand for multimodal transport operations are:

(a) Economic globalization.
(b) Speed to market product delivery.
(c) Robust manufacturing and business practices.
(d) Fully integrated supply chain management.

Over the past decade the Indian logistics industry is witnessing a major transformation in terms of increased focus on containerization, technological and technical upgradation and integrated transport solutions in lieu of individual transportation and distribution services.Out of the total logistics spending in India, 46% is carried out by the resources of its own by entities and the balance is outsourced. Most of the outsourced transport agencies are unorganized and out of the miniscule 10% organized players, most of them do not possess the capability of being a multimodal transport operator.

India has been growing at an average rate of 7.64% for the past 10 years fuelled by considerable growth in manufacturing, exports and services sector. However, the low rank of 46 among 155 countries published by world bank in its 'international logistics performance index global ranking' proves that in terms of capacity and efficiency as well as transport costs, India has been lagging far behind, reasons being cost and time overrun in projects and sluggish capacity creation in the economy. India was reported to possess an index of 3.06 in a scale of 1-5 which more or less reflects the perception of the country's logistics performance in terms of quality of logistic services, quality of trade and transport related infrastructure, slow statutory clearance processes, capability to track and trace consignments easily and efficient delivery time respectively.

Figure 1. Logistic performance of India with respect to Singapore



Source: World Bank Data

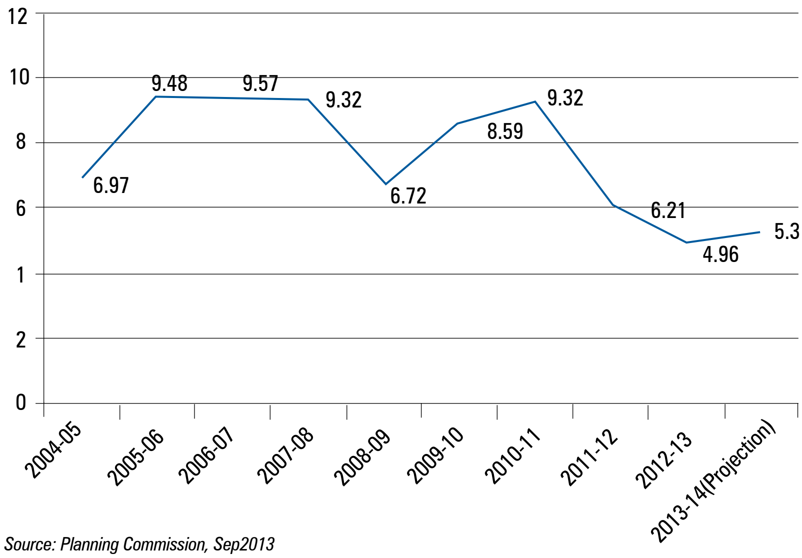
Key issues

For developing an efficient multimodal transport system, the key issues to be addressed are as follows:

1. Infrastructure development: Multimodal transport builds on the operational efficiencies of the transport system. Without adequate infrastructure, the incremental benefits of multimodal transport will be negligible. Necessary infrastructure development will result in less freight costs, less abnormal loss and enhanced compatibility between different modes of transportation.

2. Higher freight costs and its complexities:

Figure 2. Trend of India's GDP Growth Rate



Source: Planning Commission, Sep2013

Road Freight

- No stringent requirement or regulations for starting a road transportation business.
- Large number of small and unorganised players, with no industry consolidation and intense competition.
- Poor manning of check post including corrupt practices results in stoppage of vehicles at inter-state borders.

Rail Freight

- Freight tariffs in India are among the highest in the world.
- Rail freight lacks reliability and tracking mechanisms.
- It is deficient in terms of quality of operations, speed, and customer orientation.
- Absence of integrated cargo infrastructure.
- Inadequacies in gateway and hinterland connectivity through rail and road.

Port Freight

- There are inefficiencies in berthing and delays in loading and unloading. i.e. high turnaround time of vessels.
- There are delays in co-ordination between ports and the Customs authorities.
- There is poor hinterland connectivity and outdated equipments.
- Navigation channel restrictions do not allow bigger vessels to be berthed.
- Some of the river based ports are not dredged resulting in inability of large maritime vessels to be berthed.

3. Technology: Investment in technology may indirectly result into huge gains in terms of operational flexibility, scalability, transparency and information availability. In this connection it is observed that recently cloud comput-

ing and software as a service, usage of global positioning system (GPS), Radio Frequency Identification (RFID), Enterprise Resource planning and mobile technology are being implemented by many entities for round the clock access to information.

Infrastructure & Costs

A. Infrastructure

Keeping in view the lagging infrastructure and other factors mentioned in the "trend" above, it is pertinent to identify the key areas in infrastructure development to develop an efficient multimodal transportation in the economy. In this respect the focus needs to be on improvisation in the areas of containerization, cold-chain, dry ports/Inland Container Depot, logistic parks and third Party Logistics.

Containerisation

Containerisation refers to the use of container as a support for freight transportation wherein the process of substituting cargo from other conveyances are adopted as a mode of supporting the freight distribution process or is able to diffuse spatially as a growing number of transport systems are able to handle containers. Containerisation is the primary driver of growth of multimodal transport operations. The benefits are inter-alia, significant cost savings, optimum utilization of storage & warehousing capacity, technology adoption due to mechanized handling required for containers, minimal or no damage to goods, reduction in transport time and end-to-end delivery of goods. According to estimates, the world container throughput will reach 1 billion Twenty feet equivalent unit by 2020, which is almost double of the current container traffic.

Presently, just over 20% of traffic at Major ports of India are in containers which together handled 150.45(12.04 TEU's) million tonnes of container cargo in 2012-13. It is estimated that the total container traffic will go up to

Process of Multimodal transport operation

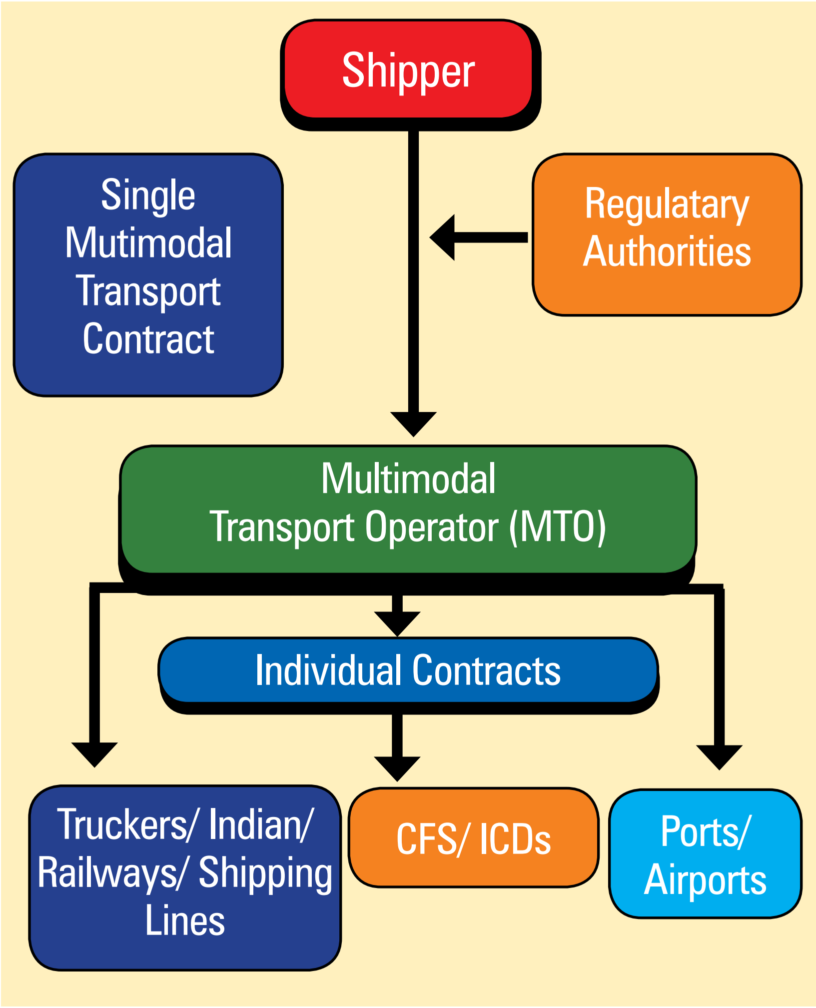


Table 1: Minor Ports (in million tones)

PERIOD	POL	IRON ORE	COAL	FERTILIZER	CONTAINERS		OTHERS	TOTAL
					TONNAGE	TEUS		
2011-12	144.17	58.95	89.34	12.98	31.13	2.49	65.93	402.5
2012-13	157	73.87	138.34	14.3	40.82	3.27	81.69	506.02
2013-14	175.33	81.36	216.15	15.35	62.18	4.97	105.22	655.59
2014-15	204.28	92.35	243.54	18.64	84.84	6.79	146.43	790.08
2015-16	225.5	100.88	266.76	19.68	109.26	8.74	164.38	886.46
2016-17	248.01	106.83	284.8	21.93	139.66	11.17	186.58	987.81
2017-18	283.99	113.57	306.21	23.26	164.69	13.18	209.45	1101.17
2018-19	309.18	118.18	323.77	24.51	185.74	14.86	226.2	1187.58
2019-20	330.49	122.85	346.41	27.08	206.54	16.52	246.76	1280.13

Source: Ministry of Shipping, Government Of India

Table 2: Major Ports (in million tones)

YEAR	POL	IRON ORE	COAL		FERTILIZERS CONTAINERS		CONTAINERS	TEUS	OTHER MISC. CARGO	TOTAL
			THERMAL	COKING & OTHER	FINISHED	RAW MAT (DRY.)	TONNAGE			
2011-12	243.38	81.42	65.65	16	1.01	8.1	146.04	11.68	179.76	741.36
2012-13	286.18	93.42	68.65	38.2	2.31	8.1	150.45	12.04	234.68	881.99
2013-14	297.18	109.08	80.01	47.58	6.21	8.1	202.7	16.22	239.68	990.54
2014-15	339.68	117.58	91.01	64.58	6.21	8.1	229.7	18.38	259.38	1116.24
2015-16	349.58	122.58	110.01	72.08	6.21	8.1	291.2	23.3	285.98	1245.74
2016-17	372.48	122.58	117.51	79.08	11.21	8.1	313.7	25.1	303.6	1328.26
2017-18	372.48	123.58	118.01	81.88	11.21	8.1	331.07	26.49	303.6	1349.93
2018-19	378.48	124.58	125.51	87.88	11.21	8.1	346.37	27.71	328.6	1410.73
2019-20	380.48	125.88	127.21	90.38	11.21	8.1	373.67	29.89	342.6	1459.53

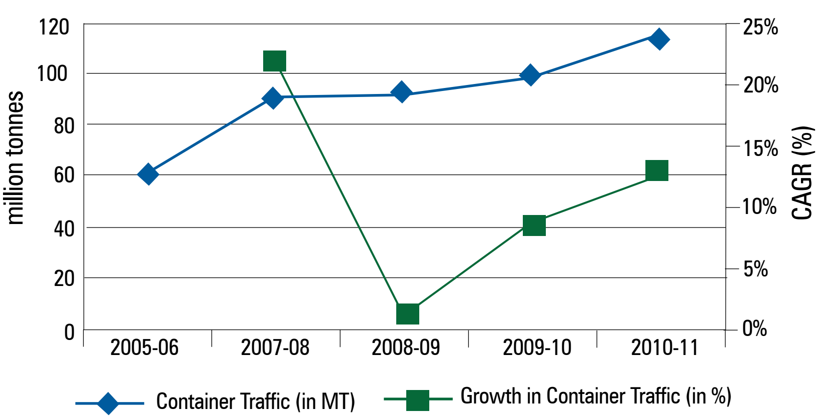
Source: Ministry of Shipping, Government Of India

373.67 million tonnes(29.89 TEU's) by 2019-20, which is 25% of total traffic. This is a clear case to substantially scale up the container handling infrastructure. India plans to invest at least Rs 16000 cr which will add 20 million Twenty feet equivalent unit. Throughput at the 12 state-owned ports, which account for the majority of India's exports and imports of containerized goods, was 12.04 million Twenty-foot-equivalent units in 2012-13, as compared with 11.68 million Twenty -foot-equivalent units in fiscal 2011-12.

Container Traffic Handled by Indian Ports both Export/Import and Domestic are:

1. 2011-12: 177.17 million tonnes(14.17 TEU's)
2. 2012-13: 191.27 million tonnes(15.31 TEU's)

Figure 3
Container Traffic at Major Ports has grown at a CAGR of 12.97% over the last 5 years



Logistic Park

The key components of a Multimodal Logistics Park are transport, warehousing and value-added services. Multi-modal Logistics Park provide all types of transportation facilities in a singular location for the consumer comprising container terminals, bulk/ break- bulk cargo terminals, warehouses, banking and office space and facilities for mechanized handling, multi-modal transfers, sorting/grading, cold chain, aggregation / desegregations etc. to handle freight traffic.

Benefits accruing from Multimodal

Figure 4
Installed Capacity of Cold Stores

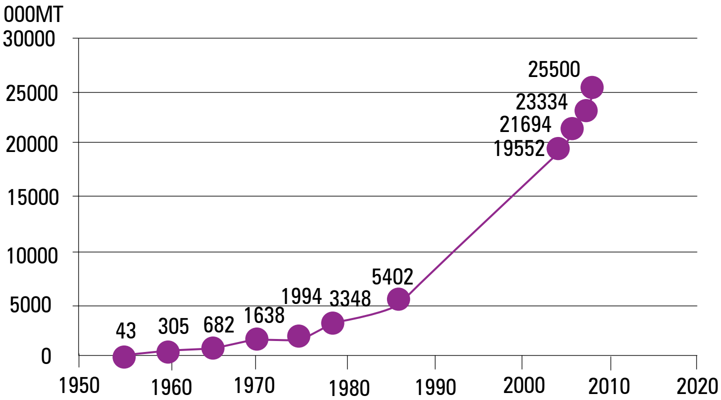
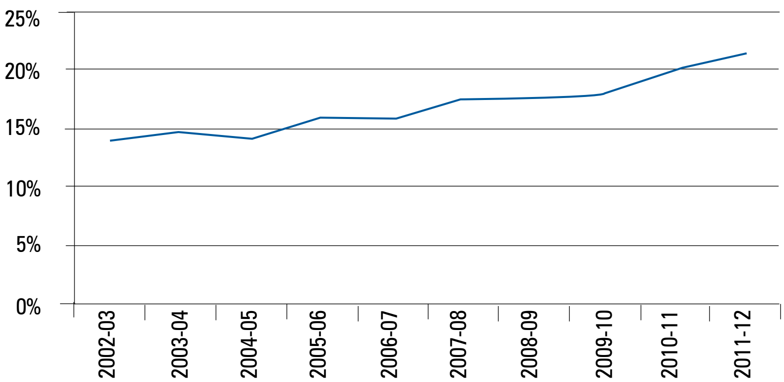


Figure 5
Share of Containerized cargo out of total cargo at major ports has been steadily rising



Logistics Park include:

- Helps in optimal modal choice
- Helps bring down the transit time of the goods thus reducing the inventory cost both for logistics operators as well as for the end user.
- Helps in the balanced growth of all the modes of logistics.
- Helps in optimum utilization of resources in redeploying the existing vehicles in other avenues, thus resulting in per unit cost of the transportation.

Third-Party Logistics (3PL)

A third-party logistics provider is an entity that provides service to its customers of outsourced logistics services for part, or all of their supply chain management functions. The third party logistics market is still in its nascent stages in India, facing issues such as lack of infrastructure, lack of economies of scale due to unorganized private truck operators, and lack of efficient processes and automated, technologically advanced monitoring systems. Once the economy develops, the multimodal advantages offered by 3PL firms can be garnered effectively to utilize their experience and expertise.

The main reasons why the entities prefer outsourcing logistics activities are:

- Cost saving resulting from better management of supply chain cross pollination of better available practices.
- Improved re-engineering benefits resulting in utilization of optimum resources.
- Wider and better geographical coverage by access to specialist world class capabilities.
- Better focus on core competencies

Cold Chain

Cold Chain is a critical component of the logistics chain in order to preserve perishable items and normally consists of cold storages, pre-cooling facilities, warehousing and refrigerated carriers. A streamlined, well maintained cold chain helps to increase customer satisfaction, improve product integrity, reduce costs, reduce wastage and returns of expired stock. It is pertinent to increase the effectiveness and efficiency of the cold chain in India as only 2% of its perishable products are in cold chain as compared to 85% compliance in Europe and USA, 15% in neighbouring China and 8% in Asia- Pacific. As the economy grows and faces limitation in terms of storing and distribution of perishable commodities to fulfil the burgeoning population and its rising demands, the increasing adoption of multimodality will synergize the percentage increase in utilization of cold chain stockings.

Schematic Representation of Growth in Installed Capacity of Cold Storages

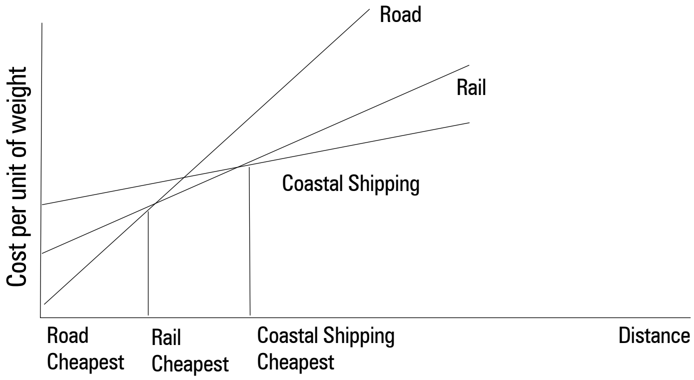
Dry ports/Inland Container Depot

An Inland Container Depot also referred to as Dry Ports are an efficient way for handling and temporary storage of containerized cargo as well as empty containers. They are usually located where different modes of transport networks intersect, thereby reducing transit time and transport costs, and spurring investment in the surrounding areas. Inland Container Depots facilitate connectivity to the hinterland by making port services closer to them. The present Indian logistics set-up has dry ports in the form of Container Freight Stations and Inland Container Depots. They are equipped with fixed installations and offer services for handling and temporary storage of import / export laden and empty containers carried under customs control. Transhipment of cargo also takes place from such stations.

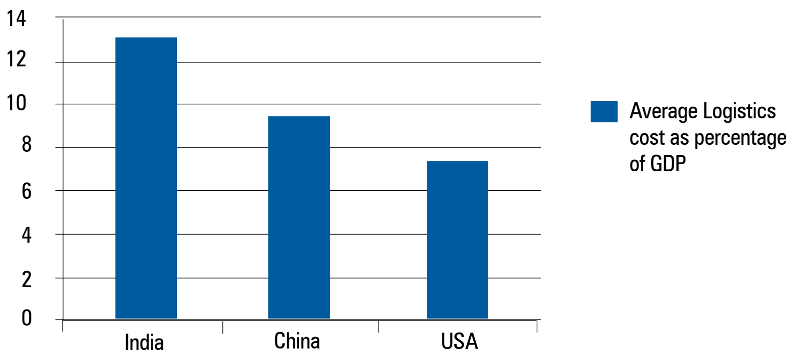
Though increase in container traffic is driving growth, dry ports face several challenges as well. The initial costs of developing facility are quite high – the main cause being rising real estate prices. Compliances and procedures required for cargo movement play their part in increasing dwell times and delaying cargo movement. Also, the sudden surge in this sector has brought in a lot of competition for the existing players.

There are 133 functioning Inland Container Depots/Container Freight Stations against 230 letters of intent issued since 1991 by the Department of Commerce. Out of these, 61 are privately owned, 15 are owned by the state governments, 30 by CWC, and 27 by CONCOR.

Figure 6. Optimisation of cost resulting from multimodal transportation



Average logistics cost as percentage of GDP is comparatively higher in relation to developed nations



B. Costs

Combination process in a multimodal transport operation offers the opportunity to combine modes and find a less costly alternative than an unimodal solution. It is also linked with a higher average value of the cargo being carried since multimodal transportation is linked with more complex and sophisticated commodity chains. The intermodal transportation cost implies the consideration of several types of transportation costs for the routing of freight from its origin to its destination, which involves a variety of shipment, transhipment and warehousing activities. Since intermodal transportation is mostly the outcome of private initiatives seeking to capture market opportunities, it remains to be seen to what extent public strategies can be reconciled with a global multimodal transport system which is flexible. While economies of scale enabled to reduce the unit costs of maritime, inland multimodal transportation costs account for close to 50% of the total costs if terminal costs are included. In order to reduce the logistic costs, it is imperative to understand the true cost of sourcing overseas, be aware of non tariff trade barriers, automate compliance processes and focus on eliminating the variability from transit times.

Benefits

The following benefits accrue in adopting Multimodality in transport/ logistics operations:

1. Saves cost

The savings in costs resulting from the advantages in adopting Multimodality are usually reflected in optimization in freight rates and insurance. This will also help reduce the cost of exports and improve the entities competitive position in the international market. Reduction in costs of Rail terminal/ access charges, Rental Charges, Rental charges of the use of Warehousing facilities/ office space and other facilities that the Multi modal transport operator provide within the logistics park.

2. Minimizes time loss at transhipment points

Multimodal transport, which is planned and coordinated as a single operation, minimizes the loss of time and the risk of loss, pilferage and damage to cargo at trans-shipment points. The multimodal transport operator maintains his own communication links and coordinates interchange and onward carriage smoothly at transhipment points.

3. Provides faster transit of goods

The faster transit of goods made possible under multimodal transport reduces the disadvantages of distance from markets and the tying-up of capital. In an era of Globalization the distance between origin or source materials and consumer is increasing thanks to the development of multimodal transport.

4. Reduces burden of documentation and formalities

The burden of issuing multiple documentation and other formalities connected with each segment of the transport chain is reduced to a minimum.

5. Establishes only one agency to deal with

The consignor has to deal with only the multimodal transport operator in all matters relating to the transportation of his goods, including the settlement of claims for loss of goods, or damage to them, or delay in delivery at destination.

Way Forward

Multimodal logistics has tremendous potential to increase supply chain efficiencies. The right policy incentives from the government and interests from the private sector should together go a long way to spur growth in this sector. As the demand for Multimodal logistics services and transportation facilities grow and as seamless transportation becomes more central to integrated logistics and efficient supply chain management, pressures will increase to manage the environmental impacts of transportation systems proactively. Proactive environmental management seeks to prevent pollution and eliminate sources of environmental degradation and offer comprehensive policies and frameworks for continuous planning, action, and improvement.

The specific areas to further focus upon are as follows:

- There should be continued focus on the growth of road network to improve last-mile connectivity.
- Development and integration of multimodal logistic parks to the pan-India connectivity will improve storage facilities, reduce transport costs, and enhance efficiency of the entire logistics network of the country.
- In the air freight sector, in order to meet the growing demand and improve efficiency of existing facilities, it is essential to lay down a comprehensive policy framework, governing air cargo operations in the country. On an operational level, there is a clear need for improvement to the off-airport facilities for cargo processing, handling for clearance and customs procedures.
- Large scale projects such as the development of large container terminals should be integrated with hinterland connectivity projects and emphasis should be placed on last-mile connectivity network. Privatization of container operation by Indian Railways should be continued.
- There is an urgent need for state-of-the-art technologies such as Automatic Storage and Retrieval System (ASRS), Elevated Transfer Vehicle (ETV) to be deployed in the cargo terminals etc. Additionally, Radio Frequency Identification devices and GPS tracking should be implemented for real-time monitoring and better fleet management. Similarly, information management systems should be implemented on a wider level.
- Along with growth and infrastructure development, emphasis should be laid on sustainability and use of strategies and technologies that reduce carbon footprint and toxic air emissions. Technologies that offer promise as effective means to achieve a reduced carbon footprint include alternative vehicle technologies like electric vehicles and alternative fuel technologies like LNG and bio fuels should be considered for the short- and long-term sustainability. LNG terminals successfully developed in Kochi and Dahej can serve as examples in the port sector. As also the government can extend subsidy to the entities using green fuelled vehicles and infrastructure particularly on solar based energy fulfilment in terminals etc.
- There needs to be a strong focus on containerization for both domestic and EXIM cargo. The Dedicated Freight Corridor project needs to be completed without delays. It will go a long way in increasing railways market share in freight transport and bringing down logistics costs. There also needs to be a push to develop Inland Waterways and Coastal Shipping. This initially needs to come from the government by way of policy reforms and subsidies or other financial incentives.
- Proactive dredging of our waterways particularly the silted riverine basins will go long way in shoring up the maritime trade in the country.
- Adoption of latest technologies such as world wide best practices like smart-way, CIVITAS, combi-road, SMARTFREIGHT, CUTE (Clean Urban Transport for Europe) can be implemented.
- The Indian maritime sector needs simultaneous multiple interventions to achieve certain goals which are concomitant with the economic growth of the country. Some of the goals to be targeted for achievement by the end of the decade (2020) are:

▪ Create Port capacity of 3200 M.T. for handling about 2500 M.T. of cargo

(This would necessitate an investment of about Rs 3 lakhs crores).

- Improve Port performance on par with the best in the world.
- Increase tonnage under the Indian flag as well as under Indian control (This would need an investment of about 1.20 lakh crores).
- Increase Coastal shipping and facilitate hassle-free multimodal transport.
- Increase India's share in global ship building to 5%.
- Promote use of the inland waterways for cargo movement.
- Increase the strength of Indian seafarers to 9% of the global strength by 2015 and sustain above this level.

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kannan.t@caprusty.com

STRATEGIC COST MANAGEMENT IN LOGISTICS AND TRANSPORTATION - AN OVERVIEW

Rajib kumar Dutta
Asst.Manager-Commercial (Godrej & Boyce Mfg co ltd), Kolkata

Cost competitiveness is one of the major factor for having sustainable business advantage. In this context cost which is one of the major element of business strategy, evolves as the most important decision making subject in every sphere of discussion in the board room. Experts see cost as major factor in having a Cost competitive advantage over others.

All business and organisations need to use their best possible ways of strategic services at some point in their operations especially manufacturing, wholesale & retail industry to give fillip in their sustainable growth.

In the race to get a more competitive edge over the others an area that is increasing coming under focus in the Supply Chain Management (SCM) and its subset logistics.

While the first mover advantage in any business consider the cost management to be vital and important, the strategic and judicious management of the total supply chain in a much cost effective & efficient way is much awaited and most important aspect for better profits. It is said 'control cost for better profits'.

Ownership of infrastructure

More business are moving towards build-to-order models and low inventories. Greater value is being placed on fast and accurate inbound and outbound information.

Many web-based businesses outsource their order management, warehousing,packing and customer suport functions to major parties who manages not only the infrastructure but gives better solution.

Growing competition among firms has given a new form of infrastructure management where firm addresses and outsource to carry out major activities to third -party logistics service providers (**3PLs**).

Firms in the emerging 3 pl sub-sector provides a designed set of customized logistics services, tailored to the exact needs and specifications of clients, on a third party basis.They integrate all functions into seamless supply chain management system which inturn gives boost in the bottomline of the client. Logistics service providers or 3PLs are often engaged by firms to provide warehousing services and sometimes to guide the developments and implementation of best practices for both the transportation service itself as well as management of the transportation companies providing the service. Outsourcing all or part of the infrastructure to own is a popular practice in industry, especially in prominent companies that consider logistics a strategically important function.It has been estimated that over 70% of these firms use a 3PL to manage at least portion of their activities starting from owning warehouse,transporation etc. However in most cases the major objective of outsourcing is targeted 20% cost reduction with actual savings comings from direct labour and variable costs. However the purpose is to better understand the conditions under

which strategic cost management through infrastructure outsourcing is beneficial or detrimental to plant cost performance on a key dimension the cost of goods sold (**COGS**).

Viewing third party logistics services as a long term strategic management tool offers several advantages:-

1) **Cost reduction**-3PL providers are specialized service providers with core competencies in managing logistics operations, 3 pl providers offer benefits of economies of scale and lesser cost of services.They are able to do so this because of pooling in idle time of resources that translates in reducing operating cost.These effects may not be easily visible but experience suggest that these are cost beneficial.

2) **Maximising revenues**-By outsourcing the logistics functions the companies can concentrate on their core business and can utilize their financial resources to maximise returns. The 3PL providers take care of routine work that faces the human resources and time spent on routine functioning.

3) **IT facilities**-Timely flow of information from production centres to the shop floor is as important as the physical flow of material because ultimately the sourcing and production depends on raw materials and production ability.

Controlling cost are different from reducing costs.The primary concern is to control costs and then go in for the reduction.These cost control measures may not transport into tangible benefits but the companies stand to gain in the long run.

Containerization

Transportation costs account for a very significant portion (in some cases as high as 40%) of the material cost and as such a very high potential exists to reduce these costs.

One of the most important way of carriage of goods is containerization.

What is Container shipping?

Container shipping is different from conventional shipping because it uses containers of various standard sizes-20 foot (6.09 m),40 foot (12.18m),45 foot (13.7m),48 foot (14.6m),53 foot (16.15 m)-to load ,transport and unload goods.As a result containers can be moved seamlessly between ships,trucks and trains.The two most important,and most commonly used sizes today,are the 20-foot and 40-foot lengths.The 20-foot container,referred to as a Twenty-foot Equivalent unit(-TEU) became the industry standard reference, so now , cargo volume and vessel capacity are commonly measured in TEU.The 40-foot length container literally 2 TEU became known as forty foot equivalent unit(FEU) and is most frequently used container today.

The container sizes need to be standardized so that the containers can be most efficiently stacked-literally, one on the top of the other and so that ships, trains, trucks and cranes at the ports can be specially fitted or built to a single size specification.This standardization now applies across the global industry, thanks to the work of the International Organisation for Standardization (ISO)1961, set standard sizes for all containers.

Some few most common examples of containers are given,however there are also platforms(Plats) and flatracks which are used in the industry.

1) Standard container
2) High Cube containers
3) Tank Containers
4) Bulk containers

Every containers has its own unique Unit number,often called a box number that can be used by ship captains,crews,coastguards,dock supervisors,custom officers and warehouse managers to identify who owns the container,who is using the container to ship goods and even track the container's whereabouts anywhere in the world.

Multimodal Transport operation

It is also known as combined transport.Multimodal is a transportaion of goods under a single contract,but performed with at least two different means of transport;the carrier is liable (in legal sense) for the entire carriage,even though it is performed by several different modes of transport(by rail,sea,and road for example).The carrier does not have to possess all means of transport,and in practice usually does not;the carriage is often performed by sub-carriers(legally "actual carriers).The carrier responsible for the entire carriage is referred to as a multimodal transport operator or MTO.

Definition- "International multimodal transport" means the carriage of goods by at least two different modes of transport on the basis of a multimodal transport contract from a place in one country at which the goods are taken in charge by the multimodal transport operator to a place designated for delivery situated in a different country"

Cost efficiency

Transportation cost is determined by the factors as stated below:-

1) **The value of the product** - The higher the value of the product to be transported,the higher is the transportation rate.
2) **Volume of the traffic moved** - Transport cost are lower if volume of goods to be transported is more (e.g a full truck/wagon load would be cheap in comparison to quater wagon load or half wagon load)
3) **Density** - The denser the product the easier it is to load into a carrier and consequently lower are the transportaion rates(e.g cloth is cheaper to transport than bales).
4) **Space required** - Bulky items cost more to transport as they require more space and transportation rates are higher as they are based on space required.
5) The place to which the goods are to be transported-If the goods are to be transported to a small city or town from where there is little or chance of getting return shipment the rates are higher.

Products sales and Secondery freight comparison 2012-13 vs 2013-14 (ytd June)		
(Including Interstate Bill sales) Values-Lacs		
Fy	2012-13	2013-14
Total sales	2233.08	2262.12
Freight	62.23	67.91
CTS	2.79%	3.00%
Local sales	629.62	533.9
Freight	3.23	2.88
CTS	0.51%	0.54%
UPC sales	1603.46	1728.22
Freight	59.00	65.03
CTS	3.68%	3.76%
Local/Upcountry Ratio	28:72	24:76

Impact for change in Ratio:

If in CY Company could maintain 28% contribution in local, local BS (Bill sales)

would have been 633.39 lac and freight would have been (633.39*0.54) = 3.35

Actual spending 2.88
Difference less spent in local 0.47

This difference of Rs. 99.49 lacs (633.39-533.90) in upcountry has costed (99.49*3.76%) 3.74
Over spent on these change of local and upcountry ratio (3.74-0.47) 3.27
Net impact on total freight (67.91-3.27) 64.64
Bill sales 2262.12
Net CTS = 2.86%

The above example depicts that the higher the sale in Upcountry the cost to sales increases.Obviously with proper vehicle mix and proper distribution of product types the above example stands relevant.

4) Competition -The rates also depend on the demand and supply of the carriers.If the larger number of carriers are available the rates will be lower.

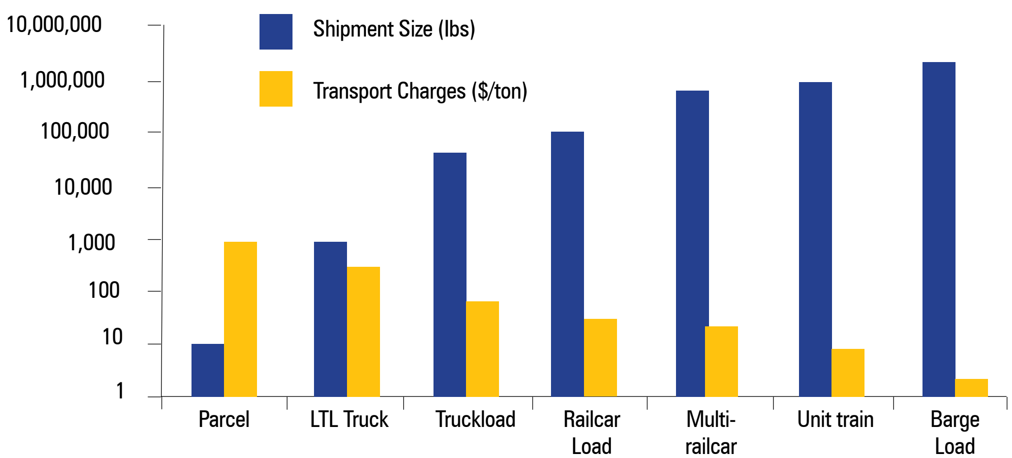
Transport costing

While costing for transportation need to have clear view on the basic constituents.Below is the detail factors which directly affect the costing which needs to very minutely viewed and analysed.

Constituents of transportation costs:-

a) Packing costs
b) Documentation costs
c) Loading charges
d) Freight
e) Local clearance charges
f) Demurrages
g) Losses due to pilferages,breakage etc
h) Cost of tracing missing consignments
i) Transit insurance
j) Cost incurred in lodging insurance claims.
k) Inspection Cost of damaged goods.

Shipment sizes and costs



Sector	Cost components (in US$mn)	Transportation	Inventory holding	Warehousing packaging & loses	processing & adminstrative	Total logistics Cost
Auto	2012-2013	606.5	343.9	364.3	151.6	1466.5
Cement	2012-2013	65.4	43.3	46	14.8	169.5
Consumer Durables	2012-2013	498.9	339.3	359.3	109.7	1307.2
FMCG	2012-2013	380.7	268.4	282.5	90.2	1021.8
Food	2012-2013	624.5	414.7	440.9	181.1	1661.2
Garment	2012-2013	554.4	372.6	395.3	150.6	1472.9
Pharmaceutical	2012-2013	410	286	301.5	97.5	1095
Steel	2012-2013	793.6	516.1	550.8	273.4	2133.9

l) Unpacking cost
m) Unloading charges
n) Warehousing charges.

Indian logistics an overview and emphasis on Private public partnership

While doing analysis of the total Indian logistics sector we have observed the percentage of cost in distribution/transportation is almost 40 % of total logistics cost for all sectors. Similarly inventory holding is 25 % .The transportation is the major cost component which is higher than any other component and Indian logistics requires a major revamp in Road traffic,Sea and Air facilities.While major transporation is done through Road which caters to 65% of traffic. The motorable is 2 lacs kms (6% of 40 lacs kms of Road).

An approach that has attracted much attention in recent years is for public authorities to come together with public sector parties as a public private partnership(PPP).Although there is no individual definition of a PPP but it sometimes refers as an arrangement that expands beyond financing leveraging private resources ,expertise and management.

Conclusion

There is enough scope of private sectors to engage themselves with public partnerships to develop a project,implement a procurement process,structuring the deal,and arranging partnership management post contract.This ultimately will give a overall change in infrastructure for developments in transport and logistics sectors ultimately a overall cost reduction for all sectors therby making profitable business. MA

rajibkrd@godrej.com

ROLE OF PPP IN BUILDING ROAD TRANSPORT INFRASTRUCTURE: AN INDIAN PERSPECTIVE

Dr. Raghavendra B.N.
HoD, PG Dept. of Commerce, East-West College of Management, Bangalore

Usha C.
Assistant Professor, Karnataka State Open University, Mysore

Public-Private Partnership (PPP) is emerging as the new success corridor to build world class infrastructure. After the economic reforms, Government encouragement for private participation to the development of public infrastructure also has increased through various policy initiatives. Road transport sector has been considered as a key sector in the Indian Transport Sector.

Table 1: Total Road Lengths in India

Road Types	Road Length (km)		Total Share (percentage of the Total Roads in India)
	Karnataka State	All States	
National Highway Length	4,642*	79,116	1.7 %
State Highways	20,774	1,55,716	3.3 %
Other Roads	2,06,684	44,55,010	95 %
Total Length	2,32,100	46,89,842	100%

*Source: Ministry of Road Transport and Highways (MoRTH), Annual Report 2012-13, Aranca Research and Economics Survey of Karnataka 2011-12. *As of March 2013.*

Addressing the 3rd International Summit on Infrastructure Finance organised by Assocham, Dr. Arvind Mayaram, Secretary, Department of Economic Affairs, Ministry of Finance emphasized on "Innovative ways to finance infrastructure projects such as Public-Private Partnership that offer advantages in terms of leveraging public capital to attract and undertake a large number of infrastructure projects, introducing private sector expertise and cost reducing technologies to bring in efficiency in operation and maintenance".

A Public Private Partnership is an agreement between the Government and private sector for the purpose of provisioning of public services or infrastructure. PPPs are augmenting to increase resource availability as well as to improve efficiency of infrastructure service delivery. The public and private sector bring their own experiences and strengths with a common vision for the accomplishment of mutual objectives.

The term "public-private partnership" has been in general use since the 1990s. However, there is no widely agreed, single definition or model of a PPP. The term "PPP" covers a range of different structures where the private sector delivers a public project or service.

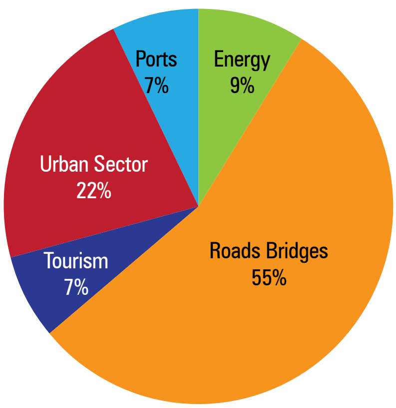
Standard & Poor's definition of a PPP is any medium-to-long term relationship between the public and private sectors, involving the sharing of risks and rewards of multi-sector skills, expertise and finance to deliver desired policy outcomes.
Source: Standard & Poor's PPP Credit Survey 2005

PPPs are long-term partnerships to deliver assets and services underpinning public services and community outcomes. Optimal structuring links private sector profitability to sustained performance over the long-term, yielding robust and attractive cash-flows for investors in return for delivering better value for money to the taxpayer.
Source: John Laing plc

Public Private Partnerships offer a unique and innovative method of involving the private sector in the nation building activity and in accelerating the delivery of public goods and services of high quality through joint enterprises. The GOI has been focusing on the development of enabling tools and activates to encourage private sector investments in the country through the PPP format. As a part of meeting financial gap, the PPP model is

Table 2: Number of PPP Projects in India: State-wise		
Types	PPP Projects (No.)	Total Cost (in INR Bn.)
Karnataka	105	444.6
Andra Pradesh	98	677.0
Madhya Pradesh	86	149.3
Maharashtra	76	459.2
Gujarat	72	453.2
Rajasthan	65	164.8
Tamil Nadu	50	214.9
Haryana	35	678.4
West Bengal	34	68.5
Orissa	32	226.5
Kerala	32	222.8
Punjab	32	46.5
Other States	164	1625.3
Total	881	5431
Source: www.pppindiadatabase.com		

Figure 1: Sector-wise PPP projects in India
(Total No. of Projects – 881)



Source: pppindiadatabase.com

increasingly been seen as a means of harnessing private sector investment and seeking operational efficiencies in the provision of public assets and services. Public Private Partnership will definitely be an attractive option in meeting this challenge.

Road infrastructure: Mechanism for growth

Road Transport is the backbone of Transport Sector. India has the second largest road network in the world, spanning a total of 4.7 million kilometers. This sector has gained a lot of interest in the past few decades with Government intervention particularly through PPP mode. In India, Road Transport is used to transport more than 60 per cent of total goods and around 85 per cent of total passenger. Government of India has allowed 100 per cent FDI to invest on the road sector for the development of road or highway. A Road network in India consists of National Highways, Expressways, State Highways, Major Districts Roads and Rural Roads that include Other Districts Roads and Village Roads with the following length distribution.

From **Table 1**, it can be observed that National Highways (including Expressways) in India have a total length of 79,116 km with 1.7% of a total share and in Karnataka 4,642 km as on March 2013 with a share of 2% which serve as the main road network of the country. Even though Expressways and National Highways constitute only about 2% of the length of all roads, they carry about 40% of the road traffic. The number of vehicles has been growing at an average of 10.16% per annum over the last five years.

Further, State Highways in India is having a length of 1,55,716 km with 3.3% of total length and in Karnataka have a length of 2,06,684 km with a share of around 9%. This was followed by Other Roads includes Major District Roads, Rural Roads (Other District Roads and Village Roads) having a total length of 44,55,010 km constituting majority share of 95% of total lengths in India and around 89% of Karnataka's total length includes Major District Roads of 49,906 km, Municipal Roads of 8,366 km, Other Roads of 1,48,412 km

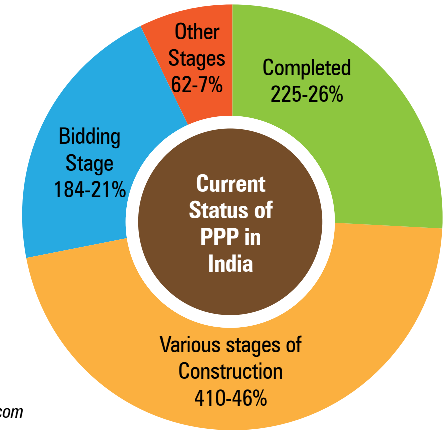
Public-private partnership as an effective tool

Public Sector is likely to continue to play an important role in building transport infrastructure. To bridge the gap between resources required and the availability of resources at the public sector, it is necessary to include a private investment in PPP mode. Basically, PPP is measured as an effective tool for creating economic and social infrastructure, managing cost effectively and delivering quality public services. This strategy was also supported by Government of India and has begun to show good results in both Centre and State Sectors.

From the above **Table 2**, it can be concluded that as on January 2012 India is having a total number of 881 PPP projects with a total cost of

Rs.5431 Bn. Karnataka had the maximum of 105 projects with total cost of Rs. 44,459.85 crore under PPP followed by Andhra Pradesh 98 projects with project cost of Rs. 67,696.31 crore, Madhya Pradesh 86 projects (Rs. 14,928.7 crore), Maharashtra 76 projects (Rs. 45,916.34 crore), Gujarat 72 projects (Rs. 45,315.02 crore), Rajasthan 65 projects (Rs. 16,479.5 crores), Tamil Nadu 50 projects (Rs. 21,491.04 crores), Haryana 35 projects (Rs. 67,840.57 crore), West Bengal 34 projects (Rs. 6,849.8 crore) and Orissa (Rs. 22,652.88 crore), Kerala (Rs. 22,281.54 crores), Punjab (Rs. 4,653.7 crores) with 32 projects each and Other States 164 projects with project cost of Rs. 1,62,530 crores.

Figure 2: Current Status of PPP in India



Source: pppindiadatabase.com

Table 3: Key Public-Private Partnership (PPP) Projects in Road Transport in Karnataka State

Roads	Project name	Investment
(US $ Million)		
Bengaluru Development Authority	Construction of Ring Road around Bengaluru City	652.2
Karnataka Road Development Corporation (KRDCL)	Development of Road from State Highway-17 to State Highway-19	307.2
Karnataka Road Development Corporation (KRDCL)	Development of Road Sira – Madugiri –Gowribidanur – Chikkaballapura – Shidalgatta – Chinthamani – Srinivasapur – Mulbagal SH 58 and other connecting roads	309.1

Source: www.pppindiadatabase.com; Ministry of Road Transport and Highways (MoRTH), Annual Report 2012-13,

Public private partnership in road transport

There is a need to improve an infrastructure especially in the field of Road Transport Sector which is necessary for the economic growth of the developing country like India. Therefore, Government of India is introducing various reforms to boost the development of the road infrastructure through PPP route. The implementation of PPP programmes and the acceleration of projects have brought significant opportunities for the private sector. Many countries initially develop PPPs in the transport sector and later extend their use to other sectors, such as education, health, energy, water and waste treatment, etc.

Participation of the private sector in the development of road projects are through PPP models such as Build-Operate-Transfer (BOT) and Design and Construction (or Design and Build/EPC) contract. BOT (Toll) and BOT (Annuity) are the two variants of the BOT model through which capital from the private sector is invested in the development of road projects.

PPP initiative would improve the sustainability of road transport and accelerate the move towards the electrification of road and urban transport. However, the underachievement of the roads sector in 2012-13 was mainly due to slow environmental clearances, land acquisitions, and time/cost overruns. For addressing these issues, the Government has adopted the EPC mode for building roads and is contemplating de-linking of environmental and forest clearances for road projects.

In India, 881 PPP projects with a total cost of Rs.5431 Bn. were awarded/underway status i.e. in operational, constructional or in stages where at least construction/implementation is imminent. The maximum number of PPP projects has been undertaken in the Road Sector constituting 55% of the total projects. This was followed by Urban Development Sector with 22%, Energy Sector with 8%, Ports with 7% and the Tourism Sector with 7% which is shown is **Figure 1**.

Further, the above figure explains that among the total 881 projects, 225 projects have been completed constitute 26% of total projects whereas 410 projects are under various stages of construction representing 46% of total PPP projects, 184 under bidding stage i.e. 21% total projects and the remaining 7% of the total projects i.e. 62 projects are under other various stages.

PPP in karnataka state road

transport

Karnataka State is well associated to its five neighboring states and other parts of India via 15 National Highways that run throughout the state. State Highways (SHs) and Major District Roads (MDRs) constitute the secondary system of road transportation in the country which carries around 40% of the state road traffic. The Karnataka Road Development Corporation Ltd (KRDCL) has been created as a state-owned enterprise for the development of road infrastructure facilities in the state.

To overcome the various technical issues and to build sustainability in Infra Project Development in the State, Karnataka Infrastructure Transformation-1 (KIT-1) was designed with Project Shelf Development, PPP Institutionalization, Initial Capacity Building, MIS Updation, Sector Inventory and Profile Preparation.

Table 4: Seven Phases of NHDP

NHDP Phase	Project description	Total length (Kms)	Cost	Development Model
Phase I	Development of Golden Quadrilateral, North South and East West (NS-EW) corridor, port connectivity and other National Highway.	7,522	USD 7.0 billion	EPC (Engineering-Procurement and Construction)
Phase II	Development of North South and East West (NS-EW) corridor and other National Highway.	6,647	USD 7.2 billion	EPC
Phase III	Development of Four Lane National Highways.	12,109	USD 18.5 billion	PPP (Build-Operate-Transfer)
Phase IV	Upgradation of Single Lane to Two-Lane.	20,000	-	PPP
Phase V	Upgradation of Four-Lane Highways to Six-Lane and port connectivity.	6,500	USD 9.3 billion	PPP
Phase VI	Development of Expressway.	1,000	USD 3.8 billion	PPP (Design -Build-Finance-Operate)
Phase VII	Development of ring roads, bypasses and flyovers.	700	USD 4.2 billion	PPP (Build-Operate -Transfer)

Source: NHAI, Aranca Research

National highway authority of india

The National Highways Authority of India (NHAI) was established as a statutory entity under the National Highways Authority Act, 1988. It is entrusted with the responsibility of implementing a greatly expanded National Highways Development Project (NHDP) spread over Seven Phases with an estimated expenditure of Rs.4,71,975 crores and envisages the improvement of more than about 54,500 km of major routes of National Highways network to international standards.

The Government of India has formulated a seven phase programme known as 'National Highway Development Project (NHDP)', vested with NHAI, for the development of national highways in the country.

The National Highway Development Programme (NHDP) is the largest and very essential infrastructure program being undertaken in country to develop National Highways. The program envisages upgrading or strengthening of around 54,000 km of the National Highways in several phases with an investment of around INR 3,000 billion.

Government initiatives to boost private investment

Private Sector is emerging as a key player in the development of road infrastructure in India. The PPP model has emerged as the favoured one for private sector participation in road projects. Infrastructure is a priority of the Government's economic policy. Therefore, the Government has been eager to involve private sector funding for infrastructure projects. Thus, to encourage the private investment Government has taken various initiatives are highlighted below.

1. ***100 per cent FDI in Road Sector:*** With the Government of India permitting 100 per cent FDI in the road sector, most foreign companies have formed partnerships with Indian players to participate in the road sector.
2. ***100 per cent exemptions from Income Tax:*** Companies enjoy 100 per cent tax exemption in road projects for five years and 30 per cent relief for the next five years.
3. ***Infrastructure Investment:*** The Government targeted USD500 billion worth of spending on infrastructure in the 11th Five-Year Plan; the amount is set to double to USD 1 trillion in the 12th Five Year Plan.
4. ***Tax-Free Bonds by Financial Institutions:*** Financial Institutions have received Government approval to raise money through tax-free bonds of about USD5.5 billion in FY12 and up to USD4.6 billion in FY13.
5. ***Tax-Free Bonds by Infrastructure Finance Companies:*** Infrastructure Finance Companies such as India Infrastructure Finance Corporation (IIFCL), National Highways Authority of India (NHAI), Housing and Urban

Development Corp (HUDCO), Power Finance Corporation (PFC) and India Railway Finance Corporation (IRFC), have been allowed to issue Tax-Free Bonds for a total value of USD9.2 billion for FY14.

6. ***Road Regulatory Authority:*** The Indian Government plans to establish a Road Regulator Authority in FY14 to address financial issues, construction risk and contract management in the road sector.

7. ***Long Term Funding Agency:*** The Government of India has set up the India Infrastructure Finance Company (IIFCL) to provide long-term funding for infrastructure projects.

8. ***Infrastructure Debt Funds (IDFs):*** IDFs income is exempt from income tax.

9. ***Interest on borrowings:*** Interest payments on borrowings for infrastructure are now subject to a lower withholding tax of 5 per cent vis-à-vis 20 per cent earlier.

10. ***Tariff on Capital Goods:*** Government has removed tariff projection on capital goods.

11. ***Custom Duty Exemption:*** Custom Duty on road construction equipments extended to projects awarded by MDA is exempted in the Union Budget of FY 13.

12. ***Toll Charges:*** Government of India has removed toll charges for rural roads.

Conclusion

Infrastructure always plays a key role in the country's economic and financial development. Road Transport Sector has witnessed a considerable development in the last decade and continues to be the focus area. However, the speed of implementation of road projects has been hindered by execution delays and issues in economic viability. Identifying the problems involved in growth and execution of road projects pose a major challenge. As a consequence, Public Private Partnerships offer a feasible alternative to traditional procurement methods. Delivering PPP services efficiently together by private and public sector in order to bridge the financing gap on infrastructure projects that exists in India is imperative. Therefore, it is very essential for both Central and State Government to take up some major initiatives on priority basis for promoting PPP projects. PPP projects if implemented properly, it will undoubtedly register a vigorous growth in economy thereby making the country vibrant in the global competitive arena.

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bnraghavendra2005@gmail.com
usharaghu.ur@gmail.com

THE PRINCIPLES OF COST MINIMIZATION: A BRIEF REVIEW

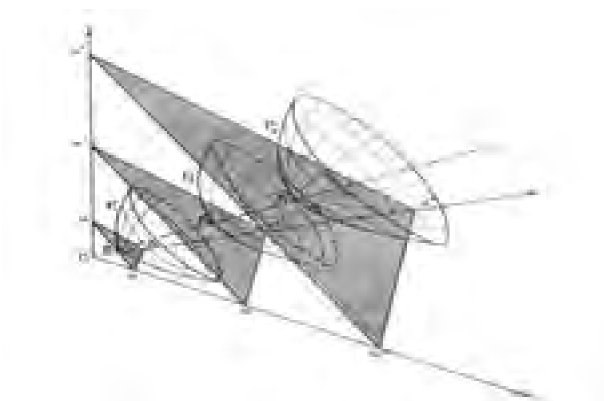
Dr Saibal Kar
Centre for Studies in Social Sciences, Calcutta and Institute for the Study of Labor (IZA), Bonn, Germany

The duty of cost minimization and control is to guide, regulate, or exert a directing influence. It is sensible only to the extent that it does not impede accomplishment of the desired task. Measurement of accomplishment of a specific activity is not always susceptible of precise numerical expressions; the final success of an activity must be determined by managerial decision. Cost management involves constant measurement of costs on the one hand and the appraisal of aims and results on the other hand. This usually involves fine balancing of sacrifice and achievement. Cost data can suitably assist in shaping decisions even though it rarely provides a complete answer. In this context, all-inclusive unit costs are frequently used in a manner which would imply their absolute exactness. However, cost figures are based on accounting data which include certain rule-of-thumb judgments and arbitrary conventions. At a very nascent state of development it was hoped that the development of fundamental concepts of cost accounting would lead the way towards a reduction in the use of differing cost conventions and judgments. A unit-cost figure, which usually gets to reflect the efficiency criterion in production when fitted against the production schedule is essentially affected by volume of output, length of costing period used, and abnormalities in incurred costs and operating conditions within the particular costing period. Fortunately, the unit cost calculations became an important cornerstones in accounting and related disciplines almost at the same time creating strong synergies in the way further developments of the subject should take place. It caught up with the common perception rather quickly that discussion and references to an all-inclusive unit cost was useless unless the constituent components were carefully identified and explained. Consequently, in nearly all cases cost relationships beyond those which are most immediate and direct are not susceptible to more than a rough approximation. Therefore, cost accounting is forced to choose between completeness on the one hand and exactness on the other.

A few years after Clement Stanford put forth such arguments in The Accounting Review of 1948, Gordon Myron (1951) of the Carnegie Institute of Technology referred to more compelling structural definitiveness associated with the principles that have closely guided the main purpose of cost accounting since then. He cites W. L. Reed of the American Accounting Association's Committee on Statement of Cost Accounting Principles: "The purposes of cost accounting are: (1) to assist in the minimization of costs of performance within the business unit, (2) to provide information basic to the determination of net income and financial position, and (3) to aid in the solution of specialized problems of business management." The last two of these three purposes have been the criteria for a long and vigorous debate on the method and extent to which costs should be classified by products in the accounts. Should fixed costs, service department costs, and producing department indirect costs be carried to inventory values? If these costs are classified by product, should the allocations be at each stage in the process of production with reciprocal and multi-step distributions of service department costs and with different distribution bases for each type of cost, or should less elaborate methods be used?

In similar attempts to formalize the role of cost accountancy, it was pointed out that the commonly held belief about the independence of product and organization costs as two different activities was erroneous for three important reasons. First, the accounting system is one matrix which provides classifications of data for all purposes. Since the accountant like any other producer of commodities or services must also suffer from the usual constraints, using the system to develop one type of classification limits the resources available for alternatives. Also, refinements in one basis of classification frequently make it extremely difficult to develop understandable data on any other basis. Secondly, product and organization costs are to some extent necessary for each other. To charge indirect costs to products, if it is so desired, they must first be collected by departments. On the other hand, an organization produces commodities or services and their costs must be established in order to arrive at the organization's costs. This immediately raises the question: to what extent should costs be classified by products in order to have organizational costs useful for control objectives? Finally, the accounting system may be used as a control instrument in two fundamentally different ways. The system may be used as a source in the collection, analysis, and interpretation of data for the solution of problems, or the system may be used to provide the answers to problems directly. A different classification of costs by product is appropriate to each role. Consequently, the desirability of a definition of product costs depends upon the usefulness and the limitations of the system in the role which requires the definition. Overall, the most compelling principles of control provides a means of measuring performance and efficiency. Such measurement may be based on an individual worker, an operation, a department or an entire plant. Since any measurement of performance is a relative matter, the cost units used must be compared with the units of production adjusted for unusual conditions to permit proper interpretation. The scope of cost minimization having been laid down here quite elaborately, it is still possible to find from the same paragraphs that the objective has been purposefully limited to very specific tasks. Fortunately, the dimensions of cost minimization are many and lends themselves easily into several interesting policy questions. Let me refer to an extreme example here. The story in the following paragraphs and the derived implications point out that cost minimization as dealt with in the subject of economics involves much more than cost control within an organization only.

Long time back a very famous newspaper publication house in India used to bring out monthly comic series books on Phantom, Mandrake and Flash Gordon as the three very popular characters that many kids in the country at that time grew up with. The stories were surprisingly innovative, treatments were smart and the pictures stunning. In one of these stories featuring Flash Gordon, the famous American space explorer and a football player graduating from the Yale University was out on a tour of the North Pole with his scientist friend Dr. Djarkov. There, in the deep freeze of the land of polar bears these two explorers on a jet propelled amphibious craft saw a strange sight. A long stretch of the polar region was under wheat cultivation and it seemed unlikely that the Eskimos were responsible for the production. Before Flash and Djarkov could inquire any further, the 'perpetrators' -- given that the location fell under the US jurisdiction-- had noticed that they have been discovered. Immediately, these 'people' who had migrated to Earth from the planet of Valkyrie played a trick. They had a snow machine which could bring down the temperature of the surrounding regions within a radius of about 10 miles to levels much below the tolerance limits of earthlings. To stop further intrusion and protect their colony from the aggression of the human population, the leader of the group set the temperature of the machine to minus 70 degrees and began to fire the cold waves. The outcome was devastating. Everything, including polar science station to polar bears froze completely. Flash and Djarkov were on the verge of losing their senses even though they were sitting inside a warmer place. At the last moment Flash could turn on a heating machine on their jet. Slowly both of them regained their senses, as the heater melted the snow from their bodies and faces. They managed to escape a cold death and went back to report to the president. If the reader already considers this as a childish distraction with no relevance whatsoever to the main aspect of this article, I could not possibly complain. However, if that person could possibly refer to another story which involves cross-galaxy negotiations about cost-minimizing reallocation of resources and upholding of property rights then the present episode should readily turn redundant. But that is precisely what we briefly offer until a better example presents itself. To cut a long story short, Flash and Djarkov went back to North Pole and managed to bring the leader of the Valkyrie to the negotiation table. The Valkyries had fled their planet because the cost of keeping it cold had gone up extensively owing to global warming. On the other hand, there were a number of underwater colonies and research stations built up on earth which were not operational because the cost of heating them up were too high. It is easy to see now that there is potential gains from trade between earthlings and Valkyries, because earth could secure the rights to extract rich mineral deposits in the distant planet in exchange for giving Valkyries the permission to live in the freezing underwater colonies. They would not require heating because they liked extremely cold weathers and therefore the cost of living down there could be brought down to zero. In addition, they would send up their extra harvest of fish and vegetables at no cost to the earthlings. The wheat that they had produced in the North Pole at no extra cost despite the inadmissible cold temperature turned out to be capable of feeding thousands of poor people in Africa. Overall, this clearly provides an account of a cross-galaxy cost minimization on several fronts and could bear much more generalized appeal (not necessarily across planets) if the institutional flexibilities allow that to happen in the first place. I must confess that there was a simpler reason to invoke this example, however. The snow and cold generating machine of the Valkyries looked quite like the first generation depiction of cost curves as in figure 1.



Source: Robert J Wolfson (1960), Long-Run Costs, Short-Run Costs and the Production Function: A New Exposition, Weltwirshaftliches Archiv, 85, 255-269.

The arguments for cost minimization and the precise procedures for cost calculations as modern economics gets to understand and refine it have surfaced much earlier though. Holis Chenery in his article published in the Quarterly Journal of Economics, 1949 discussed the entire gamut of production as viewed by the engineer vis-a-vis an economist albeit they have a common goal: to produce a quality output at the lowest possible cost. He argues that the difference between the economist's problem and that of the engineer is shown most clearly by the variables which they find it convenient to use. In describing the process of production, both must deal with the quantity, quality, and price of all feasible inputs which may produce a given output. The interaction as pointed out in direct observation of the process of production shows that the engineer is interested first in the selection of inputs and second with the quantity of each required optimally for the final product. The engineer normally treats prices as parameters which will either be held constant throughout the analysis or at most take only a few possible values. This treatment of the stages of production actually turned out to be the most authentic representation of the structure that subsequently became the foundation of modern cost analysis, including the well known adoption of cost curves in production analysis. The economist, unlike the engineer is interested primarily in the effect of varying prices upon productive combinations. The economist, and in case of a proper production facility the entrepreneur providing an appropriate depiction of the decision maker, treats each qualitative variation in an input as if it were a separate input in order that each one will have an individual price. Chenery reminds that this procedure is useful so long as the discussion remains on an abstract level, and that it gets very cumbersome to apply in analyzing an actual productive process. Since the engineer's primary aim in the first stages of analysis is to determine what inputs may be combined to produce a given result, he describes the process in terms of the properties of the inputs. For example, to determine the input requirement of an unspecified metal, he may state the hardness, tensile strength, and resistance to corrosion or rust necessary to produce a given result. At this point cost calculation using the assumed prices is necessary to choose the metal which will prove most economical. The quality and type of the inputs, which the economist assumes as parameters, are the end result of this phase of engineering analysis. Since the design of an industrial plant consists in a long series of such calculations, the engineer does not usually consider a wide range of price possibilities but merely adopts the combination of inputs which produces the least cost with the assumed prices. The engineer's design calculations are therefore usually limited in their applicability to the few price combinations which have been considered. It is not feasible for him to maintain the degree of generality which the economist prefers in reserving all cost calculations until all possible physical combinations of inputs have been considered. This method would greatly increase the work of designing even a simple plant. In the process, the engineer makes a series of least-cost calculations as he goes along. This is precisely where the perceived differences in the responsibilities facing an engineer as compared to the cost accountant vanishes with very little margin of error for either.

Having said that, it should be considered axiomatic that an organization has control over its costs only when its management wants to control costs. Conversely, when management lacks interest in cost control, costs remain uncontrolled. It is management's function, among a great many others, to establish a target for profit. A wide-awake management will look ahead and attempt to come to some conclusion as to what it is after and what it can reasonably hope to obtain. To achieve its profit target, the management must inaugurate a systematic plan of assuring proper expenditure and must establish upper and lower limits of expenditure. Finally, it will need to put its plan into effect at all levels of management from the top to the bottom of the organization.

In order to provide support to this organizational plan via use of statistical and economic tools, it seemed evident that statistical cost functions would attempt to determine the nature of the intra-firm relationship between costs and output. This is critically dependent on the availability of accounting data. The two major findings suggested by research in this field are (i) that short-run total costs are linearly related to output, so that marginal costs are substantially constant over a wide range of output; and (ii) that long-run average cost tends to decline with increases in the scale of output, quickly at first and then more slowly, but with little or no indication of the expected rise at high output levels. This went through several layers of refinement for example by J. Johnston (1958, The Review of Economics and Statistics). Firstly, it has been suggested that the statistical methods employed impart a bias toward linearity. R. Ruggles (1941, American Economic Review), for example, argues that the rather prominent curvatures in the Marginal Cost curves (which also represents the supply schedule under most characterization of the product market) and Average Cost curves will impart very little curvature on the total cost function. He produces two diagrams of the same over-all size, one showing average and marginal curves and the other the corresponding total cost curve. The former show marked curvature, while the latter is practically linear. Manipulation of the vertical scale on a diagram cannot then tell us anything about the existence of a linear bias. This can only be established by a consideration of the method of statistical inference employed. Actually, if the cost data were as shown by Ruggles, the statistical analysis would yield a cubic total cost function, for the said analysis was driven by an assumption of exact functional relationships. Johnston points out that the real problem in the context, however, is that the cost function like most economic relations is stochastic. It is then true that statistical analysis cannot prove that a certain cost relationship is the true one: statistical analysis provides a procedure for the rejection of a hypothesis, if the probability of a particular relationship having generated the sample observations is less than some fairly small pre-selected value; and several different hypotheses may well be not inconsistent with the observations. Three important points should be noted before we wrap up this brief travail through the development of the cost functions as it came to be accepted to a large number of practitioners. (a) That in the majority of cases where statistical tests have been applied, the hypothesis of a linear total cost function has not been rejected, (b) that most often no statistically significant improvement on the linear hypothesis is achieved by the inclusion of second- or higher-degree terms in output, and (c) that supplementary tests, such as the examination of incremental costs ratios, usually confirm the linear hypothesis.

A second source of linearity bias in the statistical analyses is alleged to be the correction of the observed cost data for factor price changes. The theory of cost curves traces out the implications of various hypotheses about the production function on the assumption either that factor prices are constant and independent of the purchases of a firm or that they are de-pendent upon the firm's purchases. Actual cost observations frequently come from successive time periods during which factor prices may have changed substantially in response to influences other than the firm's purchases. Two common methods of correcting for these factor price changes are deflation of the actual cost figures by a factor price index number or the recalculation of the cost figures by applying some selected set of factor prices to the actual factor inputs of each period. Following resolution to these debates, it more or less turned out to be a rather standardization of the cost function as it came to be established in typical text book analysis of the subject. That the long run cost curve envelopes a series of short run cost curves – an outcome of shifting cost schedules as a firm move about the production path switching to larger plan sizes. This structure and plan caught up well with the organizational set up of most companies that need to understand the dynamics of the cost functions. The objective remains the same nonetheless: the minimization of cost subject to the input costs and employment of factors in a way that maximizes profit. The cost function is nothing but the dual of the profit maximization plan of an organization. MA

saibal@cssscal.org

COSO ERM FRAMEWORK: A NON-TECHNICAL NOTE

CMA Dr. Asish K Bhattacharyya
Advisor, Advanced Studies, ICAI-CMA
Prof. & Head, School of Corporate Governance & Public Policy, IICA

This is a non-technical note on the Enterprise Risk Management (ERM) Framework issued by Committee for Sponsoring Organisations of the Treadway Commission (COSO). The Framework has been accepted widely across the globe. The objective of this note is to provide an overview of the Framework.

Overview

Any potential event, occurrence of which is uncertain, is either a risk or an opportunity. An event that might have a negative impact, that is, which might threaten achieving the purpose and objectives of the entity is a risk. An event that might have a positive impact is an opportunity. A potential event might have both negative and positive impacts. For example, change in purchase preference might have both positive and negative impacts. While, it threatens achieving the target market share of existing products, it provides an opportunity for developing new innovative products.

ERM system ensures that the entity is not caught in a surprise when an uncertain future event occurs. ERM ahs assumed importance, as increasing complexity of business models and increasing competition, events, when occur, do not give enough time to react and respond appropriately.

Value, risk, return and growth

Investors in business expect a return on investment that is higher than the risk-free return. Therefore, every business is expected to take risk. Value of a business is determined by the interplay of risk, return and growth. ERM aims at optimising the balance between those factors.

Human intervention

ERM is a process and requires human interventions. It is an entity-wide risk management system involving all the functions, all the units and all the employees within the entity. Human intervention poses a great challenge in implementing ERM, as employees and managers within an entity come with different cultural backgrounds and they have different attitudes towards risks. The challenge is to develop a shared understanding and approach towards risk management.

Risk-management philosophy

An entity's risk-management philosophy is the shared belief and attitudes characterising how the entity considers risk in everything it does, from strategy development to its day-to-day activities.[1]

The philosophy gets reflected in everything that the entity does. It is articulated formally through code of conduct, policies, standard operating procedures, and other documents. It is also articulated

[1] Enterprise Risk Management-Integrated Framework, The Committee for Sponsoring Organisations of the Treadway Commission, 2004, p.28

orally in meetings (e.g., budget meetings and review meetings) at different levels. Risk-management philosophy may not be and should not be the same for all the entities. It depends on the industry in which the entity operates and its business model. However, adoption of ERM reflects the philosophy that every-decision model within the entity should have an in-built system to identify and assess risks in alternative actions to choose from.

Risk-appetite

Risk appetite is the amount of risk, an entity is willing to accept in pursuit of value. It is defined broadly. Precise definition is difficult and constrains decision-making.

Board is responsible for defining and communicating the risk-appetite. Establishing risk-appetite is an integral part of corporate governance. Management takes into account the risk-appetite while formulating and executing strategies. For example, an entity may decide against doing business in a country with political instability even if that results in sacrificing growth and high return, while the other may decide in favour of the same in pursuit of high growth and return.

Risk-appetite guides allocation of resources. Entities decided allocation of resources by aligning strategic and related objectives with risk-appetite. For example, while an entity allocates significant resources in building own manufacturing facilities for manufacturing products in-house because it perceives risks in outsourcing production, the other allocates significant resources to augment marketing efforts while getting products manufactured through contract manufacturing. Risk-appetite influences entity's attitude towards risk. When communicated properly, it sets out the boundary of risks within which the entity pursuits its objective.

In setting the risk appetite, the Board considers the existing risk-profile, risk-capacity, risk-tolerance and attitude towards risks. For example, an infrastructure company builds roads and takes up other construction activities in remote areas, some of which are dominated by ultras. In setting the risk appetite, the Board cannot ignore this fact, but would definitely like to take into account risk that the entity would be able to support. It may decide against taking a project in an area where ultra activities have been intensified unless proper security is provided by the local administration. Tolerance is the acceptable level of variation an entity is willing to accept in the pursuit of its objectives. For example, the infrastructure company may decide 'zero tolerance for the loss of life' but 'time overrun and cost overrun of 10-15 per cent are acceptable in projects being executed in disturbed areas'. Attitude towards risk, return and growth is driven by entity's tradition and culture.

Risk-appetite statement should be clear, precise and implementable. Some organizations find that broad statements crafted around terms such as "low," "medium," or "high" appetite is adequate. For example, an entity states that it will not diversify in an industry or geography where the probability that it will have to violate its ethical code is high. Others are more precise. For example a risk-appetite statement may be: "We are not comfortable accepting more than a 10% probability that we will earn margin of less than 15 per cent on new orders."

Key elements of ERM

COSO Framework[2] identifies the following key elements: Internal environment; Objective setting; Event identification; Risk assessment; Risk response; Control activities; Information and communication; and monitoring.

Internal environment

Internal environment comprises risk-management philosophy, risk-appetite, board of directors, integrity and ethical values, commitment to competence, organisational structure, assignment of authority and responsibility and human resource standard. An effective and involved board of directors is an important element of internal environment. It influences other elements of the internal environment. The Board is responsible for setting integrity and ethical standards and ensuring that those standards have been understood, imbibed and applied by all across the organisation. Management should specify the competency levels for specified jobs and translate them into requisite knowledge and skills. Human resource practices pertaining to hiring, orientation, training, evaluating, counseling, promoting, compensating, and taking remedial actions send messages to employees regarding expected levels of integrity, ethical behaviour and competence. For example, intensive training on 'code of conduct' gives the message that the entity is serious in implementing the code of conduct. Similarly, termination of employment if some employee is found to have bribed a customer sends the strong message that the company has zero tolerance on 'inducing customers with bribe'.

An example of the importance of internal environment is presented in the report[3] on Columbia accident of NASA, which reads:

"The organizational causes of this accident are rooted in the Space Shuttle Program's history and culture, including the original compromises that were required to gain approval for the Shuttle Program, subsequent years of resource constraints, fluctuating priorities, schedule pressures, mischaracterizations of the Shuttle as operational rather than developmental, and lack of an agreed national vision. Cultural traits and organizational practices detrimental to safe-

[2] COSO, op. cit., p.22
[3] Report of the Columbia Accident Investigation Board (Part I), NASA, USA, 2003, p 77

ty and reliability were allowed to develop, including: reliance on past success as a substitute for sound engineering practices (such as testing to understand why systems were not performing in accordance with requirements/specifications); organizational barriers which prevented effective communication of critical safety information and stifled professional differences of opinion; lack of integrated management across program elements; and the evolution of an informal chain of command and decision-making processes that operated outside the organization's rules."

Objective setting

ERM begins with setting strategic and related objectives. Related objectives are operational objectives, reporting objectives and compliance objectives. Strategic objectives are high-level goals, aligned with and supporting the mission/vision (e.g., purpose) of the entity. Strategic objectives are stable, while strategies and related objectives that flow from strategic objectives are dynamic in nature. For example, if the vision of a company "To be a globally recognized corporation that provides best electrical & lighting solutions, delivered by best-in-class people", its strategic objectives might be to earn 20 per cent market share in India and 5 per cent market shares in developed economies over the next five years. Strategies might include penetrating into tier two cities in India by offering low-cost solutions and grow in advanced countries by acquiring small-to-medium-sized companies.

Operational objectives pertain to the effectiveness and efficiency of the entity's operations, including performance and profitability goals and safeguarding resources against loss.

Reporting objectives pertain to the reliability of reporting. They cover both internal and external reporting.

Compliance objectives pertain to adherence to relevant laws and regulations, including internal policies and regulations.

Achieving the reporting and compliance objectives is within the entity's control. It is not the same for strategic and operational objectives. They are subject to external events.

ERM focuses on consistency of objectives and sub-objectives across the organisation.

Event Identification

Likelihood and timing of occurrence of potential events are uncertain and so is their impact on achieving objectives of the entity. In event identification, management recognises those uncertainties.

It initially considers a range of potential events stemming from internal and external sources. It prepares an inventory of events without considering whether they will impact positively or negatively. This helps guarding against exclusion of events that will have positive impacts. In developing the inventory, the entity identifies generic risks that are common to entities operating in a particular industry and risks that are unique to the entity.

An entity should consider external and internal factors.

Examples of external Factors:

(i) Economic (e.g. price movements and change in interest rate); (ii) Natural environment (e.g., flood and earthquake);
(iii) Political (e.g., new government with changed political agenda);
(iv) Social (e.g., changing demographics and terrorism activity);
and
(v) Technological (e.g., technological innovations)

Examples of internal factors:

(i) Infrastructure (e.g., capital allocation to preventive maintenance);
(ii) Personnel (e.g., retirement of skilled personnel and work place accidents);
(iii) Process (e.g., process modification); and
(iv) Technology (e.g., SAP implementation)

Management should focus on events that can affect achievement of objectives. For example, change in purchasing habit can impact the objective of achieving a specified market share due to fall in the share of sales through traditional distribution channels.

In addition to identifying events at the entity level, events should be identified at activity levels.

Event identification techniques

Entities adopt mix of event identification techniques. Techniques vary widely in the level of sophistication. The risk officer, who prepares the initial list, should look to both the past and the future. He should use internal and external sources to collect information. Examples of external sources are: industry/technical conference; political lobbyists; benchmarking reports; new legal decisions; economic indices; analyst reports; industry; trade and professional journals.

Initial list contains large number of events. At the second stage, one-to-one interviews and facilitated workshops are conducted to identify important risks. A shorter list (say, of thirty events) is used for risk assessment at the next stage.

Events do not occur in isolation. One event can trigger another and events can occur concurrently. In event identification, management should understand how events relate to one another.

Events range from obvious to obscure, and from inconsequential to highly significant. Even events with a relatively low possibility of occurrence should not be ignored if the impact on achieving an important objective is great. Therefore, it is important to adopt robust techniques for event identification. In absence of robust techniques supported by data, the possibility of identifying only the obvious and significant events increases.

Risk Assessment[4]

Risk assessment is all about assessing the impact and likelihood of the event and prioritizing risks so that risk levels are managed within defined tolerance thresholds without being over-controlled or forgoing desirable opportunities.

Although risks and opportunities are typically assessed in terms of impact and likelihood, many enterprises evaluate risk along additional dimensions such as vulnerability and speed of onset (velocity).

Assessing risks consists of assigning values to each risk and opportunity using the defined criteria. This may be accomplished in two stages: an initial screening of the risks is performed using qualitative techniques followed by a more quantitative analysis of the most important risks.

Risks do not exist in isolation. Even seemingly insignificant risks on their own have the potential, as they interact with other events and conditions, to cause great damage or create significant opportunity. For example,[5] a defective valve on a propane tank in a distribution warehouse allows propane to leak; the warehouse doors are kept closed to retain heat in adjoining offices; the driver of an approaching truck activates a remote control device to open the warehouse doors. Together, the presence of propane gas and spark caused by the garage-door motor causes an explosion.

Develop assessment scale

The starting point in risk-assessment is developing the assessment scale. Assessment scales comprise rating levels and definitions that foster consistent interpretation and application by different constituencies. Generally, the more descriptive the scales, the more consistent their interpretation will be by users. One should try to achieve the right balance between simplicity and comprehensiveness.

Impact

Impact (or consequence) refers to the extent to which a risk event might affect the enterprise. Impact should be assessed using the same parametres that are used to measure achievement of the objective. For example, if an event is likely to impact the customer satisfaction, its impact should be assessed with reference to its impact on the customer satisfaction index. Impact assessment criteria may include: financial; reputational; regulatory; health, safety, security; environmental, Employee; customer; and operational.

When assigning an impact rating to a risk, assign the rating for the highest consequence anticipated. For example, if any one of the criteria for a rating (e.g., reputation) of 5 is met, then the impact rating assigned is 5 even though other criteria (e.g., financial) may fall lower in the scale.

It is preferable to use a 5-point scale. Some entities use a 10-point scale. A 10-point scale has the potential to confuse the executives, because it is often difficult to assess the impact precisely.

Illustrative descriptors are:

Extreme (Rating: 5, examples: reduction in profit by 5 per cent; bad publicity in the international press; multiple senior leaders leave);
Major (Rating: 4, examples: reduction in profit by 3 per cent; bad publicity in the national press; some senior leaders leave);
Moderate (Rating: 3, examples: reduction in profit by 2 per cent; bad publicity in the regional press; some experienced employees leave);
Minor (Rating: 2, examples: reduction in profit by 1 per cent; bad publicity in the local press; Higher employees turnover);
Incidental (Rating: 1, examples: reduction in profit by X amount; bad publicity in the some biased press; Isolated staff dissatisfaction)
Often, impact is expressed in terms of 'high', 'medium' and 'low' in a 3-point scale.

Likelihood

Likelihood represents the possibility that a given event will occur. Likelihood can be expressed using qualitative terms (frequent, likely, possible, unlikely, rare), as a percent probability, or as a frequency. It is preferable to use a 5-point scale. However, often, likelihood is expressed in terms of 'high', 'medium' and 'low' in a 3-point scale.

In assessing the likelihood, the relevant time period should be specified. Usually, objectives, including strategic objectives, are set for a three-year period. Therefore, likelihood within that period should be assessed. Some strategic objectives are set for a much longer period. For, those objectives, likelihood over that longer period should be assessed. As a general rule, the time horizon should match with the life of the asset or project.

Illustrative descriptors are:
Almost certain (Rating: 5; 90 per cent or greater chance of occurrence within three years);
Likely (Rating: 4; 65 to 90 per cent chance of occurrence within three years);
Possible (Rating: 3; 35 to 65 per cent chance of occurrence within three years);
Unlikely (Rating: 2; 10 to 35 per cent chance of occurrence

[4]Discussion is based on COSO's publication 'Risk management in practice', October 2012
[5]COSO, op. cit., p54p 77

within three years);
Rare (Rating: 1; Less than 10 per cent chance of occurrence within three years);

Vulnerability

Vulnerability refers to the susceptibility of the entity to a risk event in terms of criteria related to the entity's preparedness, agility, and adaptability. Vulnerability is related to impact and likelihood. Assessing vulnerability allows entities to gauge how well they're managing risks.

Vulnerability criteria are developed over capabilities to anticipate events (e.g., scenario planning) and capabilities to prevent events (such as: risk responses in place, capabilities to respond and adapt quickly as events unfold, and capabilities to withstand the event such as capital buffer and financial strength).

Illustrative descriptors are:
Very high (Rating: 5; Examples: No scenario analysis, lack of enterprise level/process level capabilities; responses not implemented)
High (Rating: 4; Examples: Scenario planning partially completed, Low enterprise level/process level capabilities; responses partially implemented)
Medium (Rating: 3; Examples: Scenario planning completed, Medium to high enterprise level/process level capabilities; responses implemented and objectives achieved most of the time)
Low (Rating: 2; Examples: Scenario planning completed, High enterprise level/process level capabilities; responses implemented and objectives achieved except rarely)
Very low (Rating: 1; Examples: Scenario planning completed, High enterprise level/process level capabilities; Redundant response mechanism in place)

Velocity

Speed of onset refers to the time it takes for a risk event to manifest itself. The time that elapses between the occurrence of an event and the point at which the company first feels its effects.

Knowing the speed of onset is useful when developing risk response plans.

Illustrative velocity scale:
Very high: (Rating: 5; Very rapid onset with little warning)
High: (Rating: 4; Onset occurs in a matter of a few days to few weeks)
Medium: (Rating: 3; Onset occurs in a matter of a few months)
Low: (Rating: 2; Onset occurs in a matter of several months)
Very low: (Rating: 1; Very slow onset, occurs over a year)

Risk Assessment Techniques

Risk assessment is often performed as a two-stage process. An initial screening of the risks and opportunities is performed using qualitative techniques. At the second stage, a more quantitative treatment of the most important risks and opportunities lending themselves to quantification. The quality of the analysis depends on the accuracy and completeness of the numerical values and the validity of the models used. Model assumptions and uncertainty should be clearly communicated and evaluated using techniques such as sensitivity analysis.

Most common method for risk-assessment is facilitated workshop and voting at the workshop. Each risk and its likelihood and impact are discussed threadbare, supported with data. Anonymous voting is conducted to rank likelihood and impact. A few round of voting might be necessary if initial voting rounds show significant dispersion from the average. A few iterations are helpful in developing common understanding of risks and their likelihood and impact.

Risk Response

The following are the possible risk responses:
Avoidance: Exiting the activities giving rise to risk (e.g., exit the manufacturing of hazardous chemicals)
Reduction: Action is taken to reduce risk likelihood or impact or both (e.g., continue to manufacture hazardous chemicals but take all actions to reduce the likelihood of accidents.)
Sharing: Reducing risk-likelihood or risk-impact by transferring or otherwise sharing a portion of the risk (e.g., continue to manufacture hazardous chemicals, take all actions to reduce the likelihood of fire, and take insurance cover.)
Acceptance: No action is taken to affect risk likelihood or impact

In deciding the risk response, the management should consider the effect of alternative risk responses on the likelihood and impact of the risk, and costs and benefits of alternative risk responses. Risk response should also take into account the opportunities that might be available to the entity on the occurrence of the event (s). The focus should not be solely on reducing risks.

Inherent and residual risks

Inherent risks are risks without response. Residual risks are those that remain after risk response. Gross likelihood and impact present those without considering the response. Net likelihood and impact present those after considering the response.

Evaluating alternative responses to inherent risk requires consideration of additional risks that might result from the response. Once management selects a response, it may need to develop an implementation plan to execute the response. Some level of residual risk always exists, not only because resources are limited, but also because of future uncertainty and limitations inherent in all activities.

Portfolio view

With a view of risk for individual units, an enterprise's senior management is well positioned to take a portfolio view, to determine whether the entity's residual risk profile is commensurate with its overall risk appetite relative to its objectives. Risks within business units might be within the tolerance limit of the unit, but collectively might exceed the risk-appetite of the entity. In that situation, a different risk response might be needed to bring the total risk within the risk-appetite of the entity. Conversely, the low risk in another unit might offset high risk of a unit.

Control Activities

Having selected risk responses, management identifies control activities needed to help ensure that the risk responses are carried out properly and in a timely manner. While control activities generally are established to ensure risk responses are appropriately carried out, with respect to certain objectives, control activities themselves are the risk response.

Information and Communication

The design of an information system architecture and acquisition of technology are important aspects of entity strategy. Choices of technology can be critical to achieving objectives. While information systems are fundamental to effective enterprise risk management, risk management techniques can assist in making technology decisions.

Communication should effectively convey:

- The importance and relevance of effective enterprise risk management
- The entity's objectives
- The entity's risk appetite and risk tolerances
- A common risk language
- The roles and responsibilities of personnel in effecting and supporting the components of enterprise risk management

Monitoring

Management determines, through ongoing monitoring activities or separate evaluations, or a combination, whether the functioning of enterprise risk management continues to be effective. Ongoing monitoring is built into the entity's normal, recurring operations. They are performed on real-time basis and react dynamically to changing conditions.

In separate evaluation, for example, by internal audit, the evaluator analyses enterprise risk management design and the results of test performed, against the backdrop of management's established standards, determines whether enterprise risk management provides reasonable assurance with respect to the stated objectives. All identified deficiencies that affect the entity's ability to develop and implement its strategy and to achieve its established objectives are reported to those positioned to take necessary actions .

Roles and Responsibilities

Board of directors

The Board should review the extent to which management has established effective risk management in the entity. It is the responsibility of the Board to establish the entity's risk appetite. It reviews the portfolio view of risk and considers it against the risk appetite. It is appraised of the most significant risks and whether the management is responding appropriately.

Management

The CEO ensures the presence of a positive internal environment, and that all ERM components are in place. Unit Heads have responsibility for managing risks related to their unit's objectives. Each manager is accountable to the next higher level, for his/her portion of ERM, with the CEO ultimately responsible to the Board.

The responsibility of the Risk Officer is to support everyone who is involved in risk management. ERM is the responsibility of everyone and is not owned by the Risk Officer.

Other employees

ERM is an explicit or implicit part of everyone's job description. The ERM roles and responsibilities of all personnel should be well defined and effectively communicated.

External parties

Mechanisms should be in place to receive relevant information from parties interacting with the entity and take appropriate action.

Conclusion

ERM should become the culture of the entity. It should be imbedded in decision-making process at all levels. Risk identification and risk assessment are continuous processes. Those should be carried out at least once in a year or more frequently depending on how frequently the business environment changes. ERM is an iterative process. The components are not carried out sequentially as presented above. The result of one component might affect the outcome of other processes. MA

asish.bhattacharyya@gmail.com

FINANCIAL LITERACY- THE NEED FOR A NATIONAL CAMPAIGN

CMA Tarun Agarwal
Vice President and Head – Alternate Channels, Products and Innovations, Mumbai

FINANCIAL Literacy (FL), Financial Education (FE), Financial Awareness (FA) and Capacity Building are two sides of the same coin. Terminologies are interchangeable.

Nobody is born knowing how to manage money. From simple tasks like making a household budget or balancing a check book, to evaluating life insurance and selecting an investment vehicle to fund a comfortable retirement, people have to learn about personal finance in order to be successful of their incomes and assets. Mere knowledge of financial matters isn't enough, nor is simply having greater raw intelligence.

There is a demand for FL camps but with limited or no supply of professional conduct in the space, the gap is widening. We need to understand that FL is all about creating demand through informed decisions.

As Inclusive Banking practitioners, for long we have been struggling to find answers to the following questions:

A. Defining and measuring FL and its success

a. Standardise tool to measure FL
b. Importance of setting of minimum performance parameters

B. Innovation and use of Technology in delivering FL program

a. Use of various technology platforms in delivering FL
b. Relevance of technology with respect to specific topics/geography/audience

C. Need for FL in a poor household's life cycle

a. Do FL needs vary for poor households
b. Leveraging existing education infrastructure in promoting FL

Through this paper, it is an attempt to find answers to the above questions in a manner to help fellow practitioners not only realise the importance of Financial Literacy, but, also put their best foot and their respective organisational resources forward in a manner which brings in the best results in the larger interest of their respective Banks and the community at large. Cost Accountants have a bigger role in FL projects by conducting cost audit of the various aspects related to Financial Inclusion in the country and ensuring that amount spent on the field bring in results according to cost spends.

Let us take them one by one and address the long pending questions in regard to FL:-

A. Defining and measuring FL and its success

- Standardise tool to measure FL
- Importance of setting of minimum perfor-

mance parameters

Financial literacy is about possession of knowledge and understanding of financial matters. Financial literacy is mainly used in connection with personal finance matters. Financial literacy often entails the knowledge of properly making decisions pertaining to certain personal finance areas like Banking, insurance, investing, saving and retirement. It also involves intimate knowledge of financial concepts like; budgeting, credit, interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, time value of money, gains from insurance (life and general) etc.

Financial Literacy can be grouped in four basic models:

1. Mass awareness
2. Knowledge based linkage to financial services
3. Financial Counselling and;
4. Comprehensive, national campaign

Currently, there are no standard tools to measure FL, but, measurement of effectiveness of Financial Literacy program's is of utmost importance, else, they could prove to be drain in the exchequer or donor funding. Effectiveness can be measured thru tools developed around the number of beneficiaries attending the program's, resultant increase in the number of accounts opened, volume of increase in the float in the savings accounts and lastly increase in the number of transactions at the branchless banking/agent network/business correspondent outlets opened especially for the poor households as per the policies of the Reserve Bank of India released from time to time in regard to achieving greater Financial Inclusion in India. Standardisation of Financial Literacy Tools used independently or in combination can help measure the outcomes.

Setting up minimum performance parameters mentioned below can help us make FL programs effective:

1. Standardise branding – standardised logo's, standardised look and feel of the Financial Literacy and Credit Counselling Centres (FLCC's)
2. Standardise e-mail id's – for better and faster communication with and among the FLCC
3. Re-orientation of FLCC counsellors – Re Training them, especially on altitudinal, behavioural and other relevant skills
4. Quantity and Quality of FL programs being conducted by FLCC's and large scale efforts at large
5. Trust registered at a Central Level on individual, Bank/ corporate level with Income Tax exemption may be opened to seek contributions, if any, to penetrate FL deeper
6. FLCC's on the wheels and;
7. Last but not the least, FLCC's should be at Block levels in order to cover greater no of beneficiaries in the community and make training, re-training possible

Whatever may be the tool used, it is about bringing that change in the Financial Behaviour of the consumer which helps in standardising the tool to measure Financial Literacy. Lastly, it must be remembered that Financial Literacy is the engine, while Financial Inclusion is the vehicle and in order to achieve greater and faster Financial Inclusion, the engine needs to be fuelled.

B. Innovation and use of Technology in delivering FL program

- Use of various technology platforms in delivering FL
- Relevance of technology with respect to specific topics/ geography/audience

Today, various innovative technology platforms are used depending upon the relevance and need for dissemination of specific topic (s), geography and audience being addressed. Some of them are mentioned below which can be tried/put to use independently or in combination:

1. Role Plays
2. Charts/flip charts
3. Informal discussions/Gatherings
4. Games
5. Audio – video aides/ announcement on the wheels
6. Indoor sessions
7. Animated films
8. Internet
9. Stories/Religious stories
10. Magic Shows
11. Painting walls
12. Posters
13. Print Media
14. TV & Radio
15. Training workshops and
16. Helplines etc.

Vernacular language/material usage can increase FL penetration. It must always be remembered that financial awareness needs to be refreshing and appealing. It must be ensured that community involvement is there and they feel aligned with the programs being conducted closer to them. Suggest, Banks need to look at opening centres like 'Infoedutainment'.

C. Need for FL in a poor household's life cycle

- Do FL needs vary for poor households
- Leveraging existing education infrastructure in promoting FL

Poor people share the same life cycle and goals as all people- economic security for themselves, their families and future generations. Yes, but, their need for Financial Awareness differs from that of others. The main difference is that they have fewer resources and opportunities. Most live in high-risk and unpredictable environments. Compared to others, they do not have enough money to make financial decisions as making the two ends meet is their first and foremost objective. In this context, managing whatever little money they have is vital. Good money management is critical for poor for meeting day-to-day needs, dealing with life cycle events, unexpected emergencies, taking advantage of opportunities when they present themselves and planning for the future.

Common ways, poor people build assets are through savings, investments in land, investment in businesses and housing. They also build assets by investing in children's education, health and maintenance of reciprocal social relationships that provide support in times of need. Accordingly, good money management, access to appropriate financial products and services, along with the financial skills to manage these resources is critical for poor households.

Use of the following infrastructure is recommended for taking FL programs to the poor household's at grass root level:

1. Anganwadis
2. Schools
3. Computer Centres
4. Village teachers
5. Colleges
6. Job sites
7. Business training centres
8. Common meeting points and
9. FLCC's

There is a need felt to strengthen FLCC's contingent and same can be achieved by seeking help of any or combination of the chosen below mentioned leaders:

1. SHG Leaders
2. Farmer club leaders
3. NGO's and their leaders
4. Business Correspondents
5. Retired teachers and
6. Social workers

There exists a Financial Inclusion (FI) and FL dichotomy. FLCC's being the torch bearers of FI in true sense; the BSBDA accounts opened till date are not in large no's. Whatever no of accounts opened, out of that, almost 60-70% is inoperative. Thus, defeating the basic objective of Inclusive banking. Inclusive Banking is all about transactions and savings rather than just opening accounts. FI has to happen at an affordable cost with the help of low cost technology, processes and distribution channel, in a manner which is robust, transparent and is saleable.

In regard to reducing the much talked about dichotomy between FI & FL, following is recommended:

1. Banks to look at adapting their own BC model – reducing the hands off gap between the BC cum TSP
2. Branch Managers to select the BC's, adapt them in order to have best business connect
3. Banks must ensure that in the space of Inclusive Banking, transactions take place at the customer's door steps
4. General Credit Card (GCC) limits may be granted to every BC – GCC to be tried/used as a cash management tool/model
5. Over draft (OD) without interest can be offered to Corporate BC's per village wise basis in order to further the cause of FI.
6. Close coordination of FLCC's CSC's/VLE's is desired in order to increase the foot fall, thus enhancing the number of transactions

Training suggested methodology and Tool Kit:
Principal Trainer to Train the Trainer to Business Correspondent to Field/ Customers/ Beneficiaries/ People
Following should necessarily form part of the FL tool kit:

1. Facilitators Guide – Principal Trainer
2. Reference Guide – Train the trainer/ Business Correspondent and
3. Role plays/Games/FAQ's and flip charts for the BC and team

The benefits of financial literacy may be enormous. At a personal level, individuals may spend less, save more and better manage risk. There may be even general equilibrium effects; increase demand for financial products and services may improve risk sharing, reduce economic volatility, improve financial market intermediation and speed the overall economic development. It may also facilitate the competition in the financial services sector and ultimately more efficient allocation of capital. Looking at above benefits emancipating from a good and well organised FL programs, it is suggested that FL should be a national Campaign agenda conducted for the following:

1. Illiterate
2. Weaker section of the society and
3. Unbanked

Financial Education is not a day activity; it needs to be taken as a mission on a continuous basis and accordingly, FL is a long term goal and not a short one. FL is a risk mitigant, like a future investment and needs to be looked upon as a business case. Deeper reach of FE is possible only with Passion, Devotion, Determination and above all, Commitment. As mentioned above and at the cost of being repetitive, Financial Literacy needs to be a national agenda running like a campaign. In that sense, it is not an end, but, a beginning. MA

tarunagarwal@ratnakarbank.in

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DIRECT TAXES

Case Laws

- **Employees of foreign enterprise working under control of Indian subsidiary can't constitute its service PE** : Indian subsidiary providing back office services to foreign enterprise shall not be deemed as its PE merely because it is being indirectly controlled by it. Employees of foreign enterprise working for domestic operation of and under control and supervision of Indian subsidiary do not constitute service PE of foreign enterprise. Assets of Indian subsidiary cannot be deemed inevitably to be used by foreign enterprise for its business carried on in India to establish its fixed PE in India – *DIT* v. *E Funds IT Solution* [2014] 42 taxmann.com 50 (Delhi)
- **No advance ruling for proposed transactions to be undertaken with entities to be established in future** : In order to cover proposed transaction under section 245N, the partnership firm and subsidiary-company have to exist in reality with which that transaction is to be undertaken - *Trade Circle Enterprises LLC, In re* [2014] 42 taxmann.com 287 (AAR - New Delhi)
- **Retro-amendments to I-T Act only change tax liability with retro-effect and not withholding tax obligations** : Retrospective amendment changes tax liability but not tax withholding liability with retrospective effect – *Dy. CIT* v. *Virola International* [2014] 42 taxmann.com 286 (Agra - Trib.)
- **Going abroad for purpose of 'employment' includes self-employment to determine residential status under I-T Act** : For the purpose of determining the residential status in India under sec. 6, the term 'Going abroad for the purpose of employment' means going abroad to take up any employment or for any business carried outside India. It is not necessary to establish employer-employee relationship to prove travelling abroad; for employment it may be for other avocation including self-employment - *K. Sambasiva Rao* v. *ITO* [2014] 42 taxmann.com 115 (Hyderabad - Trib.)

Statutes

- **Ministry notifies India-UK protocol; paves way for fiscally transparent entities to avail of treaty benefits** : Notification No. 10/2014, dated 10-2-2014
- **New beginning in new year– CBDT exempts deduction of tax from service tax component if it's charged separately** : Circular No. 1/2014, dated 13-1-2014
- **CBDT adheres to citizens charter; directs disposal of TDS certificates application under sec. 197 within one month** : Instruction No. 1/2014, dated 15-10-2014

INDIRECT TAXES

Case Laws

- **Training in journalism, media, films, etc., is vocational training; exempt from service tax** : Training in fields like journalism, media management, drama, films, T.V. and Radio anchoring etc. amounts to 'vocation training' and is exempt from service tax and assessee cannot be asked to prove that one or some or all of students of assessee-institute obtained employment or have pursued self employment after completion of training - *IILM Film & Media School* v. *Commissioner of Service Tax* [2014] 41 taxmann.com 255 (New Delhi - CESTAT)
- **Cenvat credit available for fuel used by one unit to generate power for consumption by two manufacturing units** : Fuel used for generation of electricity, a part of which is also supplied to another unit of same manufacturer, is eligible for credit as input; assessee is not required to have two separate power facilities for two different units - *Commissioner of Customs & Central Excise, Noida, U.P.* v. *Jindal Polyester* [2014] 41 taxmann.com 173 (Allahabad)
- **Welding electrodes and plastic pallets used in relation to final product are eligible for credit** : Welding Electrodes, plastic pallets and plastic crates used in relation to manufacture of final products, are eligible for credit as input - *Commissioner of Customs & Central Excise* v. *Ace Glass Container Ltd.* [2013] 40 taxmann.com 505 (Uttarakhand)
- **Excise proceedings can't be relied on by department to allege turnover escaping assessment under VAT** : Mere issuance of show-cause notice by Central Excise Department cannot lead to presumption that there was evasion of excise duty as well as evasion of VAT so as to initiate 'turnover escaping assessment' proceedings under VAT - *Futura Ceramics (P.) Ltd.* v. *State of Gujarat* [2014] 41 taxmann.com 530 (Gujarat)
- **Floating restaurants aren't 'goods'; its construction tantamount to work contract** : Construction of floating restaurant at agreed sides does not amount to sale of goods, but, amounts to works contract liable to tax accordingly - *Floatles India (P.) Ltd.* v. *Commercial Tax Officer* [2014] 41 taxmann.com 528 (Kerala)
- **A person publishing a false brochure aiding importer to evade duty is abettor in smuggling - HC slaps penalty** : Where an indenter had published a false brochure to enable importer in evading duty by misdeclaration of goods, such indenter was abettor of act of smuggling and was liable to penalty under section 112 equal to that levied on principal offender - *J. Mitra & Bros.* v. *Commissioner of Customs* [2014] 41 taxmann.com 127 (Delhi)

Statutes

- **Loading/Packing/Storage etc. of rice and preservation of stem cells of blood, exempted** : NOTIFICATION No. 4/2014 –ST [F.No. 334/03/2014-TRU], dated 17-2-2014
- **Rice – Service tax exemptions clarified** : Rice Not Agricultural produce ; but, following services are Exempted : (A) Transportation of Rice by Rail/Vessel/GTA (B) Loading, Unloading, Packing, Storage and warehousing of Rice (C) Milling of Paddy into Rice - CIRCULAR No. 177/03/2014-ST [F.No. 334/03/2014-TRU], dated 17-2-2014

PUSHING THE FRONTIERS OF LAW IN INDIRECT TAXATION: CASELAWS AT THE VANGUARD

Ravindran Pranatharthy
Advocate – Indirect taxes & IPRs

The modern Tax Laws are not like the Code of Hammurabi, the ancient Ruler of Babylon engraving his laws on clay and stone tablets. They are passed by the modern legislature and promulgated. Printed versions become available almost immediately or even downloaded on the Internet. Further, the tax laws do not exist merely to showcase the power of Governments and the Rulers to make exactions from the citizens. The tax law is part of the social contract that underpins any society and state. Such law in particular has to remain ever relevant to the changing needs of the time. The burden of tax Law is much heavier than the ordinary nontax law. Mere compliance is often considered not sufficient by the Governments that impose the taxation. The tax payers are expected to bring in the much needed revenues to the treasury. The requirements of the Government as well as the acceptance of the tax payers go hand in hand when tax law interface with tax payers. It is well known that it is well-nigh impossible for any law, let alone the tax law, to anticipate all issues and developments and incorporate them in an unchanging idiom of statutes. When the common law began to be replaced increasingly by statute law it was believed that scope for interpretation would be considerably diminished. However, exactly the opposite trend has been witnessed and statutory interpretation has been growing by a substantial measure.

In this article, we will look at certain interesting cases that have expanded the scope of Indirect tax law in its broad as well as interstitial variety. These cases exemplify the essential proposition that law is never static and as a matter of pragmatism ought to remain dynamic in the interests of all the stake holders. A study of such cases gives us a fore-knowledge of the emerging trends and affords us an opportunity to debate the significance of such decisions.

Excisability of 'Processes' in the course of Manufacture

There have been unending controversies over the years about what sort of process in the course of manufacture would attract the tag of a manufacturing activity. Such processes could be direct activities in the chain of manufacture or be some related activities connected indirectly with the manufacture. The Apex court succinctly put paid to the lingering doubts in this area with a neat enunciation of basic principles. In the case of **Grasim Industries Ltd vs. Union of India - 2011 (273) E.L.T. 10 (S.C.)**, the Apex Court had the opportunity to clarify the excisable scope of processes. The Court observed:

"The manufacture in terms of Section 2(f) of Central Excise Act, 1944 includes any process incidental or ancillary to the completion of the manufactured product. This 'any process' can be **a process in manufacture or process in relation to manufacture of the end product**, which involves bringing some kind of change to the raw material at various stages by different operations. The process in manufacture must have the effect of bringing change or transformation in the raw material and this should also lead to creation of any new or distinct and excisable product. The process in relation to manufacture means a process which is so integrally connected to the manufacturing of the end product without which, the manufacture of the end product would be impossible or commercially inexpedient".

This expert delineation of excisable process by the top Court would be helpful not only from the Central excise point of view. Service tax levy covers processes which do not amount to manufacture under the Central Excise Act. The Grasim Industries case thus incidentally clarifies the scope of the levy of service tax in this arena as well.

Service tax paid after the issue of show cause notice but before the adjudication was taken up

Section 73(3) of Finance Act, 1994 has a benign provision in terms of which, in the absence of an allegation of suppression of facts by the department of service tax, an assessee can pay the service tax dues whether on his own ascertainment or at the prompting of the departmental officials and on such payment no show cause notice should be issued against the assessee in respect of the amount so paid. This is a salutary provision intended to avoid the waste of time for the tax department and the tax payer as well as to do away with the burdens that any process of adjudication would entail. But, let us look at the situation where the tax department has no allegation of suppression of fact against the assessee, but the assessee has not paid the service tax due to circumstances such as financial hardship or the inability of customers to remit the purchase price but filed tax returns and therein acknowledged his tax liability. Therefore, the tax department proceeds to issue a Show cause notice to recover the tax with interest and to impose the penalty under section 76 of the Act. Suppose, in this case, the assessee remits the service tax dues along with the onerous tax interest of 18% per annum before the personal hearing is fixed and the adjudication order is passed. In such a case, a plain reading of the law does not come to the rescue of the tax-payer in avoiding the penalty. Recently however, the Hon'ble Tribunal in the case of COMMISSIONER OF SERVICE TAX, DELHI vs. CONSULTING ENGINEERING SERVICES (I) PVT LTD – (2013) 30 STR 561 (CESTAT – DELHI) dealt with exactly the same situation as outlined above. In a progressive extension of the law, the Tribunal held that in the absence of any mala fide intention on the part of the assessee, an imposition of penalty was not warranted since "the element of interest, which the assessee is required to pay along with the principal amount, if there is delay in payment of service tax, is sufficiently penal in nature". Accordingly, the imposition of penalty under Section 76 was set aside.

This unique case establishes that the tax interest at such a steep rate is by itself a penalty and therefore further penalty even if contemplated in the law cannot be justified.

Delay of months in passing the order of adjudication after the conclusion of personal hearing in the cases:

Some indirect tax laws such as Central Excise have set a time limit for the adjudication of show cause notice. However, the time limit is not mandatory and is merely directory. No penal consequences have been prescribed against the authorities for the breach of this statutory duty. Further, no time limit has also been prescribed in the law for passing of an order of adjudication after the hearing is completed. The Central Board of Excise and Customs has issued periodical circulars emphasizing the need to pass adjudication orders generally within a week or at most within a month of the conclusion of the hearing. However, such instructions are routinely not followed in the field and enormous delays in passing orders of adjudication after the conclusion of the personal hearing are a common feature in the indirect taxation jurisprudence. The idea of requiring the order of adjudication to be passed as soon as the hearing in a case is completed is to ensure that the mind of the adjudicating authority stays fresh and well connected to the facts, evidences and arguments made in the case. A long lapse of time would destroy this fair idea and would be counter-productive to the interests of natural justice. Recently, the Bombay High Court has delivered an interesting and bold judgment in the case of ***M/s EMCO LIMITED Vs UNION OF INDIA & OTHERS*** – 2014-TIOL- 222-HC-MUM-CX where the order of adjudication passed after a delay of nine months from the date of personal hearing was set aside and the case was directed to be properly re-heard with a direction to ensure an expeditious order after the hearing.

It is well-known that the time-limit afforded to litigants in departmental proceedings in state Vat cases in India is notoriously short, as shockingly minimal as a week in most cases. The personal hearing is fixed without any norms and the adjudication is rushed in most instances. The importance of affording reasonable time as an essence of the principle of natural justice was recently brought home by the Supreme Court in the case of M/s NARANI STORES vs DEPUTY COMMISSIONER OF SALES TAX, ERNAKULAM – 2014 – TIOL- 05-SC-CT. In the words of the Apex Court:

"13. In our considered opinion, the Deputy Commissioner ought to have given some more time to the appellant to file his reply and explain in detail as to why the order passed by the assessing authority should not be modified. The right to file a reply has been considered to be an indispensable facet of right to proper hearing. The maxim of audi alteram partem is an epitome of general principles governing fair hearing. The principle of fair hearing has two justiciable elements. The first is that an opportunity of hearing must be given and the second is that the opportunity must be reasonable and adequate. (Indru Ramchand Bharvani vs Union of India (1988) 4 SCC 1). The opportunity of hearing requires to be tested on the anvil of reasonableness and adequacy of such opportunity. The right to file an adequate reply and represent one's case before the decision making authority shelters under the second limb.

14. In a case where huge tax liability is being imposed on an assessee, he has a right to file a reply and represent his case before the adjudicating authority. Should such sufficient opportunity not be afforded to the assessee, he would be deprived of his valuable right. In the facts of the instant case, sufficient time was not granted to the assessee by the Deputy Commissioner who had passed the ex-parte order, dated 27.7.1995 imposing a huge tax liability on the assessee and since the same is opposed to the principles of natural justice, in our considered opinion, the order of the Deputy Commissioner requires to be set aside".

It is heartening that the Judiciary has now begun to look at the extent of the right to reply and to the personal hearing as well as the length of time afforded to the tax payers in departmental proceedings. The unconscionable delay in passing orders of adjudication cannot now remain immune from judicial scrutiny.

Installation and other incidental charges: VAT vs. SERVICE TAX:

In the case of M/S PRAKASH RETAIL PVT LTD vs. DEPUTY COMMISSIONER OF COMMERCIAL TAX – 2013 (32) STR 388 (Karnataka), it was held by the High Court that when the transfer of title in goods takes place at the buyers' place, the sale price would include all incidental charges instrumental in facilitating the sale such as the transportation of goods and incidental charges at site incurred by the seller. If the sale agreement specifies an obligation on the seller to transport the goods to the place of the customer or to install the goods at these premises, these charges would be comprised within the sale price and cannot be subjected to service tax. On the contrary, if the transfer of title of the goods takes place at the sellers' place itself under the contract then all subsequent costs and charges for transportation and installation etc will not form part of the sale price and may be subjected to the levy of service tax.

In this case, the High Court held that only the ex-show room price would be subject to VAT since subsequent charges were incurred by the company as an agent of the customers and such charges will not constitute taxable sale price. The court observed that the State Government could not enrich itself by wrongly bringing transportation and installation charges under VAT.

Acceptance of VAT value for Service tax purposes:

In the case of WIPRO GE MEDICAL SYSTEMS PVT LTD vs. CCE – 2009 (14) STR 43 (CESTAT – Bangalore) involving service tax on the entire price of an annual maintenance contract involving supply of materials and labor, it was held that once the sales tax has been paid on the materials, then on the same service tax also cannot be charged and that whenever any service is provided and if in the course of the provision of the service, certain materials are used they will definitely be considered as sale. This is clearly covered by the Constitutional Article 366 (29) (B). The Tribunal decision was upheld by the Supreme Court vide COMMISSIONER vs. WIPRO GE MEDICAL SYSTEMS PVT LTD - 2012 (28) S.T.R. J44 (S.C.).

Interpreting Exemption Notifications:

In the case of COMMISSIONER OF CUTOMS Vs M/s KONKAN SYNTHETIC FIBRES - 2012-TIOL-29-SC-CUS, The Supreme Court pointed out various principles that it has developed in several caselaws as regards interpreting exemption notifications. The Court particularly favored liberal reading of beneficial or promotional exemptions as against conditional/general exemptions. Some of these principles were:

- *Literally "exemption" is freedom from liability, tax or duty. Fiscally it may assume varying shapes, specially, in a growing economy. In fact, an exemption provision is like an exception and on normal principle of construction or interpretation of statutes it is construed strictly either because of legislative intention or on economic justification of inequitable burden of progressive approach of fiscal provisions intended to augment State revenue. But once exception or exemption becomes applicable no rule or principle requires it to be construed strictly. Truly speaking, liberal and strict construction of an exemption provision is to be invoked at different stages of interpreting it. When the question is whether a subject falls in the notification or in the exemption clause then it being in the nature of exception is to be construed strictly and against the subject but once ambiguity or doubt about applicability is lifted and the subject falls in the notification then full play should be given to it and it calls for a wider and liberal construction.*
- *It is now a well-established principle of law that whereas eligibility criteria laid down in an exemption notification are required to be construed strictly, once it is found that the applicant satisfies the same, the exemption notification should be construed liberally.*
- *Provision granting incentive for promoting economic growth and development in taxing statutes should be liberally construed and restriction placed on it by way of exception should be construed in a reasonable and purposive manner so as to advance the objective of the provision.*
- *The rule regarding exemptions is that exemptions should generally be strictly interpreted but beneficial exemptions having their purpose as encouragement or promotion of certain activities should be liberally interpreted. This composite rule is not stated in any particular judgment in so many words. In fact, majority of judgments emphasize that exemptions are to be strictly interpreted while some of them insist that exemptions in fiscal stat-*

utes are to be liberally interpreted giving an apparent impression that they are contradictory to each other. But this is only apparent. A close scrutiny will reveal that there is no real contradiction amongst the judgments at all. The synthesis of the views is quite clearly that the general rule is strict interpretation while special rule in the case of beneficial and promotional exemption is liberal interpretation. The two go very well with each other because they relate to two different sets of circumstances.

- *It is a settled proposition in a fiscal or taxation law that while ascertaining the scope or expressions used in a particular entry, the opinion of the expert in the field of trade, who deals in those goods, should not be ignored, rather it should be given due importance.*

Making of Photo-Identity Card – Whether works Contract or sale?

This issue arose in the case of **Orissa Small Scale Industries Corporation Vs. State** (2009) 23 VST 55(O). The Orissa High Court decided that photo-identity card is not a commercial commodity meant for sale and hence outside the purview of Vat. Thus, though Vat is kept out, the judgment may facilitate the levy of service tax on the making of photo-identity cards.

CONCLUSION:

In the above discussion, we looked at certain cases that went beyond the known frontiers and broke fresh ground. Such instances are bound to increase in the years to come. The evolution of law and its dynamic development in a vast and growing economy like India has witnessed the blossoming of new principles of judicial interpretation. The perennial need for resolving linguistic and conceptual ambiguities in the statutory provisions goes in tandem with the expectation of tax payers for a just and fair meaning of the legal provisions. The judiciary thus has a difficult balancing role to perform. Much as the tax administrators would abhor the idea of an effusion of uncontrollable case-law, the plain fact is that the statute law is also increasing exponentially, with the framers and the drafters of the law having to work at breakneck speed often. Many of such 'urgent' legislations are passed by the legislatures with little effective scrutiny. The Indirect tax law in India will witness newer challenges with the arrival of the GST which is hopefully not too far out of the offing. Statutory interpretation is at best a mixed bag. Expectations may be dashed and hopes re-kindled at the stroke of a judicial pen. The evolution of the law embraces the interpretive processes and when the interpretive techniques are understood in the light of the circumstances and handled with care and expertise, the outcome actually serves to enhance the flavor of the law as an important ingredient in the making of social and economic progress. MA

ravinpranaa@gmail.com

ROUND TABLE DISCUSSION ON "STRATEGIC COST MANAGEMENT IN TRANSPORT AND LOGISTICS"

The Directorate of Research, Innovation and Journal of the Institute organized a Round Table Discussion on "Strategic Cost Management in Transport and Logistics" at the EIRC Auditorium on February 27, 2014. CMA Debtosh Dey, Director, Ripley and Co. Ltd, CMA B.N Chatterjee, General Manager, Marine Container Services Pvt. Ltd, Shri Subrata Saha, Senior Assistant Financial Advisor, Eastern Railways were keynote speakers in the discussion. CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal Committee, CMA Chitra Agarwal, Chairperson, EIRC, CMA Dr. Debaprosanna Nandy, Director, Research and Journal, CMA Dr. Sumita Chakraborty, Joint Director, Research, were among the members present who expressed and shared their views on the matter. CMA Debtosh Dey, speaking on the topic covered main features of Information Technology & Quality Tools in managing logistics. He highlighted the Indian scenario of infrastructure for logistics, importance of logistics in an enterprise etc. In his brief speech on the topic "Supply Chain Management" he pointed out that there is a supply network surrounding an enterprise starting from the source to its destination and hereby the word strategy arrives; both Inbound and Outbound Logistics are significant for an organization. Again low containerization is a major hurdle for transport sector and he insisted on the role of all the departments for its betterment, though he expressed his satisfaction that in the current scenario there had been an improvement in the containerization. Shri Subrata Saha, shared his thoughts on the improvement of the Eastern Railway, the organization to which he belongs, specifically on the earnings aspect. He resented the fact that in India there is no separate railway tracks for passenger and goods train which must be taken care of. He briefed a speech on the merits and demerits of the Ijjat Monthly Payment System and said initiatives like certain discounts and promotional schemes had been taken to improve and attract the traffic. He also said coordination between different Ministries is going on and effective steps are being already undertaken to implement the same. CMA B.N Chatterjee, gave a brief analysis of the ports in India and showed his slight dissatisfaction that there is no proper costing methodology applied in the port sector, though it is the cheapest form of transportation. According to him though fuel is the major cost but it is not the sole parameter to fix the freight charges. Certain other parameters like size of the market, time factor, willingness to pay, increase in competition etc.increase the fuel price but not the freight charges. He mentioned that inspite of increase in the cost, there is a hope for controlling it in this sector and also application of a proper cost management system in the near future. Other eminent dignitaries from Kolkata Port Trust, Indian Railways were also present in the programme. There was a questionnaire session with the audience that had been beautifully resolved by the eminent dignitaries in the dais. The event was very much interactive and everybody present over there welcomed the concept with the hope of arranging various programmes in other sectors of the economy in future.

INTERIM BUDGET 2014

TCA Ramanujam
Chief Commissioner of Income Tax (retd.), Advocate High Court, Madras

TCA Sangeetha
Masters in Law

Every time a Budget is presented in Parliament, interest is focused on who gains and who loses because of the budget announcements. Not much was expected from the interim budget presented to Parliament on 17th February, 2014. The Budget paper read like self applauding Report Card on the achievements of the two UPA Governments in the past 10 years. A tall claim was made that one crore 40 lakh people were lifted above the poverty line in the past 10 years. The computation of the poverty line itself is mired in controversy. But what about the super rich? They were hoping that the 10% surcharge levied on those with incomes above Rs.1 crore would be waived in the interim budget. Similarly domestic companies with incomes exceeding Rs.10 crores were made liable for this surcharge of 10%. Foreign companies were faced with a surcharge of 5%. There are 42,900 people who had admitted a taxable income exceeding Rs.1 crore. The 10% surcharge continues and has not been abolished in the interim budget.

Billionaires and the Budget

The question arises how billionaires have been fairing in the past 10 years. A leading all India daily has reported the following figures about the fortunes of sum of India's wealthiest business men. It makes interesting leading.

Our Members of Parliament are known to be Crorepatis and Billionaires. Look at the way they helped themselves in five years. Refer to Table on next page

Does it not make a mockery of the claim that 1 crore 40 lakh people were lifted above the poverty line in the past 10 years.?

Moratorium on Educational Loans

The Finance Minister has announced a moratorium on loans taken by students for purposes of education. Such of those students who have outstanding loans taken prior to March 2009 will not have to pay interest for the period when they are studying. A central subsidy scheme has been in operation for the loans taken after 2009. The new announcement is welcome and covers about 9 lakh students. Those who have not repaid the loans or interest so far will now get a Bonanza. But what about those who, despite their hardships, have been scrupulously paying the install-

Promoter	Wealth on Feb 17, 2009 (Rs. In Crores)	Wealth on Feb 17,2014 (Rs.in Crores)	Gain (Rs.in Crores)
Mukesh Ambani - RIL	97774	118918	21144
Kumar Mangalam Birla	17487	69517	52030
House of Tata's	58891	377016	318125
Vijay Mallya	3558	11288	7730
Dilip Sanghavi	13827	79773	65946
Shiv Nadar	4946	64829	59883
Gautam Adani	13960	46481	32522
(Source: Times of India dt.18.2.2014)			

Remuneration	Old (Rs.)	New (Rs.)
Monthly Salary	16,000/-	50,000/-
Daily allowance	1,000/-	2,000/-
Constituency allowance per month	20,000/-	40,000/-
Office Allowance per month	20,000/-	40,000/-

ments all these years? The new announcement amounts to a penalty on hard and honest work done by students who chose to repay.

Service Tax

Service Tax collections will overtake collections from Central Excise Duty and Customs Duty as per Budget documents. This is as it should be. The Service Sector accounts for about 50% of our GDP. Its contributions have not measured up to its size in the GDP.

A welcome announcement was the removal of service tax on Rice. By virtue of the definition of 'agricultural produce' in the Finance Act, 2012, storage or warehousing or paddy was excluded from the levy of service tax. Rice was not. An artificial distinction was made between paddy and Rice. The Finance Minister has now proposed to exempt loading, unloading, packing, storage and warehousing of Rice from Service tax. The discriminatory and unjust levy has now been withdrawn.

There will be no service tax on Cord Blood Bank for Stem Cell Preservation.

Duty Reliefs

Taking into account the down turn in certain sectors of the economy, the Finance Minster has announced duty cuts on goods like Cars, Two Wheelers, Mobile Phones, Consumer Electronics and Appliances, Air Conditioners, Refrigerators, T.V sets, Food Processors, Cameras, Vaccum Cleaners, Dish Washers, and Washing machines. Duty has been cut from 12% to 10% and this can mean a saving of Rs.1000/- Similar relief has been provided for capital goods like Boilers, Turbines, and Fork Lifts. It is to be hoped that these duty cuts will be passed on by the manufacturers to the ultimate consumers. Otherwise they will be guilty of unjust enrichment.

What about Direct Taxes?

There have been very little changes in matters concerning Direct Taxes. The Super rich will continue to pay the maximum marginal rate of 33.99%.

Finance Act, 2013 introduced Section 80EE providing for a deduction of Rs.one lakh for interest payable by individuals who took new home loans up to Rs.25 lakhs between 1st April 2013 and 31st March 2014 to buy their first Residential property, when the value did not exceed Rs.40 lakhs. The deduction under 80EE is not available for those who plan to take home loans after 1st April 2014. The tax saving of Rs.33,990/- should be availed of by taking loans before 31st March, 2014.

Private Provident Trusts have to obtain approvals from the Employee's Provident Fund Organization from time to time. The dead line for taking such approval ends on 31st March 2014. No extension is provided by the Finance Bill in this regard. This means that if approvals have not been taken by 31st March 2014, Provident Fund Contribution made by employers to the Private Provident Fund Trusts would be taxable in the hands of employee and employers would not be able to claim such contribution as tax deductible expenditure in their tax return. Employee's contribution will not be eligible for a tax breaks.

There is no change with reference to the levy of Minimum Alternate Tax and Dividend Distribution Tax. A loser in the Budget will be the Indian companies receiving dividends from foreign subsidiaries. They are taxed at a concessional rate of 17% in the financial year 2013-14. The concessional treatment ends with 31st March 2014. Such dividends will hereafter be taxed at 30% plus appropriate cess and surcharge if received after 1.4.2014.

Companies in the Business of Generation, distribution, and transmission of power were entitled to a tax holiday under Section 80IA of the Income Tax Act, 1961 up to 31st March 2014. This has not been extended beyond this date. Probably this has been left to be taken care of by the new Government when a full-fledged budget is presented in July 2014.

Fiscal Deficit

The Finance Minister hopes to restrict fiscal deficit to 4.6% and the target for the next year is kept at 4.1%. The Gross Tax Revenue is set to fall to Rs.11,58,906 crores in the financial year ending 31st March, 2014. The tax GDP ratio is projected at 10.7% for next year. For achieving the fiscal deficit targets Govt. has chosen to take into account large dividends from public sector companies even before 31st March, 2014. Expenditure which should be booked in this financial year has been taken to the period after 1.4.2014. The Finance Minister is very happy that the GDP will grow by 4.9%. There was a time when we felt that a GDP growth of 9% was not sufficient and we must reval China's growth rate. What a fall my Countrymen! Oxford and Harward may have taught many things but one thing they did not teach was how to run a corruption free administration. MA

ramanuja@vsnl.com

TAX TITBITS

TDS CIRCULARS – WELCOME AND UNWELCOME

S. Rajaratnam
Advocate and
Tax Consultant,
Chennai

1. Timely response for certificate under section 197

There is now some reaction from the Central Board of Direct Taxes to the persistent complaint as regards the long delay in response of the Assessing Officers to the applications of certificates of deduction of tax at source at nil or lower rater under section 197 of the Income-tax Act. Instruction No.1 of 2014 dated 15th January, 2014 now commits the Assessing Officers to an outer time limit of one month from the date of receipt of application even as undertaken in the Citizens Charter years before. Taxpayers would also expect that the applications are not routinely found to be untenable, when the request is for nil or lower rate. It is necessary for the authorities to be fair. The earlier instructions have inhibited the Assessing Officers by requiring approval from next higher authority to avoid what were described as indiscriminate issues.

Treatment of service tax

In the last issue, the decision of the High Court in CIT v. Rajasthan Urban Infrastructure Development Project [2013] 359 ITR 385 (Raj) was cited for its decision, that service tax component of the bill for services would not require tax deduction. Board Circular No.1 of 2014 dated 15th January, 2014 would concede this position of law, but limits its application to those cases, where service tax component is separately shown and the terms of the agreement between the payer and payee to provide for service tax separately. This limitation is unnecessary. It leaves the matter of requirement of tax deduction at source to the documentation as between the parties. In the light of this circular, the taxpayers would be advised to ensure necessary documentation, so that compliance requirements in respect of tax deduction does not fall on the deductors.

2. Penalties/ Fees for TDS defaults – Deductees beware!

Section 272B provides for penalty of Rs.10,000 every day for non-mention or incorrect mention of Permanent Account Number (PAN) in the TDS returns by the deductor. Where the default occurs in circumstances the assessee was unable to get PAN from the deductees or had furnished PAN number conveyed to it, but found to be erroneous, penalty proceedings were initiated and heavy penalty was inflicted for no fault of the assessee. Such penalty came to be Rs.30.70 crores in a matter before the Delhi High Court in CIT (TDS) v. DHTC Logistics Ltd. in I.T.A. No.314/2013 DATED 26.7.2013, which mercifully considered the ceiling of Rs.10,000 to be applicable for each assessee and not for each omission or mistake in its understanding the provision and the Board's Letter No.275/24/2007-IT(B) dated 5.8.2008. Where the deductor has taken efforts to get PAN or had acted on incorrect PAN furnished to him, penalty should be spared. As otherwise, the provision of an opportunity of being heard as prescribed in sub-section (3) of section 272B, would make no sense.

Yet another provision is fees of Rs. 200 prescribed for each day's delay in submission of TDS returns by deductors in section 234E. Reasonable cause does not spare fees as it does for penalties under section 273B. This provision does not provide even an opportunity to the deductors before levy. Since the delay does not harm revenue as the check of the credit claimed by the deductees is due only while processing the returns of deductees, this is an onerous provision. Time limit in most cases has been decided to be directory and not mandatory.

Whether section 50C can trigger reassessment proceedings?

When an assessee sells an immovable property and the transaction price is less than the stamp duty for registration purposes, the law provides for presumption of such stamp value to be the sale value authorising the Assessing Officer to adopt such stamp value. The section, however, provides for remedies for the assessee either to question the stamp value under the stamp law or to move the Assessing Officer for a reference to the Valuation Officer, whose opinion would be binding on the Assessing Officer with right for the assessee to question the same in appeal. In a case, where the stamp value is higher, the income-tax return does not provide for such a situation. The assessee under the law may not be expected to report a higher value, since section 50C only raises a rebuttable presumption. If the assessee, however, understands the provision to mean, that he should file a return adopting the stamp value and reports the transactions at stamp value, the liability would stick to him, if the Assessing Officer does not choose the case for scrutiny, as he cannot ask for a reference in the return or in an enclosure, as no enclosure is permitted. If the assessee intends to challenge stamp value and reports only transaction value and the case is chosen for scrutiny and stamp value is adopted, revenue would presume understatement of price on application of section 50C and propose penalty. If the time for scrutiny notice had meanwhile expired, reassessment notice may be issued as it was done in a matter before the Income-tax Appellate Tribunal in ITO v. Shri Haresh Chand Agarwal, HUF in I.T.A. No.282/ Agra/2013 dated 20.12.2013. The Tribunal in this case has pointed out, that mere applicability of section 50C does not disclose any escapement of income in view of the fact that section 50C itself does not provide for a final determination of sale value. This decision which is eminently reasonable indicates a lacuna in law in not requiring the information as to the stamp value in the income-tax return enabling the Assessing Officer to choose cases of significant difference in value for scrutiny by issue of notice under section 143(2) and enabling the taxpayer to refer the valuation to the Valuation Officer, where assessee resists the adoption of stamp value.

Concession granted to employees

There is a welcome decision relating to tax treatment of the benefit granted to the employees by stock option made available to them at a price concessional with reference to the prevailing market rate on the date of offer. The concession as quantified can be debited to the P&L Account by treating such discount on par with discount/ premium on issue of shares. Such amount, whether an adjustment is made in P&L Account or not, should be deductible as understood by the Tribunal in Mahindra and Mahindra Ltd. v. Addl. CIT [2014] 29 ITR (Trib) 95 (Mumbai) following Biocon Ltd. v. Dy.CIT [2013] 25 ITR (Trib) 602 (Bang) [SB]. It is a welcome decision. In fact, the omission to take this into account would upset the balance between the shareholders' interest and the employees interest. In U.S. taxation, this right is recognised. Hopefully, this decision would be accepted by revenue.

Banking Transaction Tax

There has been much discussion of a proposal for dispensing with income tax and replacing it with a banking transaction tax, which was once introduced only to be abruptly dropped. An issue in the second fortnight of the journal "Corporate Professionals Today" of January, 2014 discusses this proposal, which the proponents of this tax would consider it to be talisman for all the ills in our fiscal system. Professional response is that, the view the banking transaction tax would be a substitute for all other taxes, is an illusion. It is misconceived, impractical and can be easily evaded. It will affect the economy adversely, since the burden of this tax would be unevenly distributed. It will discard one of the basic tenets of taxation by ignoring "ability to pay", which is a criterion for a good tax. It will be regressive in its effect.

The answer, therefore, lies in reform of the existing taxation and not upsetting it as it would tantamount to throwing the baby with the bath water.

In this context, one may refer to the Article by Mr. N.M. Ranka, an eminent senior Advocate, published in the journal dated 14th January 2014 of All India Federation of Tax Practitioners, wherein he deplores the distortion of the income-tax law on account of continuous spate of amendments against which late Mr. N.A. Palkhivala had been cautioning without any effect. The promised Direct Taxes Code could have made it worse, if implemented. What is even more deplorable is the manner in which such bad law is administered. Taxpayers' right to adjudication is hardly effective. Bad law which is badly administered requires reforms in tax law and enforcement of accountability in tax administration. Professionals are also expected to act with professional dignity, honour and reputation. It is a timely warning for the Government to undertake reform of the fiscal system, which has a direct impact on enterprises, so as to conform to the requirements of a growing economy. MA

s.rajaratnam@vsnl.com

DEBACLE OF RELIANCE POWER IPO – A CASE STUDY

Dr. Biraj Kumar Mohanty
Associate Professor
ICFAI Business School, Hyderabad

Pradip Banerjee
Faculty
National Institute of Industrial Engineering (NITIE), Mumbai

During January 2008, the maiden public issue of Reliance Power Limited, India, was oversubscribed 73 times and garnered an astronomical $190 billion. It created many world records. It was the largest subscription of any IPO (initial public offering) anywhere in the history of global capital markets with a record five million applicants. It became 10 top listed companies in India with the largest number of shareholders in any listed company in the world.

The high growth Reliance Group companies are known for producing stock-market gains from the moment they are listed. No issue since its inception in the year 1965 had failed to date in the stock market. So the highly oversubscribed issue was keenly awaited to open on February 11, 2008 in the twin stock exchanges National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) of Mumbai, India.

But for the first time in history of Indian stock markets the Reliance magic did not work. For a few moments on the opening day, Reliance Power surged 19% to 538 rupees ($10.94) from the IPO price of 450 rupees ($9.15). After the initial surge of four minutes the dream vanished and RPL dived to 355rupees ($7.23) per share never to return even close to the issue price. By the close of the day, it was down 17% at 372.50 ($7.57) rupees, Four billion of its market capitalization wiped out and with it billions of rupees of investors' wealth.

The aftermath

In the following days, the nightmare worsened as another $5 billion of the market capitalization was lost. The blow was severe and went far beyond Reliance Power. The listing affected all the group companies of the Reliance Group.

As a face saving measure Reliance Power Ltd issued free bonus shares to all categories of shareholders, excluding the promoter group (comprising of Reliance Energy Ltd.(REL) and the ADA Group), in the ratio of 3 shares for every 5 shares held. The proposed bonus offering resulted in reduction of the cost of Reliance Power shares with an offer price of Rs. 269 ($5.47) per share for retail investors, 40% lower than the IPO price of Rs. 430($8.74) and Rs. 281($5.71) per share for other investors, and 37% lower than the IPO price of Rs. 450 ($9.15). REL announced buyback of the shares to prevent the shares to slide further which didn't happen although. The performance of Reliance Power Ltd. after the IPO was good (Annexure VI to IX) but not so excellent to support this exorbitantly high IPO Pricing.

Post mortem

Several analysis and reasons were ascribed to the Reliance Power debacle.

1) Reliance Power was a new company. It had almost no assets and cash flow. It was riding on the Reliance brand name and also the euphoria in India's stock markets. This was further aggravated through the exorbitant price quoted in the grey market before the issue. The "Power On, India On" slogan created hype and tried to portray over dependence of India's economic growth on

availability of power.
2) Indian investor considers IPO as a means of making quick money. The shares are sold out immediately on opening of the issue. This may be a reason of the Reliance Power debacle.
3) The IPO was not helped by a souring in global market mood as the reverberations of the US subprime and credit crisis swept around the world. Between January 4, when the IPO was announced, and the listing date of February 11, the benchmark Sensex index fell over 4,000 points, or almost 20%, from historic highs of around 20,686 points to 16,630.91 points.
4) It was observed that few Mauritius-based foreign institutional investors (FIIs) and a domestic bank offloaded almost their entire shareholding in the company within minutes of the opening bell.
Trading data indicated that as much as 23.77 million shares, 10.4% of the total 228 million shares sold through the Reliance Power IPO, changed hands on the twin bourses of Mumbai (Bombay Stock Exchange and National Stock Exchange) within the first four minutes. Sell orders were made at progressively declining prices. It was pointing towards a pre-mediated manipulation in the dealings although an investigation by Securities Exchange Board of India (the regulatory body of Indian Stock Market) cleared the dealings as genuine.
5) Reliance Power's downfall was linked to aggressive pricing of the IPO. Analysts suggested that it was overvalued when compared with peer companies in India. For instance, the IPO price was 450 against the price of NTPC, (the government power company) at Rs.250/-. RPL was planning a 28000 MW power plant in 2017 and did not have a single operational power plant whereas NTPC had 27350 MW of operational power plant in the year 2007. (Annexure I). Comparison of the financials of Tata Power and NTPC also did not show a very promising picture of RPL. (Annexure II)

On the contrary, it was advocated that the retail investors may have been swayed by the hype, but that cannot be told about the Foreign Institutional Investors (who have got all the expertise and knowhow of valuation of shares).

Background of the Issue

Power Sector in India

The Indian power sector has grown significantly since 1947 and India today is the third largest producer of power in Asia. The power generating capacity has increased from 1,362 MW in 1947 to over 160,000 MW by mid of 2010. Despite significant growth in electricity generation over the years, the shortage of power continues to exist primarily on account of growth in demand for power outstripping the growth in generation and capacity additions in power generation.

Historically, India has experienced shortages in energy and peak power requirements. The average energy deficit was 9.1 percent and the average peak power deficit was 12.8 percent between 2003 and 2010. According to projections made in the National Electricity Plan, demand for power is expected to grow at an average annual rate of 9% during the 11th Plan period (2007-12) and at an average annual rate of 7% during the 12th Plan period (2012-17). The gap between demand and supply has not decreased in the last few years, leading to persistent power shortages. The prevailing and expected electricity demand and supply imbalance in India presents significant opportunities in the power generation sector. (Annexure III).

Indian power sector has been regulated for almost a century through 'The Electricity Act 1910' and subsequently 'The Electricity (Supply) Act 1948'. By and large it was state controlled through the state electric boards and the performance of power sector was dismal during this period. As the Indian Economy started opening up to private sector and foreign players power sector also attracted lot of investment.

The year 2003 marked a new beginning of reforms in the Electricity Sector in India with enactment of the Electricity Act with lot of regulatory changes. The Central Government came out with National Electricity Policy on 6th February 2005. Now 100 percent Foreign Direct Investment (FDI) is allowed in generation, transmission and distribution segments. Incentives are given to the sector through waiver of duties on capital equipment under the Mega Power Policy. These policy initiatives have resulted in building up investor confidence in the power sector and have created an ideal environment for increased participation by the private sector.

During December 2012, "Cabinet Committee on Investments (CCI)" was formed to enable Greenfield projects to get the required clearances in a timely manner, including those related to land acquisition. Eight states have revised their power tariffs and another eight are supposed to revise during 2013-14. A framework for Fuel & Power Purchase Cost adjustment (FPPCA) has been approved in many of the states during 2011-12. But still power companies are facing the acute shortage of coal and banks do not extend loan to power companies easily due to its lack of viability on many account.

Reliance Group

The Reliance Group, founded by Dhirubhai H. Ambani (1932-2002), is India's largest private sector enterprise, with businesses in the energy and materials value chain. Group's annual revenues are in excess of US$ 58 billion. The flagship company, Reliance Industries Limited, is a Fortune Global 500 company and is the largest private sector company in India.

Backward vertical integration has been the cornerstone of the evolution and growth of Reliance. Starting with textiles in the late seventies, Reliance pursued a strategy of backward vertical integration - in polyester, fibre intermediates, plastics, petrochemicals, petroleum refining and oil and gas exploration and production - to be fully integrated along the materials and energy value chain. The Group's activities span exploration and production of oil and gas, petroleum refining and marketing, petrochemicals (polyester, fibre intermediates, plastics and chemicals), textiles, retail, telecom, finance, entertainment and special economic zones.

Reliance enjoys global leadership in its businesses, being the largest polyester yarn and fibre producer in the world and among the top five to ten producers in the world in major petrochemical products. Reliance Companies are widely known as cash rich zero debt companies. After the demise of Dhirubhai Ambani , the business of Reliance Group was divided among the two sons of the founder. The elder brother Mukesh holds companies in Petroleum and Poly Yarn whereas Younger brother Anil holds telecom and power business. (Annexure IV)

Both brothers have cashed in on the goodwill of Dhirubhai, who died in 2002 after shaping India's equity culture by attracting millions of retail investors in a market that was then dominated by financial institutions. Through repeated public offerings of Reliance Industries since its IPO in 1977, none of the issues went below their issue price. Dhirubhai revolutionized the country's capital markets by generating billions of rupees in wealth for those who put their trust in his companies.

Reliance Power

The younger brother Anil Dhirubhai Ambani holds the power business. The company was incorporated in January 1995 as Bawana Power Private Limited and many times changed its name to be finally known as Reliance Power Limited.

The Reliance Anil Dhirubhai Ambani Group (ADAG) intends Reliance Power to be its primary vehicle for investments in the power generation sector in the future. Other companies of the ADAG group like REL, RNRL and Reliance Energy transmission have associative arrangement to draw upon considerable expertise and resources that they possess in the Indian energy sector. But they do not have non-compete agreement between them. These companies will provide Engineering, Procurement and Construction (EPC) services, fuel sourcing and transmission services for some of RPL projects. RPL also expects to enter into off-take arrangements with its affiliates, including REL and Reliance Energy Trading.

RPL has started with an ambitious growth plan. It wants to develop power plants on various energy sources like Hydro, Coal, and Gas in various locations of the country. Simultaneously work has started at various plant sites. But during the time of issue none of the plants were operational. .

Securing adequate supplies of fuel is critical to the success of a power project. It intends to secure fuel for the projects by seeking captive fuel sources, procuring long-term contracts with domestic and foreign suppliers and entering into supply arrangements with its affiliates, including RNRL. RPL will source the coal needed for its 3,960 MW Sasan project from three captive mines in the Singrauli coalfields. RPL intends to seek supplies of coal for its supercritical coal-fired projects, Shahapur Coal (1,200 MW) and Krishnapatnam (4,000 MW), through RNRL or third parties. In addition, it is planning to seek supplies of natural gas from RNRL for its gas-fired projects at Shahapur (2,800 MW) and Dadri (7,480 MW), primarily from its rights to KG Basin gas reserves. RPL is also considering opportunities for securing fuel for other power generation projects with the supplies expected to be available from CBM exploration activities led by RNRL.

RPL intends to sell the power generated by these projects under a combination of long-term and short-term PPAs to state-owned and private distribution companies and industrial consumers.

It also aims at achieving optimal project operating efficiency through supercritical technology (beginning with Sasan UMPP) to reduce the amount of required coal supplies for the coal-fired projects and combined cycle gas turbine technology to increase output for gas-fired projects. To finance the ambitious power projects RPL has floated the mega issue with all the turmoil in the IPO market. (Annexure V)

An extract from an analysis by K.R. Balasubramanyam in Business Today, dated January 29th 2013 is depicted below to exhibit the present scenario of Reliance Power Limited. Billionaire entrepreneur Anil Ambani's ambitious venture, Reliance Power Limited, is slowly picking up. But investors are miles away from recovering even half their investments, let alone make profits.

Anil Ambani later issued three bonus shares for every five shares that retail investors held, diluting his own stake in the company. He now controls 75 per cent of the Mumbai-headquartered company. The stock was trading at Rs 93.40 on the Bombay Stock Exchange (NSE) at 2 pm on Tuesday, January 29. The retail investor, who got a small discount in the IPO price, will recover his investment only if the stock touches Rs 271. On the performance front, the company, led by Jayarama Chalasani, has been doing well. The 3,960 MW Sasan ultra mega power project is expected to go on-stream in the next few weeks, ahead of schedule. The 1,200 MW Rosa power project in Uttar Pradesh operated at 103 percent load factor. At Rs 493 crore in the October-December quarter, EBITDA (earnings before interest, taxes, depreciation and amortisation) rose 252 percent, delivering a profit of Rs 266 crore at the net level. Announcing the results on January 25, Chalasani said: "The third quarter has proved to be an excellent one for the company as we turned in outstanding operational and financial numbers."

Valuation & Investor Dilemma

Behavioral finance advocates that valuation of a share should never be guided by subjective analysis. Although in this case the indomitable reputation of reliance group, their ability to grow at unparalleled speed, expertise in executing the project are some of the important factors to be considered for the valuation of IPO, a base price must be found out which may be leveraged with the above factors. Analysts suggest various base to value the IPO. They are

1) Dividend Discounting
2) Net worth
3) Market price of Competitors
4) Market Price of existing group companies.

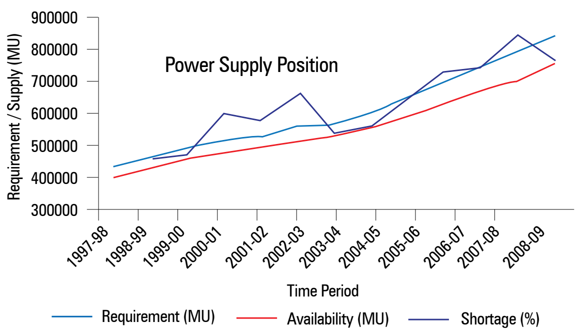
It is imperative for each investor to adopt some or other method to get a base figure of the price and further inflate or discount it on his own perception. If in general efficient market hypothesis rules the market, an en mass suicidal subscription & debacle may not be the roost of the day.

It was a good performance, but analysts believe the price at which the stock is trading is fair. The stock, they say, will move up the price curve only if its liquidity and profits improve dramatically, to reflect in its book value and earnings per share.

Industry analysis, Promoter's reputation in the market, critical factors (power purchase agreement & captive supply of coal in this case) may be few factors an investor will like to analyze before investing in an IPO. As it seems, in spite of all kinds of analysis the investor cannot safeguard his investment as exemplified in this case. Few failures of mega IPOs like this have an adverse impact on the primary market of the country.

Annexure I			
Capacity Reliance Power, NTPC and Tata Power			
Year/Company	RPL	NTPC	Tata Power
2008	0	27350	2623
2009	0	27850	2700
2010	1500	31704	2977
2011	5500	34194	5297
2012	5500	37014	5300
2013	16980	41000	8500
2017	28200	75000	25000
Source: Figures extracted from various internet sources			

Annexure III: Power requirement vs. supply over the years



Source: CEA, Power Scenario at a Glance, July 2010

Annexure II			
Comparison of RPL against Tata Power & NTPC			
	RPL	Tata Power	NTPC
Income	2007	2007	2007
Total Income (crores)	2.24	5285.98	35507.30
Total Expenses (Crores)	0.87	4208.47	22461.60
Operating Profit (Crs)	1.38	701.74	10170.10
Reported Net Profit	0.16	696.80	6864.70
Shares in issue (lakhs)	2000.40	1978.98	82454.64
Earning Per Share (Rs)	0.01	35.21	8.33
Equity Dividend (%)	0.00	95.00	32.00
Book Value per share (Rs)	10.00	302.73	58.94
Market Price of Share		1470.95	250.05
Equity base (31/3/2007) (Rs/Crores)	2259.95	220.72	8245.5
Face Value (15/1/2008)	10	10	10
Source: icicidirect.com			

Annexure IV						
Major Companies under Anil Ambani Group (ADAG)						
Name of the Company	Share Price (31/3/2008) In Rs.	Annualized Profit (31/3/2008) Rs. Million	Market Capitalization (31/3/2008) Rs. Million	Book Value (31/3/2008) per share	P/E Ratio (31/3/2008)	Price / BV (31/3/2008)
Reliance Capital	1375	10220.4	301919.56	245.27	29.45	5.01
Reliance Communication Limited	531.5	25864.5	1050641.28	120.35	40.56	4.22
Reliance Infrastructure Limited	1320	10846.3	294709.03	435.51	29.73	2.87
ADLABS	679.7	459.1	28291.49	147.01	52.51	4.17
RNRL	104	686	162904.8	10.59	237.35	9.41
Source: icicidirect.com						

Annexure V	
Issue Details	
Reliance Power Limited	
Issue opens	15th January 2008
Issue Closes	18th January 2008
Date of Listing	11th February 2008
Size of Issue	68400000 shares with a face value of Rs. 10.
Advisors to the IPO	Kotak Mahindra, ICICI Securities, JM Financial and Enam Financial
Price Band	Rs 405-450
Oversubscription	FII 82 times, High Net worth Individual 163 times Retail Investors 15 times.
Amount of Subscription Made	190 billion Dollar
Total Issue *Promoter's Contribution* *QIB* *Mutual Fund* *QIB including Mutual Fund* *Retail Investors*	1300000000 160000000 684000000 34200000 649800000 342000000
Source: Extracted from Issue Prospectus & other internet sources	

Annexure VI						
Income Expenditure Summary						
Income & Expenditure Summary (In Rs. Crore)						
Reliance Power Ltd.	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Currency: Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths
Total income	2.25	132.87	334.72	388.07	492.44	536.38
Sales	2.25			8.55	36.38	66.12
Industrial sales	2.25					
Income from non-financial services				8.55	36.38	66.12
Income from financial services		132.83	334.69	379.48	424.95	463.29
Interest income				3.18	91.48	178.53
Dividends		112.79	273.78	212.02	141.91	88.91
Income from treasury operations		20.04	60.91	164.28	191.56	195.85
Prior period and extra-ordinary income					20.91	5.93

Annexure VI						
Income Expenditure Summary						
Income & Expenditure Summary (In Rs. Crore)						
Reliance Power Ltd.	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Change in stock						
Total expenses	2.09	38.2	85.82	114.84	217.89	225.52
Operating expenses	0.88	18.61	67.41	92.85	169.02	130.47
Raw materials, stores & spares						
Purchase of finished goods					4.33	6.89
Packaging and packing expenses						
Power, fuel & water charges						
Compensation to employees	0.26	3.2	20.76	38.93	60.6	43.18
Indirect taxes	0.6	9.7	0.25	0.06	25.11	0.05
Royalties, technical know-how fees, etc						
Rent & lease rent			16.67	14.54	15.14	4.26
Repairs & maintenance		0.02	0.37	0.69	1.63	1.3
Insurance premium paid		0.01	0.15	0.37	0.74	1.5
Outsourced manufacturing jobs						
Outsourced professional jobs		3.89	18.53	26.45	17.74	21.89
Non-executive directors' fees		0.04	0.15	0.12	0.14	0.12
Selling & distribution expenses			0.19	0.26	0.65	0.21
Travel expenses		0.17	2.82	3.22	2.72	5.84
Communications expenses			3.31	3.36	10.91	3.82
Printing & stationery expenses			2.8	2.94	4.28	2.02
Miscellaneous expenditure	0.01	1.58	0.92	1.48	2.91	0.92
Other operational exp of industrial ent	0.01					
Other operational exp of non-fin services ent			0.49	0.43	22.12	38.47
Share of loss in other enterprises						
Financial charges	0.82	7.47	4.58	5.76	47.67	64.24
Fee based financial services expenses	0.82	7.47	4.58	5.76	8.15	7.06
Fund based financial services expenses					39.52	57.18
Interest paid					33.42	44.51
Financial charges on instruments					6.1	12.67
Provisions	0.01					
Non-cash charges			0.2	0.51	1.14	30.71
Depreciation			0.2	0.51	1.14	2.93
Amortisation						
Write-offs						27.78
Prior period and extra-ordinary expenses		5.92	6.06	0.01	0.06	0.1
Provision for direct tax	0.38	6.2	7.57	15.71		
Profit after tax	0.16	94.67	248.9	273.23	274.55	310.86
PBDITA	1.37	108.34	261.25	295.21	323.36	405.81
PBT	0.54	100.87	256.47	288.94	274.55	310.86
Source: CMIE Prowess						

Annexure VII						
Asset Summary						
Assets Summary (In Rs. Crore)						
Reliance Power Ltd.	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Currency: Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths
Gross fixed assets	67.28	67.41	78.18	81.15	96.53	102.21
Cumulative depreciation	0.99	1.07	1.57	2.4	11.3	14.22
Arrears of depreciation						
Net fixed assets	66.29	66.34	76.61	78.75	85.23	87.99
Intangible assets				0.24	0.26	2.52
Land	65.91	65.91	65.91	65.91	65.91	65.91
Buildings	0.02	0.01	7.99	7.85	7.58	7.3
Plant & machinery, computers and electrical assets	0.32	0.29	1.49	2.16	3.05	3.51
Transport & commn equipment and infrastructure		0.09	1.01	2.32	6.55	6.82
Furniture, social amenities and other fixed assets	0.04	0.04	0.21	0.27	1.88	1.93
Net lease reserve adjustment						
Capital work-in-progress	35.97	37.45	29	28.1	9.41	12.22
Net pre-operative exp pending allocation	14.85	23.69	26.85	27.2	30.4	
Investments	81	13,015.35	9,149.60	10,340.68	12,257.93	13,532.59
Investment in equity shares	0.06	110.26	417.24	1,667.87	2,285.34	3,540.54
Investment in preference shares				593.51	3,875.80	5,898.40
Investment in mutual funds	41.23	8,379.49	5,865.47	4,951.66	2,417.18	180.18
Investment in debt instruments						
Investment in approved securities						
Investment in assisted companies						
Investment in others	39.72	4,525.60	2,866.89	3,127.64	3,679.61	3,913.47
Less: provn for dimin in value of investments	0.01					
Memorandum						
Investments in group companies	41.29	8,489.75	6,282.71	6,418.55	6,161.14	9,438.94
Investments in non-group companies				794.49	2,417.18	180.18
Market value of quoted investments	43.56	8,412.03	6,046.44	3,658.77	1,865.05	199.95
Deferred tax assets						
Current assets	3.02	361.21	14.43	101.41	1,362.99	588.06
Cash & bank balance	0.77	361.16	14.43	98.22	1,234.91	366.22
Inventories						
Receivables	2.25	0.05		3.19	128.08	221.84
Assets held for sale and transfer						
Loans & advances	3.7	470.29	4,555.67	3,556.28	3,855.44	2,093.96
Miscellaneous expenses not written off						
Total assets	204.83	13,974.33	13,852.16	14,132.42	17,601.40	16,314.82
Source: CMIE Prowess						

Annexure VIII						
Liability Summary						
Liabilities Summary (In Rs. Crore)						
Reliance Power Ltd.	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Currency: Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths
Shareholder's funds	200.06	13,542.67	13,792.82	14,066.04	15,896.56	16,101.33
Net worth	200.06	13,542.67	13,792.82	14,066.04	15,896.56	16,101.33
Total capital	200.04	2,259.95	2,396.80	2,396.80	2,805.13	2,805.13
Paid up equity capital	200.04	2,259.95	2,396.80	2,396.80	2,805.13	2,805.13
Forfeited equity capital						
Paid up preference capital						
Capital contribution & funds by govt., others						
Convertible warrants						
Share application money & suspense account						
Reserves and funds	0.02	11,282.72	11,396.02	11,669.24	13,091.43	13,296.20
Free reserves	0.02	99.29	348.2	621.43	2,023.62	2,228.39
Specific reserves		11,183.43	11,047.82	11,047.81	11,067.81	11,067.81
Revaluation reserves						
Accumulated losses						
Borrowings					1,554.05	
Borrowing from banks						
Borrowing from financial institutions						
Borrowings from central & state govt						
Borrowings syndicated across banks & institutions						
Debentures and bonds						
Foreign currency borrowings					1,339.05	
Loans from promoters, directors and shareholders						
Inter-corporate loans					215	
Deferred credit						
Interest accrued and due						
Hire purchase loans						
Fixed deposits						
Commercial papers						
Other borrowings						
Deferred tax liability						
Current liabilities & provisions	4.77	431.66	59.34	66.38	150.79	213.49
Sundry creditors	3.02	58.24	28.54	27.94	32.09	27.57
Acceptances						
Deposits & advances from customers,etc						
Interest accrued but not due					35.65	
Share application money - refundable		359.3	10.51	3.95	8.07	7.19
Other current liabilities	0.51	6.32	4	1.72	39.71	170.29
Provisions	1.24	7.8	16.29	32.77	35.27	8.44
Total liabilities	204.83	13,974.33	13,852.16	14,132.42	17,601.40	16,314.82
Memorandum						
Tangible net worth	200.06	13,542.67	13,792.82	14,065.80	15,896.30	16,098.81
Total outside liabilities	3.53	423.86	43.05	33.61	1,669.57	205.05
Total term liabilities					1,554.05	
Contingent liabilities	9.03	608.57	608.13	1,200.00	2,649.65	2,440.13
Authorised equity capital	1,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00
Issued equity capital	200.04	2,260.00	2,396.80	2,396.80	2,805.13	2,805.13
Source: CMIE Prowess						

Annexure IX						
Cash Flow Summary						
Cash Flow (In Rs. Crore)						
Reliance Power Ltd.	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**	**Mar-12**
Currency: Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths
Net cash flow from operating activities	-38.8	337.41	-524.57	-110.96	-252.43	-94.63
Net profit before tax & extra-ordinary income	0.54	101.44	256.47	288.94	253.64	310.94
Add: Adjustments for non-cash and non-operating expenses	0.19	0.2	1.11	2.99	45.33	91.07
Depreciation			0.2	0.51	1.14	2.93
Amortisation and w offs						27.78
Unrealised foreign exchange loss					1.06	
Provision for contingencies						
Other provisions like RDD etc	0.19	0.2	0.91	0.78	0.72	
Interest Paid				1.69	42.35	60.34
Loss on sale of investments						
Loss on sale of assets				0.01	0.06	0.02
Other non-cash and non-operating expenses						
Less: Adjustments for non-cash and non-oper income	0	132.84	334.69	379.49	424.95	464.69
Unrealised foreign exchange gain						20.39
Provision or liabilities written back						1.4
Interest income		0.01	0.01	3.19	91.48	178.53
Dividend income		112.79	273.78	212.02	141.91	88.91
Profit on sale of investments		20.04	60.9	164.28	191.56	175.46
Profit or loss on sale of assets						
Other non-cash and non-operating income						
Operating cash flow before working capital changes	0.73	-31.2	-77.11	-87.56	-125.98	-62.68
Add:Cash inflow due to	3.1	374.96	0	0	19.51	0
Decrease in trade & other receivables		1.31				
Decrease in inventories						
Increase in trade & other payables	3.1	373.65			19.51	
Increase in deposits						
Decrease in advances						
Increase in other current liabilities						
Less: Cash outflow due to	41.97	0	439.42	4.91	133.41	52.47
Increase in trade & other receivables	41.97		99.09	2.03	133.41	18.24
Increase in inventories						
Decrease in trade & other payables			340.33	2.88		34.23
Decrease in deposits (banks or fis)						
Increase in advances (banks or fis)						
Decrease in other current liabilities						
Cash flow generated from operations	-38.14	343.76	-516.53	-92.47	-239.88	-115.15
Cash outflow due to direct taxes paid	0.66	6.35	8.04	18.49	12.55	2.25
Cash inflow due to direct taxes refund						
Cash outflow due to dividend tax paid						
Cash flow before extraordinary items	-38.8	337.41	-524.57	-110.96	-252.43	-117.4
Cash outflow due to extraordinary items						
Cash inflow due to extraordinary items						22.77
Cash outflow due to misc expend						
Net cash inflow from investing activities	-58.69	-12,267.06	217.09	203.01	1,061.87	1,101.63
Less: Cash outflow due to investing activities	114.38	29,916.44	8,154.17	5,091.92	4,633.32	3,735.42
Purchase of fixed assets	19.33	9.13	5.16	2.2	7.33	8.53
Increase in capital work in progress						
Acquisition or merger of companies or units						
Purchase of investments	95.05	29,447.96	5,829.54	5,089.72	4,466.89	3,186.89

Annexure IX						
Cash Flow Summary						
Cash Flow (In Rs. Crore)						
Reliance Power Ltd.	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Currency: Rs. Crore (Non-Annualised)	12 mths	12 mths	12 mths	12 mths	12 mths	12 mths
Loans to subsi or group companies		459.35	2,319.47			
Loans to other companies						540
Profit or (loss) on redemption of shares						
Other income					159.1	
Disbursements						
Add: Cash inflow due to investing activities	55.69	17,649.38	8,371.26	5,294.93	5,695.19	4,837.05
Sale of fixed assets				0.06	0.24	0.06
Decrease in capital work in progress	0.24					
Merger or hiving off of companies or units		0.03			209.14	0.06
Sale of Investments	55.45	17,536.55	8,097.47	4,062.92	4,484.06	2,523.08
Redemption of shares						
Loans from subs or group companies				1,019.92	817.29	2,022.41
Loans from other companies						
Interest received		0.01	0.01	0.01	45.35	120.43
Dividend received		112.79	273.78	212.02	139.11	82.12
Other income						88.89
disbursements						
Net cash inflow or (outflow) from financing activities	97.63	12,290.04	-39.26	-8.26	165.67	-1,785.92
Less: Cash outflow due to financing activities	0	72.14	40.24	8.26	49.33	2,009.88
Issue expenses		72.14	40.24			
nterest paid				1.69	49.33	95.99
Dividend paid						
Repayment of borrowings						1,913.89
Repayment of long term liabilities						
Repayment of short term liabilities						
Cash (outflow) due to redemption or buyback of capital				6.57		
Cash inflow or (outflow) due to other cash receipts or payables from financing activities						
Add: Cash inflow from financing activities	97.63	12,362.18	0.98	0	215	223.96
Proceeds from share issue	97.63	12,362.18	0.98			
Cash Subsidy						
Proceeds from borrowings					215	223.96
Proceeds from long term borrowings						
Proceeds from short term borrowings						
Other cash receipts or payables from financing activities						
Net increase or (decrease) in cash & cash equivalents	0.14	360.39	-346.74	83.79	975.11	-778.92
Cash & bank - opening balance	0.58	0.72	361.16	14.42	2.57	977.68
Cash & bank - closing balance	0.72	361.11	14.42	98.21	977.68	198.76
Net increase or (decrease) in cash & cash equivalents(cl-op)	0.14	360.39	-346.74	83.79	975.11	-778.92
Source: CMIE Prowess						

Annexure X						
Capital Expenditure Projects						
Capital Expenditure Projects (In Rs. Crore)						
Project name	Location	Cost	Product	Capacity	Unit	Status
Samalkot Power Expansion Project	Samalkot East Godavari Andhra Pradesh	10,000.00	Steam Turbine	960	Mw	Under Implementation
Kakinada FSRU LNG Import Terminal Project	Kakinada East Godavari Andhra Pradesh	5,400.00	Kakinada FSRU LNG Import Terminal	5	MTPA	Announced
Jaisalmer Solar Power Expansion Project	Dhoorsar Jaisalmer Rajasthan	3,000.00	Solar Power	160	Mw	Announced
Source: CMIE Prowess						

Discussion about the case study

1. The book building process of Initial Public Offer (IPO)

The very first sale of stock to the general public is called an IPO. The issuer may be a new company or an old company. The issuer and the investment banker jointly decide the price band of the new issue and once the price band is determined the investment banker managed the IPO through book building process.

Till early 1990's the new issue in India was governed by the Controller of Capital Issue (CCI) where the company decides one price to issue the share after taking the due approval from CCI. This was known as Fixed Price regime. After the abolition CCI, the book building process was introduced, which is a mechanism in between fixed price and free price.

The Book Building Process:

(i) The company first appoints a book runner or an investment banker.

(ii) The investment banker prepares and submits a draft document to SEBI for approval.

(iii) The issuer and the investment banker jointly decide the share price with a price band.

(iv) The investment banker takes up all the promotional activities to sell the shares.

(v) Offers regarding the demand for security at different price level are invited from different market participants (Financial Institutions, Brokers, Mutual funds, Foreign Institutional investors, Individual investors, etc).

(vi) Based on the bid received, the issuer and the investment banker jointly decide a Cut-Off Price.

(vii) In 100% book building – proportional allotment- 50% Qualified Institutional Bidders, 15% High Net-worth Individual and 35% Retail investors.

(viii) If any portion is over subscribed, allotment is done on proportional basis.

2. Pros & Cons of book building process.

Book building process is considered to be the superior process as compared to the fixed price process. Under fixed price process the investors has no say over the price of an IPO. The price is determined by the company. The company does not consider feedback from the investors while determine the IPO price.

The book building process considers the investors decision and feed-back partially (if not full). The complete investors feed-back regarding price are possible only in case of free price mechanism, which has a practical problem of extremely divergent view of price by the investor's community. Therefore, the company decide an initial price band (floor and ceiling price is decided by the company) and the investors decide a particular price within the price band based on his perception and valuation about the stock. He is allowed to change the price during the issue opens. As investors feed-back is taken in this process, the price discover in this process is high and the possibility of large price fluctuation after listing is not so high.

3. The role of an IPO manager in Indian context.

IPO's in India are managed by IPO Manager's. IPO Manager's are financial organizations registered with stock exchanges and SEBI. They are categorized broadly as Lead Manager's, IPO Registrar and Syndicate Members (or The Members of the Syndicate).

Lead Managers

Lead managers are independent financial institutions appointed by the company going public to manage the IPO. They are the main body responsible for most of the IPO processing. Lead managers examine company documents including financial documents, documents relating to litigation like commercial disputes, patent disputes, disputes with collaborators, etc. and other materials, in connection with the finalization of the draft red herring prospectus for the IPO. Lead managers are responsible to write the Red Herring Prospectus (RHP) and get it approved by SEBI.

SEBI contact lead managers for any irregularities or lapses in RHP and ask them to clarify, add or review certain sections of the document. Lead managers certifies to SEBI that all the disclosers made in Draft Red Herring Prospectus are true, correct, adequate and comply with SEBI guidelines to help investors in making a well-informed decision. In brief Lead Manager's responsibilities include, initiate the IPO processing, write draft herring prospectus and get it approve by SEBI, help company in selling the IPO Shares and road shows, help company in finalize the issue price, issue opening & closing dates, listing date etc. Lead Manager's are also known as Book Running Lead Manager and Co-Book Running Lead Managers. Issuer Company can appoint more than one lead manager to manage big IPO's.

IPO Registrar

IPO Registrars are independent financial institutions registered with stock exchanges and appointed by the company going public for mainly to keep record of the issue and ownership of company shares. Responsibility of a registrar at the time of IPO involves, processing of IPO applications, allocate shares to applicants based on SEBI guidelines, process refunds and transfer allocated shares to investors de-mat accounts. Investors can contact the Registrar to the Issue in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary accounts, refund orders etc. The full name of the sole or First Bidder, Bid cum Application Form number, Bidders Depository Account Details, number of Equity Shares applied for, date of bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Syndicate Member

Issuer Company with the help of lead manager appoints underwriters or syndicate members for the IPO. Lead managers are responsible for examining the worth of underwriters and there capabilities to buy the shares and assure the same to SEBI. Syndicate members are commercial or investment banks responsible for underwriting IPO's. Syndicate members are usually registered with SEBI or registered as brokers with BSE / NSE Stock Exchanges.

4. Learning points in the RPL debacle

The learning point in case of RPL IPO case could be discussed from various angles:

(i) In January 2008, the R-Power launched an IPO, which was the highest ever IPO in the history of Indian capital market, tried to mobilize Rs.8,000 crore. The maiden public issue of Reliance Power Limited, India, was oversubscribed 73 times and garnered an astronomical $190 billion. It created many world records. It was the largest subscription of any IPO (initial public offering) anywhere in the history of global capital markets with a record five million applicants. It became 10 top listed companies in India with the largest number of shareholders in any listed company in the world. Despite the size of the IPO, the price falls like ninepin after few minutes on the listing day. This could be shown as a very good example that large IPO can also be fallen in the absence of depth in the market like Indian stock market, where few large Foreign Institutional Investors can dictate the price in the market.

At this juncture the instructor can also explain the depth and breadth of the market and how the breadth and depth plays an important role in the process of price discovery.

(ii) Through the case the instructor can also explain the alternative available to the company to deal with this kind of debacle. For example the company issued free bonus shares to all categories of shareholders, excluding the promoter, in the ratio of 3 shares for every 5 shares held.

(iii) Through this case the instructor may touch the issues related to the timing of the initial offer. Usually, during the boom phase of market, almost all the IPO moves up very smoothly (even register some first day pop), but during the crisis period the IPO of good companies may suffer.

(iv) The instructor may touch the valuation aspect through this case. R-Power's downfall may be linked to aggressive pricing of the IPO. Analysts suggested that it was overvalued when compared with peer companies in India. For instance, the IPO price was 450 against the price of NTPC, (the government power company) at Rs.250/-. RPL was planning a 28000 MW power plant in 2017 and did not have a single operational power plant whereas NTPC had 27350 MW of operational power plant in the year 2007. (Annexure I). Comparison of the financials of Tata Power and NTPC also did not show a very promising picture of RPL. (Annexure II). Here at this point, the instructor may bring the concept of relative valuation methods and explain the multiples like PE, Price to book, price to sales to Economic value to EBITDA etc.

5. Critically evaluation of the roles and responsibilities of the market regulator.

In the light of the above case, the roles and responsibilities of the market regulator has gone up many folds. During fixed price regime the CCI (an arm of regulator) and the issuing company jointly decided the issue price, but in the book building process the market regulator has a very little role on determination of issue price. Taking the advantage of this some unscrupulous managers may decides an unjustified issue price band. When small investors understood it, is too late for them to react and the stock price collapse after the listing.

Indian stock market is suffering from lack of breadth and depth. Under this scenario, the large foreign investors (FIIs) with their relatively large investable corpus control the price movements. It is a challenging task for the market regulator to have control over these FIIs and if they play any unfair game at the cost of marginal investors, frame laws to penalize them.

The market regulator should increase the corpus the Investor's Protection Fund (IPF) and in case of any fraudulent activity happen and marginal investors lose their money, the IPF can be used to protect them.

6. Valuation and justification of the IPO.

Reliance will achieve a capacity of 28200 MW capacity in the year 2016, which is presently held by NTPC. If we presume that there will be no fresh issue of shares by RPL the present operating profit and the resultant market price of NTPC will be same as RPL will be achieving in 2016. So price of Reliance after considering the price multiple against face value and the present market price of NTPC will be 8245.5/2259.95*250 = 912.13. If it is further discounted for eight years the present price of RPL should be 912.13*0.404 (discounting factor for eight years at the rate of 12%) =368.50. The price should further be discounted for the risk factor involved in the implementation of the project. But looking into the growth rate of reliance in last 50 years and their capability of executing projects in time we may ignore the risk factor. Here we may subjectively consider two factors. 1) We have ignored the interest amount on the extra equity invested in NTPC (8245.5-2259.95= 5985.55) and assumed that RPL will generate the fund from internal accrual. 2) NTPC has the advantage of being a government company and it will never face the problem of raw material due to the patronage of government. (Majority of the mines in India are owned by Government and there is a strict regulatory measure on leasing of mines). 2) Government companies in the country have the obligation of adapting to standardized Corporate Governance policies which may add to the cost of NTPC thereby reducing the profitability. 3) As reliance is using various kinds of raw materials for its projects it may be easier for it to manage operating cost.

The pricing of Government vs Private Companies will be more clear if we consider RPL vis-à-vis Tata Power. Tata Power has a capacity of 2623 MW now which RPL will achieve in the year 2010. Price of Reliance considering the price multiple of Tata Power will be 220.72/2259.95*1470.95 = 143.65 If it is further discounted for two years present value the price will be 28.73*.797=114.48. It seems the benefit of being a government company favours NTPC. But we are considering the same equity base over a period of time which may not be true.. Tax exemption for new power plants may favour Reliance power for a better price. We find profitability is justified with the capacity of the company. If we compare NTPC with Tata Power , the former is 10 times bigger in capacity and so also the profit. So we can assume that Reliance's Profitability will also follow the same trend.

Valuing the company on the base of its book value is not appropriate here as the company has hardly started its operation. In present economic scenario when the investor is focused on the capital gain , dividend hardly plays any role in valuation of a share. So dividend discounting method may not be the appropriate mode of valuing the share.

Perception in the market about the management of the company is also quite important in determining the price. We may proceed in the following way :

1) Find out the quarterly profit of all the group companies of ADAG on 31st March 2007.
2) Annualize the profit by multiplying with four.
3) Next step is to find out the overall market capitalization of those companies.
4) Ratio of Market capitalization to annualized profit should be found out.
5) As we find profitability of power sector remains uniform, we can presume that the profitability of NTPC now will be same as the profitability of RPL in 2016.
6) Discount the current year profit of NTPC with a discounting factor for eight years.
7) Multiply the market capitalization to annualized profit ratio (step 4) with the discounted profit found out in step 6.
8) Divide the total number of shares with market capitalization found out ins step 7. This becomes the expected issue price of the IPO.

Here we have ignored the profitability across industry. But finally what matters is the profitability in the organization. Of course the expected growth over a period across industries can be another deciding factor. To arrive at a concrete figure let us assume that growth is typical to the mindset of the management than the scope provided by the industry. So across industries ADAG will have the same growth and hence the market perception of other companies of the ADAG group can be a base for determining the price of RPL.

Four years have passed since RPL had its IPO in January 2008. The researcher can analyze the time overrun of the project, raw material supply scenario, power tariff change and compare against the projected ones. The market price should take into consideration the bonus given by RPL to the shareholders after the debacle. MA

pbanerjee@gmail.com

EMPIRICAL STUDY OF CASH MANAGEMENT OF A PHARMACEUTICAL COMPANY: A CASE STUDY OF LUPIN LTD.

Dr. Amit kr nag
Assistant professor,
Bhopal school of
social sciences.
(bsss), bhopal

Management of cash comprises of a series of activities aimed at efficient handling the inflow and outflow of cash. Proficient management of the inflow and outflow of cash plays a crucial role in the overall performance of a firm. Excess cash will remain idle without any contribution towards profit whereas shortage of cash will disrupt the firm's manufacturing process. Normally it is believed that profit is the sole criteria for judging business success. To some extent it is true but now cash is also considered as something more fundamental for the survival of any business. 'Cash is King' and therefore management of cash is indispensable. Adequate availability of cash is essential to meet the business needs. Since, it is necessary in daily business operations and is productive, the cash owned by an enterprise at any time should be carefully regulated[1]. Cash is not an end in itself, but is a means to achieve the end. To quote Brigham, "Cash is a non- earning asset, so excessive cash balance simply lowers the total assets turnover, thereby reducing both the rate of return on net worth and the value of the stock"[2].

A company's competitive ability to some extent is dependent on the availability of cash balances since it the means to invest in people, technology and other assets. The steady and healthy circulation of cash throughout the entire business operation is the business solvency[3]. Like any other asset of a company, cash is a tool for profit. Thereby, the emphasis is laid on the right amount of cash at the right time, at the right place and at the right cost[4]. Management of cash is mainly diverting the cash from where it is to where it is needed to be. A company needs to have adequate cash balance in order to manage its working capital requirements. Effective management of cash is the necessity of all business houses since improper management of cash causes their failure. Therefore, effective management of cash involves an attempt to minimize investment in cash without impairing to the liquidity of the firm which in turn means a prop-

[1]Accountants Handbook (1970), New York: A Ronald Press Publications; John Wiley & Sons, Section10, p.9.
[2]Brigham,E.F, (1978), " Fundamentals of Financial Management", Illnois: The Dryden Press, p.168.
[3]Howard, B.B. Uptan.M,(1953) " Introduction to Business Finance", New York: McGraw Hill Book Co., Inc.,p.188.
[4]Gitman, L.J., op. cit., p.170.

er balancing between the two conflicting objectives of the liquidity and profitability. The ultimate goal of cash management is to maintain the minimum cash balance, which provides the firm with sufficient liquidity needed to meet its financial obligations.

Review of literature

Hartely, W.C.F and Meltzer, Y.L., (1967) opinioned that ' Cash forecast is used as a method to predict future cash flow because it deals with the estimation of cash flow (i.e., cash inflows and cash out flows) at different stages and offers the management an advance notice to take appropriate and timely action'. Orgler, Y. E., (1970) stated that 'the various collection and disbursement methods can be employed to improve cash management efficiently since it constitutes two sides of the same coin'. Both collections and disbursements exercise a joint impact on the overall efficiency of cash management. To quote Rama Moorthy (1978), 'deposit float as the sum of cheques written by the customers that are not yet usable by the firm '. He further stated that in India deposit float can assume sizeable opportunities as cheques normally take a longer time to get realized than in most countries. In the words of Bottan S.E., (2000), 'Cash is an oil to lubricate the ever turning wheels of business: without it, the process grinds to a stop". He further stated that 'Cash shortage is not cost free; it involves cost whether it is expected or unexpected shortage. The expenses incurred as a result of shortage are called short costs.

Justification of the study

For managing cash flows, short term borrowings and to meet cash payments, forecasting the cash needs of the business is essential. Since the prime objective of cash management is to accelerate cash receipts as much as possible and to decelerate or delay cash disbursement as much as possible. Therefore, there is a need to have proper cash planning in order to estimate the cash surplus or deficit for each planning period and if there is surplus cash it should be properly invested only in short term marketable securities, in order to earn profits. Hence, an attempt has been made in this paper to make a comprehensive study of the LUPIN Ltd in respect of its management of cash.

Objective of the study

This study has the following objectives:

- To analyze the concept of cash management.
- To examine the utilization of cash resources of the company.
- To examine whether the ability to generate daily cash has any effect on the ability to repay financial obligations.
- To study the cash to debt service ratio of the company.

Hypothesis of the study

In order to achieve these objectives, the following hypothesis has been framed for testing:

Ho: There is no significant difference in the cash management position of LUPIN Ltd during the study period.

Methodology

For the study, data has been collected from the annual reports published periodically by the company. The statistical techniques like percentage, averages, coefficient of correlation, coefficient of variation, T-test have also been applied. For proper analysis and evaluation, the individual items of profit and loss accounts and balance sheet have also been regrouped.

Limitations

Limitations are always a part of any kind of research work, as the report is mainly based on secondary data; proper care must be taken in knowing the limitations of the required study.

i. The financial performance of the institution is shown just for the last six years, ending 2012. Hence, any uneven trend before or beyond the set period will be the limitations of the study.

ii. This analysis is based on only monetary information, analysis of the non monetary factors are ignored.

iii. As per the requirement of the study some data have been grouped and sub grouped.

iv. There is non availability of sufficient literature & information from the corporation.

Analysis of cash management of lupin ltd

Cash position analysis of the LUPIN Ltd has been done with the help of ratio analysis technique. Various ratios such as Cash Turnover Ratio, Basic Defensive Ratio, Daily Cash Payment Ratio, Absolute Liquid Ratio, Cash to Debt Service Ratio and Cash Conversion Cycle has been applied for judging the Cash position of the company.

1. Cash Turnover Ratio

Cash Turnover Ratio measures how many times per year a company replenishes its cash balance with its sales revenue. Generally, a high cash turnover ratio is better than a low one. A high cash turnover ratio means that a company is going through its cash cycles quickly and is being efficient with its cash i.e., able to replenish it quikly and use cash toward better uses.

$$\text{Cash Turnover Ratio} = \frac{\text{Revenues}}{\text{(Cash and Cash Equivalent)}}$$

Table: - 1 Statement Showing Cash Turnover Ratio (₹ in crores)			
Year	Turnover (₹)	Cash and Cash Equivalent (₹)	Cash Turnover Ratio
2006-2007	21309.6	3844.5	5.54
2007-2008	28341	2741.8	10.34
2008-2009	37949.9	777.7	48.80
2009-2010	17736.6	2015.3	8.80
2010-2011	57068.2	4201.2	13.58
2011-2012	69597	4024.7	17.29
Mean	38667.05	2934.20	17.39
	18893.43	1235.25	14.52
C.V.	48.86	42.10	83.48
Growth	226.60	4.69	211.98
Average Annual Growth	37.77	0.78	35.33
Source: Compiled from the annual reports of LUPIN Ltd. (From 2007 - 2012)			

Interpretation

Table no. 1 shows that the Cash Turnover ratio was lowest in the year 2006-2007 when it was 5.54 times which then increased to 10.34 times in the year 2007-2008. The Cash Turnover ratio was highest in the year 2008-2009 when it was 48.80 times, the ratio then decreased to 8.80 times in the year 2009-2010. The Cash Turnover Ratio then increased to 13.58 times in the year 2010-2011and further increased to 17.29 times in the year 2011-2012. The overall average of Cash Turnover ratio for the whole period of study was 17.39 times. The standard deviation of the Cash Turnover ratio was 14.52 with coefficient of variation as 83.48%. The overall growth of Cash Turnover ratio during the period of study was 211.98%, with average annual growth of 35.33%.

2. Basic Defense Interval Ratio

The Basic Defense Interval Ratio helps in determining the number of days the company can cover its cash expenses without the aid of additional financing.

$$\text{Basic Defense Interval Ratio} = \frac{(\text{Cash}+\text{Receivables}+\text{Marketable Securities})}{(\text{Operating Expenses}+\text{Interest}+\text{Income Taxes})/365}$$

Table: - 2 Statement Showing Basic Defense Interval Ratio (₹ in crores)			
Year	Cash+Receivables + Marketable Securities (₹)	(Operating Expenses + Interest + Income Taxes)/365	Basic Defense Interval Ratio
2006-2007	6292.7	25.35	248.23
2007-2008	5108.8	34.96	146.13
2008-2009	3557.4	45.79	77.69
2009-2010	6773.9	57.31	118.20
2010-2011	10409.2	69.93	148.85
2011-2012	11729.3	92.56	126.72
Mean	7311.88	54.32	144.30
σ	2868.94	22.37	52.05
C.V.	39.24	41.18	36.07
Growth	86.40	265.13	-48.95
Average Annual Growth	14.40	44.19	-8.16
Source: Compiled from the annual reports of LUPIN Ltd. (From 2007 - 2012)			

Interpretation

As per table no.2, the Basic Defense Interval Ratio was highest in the 2006-2007 when it was 248.23 and then it decreased to 146.13 in the year 2007-2008. The Basic Defense Interval Ratio then further decreased and was lowest in the year 2008-2009 when it was 77.69. The Basic Defense Interval Ratio then showed a increasing trend from the year 2009-2010 and increased to 118.20, which further increased to 148.85 in the year 2010-2011. In the year 2011-2012 the Basic Defense Interval Ratio decreased to 126.72. The overall average of Basic Defense Interval Ratio for the whole period of study was 144.30. The standard deviation of the Basic Defense Interval Ratio was 52.05 with coefficient of variation as 36.07%. The overall growth of Basic Defense Interval Ratio during the period of the study was -48.95%, with average annual growth of -8.16%.

3. Daily Cash Payment Ratio (DCP)

This ratio is helpful in identifying the paying capacity per day of the company and also in ensuring whether the company is able to make daily payments or not. A company should compare its own past records of cash balances and its competitors in the industry to hold cash balances. A lower result is generally better than a higher ratio.

$$\text{Daily Cash Payment Ratio (DCP)} = \frac{\text{Days in a Year}}{\text{Cash Turnover Ratio}}$$

Table: - 3 Statement Showing Daily Cash Payment Ratio (₹ in crores)			
Year	**Days in a Year**	**Cash Turnover**	**Daily Cash Payment Ratio**
2006-2007	365	5.54	65.88
2007-2008	365	10.34	35.30
2008-2009	365	48.8	7.48
2009-2010	365	8.8	41.48
2010-2011	365	13.58	26.88
2011-2012	365	17.29	21.11
Mean	365.00	17.39	33.02
σ	0.00	14.52	18.21
C.V.	0.00	83.49	55.13
Growth	0.00	212.09	-67.96
Average Annual Growth	0.00	35.35	-11.33
Source: Compiled from the annual reports of LUPIN Ltd. (From 2007 - 2012)			

Interpretation

As per table no.3, the Daily Cash Payment Ratio was highest in the year 2006-2007 when it was 65.88. The Daily Cash Payment Ratio then decreased in the year 2007-2008 when it reached 35.30, which further decreased to 7.48 in the year 2008-2009. The Daily Cash Payment Ratio then increased to 41.48 in the year 2009-2010 but then decreased to 26.88 in the year 2010-2011. The Daily Cash Payment Ratio further decreased to 21.11 in the year 2011-2012. The overall average of Daily Cash Payment Ratio for the whole period of study was 33.02. The standard deviation of the Daily Cash Payment Ratio was 18.21 with coefficient of variation as 55.13%. The overall growth of Daily Cash Payment Ratio during the period of the study was -67.96%, with average annual growth of -11.33%.

4. Absolute Liquid Ratio

Absolute Liquid Ratio measures a relationship between cash and marketable securities and current liabilities. The objective of computing this ratio is to measure the ability of the enterprise to meet its short-term obligations as and when due, without relying upon the realization of stock and debtors. Although receivables, debtors and bills receivables are generally more liquid than inventories, yet there may be doubts regarding their realizations into cash immediately or in time. Therefore absolute liquid Ratio should also be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets and find out the absolute liquid assets.

$$\text{Absolute Liquid Ratio} = \frac{\text{Cash and Cash Equivalent}}{\text{Current Liabilities}}$$

This ratio gains significance only when it is used in conjunction with the first two ratios. A standard of 0.5:1 is considered an acceptable norm for this ratio. In other words, this ratio indicates that 50 paisa worth of absolute liquid assets is sufficient to meet 1rupee worth of liquid liabilities.

Table: - 4 Statement Showing Absolute Liquid Ratio (₹ in crores)			
Year	Absolute Liquid Assets (₹)	Current Liabilities (₹)	Absolute Liquid Ratio
2006-2007	3844.5	4222	0.91
2007-2008	2741.8	7469.9	0.37
2008-2009	777.7	12161.9	0.06
2009-2010	2015.3	11892.5	0.17
2010-2011	4201.2	14517.7	0.29
2011-2012	4024.7	20178.1	0.20
Mean	2934.20	11740.35	0.33
σ	1235.25	5064.13	0.27
C.V.	42.10	43.13	82.49
Growth	4.69	377.93	-78.10
Average Annual Growth	0.78	62.99	-13.02
Source: Compiled from the annual reports of LUPIN Ltd. (From 2007 - 2012)			

Interpretation

Table 4 states that the Absolute Liquid Ratio was highest in the year 2006-2007 when it was 0.91:1, the ratio then decreased to 0.37:1 in the year 2007-2008. The Absolute Liquid Ratio further decreased to 0.06:1 in the year 2008-2009. The Absolute Liquid Ratio in the year 2009-2010 increased to 0.17:1 and then further increased to 0.29:1 in the year 2010-2011. The Absolute Liquid Ratio then decreased to 0.20:1 in the year 2011-2012. The overall average of Absolute Liquid Ratio for the whole period of study was 0.33:1. The standard deviation of the Absolute Liquid Ratio was 0.27 with coefficient of variation as 82.49%. The overall growth of Absolute Liquid Ratio during the period of the study was -78.10%, with average annual growth of -13.02%.

5. Cash to Debt Service Ratio

Cash to Debt Service Ratio helps in judging long term solvency of the business concern. The ratio attempts to develop confidence among the lenders that the firm has the ability to make timely payments of its principal as well as its interest amount due. Normally a high ratio is considered as favorable since it acts as a cash cushion and the company will be least likely to default on its debts.

$$\text{Cash to Debt Service Ratio} = \frac{\text{Cash and Cash Equivalent}}{\text{Borrowings} + \text{Interest}}$$

Table: - 5 Statement Showing Cash to Debt Service Ratio (₹ in crores)			
Year	Cash and Cash Equivalent (₹)	Borrowings + Interest (₹)	Cash to Debt Service Ratio
2006-2007	3844.5	9019.8	0.43
2007-2008	2741.8	12402.3	0.22
2008-2009	777.7	12731.3	0.06
2009-2010	2015.3	11783.4	0.17
2010-2011	4201.2	11948.7	0.35
2011-2012	4024.7	16754.7	0.24
Mean	2934.20	12440.03	0.25
σ	1235.25	2275.71	0.12
C.V.	42.10	18.29	48.28
Growth	4.69	85.75	-43.64
Average Annual Growth	0.78	14.29	-7.27
Source: Compiled from the annual reports of LUPIN Ltd. (From 2007 - 2012)			

Interpretation

Table No. 5 states that the Cash to Debt Service Ratio was highest in the year 2006-2007 when it was 0.43 and the ratio then decreased to 0.22 in the year 2007-2008. The Cash to Debt Service Ratio then further decreased to 0.06 in the year 2008-2009. The Cash to Debt Service Ratio was 0.17 in the year 2009-2010, which then further increased in the year 2010-2011 to 0.35 and then decreased to 0.24 in the year 2011-2012. The overall average of Cash to Debt Service Ratio for the whole period of study was 0.25. The standard deviation of the Cash to Debt Service Ratio was 0.12 with coefficient of variation as 48.28%. The overall growth of Cash to Debt Service Ratio during the period of the study was -43.64%, with average annual growth of -7.27%.

6. Cash Conversion Cycle

Cash Conversion Cycle is one the efficiency ratio which not only tells the analyst about how much cash is tied up in inventory, but also its ability to collect money from the customers as well as payments needs to be made to its creditors. A shorter Cash Conversion Cycle is favorable, and it is possible to have a negative Cash Conversion Cycle. This metric combines three sub-measures:

• Days Inventory Outstanding (DIO): which measures the efficiency of turning inventory into revenue.

$$\text{Days Inventory Outstanding (DIO)} = \frac{\text{Average Inventory}}{\text{(Cost of Goods Sold/365)}}$$

• Days Sales Outstanding (DSO): This measures how effectively a company collects money from its customers.

$$\text{Days Sales Outstanding (DSO)} = \frac{\text{(Average Accounts Recievables)}}{\text{(Revenues/365)}}$$

• Days Payables Outstanding (DPO): This measures how quickly a company pays its suppliers.

$$\text{Days Payables Outstanding (DPO)} = \frac{\text{Average Accounts Payable}}{\text{(Cost of Goods Sold/365)}}$$

Therefore Cash Conversion Cycle is calculated as:

Cash Conversion Cycle (CCC)=DIO+DSO-DPO

Table: - 6 Statement Showing Cash Conversion Cycle

Year	Days Inventory Outstanding (DIO)	Days Sales Outstanding (DSO)	Days Payable Outstanding (DPO)	Cash Conversion Cycle = (DIO + DSO - DPO)
2007-2008	191.21	104.91	183.37	112.75
2008-2009	198.69	104.67	223.34	80.02
2009-2010	178.7	287.96	222.89	243.77
2010-2011	177.08	111.26	215.38	72.96
2011-2012	205.54	114.82	243.17	77.19
Mean	190.24	144.72	217.63	117.34
σ	11.07	71.72	19.45	64.78
C.V.	5.82	49.56	8.94	55.21
Growth	7.49	9.45	32.61	-31.54
Average Annual Growth	1.50	1.89	6.52	-6.31

Source: Compiled from the annual reports of LUPIN Ltd. (From 2007 - 2012)

Interpretation

Table no. 6 states cash conversion cycle. In the year 2007-2008 the Days Inventory Outstanding (DIO) was 191.21 which then increased in the year 2008-2009 to 198.69. The Days Inventory Outstanding in the year 2009-2010 then decreased to 178.7 and then further decreased to 177.08 in the year 2010-2011. The Days Inventory Outstanding in the year 2011-2012 was at its highest when it was 205.54. The overall average of Days Inventory Outstanding for the whole period of study was 190.24. The standard deviation of the Days Inventory Outstanding was 11.07 with coefficient of variation as 5.82%. The overall growth of Days Inventory Outstanding during the period of the study was 7.49%, with average annual growth of 1.50%. On the other hand, the Days Sales Outstanding (DSO) in the year 2007-2008 was 104.91days which was almost same for the year 2008-2009 when it was 104.67 days. The Days Sales Outstanding was highest in the year 2009-2010 when it was

287.96 days. In the year 2010-2011 it decreased to 111.26 days and then it showed a slight increase in the year 2011-2012 when it was 114.82 days. The overall average of Days Sales Outstanding for the whole period of study was 144.72 days. The standard deviation of the Days Sales Outstanding was 71.72 with coefficient of variation as 49.56%. The overall growth of Days Sales Outstanding during the period of the study was 9.45%, with average annual growth of 1.89%.

The Days Payable Outstanding was lowest in the year 2007-2008 when it was 183.37 days. The Days Payable Outstanding then increased to 223.34 in the year 2008-2009 and then showed a insignificant decrease in the year 2009-2010 when it was 222.89 days. In the year 2010-2011 the Days Payable Outstanding further decreased to 215.38 days and in the year 2011-2012 the Days Payable Outstanding was at its highest when it was 243.17. The overall average of Days Payable Outstanding for the whole period of study was 217.63 days. The standard deviation of the Days Payable Outstanding was 19.45 with coefficient of variation as 8.94%. The overall growth of Days Payable Outstanding during the period of the study was 32.61%, with average annual growth of 6.52%.

The Cash Conversion Cycle was 112.75 days in the year 2007-2008 which then decreased to 80.02 days in the year 2008-2009. In the year 2009-2010 the Cash Conversion Cycle was highest when it was 243.77 days which then decreased to 72.96 days in the year 2010-2011 and the same then showed a insignificant increase in the year 2011-2012 when it was 77.19 days. The overall average of Cash Conversion Cycle for the whole period of study was 117.34 days. The standard deviation of the Cash Conversion Cycle was 64.78 with coefficient of variation as 55.21%. The overall growth of Cash Conversion Cycle during the period of the study was -31.54%, with average annual growth of -6.31%.

Testing of Hypothesis

Null Hypothesis (Ho)

Ho: There is no significant difference in the cash management position of LUPIN Ltd during the study period.

Table: - 7 One-Sample Statistics				
Year	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
Cash Conversion Cycle	5	117.34	72.42	32.39

Table: - 8 One-Sample Test						
Year	**Test Value = 0**					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Cash Conversion Cycle	3.623	4	.022	117.34	27.41	207.26

Interpretation of t-test

t=3.623&t0.05=2.776

t > t0.05

When degree of freedom (df) is 4 and level of significance is 5%, the critical value is 2.776. Since the calculated value of t is 3.623 which more than the table value, we conclude that there is significant difference in the cash management position of LUPIN Ltd during the study period. Hence, null hypothesis is rejected.

Conclusions

In light of the present research work it can be concluded that the cash management position of LUPIN Ltd is somewhat satisfactory with highest Cash Turnover ratio in the year 2008-2009 when it was 48.8 times showing the efficiency with which the company is going through its cash cycles. As regards to the Daily Cash Payment ratio, the least ratio was in the year 2008-2009 followed by 2011-12 and 2010-2011. The absolute liquid ratio was satisfactory during the entire period of the study with an average of 0.33:1 except for the year 2009-2010 when it was least i.e., 0.17:1. The analysis of Cash to Debt Service ratio also showed satisfactory result with the average cash to debt service ratio as 0.25; it was highest in the year 2006-2007 when it was 0.43 followed by 2010-2011 when it was 0.35. On analyzing Cash Conversion Cycle, it was observed that the company has put in utmost effort to maintain and reduce its cash conversion cycle. The average Cash Conversion Cycle was 117.34 days, with the least in the year 2010-2011 when it reduced to 72.96 days.

Suggestions

The following suggestions could be laid down in the light of the findings:

1. The company needs to minimize its cash expenses in order to increase its cash in hand, cash at bank and other short

term securities.

2. There is a need to maintain balance between profitability and liquidity which is only possible if the company is having adequate cash balance.

3. The company should plan to maximize its net income after tax which in turn will help the company to have adequate cash balance.

4. The company should have a check on its cash conversion cycle so that it can have proper flow of cash throughout the year.

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amit_nag78@yahoo.co.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

Ref. No: DOS/8/2013-14 Dated: 13th December, 2013

Circular on Revised Cut-off dates for Admission to the CMA Foundation Course

Pursuant to publication of The Gazette of India, Part III, Section 4, Ministry of Corporate Affairs, The Institute of Cost Accountants of India, notification CWR(2),2013 dated Kolkata, the 29th November,2013, to be implemented from the date of their publication (dated 6th December,2013) in the official gazette.

The following modification/amendment has been brought in /incorporated in the Cost and Works Accountants Regulations, 1959, in Regulation 20B, in clause (a),

(A) for the item (i), the following item shall be substituted, namely:-

"(i) he has been admitted to the Foundation Course under regulation 20A and has been enrolled for undergoing postal or oral or e-learning tuition for at least one hundred and fifty days prior to the commencement of such examination;",

(B) for item (iii), the following item shall be substituted, namely:-

"(iii) he makes an application in the form approved by the Council, at least forty-five days prior to the commencement of the examination;

Provided that the Council may extend the said period for not more than ten days with such late fees as it thinks fit."

Considering the date of holding CMA Foundation Course examination, in line with this revised regulation, the cut-off dates for admission to the "CMA Foundation Course" only, stands revised as follows:

Term of Examination	Existing cut-off date	Revised cut-off date
For December term examination (Example: If for December 2014 term of Examination, the existing cut-off date is 31st May 2014, which shall stand revised to 30th June, 2014)	31st May of the same year	**30th June of the same year**
For June term examination (Example: If for June 2015 term of Examination, the existing cut-off date is 30th November,2014, which is now revised to 31st December,2014)	30th November of the previous year	**31st December of the previous year**

This revised cut-off dates shall be effective for all admission to CMA Foundation Course for December, 2014 term and onwards, until further notification to this effect.

This issues with an approval of the competent authority.

CMA R.N.Pal
[Sr. Director (Directorate of Studies) and Secretary to the T&EF Committee]

CORPORATE GOVERNANCE PRACTICES IN INDIA – A CASE STUDY

Ms. Neelam Bhardwaj
Research Scholar, PhD Programme, JAIN University, Bangalore

CMA Dr. Batani Raghavendra Rao
Professor, JAIN University, Bangalore

Corporate governance is a buzz word in the corporate world. The concept of corporate governance gained further momentum after the sudden crash of Enron, WorldCom, Xerox, Lehman Brothers and the crisis of Satyam. Lack of transparency and poor disclosures in the annual reports are blocking the stakeholders from ascertaining the well-being of the corporate houses. As a consequence, investor community urged for improvements in governance practices which lead to the implementation of corporate governance codes. In today's world of globalization, the concept of corporate governance has taken an important place. Today, companies are operating in the international arena. For attracting foreign investors and global fund raising, the corporate houses have to demonstrate high quality governance. The key principle for success is to ensure the growth which is sustainable and inclusive. Out of various critical aspects of corporate governance, current study aims at investigating the corporate governance practices followed by Indian companies by taking Clause 49 (Revised) as the benchmark. Clause 49 of the SEBI listing agreement has brought out landmark transformation to improve the quality of disclosure of the Indian companies.

Key words
Corporate governance, OECD, Clause 49, Revised Clause 49, S&P CNX Nifty 50, SEBI, board of directors, independent directors, audit committee, compliance report, Sarbanes-Oxley Act of 2002, Cadbury Report

The Concept of Corporate Governance

The meaning of the term corporate governance is a subject of considerable debate. The concept has been defined in many ways. Organization for Economic Co-operation and Development (OECD) has defined corporate governance as, "procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making."

As per the Cadbury Committee (1992), "Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting".

In a nutshell, the corporate governance is all about governing corporations in such a transparent manner that all stakeholders' interests are protected, and with due compliance with the laid down laws.

Saga of Corporate Governance and Regulatory framework in India

Corporate governance concept has gained public attention in early '90s in India. First special initiative on corporate governance was taken by confederation of Indian Industry (CII) in 1996 by introducing voluntary corporate governance code. The objective was to develop and promote a code of corporate governance to be adopted and followed by Indian companies. CII came up with the recommendations to be followed by Indian industry.

In 1999 Kumar Mangalam Birla committee was appointed to promote the standards of corporate governance. It came with some mandatory and non mandatory recommendations. The committee made recommendations for several issues including board of directors, audit committee, remuneration committee, management, shareholders etc.

In 2000, SEBI introduced mandatory corporate governance code in place of voluntary one through Clause 49 of listing agreement. The term 'Clause 49' refers to Clause number 49 of the Listing Agreement between a company and the stock exchanges on which it is listed (the Listing Agreement is identical for all Indian stock exchanges, including the NSE and BSE). It is mandatory for listed Indian companies to follow the provisions of Clause 49. The equivalent of Clause 49 is US Sarbanes-Oxley (SOX) Act of 2002, which was introduced by Securities and Exchange Commission for the companies listed in U.S stock exchanges.

In 2002, Naresh Chandra committee was appointed by the department of company affairs. This committee took forward the recommendations of Kumar Manglam Birla committee. This committee laid down strict guidelines defining the relationship between auditors and clients.

In 2003, Narayan Murthy committee was setup by SEBI. This committee came out with the recommendations focusing on strengthening the responsibility of audit committee, quality of financial disclosure, proceeds from initial pubic offerings and many other important aspects.

On 29th October 2004, SEBI finally announced revised Clause 49. The revised Clause 49 on corporate governance made major changes in the definition of independent directors, strengthening the responsibilities of audit committees, improving quality of financial disclosures, including those relating to related party transactions and proceeds from public/ rights/ preferential issues, requiring Boards to adopt formal code of conduct, requiring CEO/CFO certification of financial statements and for improving disclosures to shareholders. Certain non-mandatory Clauses like whistle blower policy and training of board members have also been included.

Literature Review

Various studies on corporate governance have mainly focused on the corporate governance problems of the developed countries. Research focusing exclusively on the corporate governance issues in India gained momentum over the last decade.

Gupta et al (2003) have analyzed the corporate governance reports of 30 companies listed in BSE for the year 2001-02 and 2002-03. This research found that the reporting practices of the companies vary to a large extent. Also it was found that in some cases mandatory requirements as per Clause 49 have not been adhered to.

Gruszcznski Marek (2006) has confirmed that the degree of corporate governance for listed companies in Poland is correlated with their financial performance. This study has shown a significant relationship between their governance rating, operating profit and debt leverage ratio. This study was conducted for the financial statements of 2002 and sample included 53 companied listed in Poland. The results of study have shown that companies with higher profit margin and lower debt leverage ratio are expected to have better rating of corporate governance.

Hossain Mohammed (2007) has analyzed the level and extent of corporate governance disclosure of the banking companies in India. This study covered 38 banks. The results of this study have shown that assets, ownership and financial performance variables are significant and other variables such as age, board composition are insignificant in explaining the level of corporate governance disclosure.

Tsamenyi Mathew, Elsie and Onumah Joseph (2007) have presented the result of the study that investigated the disclosure practices of Ghanaian listed firms. The data for the study are gathered from 22 listed companies in the Ghana stock exchange. This study addresses the two issues such as level of disclosure and transparency among Ghanaian listed firms and the impacts of ownership structure, dispersion, firm size and leverage on the level of disclosure and transparency. The results of study have revealed that the disclosure level in Ghana is generally low.

Reema Sharma and Fulbag Singh (2009) have examined the voluntary corporate governance practices of the Indian companies over and above the mandatory requirements as per Clause 49. A sample of 50 listed companies has been taken from four industries; Software, textile, sugar and paper. A voluntary corporate disclosure index has been prepared. Total 40 items has been selected from the corporate governance section of the annual report for the study. It has been observed that the companies followed less than 50% of the items of disclosure index. This study has suggested that there is a need to extend the scope of existing mandatory Clause further by covering the items from voluntary index.

Leung, Stouraitis and Tan (2010) have examined the impact of corporate governance on future company stock returns and future company risk. They examined the impact of the level of corporate governance and the impact of changes in governance by using Hong Kong data. They constructed index following three rating exercises in 2002, 2004 and 2005.The findings of study revealed that family firms and firms with concentrated ownership are associated with bad corporate governance. Overall the quality of corporate governance is very significant in explaining future stock returns and risk. Improvements in governance are associated with significantly higher stock returns and lower company risk.

Sulphey M.M and Janardhanan Rajesh (2010) have analyzed the position of Indian Companies in the quest for corporate governance. This study is done to find out the current patterns of corporate governance among Indian Companies. Clause 49 of listing agreement of SEBI is taken as benchmark and the reports of corporate governance in the annual reports for the year 2008-09 with respect to 50 Nifty companies has been studied. The analysis of this study has revealed that certain companies have not provided the due importance to the aspects provided in the Clause 49.

Anurag Pahuja and B S Bhatia (2010) have analyzed the determinants of corporate governance disclosure. Their study seeks to determine the extent to which Indian listed companies disclose their corporate governance practices by examining the annual reports of 50 listed companies. The study reveals that there is a considerable gap in the sphere of extent, quantum and quality of disclosure made by companies in their annual reports. This study concluded that there is a substantial scope for improvements in the corporate governance disclosure practices.

Izyani Wan and Zunaidah (2010) examined the relationship between corporate governance mechanism and extent of disclosure for listed companies in Malaysia. This study addresses two issues:

1. Level of corporate governance disclosure by listed companies in Malaysia.

2. To what extent corporate governance affects the company disclosure.

This study reveals that that the companies with a more family members sitting on the board are significantly have lower level of disclosure in their annual reports.

Jiao Yawen (2011) has found the relationship between corporate disclosure, Market valuation and Firm performance. This study has shown a positive relationship between changes in disclosure rankings and the future unexpected operating performance. Tobin'Q has been used as measure of market valuation. This study has also found positive association between disclosure rankings and future net profit margins, research and development intensity.

Klai Nesrine and Omri Abdelwahed (2011) have examined the effect of corporate governance mechanism on the financial reporting quality. This study focused on the characteristics of board of directors and the ownership structure of the firms listed in Tunis Stock Exchange during the period 1997-2007. This study revealed that Tunisian firms were characterized by lack of board independence and the high level of ownership concentration. The Governance mechanism was found to be represented by power of the foreigners, families, block holders, institutional investors and the state. This study concluded that power of state and institutional investors improves the financial reporting quality.

Senan Neeti (2011) has analyzed the study of corporate governance in public and private sector enterprises in India. This study has provided an understanding of corporate governance disclosure levels. This study has focused on disclosure practices in the annual reports of firms for the year 2008-09 of 77 listed Indian companies by constructing Corporate Governance Disclosure Score. The results of the study have revealed that private sector companies adhere to higher standards of corporate governance disclosure than public sector companies.

A perusal of the review of literature reveals that though adequate attention has been paid to the concept of corporate governance throughout the world, but the research studies in the area of corporate governance in Indian companies have shown that disclosure level is poor (Anurag Pahuja and B S Bhatia 2010) and most of the Indian companies are not following the provisions of Clause 49 (Sulphey M.M and Janardhanan Rajesh 2010).

The present study is divided in to four parts. Objectives, research methodology, analysis and findings and conclusion

Objectives of the study:

The study has the following two objectives.

a) To examine corporate governance practices of CNX Nifty 50 companies in India.

b) To benchmark the corporate governance practices of CNX Nifty 50 companies with the revised Clause 49.

Research Methodology: This study is about corporate governance practices of CNX Nifty 50 companies in India. Annual reports of 2010-11and 2011-12 have been used for this study. The revised Clause 49 of the listing agreement of stock exchanges introduced by SEBI is taken as the benchmark and disclosure regarding corporate governance practices in the annual reports is compared. Clause 49 of the SEBI listing agreement has brought about landmark transformation in improving the quality of disclosure of the Indian companies.

Scope (Sample and period of study): This study is about governance practices of CNX Nifty 50 companies in India. It covers two years, 2010-11 and 2011-12. CNX Nifty index undergoes changes. Only common companies present in both the years have been considered for the study. Of the 50 companies, 48 companies were commonly found in the CNX Nifty 50 index for both the years.

In 2010-11, out of the common 48 companies one company named, Housing Development Finance Corporation Ltd was not considered due to non-availability of annual report. In 2011-12 analysis, one company named Sun Pharmaceuticals Ltd was excluded due to non-availability of annual report.

Hence this analysis comprises 47 companies in 2010-11 and 2011-12.

Rationale for considering CNX Nifty 50 companies for the study

1. The CNX Nifty 50 is a well-diversified stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such as benchmarking mutual fund portfolios, index based derivatives and index funds.
2. The CNX Nifty 50 Index represents about 65.87% of the free float market capitalization of the stocks listed on NSE as on December 31, 2012.
(http://www.nseindia.com/products/content/equities/indices/s_n_p_cnx_nifty.htm, accessed on March 16th 2012)
3. The total traded value for the last six months ending December 2012 of all index constituents is approximately 50.23% of the traded value of all stocks on the NSE.
(http://www.nseindia.com/products/content/equities/indices/s_n_p_cnx_nifty.htm, accessed on March 16th 2012)
4. S&P CNX Nifty is professionally maintained and is ideal for derivatives trading.

Data collection: Data were collected for the study from the annual reports of the companies for the two years, 2010-11 and 2011-12.

Analysis and findings

The snapshot of the analysis of corporate governance practices has been provided in the summary table. The detailed analysis is presented below.

Board of Directors

Board of directors is the committee elected by the shareholders of a company, who are responsible for formulating the corporate policy. The analysis is covered under the following three sub headings.

I. Composition of Board of directors: It was found that during 2010-11 out of 47 companies 44 companies had followed the provision of Clause 49. Only 3 companies' composition of board was not as per provision, but it had been disclosed in the annual reports. During 2011-12, the board composition was as per provisions in respect of 45 companies.

II. Independent Directors: It was found that during 2010-11, 44 companies and during 2011-12, 45 companies had shown proper disclosure and followed the provisions of revised Clause 49.

III. Nonexecutive director's compensation and disclosure: It was observed that during 2010-11 and 2011-12 all the companies had provided proper disclosure except for one company.

Other Provisions relating to the Board:

This heading has been subdivided in to six parts. This includes the following:

i) No. of Board Meetings
ii) Attendance of each director at the board meeting and AGM
iii) Gap between two meetings
iv) As a chairman (for not more than 5 companies)
v) As a director membership in committees (not more than 10)
vi) Code of conduct.

The study revealed that all the companies during 2010-11 and 2011-12 had followed the provisions of revised Clause 49 and made a proper disclosure in respect of the other provisions relating to the Board except for one provision i.e. code of conduct. During 2010-11and 2011-12, 41 companies had made proper disclosure and had attached the certificate of the code of conduct with the annual report; and, 6 companies had not made a proper disclosure in this regard.

Audit Committee

The Cadbury Report termed the annual audit as "one of the cornerstones of the Corporate Governance." Seven aspects have been provided under the heading audit committee, i.e.

i) Composition of audit committee
ii) Chairman of audit committee (Independent Director)
iii) Qualification of audit committee members
iv) Meetings of audit committee (minimum 4)
v) Quorum for meeting (2/3 or 2 whichever is greater of total members)
vi) Role of audit committee.
vii) Review of statements.

This analysis revealed that during both the years 2010-11 and 2011-12 all companies had followed the provisions of revised Clause 49 and had disclosed proper information on each aspect of audit committee.

Subsidiary companies

The results of analysis showed that during 2010-11 and 2011-12, 45 companies had disclosed proper information on subsidiary companies and attached accounts of subsidiary companies along with the annual report. One company had not attached accounts of subsidiary companies, but it had mentioned this fact in the annual report and one company had not disclosed any information on subsidiary companies.

Disclosure

As per revised Clause 49 this aspect has been further divided into eight sub headings, which include:
i) Basis of related party transaction
ii) Disclosure of material transaction with related party
iii) Disclosure of financial statements with management explanation
iv) Risk assessment and minimization procedure by board
v) Proceeds from public/right/preferential issues
vi) Criteria of Remuneration of directors
vii) Management
viii) Shareholders

The present study showed a mixed bag of results under the disclosure aspect. Many aspects like proceeds from public/right/preferential issue had been ignored by the companies. In 2010-11 and 2011-12, only 5 companies had disclosed proper information on this aspect. Others had not disclosed any information on this aspect in both the years. One another important aspect i.e. Risk assessment and minimization by the Board, 7 companies had not disclosed any information in 2010-11 and 2011-12. On Other aspects of disclosures, proper information was given by all the companies in both the years.

CEO and CFO Certification

Revised Clause 49 has mandated the CEO and CFO Certification to board of directors of listed company on specific matters and disclosure of the same in the annual report. As per the analysis, in 2010-11and 2011-12, 22 companies had disclosed proper information and attached CEO certificate with the annual reports. 14 companies had not attached the certificate and 11 companies had not given any information on this aspect.

Compliance report

It was found that all the companies had attached the certificate of compliance with the annual report during 2010-11 and 2011-12 except for one company.

Report on Corporate Governance

The study revealed that all the companies provided the report on corporate governance in their annual reports.

Non mandatory Requirements

Information on the non mandatory requirements had been provided under seven sub headings. The findings were different in case of non mandatory requirements as compared to mandatory requirements.

Analysis revealed that a very few companies had provided proper information on non mandatory requirements.

Board (Tenure of non executive directors): In 2010-11 and 2011-12, only 21 and 22 companies respectively had followed provisions and disclosed properly. 8 companies had not given proper information in both the years and rest of the companies had not disclosed any information.

Remuneration Committee: 41 companies in 2010-11 and 43 companies in 2011-12 had set up remuneration committee and disclosed properly.

Shareholders right is very important requirement of corporate governance. As per revised Clause 49, companies may send annual report to the shareholders residence, but only 8 companies in 2010-11 and 2011-12 had dispatched financial results to shareholders residence, another 33 companies in 2010-11 and 2011-12 had excuse of following green initiative but it could have been sent through emails. Six companies had not provided any information on this aspect.

Audit qualification: In 2010-11 and 2011-12, 13 and 12 companies had not disclosed any information on this aspect.

Training of Board members: Only 19 companies in 2010-11 and 20 companies in 2011-12 had followed provisions and conducted various training programs and disclosed properly. In 2010-11 and 2011-12, 8 companies had given vague information; rest of the companies had not disclosed any information on this aspect.

Mechanism for evaluating non-executive directors: Surprisingly only15 companies in 2010-11and 17 in 2011-12 had followed the proper mechanism and disclosed properly.

Whistle blower policy: In the years 2010-11 and 2011-12, 38 and 41 companies respectively were having proper whistle blower policy in place. 7 companies in 2010-11 and 4 companies in 2011-12 had not followed whistle blower policy, but they disclosed in the annual report. 2 companies had not given any information on this aspect for both the years.

The results had shown that companies are not focusing much on non mandatory requirements.

Conclusion

Majority of the sample companies are following the mandatory provisions and disclosing the required information as per the revised Clause 49. A few number of companies' (Bajaj auto, Infosys, Dr. Reddy etc.) disclosure levels are beyond the requirements of the revised Clause 49. And they are following the voluntary corporate governance guidelines 2009 and taking sustainability initiatives and taking steps for corporate social responsibility. In fact, Infosys gets the rating done for its corporate governance practice from ICRA and CRISIL. It is interesting to see the corporate governance practices of the companies outside the CNX Nifty index. This provides scope for further research.

Summary Table

Legend:
DC: Disclosed
APP: As Per Provision
ND: Not Disclosed
NAPP: Not As Per Provision

S. No	Basis of Analysis	Based on (2010-11 and 2011-12) Annual Reports of NIFTY 50 companies					
		DC/APP		DC/NAPP		ND	
		2010- 11	2011- 12	2010- 11	2011- 12	2010- 11	2011- 12
1	**BOARD OF DIRECTORS**						
	Composition of the Board of Directors	44	45	3	2		
	Independent directors	44	45	3	2		
	Non executive directors remuneration and disclosure	46	46	1	1		
1(a)	**OTHER PROVISIONS RELATING TO BOARD**						
	No. Of Board meetings held during the year (Min. 4 required)	47	47				
	Attendance of each director at the board of Meeting and AGM	47	47				
	Gap between two meetings (3 months)	47	47				
	As a chairman (not more than 5 companies)	47	47				
	As a director membership in committees (not more than 10)	47	47				
	Code of conduct	41	41	6	6		
2	**AUDIT COMMITTEE**						
	Composition of audit committee	47	47				
	Chairman of audit committee (Independent Director)	47	47				
	Qualification of audit committee members	47	47				
	Meetings of audit committee(minimum 4)	47	47				
	Quorum for meeting(1/3 or 2 whichever is greater of total members)	47	47				
	Role of audit committee	47	47				
	Review of statements	47	47				
3	**SUBSIDIARY COMPANIES**	45	45	1	1	1	1
4	**DISCLOSURE**						
	Basis of related party transaction	47	47				
	Disclosure of material transaction with related party	47	47				
	Disclosure of financial statements with management explanation	46	46			1	1
	Risk assessment and minimization procedure by Board	40	40			7	7
	Proceeds from public /right /preferential issues	5	5			42	42
	Criteria of Remuneration of Directors	47	47				
	Management	46	46			1	1
	Shareholders	47	47				
5	**CEO /CFO Certification of financial statements and cash flow statement**	22	22	14	14	11	11

S. No	Basis of Analysis	Based on (2010-11 and 2011-12) Annual Reports of NIFTY 50 companies					
		DC/APP		DC/NAPP		ND	
		2010- 11	2011- 12	2010- 11	2011- 12	2010- 11	2011- 12
6	**Compliance report**	46	46			1	1
7	**Report on corporate governance**	47	47				
8	**NON MANDATORY REQUIREMENTS**						
	Board (tenure of non executive directors)	21	22	8	8	18	17
	Remuneration committee	41	43	4	3	2	1
	Shareholder rights	8	8	33	33	6	6
	Audit qualification	31	32	3	3	13	12
	Training of Board members	19	20	8	8	20	19
	Performance Evaluation of Non executive directors	15	17	7	5	25	25
	Whistle blower policy	38	41	7	4	2	2

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neelam.dosnjh@gmail.com

VARIABILITY OF MUTUAL FUND RETURNS DURING AND AFTER THE GLOBAL MELTDOWN: AN ANALYSIS OF SELECT MUTUAL FUNDS IN INDIA

Soheli Ghose
Research Scholar, Calcutta University, Kolkata

Dr Dipti Kumar Chakravorty
Professor, Calcutta University, Kolkata

ACCORDING to the Association of Indian Mutual Fund Industry, "A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by the unit holders in the proportion to the number of units owned by them. Thus a mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified professionally managed basket of securities at a relatively low cost." In this way they further the process of financial intermediation and also provide depth to the market. This has made mutual fund investment very popular in recent times. Indian Mutual Funds are playing a very crucial developmental role in allocating resources in the emerging market economy by mobilizing savings by issuing units and channelling funds in the capital market into productive investment.

The first Mutual Fund scheme was launched in India by UTI in 1964 and since then the industry has seen a lot of growth in terms of new Mutual Fund schemes and their returns. In March 1965 the AUM was INR 25 crore. As on 31st March 2013 the total AUM was INR 702493.8 crore. The Gross Resource Mobilization has increased from INR 314706 crore in 2002-03 to INR 8859515 crore in 2010-11. As on 31st December 2012 there were 41 Fund Houses.

Literature review

The pioneering work on the mutual funds in U.S.A. was done by Friend (1962) in Wharton School of Finance and Commerce for the period 1953 to 1958. He made an extensive and systematic study of 152 mutual funds and results did not suggest widespread inefficiency in the industry. Treynor (1965) developed the Treynor Ratio that measures returns earned in excess of that which could have been earned on a risk less investment per each unit of market risk. The most prominent study by Sharpe (1966) developed a composite measure of return and risks the Sharpe Ratio. He evaluated 34 open-end mutual funds for the period 1944-63. The results depicted that good performance was associated with low expense ratio and not with the size. Jensen (1967) derived a risk-adjusted measure of portfolio performance (Jensen's alpha) that estimates how much a manager's forecasting ability contributes to fund's returns. Fama (1972) developed methods to distinguish observed return due to the ability to pick up the best securities at a given level of risk from that of predictions of price movements in the market. Shashikant U (1993) pointed out that money market mutual funds with low-risk and low return offered conservative investors a reliable investment avenue for short-term investment. Jayadev (1996) studied the performance of UTI Mastergain 1991 and SBI Magnum Express from 1992-94 with 13 percent return offered by Post Office Monthly Income Deposits as risk-free return. Both the funds did not earn superior returns because of lack of selectivity on the part of the fund managers indicating that, the funds did not offer the advantages of professionalism to the investors. Swaminathan (2011) analysed the performance of 130 open ended mutual fund schemes from April 2003 to March 2008. The results showed that the private sector schemes performed better than their public counterparts and growth schemes were the best schemes. Shitole and Thyagarajan (2012) evaluated the performance of three AMCs, namely, ICICI Prudential AMC, HDFC AMC and Franklin Templeton AMC and opined that most funds were able to provide market related returns and many schemes outperformed their respective benchmark indices.

Objectives of the study

Through our study we have analysed how few selected Mutual Fund Schemes behave during the period of December 2008 to December 2012 in comparison to few chosen company scrips. It is generally believed that mutual funds are less volatile as compared to individual company scrips & stocks & that investing in mutual funds would yield more return at the given risk when compared to company stocks. Thus it needs to be seen whether the return generated by the mutual fund schemes studied here are actually better than the return generated by the individual company stocks or the Sensex return. Before 2008 the Indian Financial Market was flourishing at an accelerated pace and the adverse effect of the Global economic crunch was felt only towards the latter half of 2008. Thus we have chosen a time period of December 2008 to December 2012 to study these mutual funds during the international financial crisis to understand their behaviour in volatile markets. The objectives of this study are as follows:

1. To understand the relationship between return generated by the selected Mutual Fund Schemes and Sensex.
2. To understand the relationship between return generated by the selected Mutual Fund Schemes and few chosen Company Scrips.
3. To study the correlation and the coefficient of variation between few chosen company scrips with that of the Sensex return and mutual fund return.

Data source and research methodology

Data Source: Data have been obtained from the official websites of the different mutual fund houses, websites of Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), AMFI, SEBI (website as well as SEBI Handbook of Statistics on Indian Securities Market), RBI (website as well as RBI Handbook of Statistics on Indian Economy), valueresearchonline (website as well as Mutual Fund Year Book 2008 to 2013, Mutual Fund Insight Magazine January 2008 to January 2013, Wealth Insight Magazine January 2008 to January 2013), Personal Finance Investment Workbook, various reports and articles published in financial dailies, finance based magazines and periodicals.

Sample: First a sample of top 50 ranked Equity Diversified Mutual Funds of the year 2008 (starting point of the study) was taken based on their return generated. This ranking was done by Valueresearch an authentic and popular Mutual Fund Research organization. From this, 12 schemes were selected at random. They are DSPBR Equity, DSPBR Top 100 Equity Reg G, DWS Investment Opportunities Reg (3 Foreign Sector Schemes), HDFC Growth, ICICI Pru Infrastructure, Kotak Opportunities, Reliance Growth, Reliance Regular Savings Equity G, Sundaram Select Midcap Reg G, Tata Equity PE G (7 Private Sector Schemes), SBI (Magnum) Contra G, UTI Dividend Yield (2 Public Sector Schemes). The 10 Companies were chosen based on the fact that most of the Mutual Fund Schemes being studied here have invested in these company scrips in their portfolio. The companies chosen are Grasim Industries, HDFC Bank, ICICI Bank, Indusind Bank, Infosys, Larsen and Toubro, Reliance Industries, SBI, United Spirits, and Zee Entertainment Enterprise. The reason for choosing these companies was that as most of the 12 Mutual Fund Schemes have stocks of these companies in their portfolio, it would make sense to observe the behaviour of these 12 Mutual Fund Schemes individually and then compare it with the behaviour of these 10 Company Scrips in isolation.

Methodology: In the first part of the study we have analysed the correlation between the percentage return of all the 12 Mutual Fund Schemes and the percentage return of the Sensex. The correlation between the Log (Return of period't'/ Return of period't-1') is also analysed. Here every quarter of the study period has been considered i.e. starting from the Quarter January 08 to March 08 and ending with the Quarter October 12 to December 12. The data is analyzed using Pearson's Product Moment Correlation (Bivariate) Method (at 5% level of Significance, 2 tailed) to find whether there is any significant Correlation between the Sensex Return and return generated by the fund and the return generated by the company scrips over the study period. If the correlation coefficient (r) is greater than 0.5 it is considered to be significant and the corresponding p - value is less than 0.05. In the second and third part of the study we have analysed the coefficient of variation of the return generated by the Sensex, Company Scrips and the Mutual Fund Schemes. This has been done to analyze the variability of each of the series of the 12 Mutual Fund Schemes and the Sensex series also. The series with a comparatively less coefficient of variation would be considered more stable as compared to the others. We have analysed the correlation and the coefficient of variation between 10 company scrips with that of the Sensex return and mutual fund return (percentage). Through the analysis we are trying to see whether it is more beneficial for an investor to invest in these scrips directly or through the mutual fund schemes. Here also quarterly data as mentioned above have been used.

Analysis and Inferences

Analysis of the individual mutual fund schemes return with sensex return

Null Hypothesis HO: There is no correlation between Mutual Fund Returns and Sensex Return.

Alternate Hypothesis H1: There is correlation between Mutual Fund Returns and Sensex Return.

In the first case we have done the analysis between Percentage Return generated by individual Mutual Fund Schemes and Sensex. In the second case Log (Return of period't' / Return of period't-1') of both Sensex Return and Mutual Fund Schemes Return has been put to the test of Correlation. We have used Pearson's Correlation Coefficient test for the above analysis.

There is a very significant correlation between the Percentage Sensex return and the Percentage return generated by each of the 12 Mutual Fund Schemes. In the sample the highest correlation coefficient was found in Kotak Opportunities G and Reliance Regular Savings Equity and the lowest correlation coefficient was found in Sundaram Select Midcap Reg G and DSPBR Equity. Thus the Sensex and thereby market fluctuations do affect the fund returns and the null hypothesis is rejected (**Table I**).

The rationale behind choosing the LOG Return is to smoothen out the strong fluctuations in the return pattern. Amongst the 12 Mutual Fund Schemes the highest correlation coefficient was found in Reliance Regular Savings Equity G and ICICI Pru Infrastructure and the lowest correlation coefficient was found in Sundaram Select Midcap Reg G and DSPBR Equity. The lowest value is also quite significant. Thus, there is a very significant correlation between Percentage and Log Return of the Mutual Fund Schemes and Sensex Returns (**Table II**)

Analysis of the coefficient of variation of individual mutual fund schemes return with company scrips return

Here we have analysed the coefficient of variation between the percentage return generated by the 12 Mutual Fund Schemes and the 10 Company Scrips chosen. The coefficient of variation was observed to be comparatively less for the company scrips than that of the Mutual Fund Schemes. Excepting HDFC Bank, Larsen and Toubro, Grasim Industries and Zee Entertainment Enterprise, the other companies had low coefficient of variation. It is also observed that the Mutual Fund Schemes had very high variability especially that of DSPBR Equity, DWS Investment Opportunity, ICICI Pru Infrastructure, Kotak Opportunities. Thus it can be said that the fluctuation in the return of these companies were less as compared to the Mutual Fund Schemes in general. This is because the Mutual Fund Schemes invested in other companies also to diversify their portfolio and thus their variation increased even further rather than actually minimizing the variation.

Therefore, though it is believed that investing in a Mutual Fund Scheme may generate higher returns than investing in Companies directly, it may not be true always. Also the coefficient of variation in the Mutual Fund Schemes is comparatively higher than that of the chosen company scrips making it more volatile. However the diversification of the Mutual Fund Schemes does reduce the risk in some cases (**Table III**).

Analysis of the individual company scrips' return with sensex return

Null Hypothesis HO: There is no correlation between Mutual Fund Returns and Sensex Return.

Alternate Hypothesis H1: There is correlation between Mutual Fund Returns and Sensex Return

Here we have analyzed the correlation between the Percentage Sensex Return Generated by the 10 Company Scrips and Percentage Return of Sensex. There is a statistically significant correlation between the Sensex return and the return generated by each of the 10 Company Scrips. Amongst the 10 Company Scrips the highest correlation coefficient was found in Indusind Bank and ICICI Bank and the lowest correlation coefficient was found in United Spirits and Reliance Industries. As we can see even the lowest value is quite significant. Thus the Sensex and thereby market fluctuations do affect the company returns very obviously and the null hypothesis is rejected (**Table IV**).

We have analyzed the coefficient of variation of the Company Scrips and compared it with the Sensex variation. Excepting HDFC Bank, Larsen and Toubro, Grasim Industries and Zee Entertainment Enterprise, the other companies had low coefficient of variation. The lowest Coefficient of Variation was in Indusind Bank and Reliance Industries. Thus the variability in the returns generated by these company scrips are comparatively less than that of Sensex except for HDFC Bank and Zee Entertainment Enterprise (**Table III**).

Analysis of the coefficient of variation of individual mutual fund schemes return with sensex return

Here we have analyzed the coefficient of variation of the Mutual Fund Schemes and compared it with the Sensex variation. It is also observed that the Mutual Fund Schemes had very high variability especially that of DSPBR Equity (coefficient of variation = 7336.9), DWS Investment Opportunity (coefficient of variation = 8877.95), ICICI Pru Infrastructure (coefficient of variation = 3073.72), Kotak Opportunities (coefficient of variation = 2429.11). The following Mutual Fund Schemes had comparatively lower Coefficient of Variation, Sundaram Select Midcap Reg G (591.32) and UTI Dividend Yield (680.26). The Coefficient of Variation of Sensex was 2466.84. Thus in some cases (Both

Table I: Correlation between Mutual Fund Returns and Sensex Return (Percentage)

	Sensex Percentage Return
DSPBR Eq	0.940
DSPBR Top 100 Eq Reg G	0.977
DWS Investment Opportunity	0.973
HDFC Growth	0.968
ICICI Pru Infra	0.971
Kotak Opportunity	0.980
Reliance Growth	0.970
Reliance Regular Savings Eq	0.979
SBI (Magnum) Contra	0.978
Sundaram Select Midcap Reg G	0.930
Tata Eq PE	0.958
UTI Div Yield	0.949

Table II: Correlation between Mutual Fund Returns and Sensex Return (Log Data)

	Sensex Log Return
DSPBR Eq	0.921
DSPBR Top 100 Eq Reg G	0.969
DWS Inv Opportunity Reg G	0.970
HDFC Growth	0.965
ICICI Pru Infra	0.971
Kotak Opportunity	0.970
Reliance Growth	0.958
Reliance Regular Savings Eq	0.973
Sundaram Select Midcap Reg G	0.904
TATA Eq PE	0.948
SBI Magnum Contra	0.970
UTI Div Yield	0.945

DSPBR Equity and DWS Investment Opportunities Reg G are Foreign Sector Mutual Fund Schemes) the Mutual Fund Schemes have a massive variability in their return as compared to the Sensex. However few of the sample funds have shown less variability like UTI Dividend Yield (Public Sector Mutual Fund Scheme) thereby becoming the more reliable and stable series as compared to the other Mutual Fund schemes analyzed in this study (**Table III**).

Results and Conclusion:

Analysis 4.1

4.1.1) The Sensex and thereby market fluctuations do affect the fund returns and the null hypothesis is rejected.

4.1.2) In the second type of return calculation with "LOG" data also we can see a very significant correlation between the Sensex return and the return generated by the individual Mutual Fund Schemes. The Sensex and thereby market fluctuations do affect the fund returns and the null hypothesis is rejected.

Analysis 4.2

The coefficient of variation was comparatively less for the company scrips than that of the Mutual Fund Schemes. It is also observed that the Mutual Fund Schemes had very high variability. Thus though it is believed that investing in a Mutual Fund Scheme may generate higher returns than investing in Companies directly, it may not be true always. However the diversification of the Mutual Fund Schemes does reduce the risk in some cases.

Analysis 4.3

4.3.1) There is a very high and significant correlation between the Sensex return and the return generated by each of the 10 Company Scrips. Thus the Sensex and thereby market fluctuations do affect the company returns very obviously and the null hypothesis is rejected.

4.3.2) The variability in the returns generated by these company scrips are comparatively less than that of Sensex except for HDFC Bank (coefficient of variation = 2918.23) and Zee Entertainment Enterprise (coefficient of variation = 3123.97).

Analysis 4.4

In some cases the Mutual Fund Schemes have a massive variability in their return as compared to the Sensex. However few of the sample funds have shown less variability like UTI Dividend Yield (Public Sector Mutual Fund Scheme) thereby becoming the more reliable and stable series as compared to the other Mutual Fund schemes analyzed in this study. Thus one can say that in the given study period the variability in the return of the Mutual Fund Schemes are between moderate to high (Excepting a few schemes) and thus these Mutual Fund Schemes may not be as stable as they seem to be. Also there is moderate to high variability in the return of the Company Scrips. However it is not as high as some of the studied mutual Fund Schemes. The investors should weigh their options carefully before deciding to invest in a Mutual Fund Scheme or a Company Scheme

Table III: Coefficient of Variation between Mutual Fund Returns, Return generated by the Companies and Sensex Return	
	Coefficient of Variation
Grasim	1286.77
HDFC Bank	2918.23
ICICI Bank	1128.95
Indusind Bank	360.20
Infosys	669.72
Larsen and Toubro	1425.03
Reliance Industries	442.02
SBI	1002.44
United Spirits	925.62
Zee Entertainment Ent	3123.97
DSPBR Eq	7336.90
DSPBR Top 100 Eq Reg G	910.91
DWS Investment Opportunity	8877.95
HDFC Growth	943.48
ICICI Pru Infra	3073.72
Kotak Opportunity	2429.11
Reliance Growth	1299.52
Reliance Regular Savings Eq	1072.24
SBI (Magnum) Contra	2309.68
Sundaram Select Midcap Reg G	591.85
Tata Eq PE	1221.32
UTI Div Yield	680.26
Sensex	2466.84

directly as both the investment styles have variability in return generated.

Thus through this four part analysis one can conclude that in the given study period which is December 2008 to December 2012

- The Return of the 12 Mutual Fund Schemes had a significant correlation with the Sensex Return.
- There is a statistically significant variation in the return generated by the Mutual Fund Schemes as compared to the 10 chosen Company scrips and the Sensex.
- It was further observed that the Coefficient ofVariation of the Public Sector Mutual Fund Schemes is comparatively less than the Private Sector Mutual Fund Schemes, the 10 chosen company scrips and the Sensex.
- The Coefficient ofVariation of the Private Sector Mutual Fund Schemes is moderate (some of them have a coefficient less than that of Sensex and two of them have a slightly higher coefficient than the Sensex). However the variability is more or less similar to that of the Sensex and the Company Scrips.
- The Coefficient ofVariation of the Foreign Sector Mutual Fund Schemes is comparatively much higher than that of the Sensex and most of the chosen 10 Company scrip.

Table IV: Correlation between Company Scrips Returns and Sensex Return	
	Sensex Return
Grasim	0.725
HDFC Bank	0.735
ICICI Bank	0.922
Indusind Bank	0.933
Infosys	0.683
Larsen and Toubro	0.910
Reliance Industries	0.655
SBI	0.831
United Spirits	0.590
Zee Ent Ent	0.769

So it cannot be said that investing in Mutual Fund schemes is completely risk-free as compared to the chosen 10 company scrips.The investors should weigh their options carefully before deciding to invest in a Mutual Fund Scheme or a Company Scheme directly as both the investment styles have variability in return generated. Simultaneously, if the variability of the Mutual Fund returns is than that of the company scrips, the rationale of Mutual Fund Schemes itself is defeated. Fund managers should be careful in this context.

Scope of further research

Due to time and few inherent constraints, all aspects of mutual funds could not be looked into exhaustively. The following areas could be considered as an extension of the present study.

1. A study can be undertaken to understand the impact of capital market scams on mutual fund investments.
2. The sample of mutual fund schemes & companies can be increased.
3. An extension of the time period beyond 2012 can be done to further analyse the effect of the aftermath of the global financial crisis.
4. An analysis of Fund managers' strategy and an impact of change in fund manager can be done.
5. A study can be done on the similar analysis on debt funds and then comparing them with equity funds.

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sohelighose@gmail.com

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959

REGISTRATION NUMBERS CANCELLED FOR JUNE-2014 TERM OF EXAMINATION UPTO

ERS/007780

NRS/011516 (EXCEPT 10928-11000, 11101-11150, 11161-11500)

SRS/000001 - 026999,031001 - 031257

WRS/015708

RSW/081159

RAF/005907

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 31st Dec-2006) as above but desire to take the Institute's Examination in June-2014 must apply for DE-NOVO Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

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

Wishing you a very Happy & Prosperous New Year

Date: 19th December , 2013

C. C. to All Regional Councils/Chapters of ICAI

R. N. PAL
SR. DIRECTOR OF STUDIES

Report on deliberations at 55th National Cost Convention - 2014, held on 23rd - 24th February in Bhubaneswar, Odisha

Inaugural Session

The 55th National Cost Convention was initiated by lighting the lamp of knowledge by the dignitaries on the dais. This was followed by a soul stirring Inauguration song by visually impaired students of The Welfare – Blind School, Balasore, Odisha.

CMA Chitra Agrawal, Chairperson Eastern India Regional Council of the Institute and Co-Chairman, Convention Committee welcomed all the guests, delegates and participants to the convention and said that what is most important is business strategy that facilitates sustainable growth and in that sense ICAI has become the pillar in country's growth.

CMA M. Gopalakrishnan, Past President & Central Council Member and the Chairman of the Technical Committee of the NCC 2014 briefed about the theme and sub- themes of the NCC 2014 and said the main theme of the convention had been chosen keeping in view the emerging business environment which mandates cost competitiveness and responsible governance. The sub-themes of the convention include Cost Competitiveness for Inclusive Growth, Transition from Regulatory to Affirmative Corporate Action, Response to the Emerging Challenges and Opportunities, Energizing MSMEs for Sustained Economic Development, Government Perspective – Tax and Expenditure Management, Service Sector as a Key Enabler for Sustainable Growth, and CMA Growth Perspective.

CMA Suresh Chandra Mohanty, President of the Institute said that competition is not among companies but among supply chains. Cost Management is a culture. It is about influencing people's behavior towards cost management. Cost competencies have become critical to survival of businesses. Total Cost Management involves a holistic approach to optimize costs for competitive advantage. Cost Management is a culture which has to be imbibed in the organizations for sustainable growth.

The Institute created ICON Awards in the year 2011. The intent of this award is to recognize CMA professionals who have achieved great heights of success in their chosen fields and have contributed significantly to the furthering and implementation of the knowledge in enhancing organizational and societal value and have been instrumental in enhancing the image of the Cost and Management Accountancy profession. This year the ICON Awards were presented to Padma Bhushan CMA (Dr.) Mrityunjay B. Athreya, Management Adviser, CMA P. Madhusudan, Chairman cum Managing Director Rashtriya Ispat Nigam Limited, CMA R. Misra Chairman cum Managing Director, Heavy Engineering Corporation Limited. ICON award was also conferred on CMA R.K. Jain, Additional Secretary, Ministry of Health and Family Welfare, Government of India, who could not be present to receive the award.

Padma Bhushan CMA (Dr.) Mrityunjay B. Athreya while delivering the key note address said that Jigyasa (curiosity) is the most pertinent quality needed by CMAs. He mentioned about the various dimensions in the world of cost management – Inclusive growth, affirmative corporate action, fiscal governance and self-actualization, He also said that we need to be regular in management, not just disaster management.

CMA P. Madhusudan Chairman cum Managing Director, Rashtriya Ispat Nigam Limited shared his experience of working with PSUs and said that knowledge of Cost Accounting fast tracked his career as he was able to create value in various aspects of business.

Shri Kulamani Biswal was facilitated for elevation to the position of Director (Finance) NTPC Limited. A book written by a Member of the Institute CMA (Dr.) Sambhu Nath Mukherjee, Chief Financial Officer, ILFS Engineering Services Limited on Exploring the Duality in e-Governance Service Quality Assessment – A Study of National e-Governance Plan (NeGP) in India was released by the Hon'ble Minister Revenue and Disaster Management, Government of Odisha, Shri. Surya Narayan Patro.

A souvenir was also released by the Chief Guest on the occasion of NCC 2014. Prof. Dr. B.C. Tripathy, Vice Chancellor, Revenshaw University underlined the importance of higher education and the need for improved education through research.

A Memorandum of Understanding (MOU) was signed between the Institute and the New India Assurance Company Limited. As per the MOU there will be tailor-made policies such as professional indemnity policy; office protection shield policy; mediclaim policy; personal accident cover; motor insurance policy exclusively for the members and students of the Institute.

Shri S.N. Patro, Hon'ble Minister for Revenue and Disaster Management, Government of Odisha, Chief Guest at the National Cost Convention, 2014 said that cost accountant through their expert knowledge of cost management can help the state in better management of its resources and deliver projects in time without the cost overrun.

Plenary Session

The Plenary session was chaired by Shri. Gulzari Lal Babbar Past President CIMA UK.

CMA Rakesh Singh, Immediate Past President and Central Council Member while welcoming the panelist said that Inclusive growth is the key for sustained development. CAs report profits whereas CMAs create profits. We have to move from Caste Based Politics to Cost Based Politics. Accountants look at historical data whereas CMAs look to the future.

CMA Gulzari Lal Babbar, Past President CIMA - UK and Chairman of the Plenary Session said that Management Accounting is the buzz word for today and tomorrow. CMAs should stand up against decision that you don't think makes sense. He explained the principles of management accounting with focus on enterprise performance.

CMA P. Madhusudan, Chairman cum Managing Director, Rashtriya Ispat Nigam Limited said that India's per capita consumption of steel is 60 kg as compared to the global average of 200 kg. Prices will not increase much now, so make sure your cost is well managed.

CMA G. Srinivasan, Chairman and Managing Director, New India Assurance Company Limited said that CMAs can help in identifying cost drivers and eliminate sources of wastages. They help in cost benefit analysis and thus improve quality of decision making. He also said that islands of prosperity cannot survive in ocean of poverty.

Vote of thanks was proposed by CMA Asish P. Thate, Chairman, Western India Regional Council of ICAI.

Technical Session 1 – Transition from Regulatory to Affirmative Corporate Action

CMA Sanjay Gupta Central Council member welcomed the guests and said CSR has moved away from cheque-book charity and thus it is important to look at as to how the funds can be best utilized and the benefits maximized.

CMA (Dr.) Asish K. Bhattacharya, Chairman, Advance Studies Board of the Institute, Chaired this session. He said that Empowered board members must have knowledge, power, information and time. Independent Directors are the ears and eyes of the Board. The company must have a structured CSR policy and its monitoring system.

CMA K. Biswal said that Board is nothing but group of workers. The companies should work on triple bottom line concept; People, profits, planet. CSR in nothing but Corporate Social Relationship He shared CSR actions of NTPC. He explained the provisions of the companies Act, 2013 regarding CSR.

CMA M.V. Tanksale, CEO, Indian Bank Association said that onboarding of Independent Directors is a must. There must be transparency in the board processes. Engagement is very important in CSR. CMAs should work in companies not as employees but as partners in progress. Adequate information must be provided to the board members. Failure to carry out CSR is the Board's responsibility and not that of the company.

CMA P.S. Anantnarayanan, Management Consultant shared his experience of several years as the Board member. He said every project presented to the board should be viable on standalone basis, transparent and on arm's length basis. CSR projects should provide intensive benefits. CSR monitoring is an important role of the independent directors. Management Certificates should be carefully gone through by the independent directors

Dr. S.N. Mukherjee, CFO, ILFS Engineering Services Limited said that the key drivers of CSR are FDI, NGO activism, Foreign customers and Supply chains compulsions. He explained the various concepts by which it is possible to deliver public good by focusing on CSR. He said that CSR is a social contract between the company and society.

CMA P. Raju Iyer, Chairman, Southern India Regional Council of the ICAI proposed a hearty vote of thanks.

Technical Session 2 – Professional Perspective – Response to the emerging Challenges & Opportunities

CMA P.V. Bhattad welcomed the guests. CMA K. Narasimhamurthy, Practicing Cost Accountant chaired this session. He said that the institute should come out with Forensic and ISO audit guidance booklets. CMAs should focus on Services sector where there is huge potential for improvement in efficiency and productivity.

CMA M. Gopalakrishnan highlighted the importance of Cost audit and stated that the key is to identify the cost drivers and action plan to deal with them. The CMA Committee is in the process of compiling a Compendium of Cost Competitive practices and the same would be soon released.

Mr. Sunder Krishnan, Executive VP & Chief Risk Officer, Reliance Life Insurance said that Risk based Internal Audit is the key to enterprise survival and growth. He shared a few real life corporate experiences while explaining the model of Modern Internal audit which has since moved away from Compliance to Risk management

Dr. Girish Jakhotiya, Chief Consultant, Jakhotia & Associates explained the different dimensions and perspectives of Business risk and the strategies for appropriately dealing with the. Through various live corporate examples.

CMA Trinath Behera was felicitated for elevation to the position of Director (Finance), ITDC.

CMA Amit Apte, Central Council Member proposed a hearty vote of thanks.

A highly entertaining cultural program was presented by the Odisha Dance Academy in the evening og 23rd February 2014. The audience hugely enjoyed and applauded various forms of Odishi dances performed by versatile artists supported by mesmerizing music.

Technical Session 3 – Energizing MSMEs for sustained Economic Development

CMA Manas Kumar Thakur Central Council member welcomed the guests. Mr. R. Laxmikant Rao, GM, RBI, Bhubaneswar chaired this session. He shared the RBI perspective on MSMEs and said that RBI is monitoring the policies and practices of various banks to ensure these are in line with the stated policy of the government with regard to MSMEs.

Mr. S.S. Acharya, DGM, SIDBI Ltd. outlined the various schemes and incentives offered by SIDBI to the MSMEs. He said any local issues being practically faced by the MSMEs be escalated to the head office level for appropriate redressal.

CMA K.C. Samal, Director (Finance), NALCO Ltd. said that Cost Management is very critical for MSMEs. He shared his experience of dealing with the MSMEs as suppliers of various resources to NALCO.

Dr. Sanjay Kumar Satpathy, Dean Ravenshaw University shared his academic perspective of the role of MSMEs in economic development of the country.

CMA (Dr.) S K Gupta, Director (Technical) of the Institute focused on the role of CMAs in energizing MSMEs. Small is beautiful, but is it viable (Purta khata hai kya ?). He said that the SMEs must focus on making their businesses viable and in his regard CMAs are the best professional support option for the SMEs as they can help improve efficiency and productivity of resources.

Shri K.C. Samal was felicitated for elevation to the position of Director (Finance) NALCO Ltd.

CMA Vivekanand Mukhopadhyay, Secretary, Eastern India Regional Council of ICAI proposed a hearty vote of thanks

Technical Session 4 Government Perspective – Tax and Expenditure Management, Effective Tax Monitoring – Cost Information approach

CMA Sanjiban Bandyopadhyaya, Central Council Member welcomed the guests.

Mr. A.K. Singh, Deputy CAG, chaired this session and said that there is no transparency in accounting for the expenditure incurred on various social schemes. NREGA and other social schemes are Central programs, States do not own them. Society Mode approach will make states accountable. The condition of Govt. colleges is very poor. The Govt. should spend more emphasis on higher education for enhancing competitiveness of the country. Private sector should supplement Govt. efforts in this direction to bridge the gap between requirement and availability of resources.

Mr. Sunil S. Dadhe, Principal AG, Odisha said that the role of cost audit in India emerged through the amendment to the Companies Act in 1965. Regulation started giving break to competition beginning early 2000. Arther Anderson, World Com, Lehman Brothers collapse happened blew the cover off the corporate sector. Even in India this has its reflection. Change of thinking got reflected in CAR 2011. Role of cost Accountants in the backdrop of regulations. Two roles – role within Government regulatory framework, and competitiveness of the industry. CMAs Role is in ensuring compliance with various laws, reporting when required, checking evasions / fraud related matters. Emerging Opportunities for CMAs are in the areas of International agreements relating to Trade / Imposition of safeguard duty, anti-dumping duties and International arbitration

Mr. Amar Patnaik, Principal AG, Odisha said that CMAs can help in managing and monitoring various social schemes as internal auditors, internal advisors. They can check whether allocation and utilization of public expenditure has been done properly or not. CMAs can help in Social Audits. Central Plan and Monitoring system. CMAs have to think out of the box. CMAs have a role in social sector oversight function. Outcome assessment requires base line data, CMAs can help in this area of Efficiency and effectiveness of the social schemes.

Mr. D.N. Panda, Member CESTAT said that CMAs should get into consultancy in the areas on Customs and Excise laws. Proper understanding of the various tax laws by the CMAs is very essential. CMAs can guide the management for preventive litigation management system. Help in proper litigation through detailed and effective representations.

CMA Pallab Bhattacharya, Vice Chairman, Eastern India Regional Council of the ICAI proposed a hearty vote of thanks.

Technical Session 5 – Service Sector as an enabler for Sustainable Growth

This session was chaired by Dr. V Gopalan Management Consultant. CMA K.H. Mankad, CEO, Reliance Infrastructure Ltd. said that our syllabus must prepare our students for supporting the service sector. Only 3% companies survive for more than 15 years. CMAs must guide on pricing. Pricing should not be based on cost. Businesses have to be connected and responsive to sustain. CMAs can help in focusing on Productivity and revenue generation. CMAs must Think big to provide big skills and not to engage in post mortem of costs but provide futuristic guidance, support and guide the client on growth path trajectory.

CMA Adrian Parera, Council Member, CMA Sri Lanka said that Services Sector is a fundamental part of any economy. Efficiency and effectiveness of service sector is the key. Accountant's role has changed from number crunchers to business partners. Ethics, Integrity and professionalism are an integral part of the CMA jobs.

Dr. V. Gopalan, Management Consultant said services sector has a multiplier effect. Effective cost management is the key. There is tremendous scope of bringing in efficiency in the service sector.

Mr. S. Manivannan, Managing Director, Parama Healthcare Pvt. Ltd. said that Private sector investment in health care sector is expected to go up to 81% by 2015.Standards need to be developed for cost of various procedures. Pricing of health care services is the key need to standardize clinical practices and cost structures across the country based on 3 methodology; Material, manpower, machinery and expenses.

CMA Chitra Agarwal Chairperson, Central India Regional Council of the ICAI proposed the vote of thanks

Plenary Session – CMA Growth Perspective

CMA D.L.S. Sreshti, Central Council Member welcomed the Chief Guest and the Guest(s) of Honour Prof. Lakshman R. Lakdawala, President CMA Sri Lanka and Prof. Dr. R K Bal, Professor, Utkal University.

CMA M. Gopalakrihnan Past President, Central Council Member and Chairman of the Technical Committee NCC 2014 summed up the proceedings of the Convention deliberations. CMA Suresh Chandra Mohanty President ICAI in his address said that the Accounting Technicians Course (CAT) launched by the Institute would prepare Accounting support for the MSME and the NGOs. He said that the Institute is working very closely with the Government sector. The Institute is developing a template for the Costing of the Health Care Procedures for the Ministry of Health and Family Welfare. The Institute is carrying out a study of the various airports. Projects for Railways, Banking, Power and Education Sector are being explored/ carried out. This will open up wide ranging new avenues for the CMA professionals.

Prof. Lakshman R. Watawala, President CMA Sri Lanka said that CMAs are the key resource which can step up the development process through efficiency studies and effective cost management. He also said that Sri Lanka is very keen to adopt and implement Cost Accounting standards and looked for professional support of the Institute.

Prof. Dr. R.K. Bal said that CMAs need to be distinct otherwise they will become extinct. Professional outlook with high ethical values is the need of the hour.

Hon'ble Member of Parliament Shri B. Mehtab said that CMAs have a big role in development of economy as efficiency in utilization of scarce resources is vital in both government and private sector. Monitoring of the various government schemes should be done regularly so as to ensure that the expenditure meets the desired outcomes.

The following publications of the Institute were released during the convention

- Anti – dumping – Relevance of cost information
- Service Tax – Reading material
- Guidance Note on CENVAT audit under Central Excise Law (4th Revised edition)
- Guidance Note on Value Added Tax – Its accounting and Auditing (3rd revised edition)

CMA TCA Srinivasa Prasad, Central Council Member and Chairman Convention Committee of NCC 2014 proposed a hearty vote of thanks to the Chief Guest, Guest(s) of honor, Past Presidents, Central Council Members, Regional Chairman, representatives of the Regions and Chapters, Delegates from profession and industry, Press and media, Management of the Hotel Mayfair Lagoon, and all the executives and staff of the Institute who worked tirelessly for making the National Cost Convention a big success.

The event concluded with the national anthem.

Eastern India Regional Council

Rajpur Chapter of Cost Accountants

The Chapter held its opening ceremony of oral coaching activities in December, 2013 at the coaching centre premises in Harinavi. Chairperson of EIRC, CMA Chitra Agarwal and past Chairman CMA Ashok Mukherjee were present who gave their overview on the profession of Cost Accountancy with special emphasis upon soft skill training. CMA N. Sinha Chowdhury, ex-chairman, EIRC, within whose tenure the chapter was inaugurated in 1994, talked on Management Accountancy course as an option to all; Commerce, Science and Arts students. The programme ended with an Exam Guideline class for the students present there that had been conducted by CMA Pradip Chandra, Sr. Faculty of EIRC at the Institute.

South Odisha Chapter of Cost Accountants

THE Chapter organized an evening talk on the topic Companies Act-2013 & Corporate Governance on January 31, 2014. The Chief Guests of the programme, CMA S.S. Sonthalia, past chairman of EIRC and the chief guest Shri Amarkant Padhi, Fellow Chartered Accountant, gave a brief overview about Companies Act-2013 in the perspective of Cost Accountants and also briefed about NCLT as well as on Corporate Governance. CMA Narasingha Chandra Kar, chairman of the chapter spoke about difference in between Companies Act 1956 and present Act of 2013. The guest of honour Shri Samarjeet Patnaik, Fellow Company Secretary gave a brief speech on Corporate Governance. Shri Amarkant Padhi spoke on the evolutionary changes of companies Act from the year 1866 till 2013, also on National Company's Law Tribunal (NCLT) and its function, Corporate Governance etc. Mementos were distributed and CMA B.B Nayak, managing committee member of the Chapter proposed the vote of thanks.

Bhubaneswar Chapter of Cost Accountants

The Chapter organized an investor awareness programme on January 12, 2014 attended by various resource persons and lecturers. Shri B. Mishra, Registrar of Companies, Odisha was the Chief Guest at the programme and addressed participants about the Role of Stock Exchanges, SEBI, Ministry of Corporate Affairs and other bodies. On January 19, 2014 the Chapter organized a seminar on 'Compliances under Direct & Indirect Tax Laws'. Eminent dignitaries such as Shri M.S. Mani, Senior Director, Deloitte Touche Tohmatsu India Pvt. Ltd. Mumbai and CMA Niranjan Swain, General Manager (Finance), OPGC Ltd., Bhubaneswar deliberated in detail the various provisions in the Indirect Tax and Direct Tax Laws respectively and the details of compliances therein. CMA Basanta Kumar Pattanaik, Chairman of the Chapter deliberated the key note address and extended vote of thanks. The Chapter had organized 15-day Subject Base Practical oriented training programme from January 27, 2014 till February 10, 2014 for its students of previous session for those who appeared the examination in December, 2013 term and awaiting their result. The basic objective of this programme was to acquaint the CMA students on practical aspects which will help them to appear for their written tests and interviews and also during their employment as Management Trainee. The training and placement committee of the Chapter coordinated the programme and various resource persons and guest faculties shared their rich experience and guided the students on Practical Aspects.

Northern Indian Regional Council

Ghaziabad Chapter of Cost Accountants

NIRC in association with the Chapter organized a seminar on 'Relevance of Cost Audit and Cost Record in Controlling Inflation and Implementation of Supreme Court Judgment in case of M/s Fiat India & its implication on industry' on February 16, 2014. Shri Sudhanshu Trivedi, national spokesperson of BJP and political advisor to BJP National President was the Chief Guest who started the session with lighting of the lamp. On this occasion other dignitaries were Shri Ashok Monga, BJP president, Ghaziabad district and Shri Mayank Goel, General Secretary, BJP, Ghaziabad, CMA Chandra Wadhwa, past president of the Institute, CMA Rakesh Singh, Immediate Past President of Institute, CMA Sanjay Gupta Central Council Member, CMA Rakesh Bhalla, Chairman, NIRC, CMA Saurabh Srivastava, Vice Chairman, NIRC were among the people present. Everybody present made several queries relating the new draft rule (Cost Audit and Cost Records) 2013 and expressed deep concern in this regard. CMA Navneet Jain gave his presentation on the implementation of Supreme Court judgment in case of M/s Fiat India Ltd. and its implications on the Industry.

Ajmer Bhilwara Chapter of Cost Accountants

The Chapter organized a career counselling program on January 13, 2014 in association with Northern India Regional Council. The students were informed about the role of Cost and Management Accountants in brief, the future of the profession and the facilities provided by the Chapter etc.

Lucknow Chapter of Cost Accountants

The Chapter organized a seminar on 'Stock & Revenue Audit' on February 16, 2014. The chief guest of the event was Dr Babu Lal Saha, Principal & Assistant General Manager, Staff Training College, Allahabad Bank. He emphasized on the importance of professional degree in every sector of the human life. Key Speakers were Shri D K Chaturvedi, retired CGM, Allahabad Bank and CMA B.M.K Gupta, CGM. Punjab National Bank. They briefly discussed about the service of CMA Professionals. Many members of the Institute took part in the seminar and made it a memorable event.

Southern Indian Regional Council

Hyderabad Chapter of Cost Accountants

On January 26, 2014 a full day program titled 'Ignite' with tag line 'your inner creativity and passion' had been organized by the Chapter. CMA Dr. A.S. Durga Prasad, Vice President of the Institute was the chief guest for the program and eminent motivational speaker Dr. K.S. Ratnakar, Chairman of Global Medical Education & Research Foundation, Hyderabad was the guest of honour. CMA DLS Sreshti, Central Council Member, CMA Ch Venkateswarlu, Secretary of SIRC and CMA GVS Subrahmanyam, past chairman of SIRC were among the other dignitaries present in the program. CMA Dr. A.S. Durga Prasad, shared the significance of developing both technical and soft skills for a student to build a well-rounded career. Merit awards for June 2013 exams were distributed by donors to the award winners. The second half of the day had competitive activities for the students to test their general awareness, presentation skills and creativity. CMA Dr. P.V.S Jagan Mohan Rao was the guest who conducted a short random quiz for the audience and gave books that contain teachings of Swami Vivekananda as prizes.

The Chapter also conducted in house training programmes on different topics, on different dates at Bharat Dynamics Limited, Kanchanbagh, Hyderabad. C S V. Ahalada Rao, practicing Company Secretary and CMA K.K. Rao, practising Cost Accountant gave a brief overview about the

Companies Bill to the participants who attended the programme. On February 7 and 14, CA D.K. Astik, CEO & Director, i2i IFRS described the participants on 'Accounting Standards' and 'IFRS'. Between January 16, 2014 and February 15, 2014 the Chapter conducted four programmes sponsored by the Ministry of Corporate Affairs according to the framed guidelines involving Cost Accountants in Practice & Employment as resource persons.

On February 12 & 13, 2013 the Chapter conducted a Practitioners' two day's programme on 'Genesis of Costing for Bulk Drug Industries under SME Segment'. CMA D. Zitendra Rao, practising Cost Accountant explained the Genesis of costing for bulk drug industries. The programme was well attended by the practitioners and from Industry.

Bangalore Chapter of Cost Accountants

The Chapter organized a seminar on Internal Audit on January 25, 2014 where the eminent speakers were Shri N. Nityananda, Chartered Accountant, Ms. Gayathri, Director, Profaid Consulting Pvt Ltd., Chennai, Shri K Gururaj Acharya, Director, State Bank of Mysore and Shri Rama Rao, past president of Institute of Internal Auditors, Bangalore Chapter. Each session ended with a live interaction and large number of participants attended the seminar.

Madurai Chapter of Cost Accountants

The Chapter organized inaugural function of the oral coaching for the current session on January 20, 2014 and the function had been attended by the students as well as their parents. Dr. I Ashok, chairman of the Chapter welcomed the gathering. CMA N. Srinivasan, Deputy Director (Cost), Central Excise Department, Madurai inaugurated the class where he briefly shared his experience of the CMA course, indicated the employment opportunities available to the students in this course and advised them about its preparation. CMA S. Jeyaraj, secretary of the chapter stressed the importance of this course. The office bearers present over there in the dais cleared the doubts raised by the students and the parents in regard to the course as well as employment opportunities available etc. The Chapter also conducted a professional development program on January 25, 2014. The meeting had been presided over by Dr. I. Ashok, the chairman of the chapter. CMA M. Kannan, practising Cost

Accountant, Madurai delivered a speech on the topic 'Simplified Approach to Cost Records' where he illustrated in details the benefits available to any industry in maintaining cost records, the advantages of maintaining cost records, the provisions of transfer pricing, the factors affecting the transfer pricing, transfer price regulations, arm's length price in detail as well as he elaborated the limitations of financial accounting and the need of the costing system in the present scenario. CMA M. Govindarajan, Vice Chairman proposed the vote of thanks and ended the program.

Coimbatore Chapter of Cost Accountants

The Chapter conducted a PDP meeting on the topic 'Credit Evaluation – Value Based Approach' on January 27, 2014 at the chapter hall. Shri N.P Vineeth, Associate Director, Standard Chartered Bank delivered his lectures covering an in depth on all the practical aspects of credit evaluation. The chapter also conducted an inspection of the Satellite Centre for Foundation Course on January 28, 2014. Vice Chairperson, CMA Meena Ramji who took a substantial role in the programme along with the administrative officer Shri .B. Divakar checked student's attendances, class schedules, faculty arrangements, performance in the last exam and had been advised to nominate one student coordinator and instructed to conduct periodical on line test and necessary software to be developed for this purpose. There had been interaction with the students and the overall view of the online exam was explained to them.

Trivandrum Chapter of Cost Accountants

The Chapter conducted a meeting of faculty members and staff members at its premises on December 15, 2013. CMA Joseph Louis, chairman of the chapter presided over the meeting who stressed the importance for effective coaching. CMA H Padmanabhan, vice-chairman, SIRC requested the faculty members as well as staff members to be punctual, also he briefly made a good discussion about campus recruitment, scholarship scheme, student festivals etc. CMA S Veerapudran, secretary of the chapter made a proposal to discuss the previous question papers to make the students understand and answer the questions in a professional approach and also he thanked everybody present over there for their valuable suggestions and participation.

Visakhapatnam Chapter of Cost Accountants

The Chapter conducted a student interaction session at its premises on January 25, 2014. The chief guest of the session was CMA D. Ramana Murthy, Senior Deputy CAO of Visakhapatnam Port Trust who addressed the students about the need to become disciplined and emphasised that the determination and hard work will give them a very good future. CMA Prakash Uppalapati, chairman of the chapter presided over the function and he addressed the need to become good citizens and set their long term goals for their future. CMA M.Ramakrishna, Treasurer of the chapter proposed vote of thanks.

Western India Regional Council

Ahmedabad Chapter of Cost Accountants

The Chapter and WIRC jointly organized a members' meet on January 24, 2014 where the action plan regarding the Draft Cost Audit Report Rule 2013 issued by MCA on November 21, 2013 had been discussed and formulated. CMA R. B. Kothari, chairman of the chapter welcomed the eminent dignitaries and the members who attended the meet. Past president of the Institute, CMA Chandra Wadhwa and CMA Dhananjay Joshi made their valuable presence and expressed and shared their views on the matter. CMA Ashish Thatte, chairman of WIRC stated in brief the action plan to be undertaken in this regard by WIRC.

The Chapter also organized a program on Service Tax issues pertaining to Taxation Rule – 2012, place of provisions of Service Rules - 2012 & Service Tax (determination of value) rules 2006 on January 25, 2014. CMA R. B. Kothari, chairman of the chapter delivered his welcome address. The program was inaugurated by Shri Navneet Goel – Commissioner Central Excise & Customs Commissionarate-II Ahmedabad. CMA V S Datey, well known author of the concerned subject, CMA N. K. Nimkar, a practicing Cost Accountant from Pune, and CMA Sanjay R. Bhargave, Central Council Member of the Institute took the technical sessions which were very interactive.

Nasik Ojhar Chapter of Cost Accountants

The Chapter and Nasik chapter of WIRC of ICSI arranged a post lunch seminar on 'New Companies Act, 2013' on January 15, 2014. CMA Sanjay Bhargave, Council Member was the chief guest of the seminar. Shri V. S. Datey, renowned practicing Company Secretary from Mumbai, Shri Makarand Joshi and eminent practicing Company Secretary, Shri Vrushal Saudagar were the guest speakers of the seminar who gave a brief overview of new companies Act – 2013 and also explained on new provisions about penalties, types of Companies, changes in financial transactions, status of Private Limited Company and opportunities to Cost Accountants as well as Company Secretaries, about compliances and certificates etc. There was overwhelming response and the seminar was extremely learning oriented. Many Students, practicing members and corporate members attended in large numbers and made the event a pleasant one.

Pune Chapter of Cost Accountants

On January 2, 2014, the Chapter conducted Oral Coaching for the session January 2014 till June 2014 at various oral coaching centres of the chapter. The session was inaugurated by the members of the managing committee. The chapter conducted CEP Program on Cost & Management Accountant's Role in Internal Audit on January 11, 2014. The CEP was conducted by CMA Pradip Pathak who made an excellent presentation in an easily comprehensible manner. On January 25, 2014, the Chapter conducted a session on the documentary of 'The Legends of Business' on Ratan Tata. The session was actively arranged by CMA Amey Tikale, past student and CMA Amit Shahane, treasurer of the chapter. CMA Harshad Deshpande, secretary of the chapter started the opening session and he stated in brief the benefits of studying closely the lives of businessmen and entrepreneurs and to understand their principles and to apply them in their personal lives. The students of the chapter welcomed the concept and the chapter had planned to arrange many more such sessions and events for the benefits of the students in the near future. Another CEP programme on Companies Act 2013 was held on January 31, 2014 where CMA Dr. Jagan Mohan Rao, Central Council Member presided.

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants

The Chapter organized a seminar on 'CO Module in SAP – Part I' on January 18, 2014 at its office. The guest speaker was CMA C S Adawadkar, practicing Cost Accountant who explained the basic functioning of the FI/CO Module of SAP in the technical session. CMA Laxman Pawar, chairman of the chapter presided over the function. It was a very interactive session and a good number of members in practice and from industry attended the session. CMA Pradeep Deshpande, secretary of the chapter proposed the vote of thanks.

Surat South Gujarat Chapter of Cost Accountants

On January 5, 2014 the Chapter with Ankleshwar-Bharuch facilitation center organized CEP programme on 'Company Act-2013 and Recent changes in Cost and Management Accountancy'. CMA Rajendra Rathi, Vice Chairman of the chapter welcomed head of administration of local education/health trust & faculty. CMA S. N. Mundara, CMA R A Mehta, CMA D.C. Gupta, CMA Susanta Bhattacharya, CMA Bhanwar Lal, CMA Shailendra Saxena and large number of members and students attended this programme. A CEP programme on utility of cost Accounting Records & Cost Audit in Die Casting & Allied Industries was held on January 25, 2014. CMA Biswadev Chanda, chairman of the chapter welcomed the faculty and members. CMA Amish Parmar, practicing Cost Accountant discussed on above subject and its implication to the industry. The Chapter participated in Swami Vivekananda National Book Fair organized from January 23 till January 27, 2014 organized by Surat Municipal Corporation. The staffs of the chapter and student volunteers handled the inquires of the people who daily visited and get informed about the course. The Chapter had been awarded by the certificate from Surat Municipal Corporation. A CEP programme on designing a bill of material and its practical utilities was organized by the chapter on February 9, 2014. CMA Brijesh Mali, committee member of the chapter welcomed the faculty and members. CMA Nanty Shah, practicing Cost Accountant discussed on above subject and also elaborated its implication to the Industry. Many students of the chapter participated in the program.

Bhopal Chapter of Cost Accountants

The Chapter organized a seminar on 'Basics of Share Market-Investors' Perspective' on January 21, 2014. Shri Aditya Manya Jain, Director, Kalptaru Multipliers Limited, was the guest speaker on this occasion. CMA S. M. Ramanathan, chairman of the chapter delivered the welcome address and CMA Biswabandhu Mohapatra, secretary of the chapter, gave a brief idea about the seminar. The seminar was part of the Investors' Awareness Programme conducted by the Ministry of Corporate affairs in association with the Western India Regional Council of the Institute. The successful students who cleared the foundation examination were also felicitated in this programme.

DIPLOMA COURSE IN BUSINESS VALUATION

Course Objective

Valuation, particularly financial valuation, is emerging as an important profession, with the growth in the profession of financial analysts, increased interest in mergers and increased interest of PE firms in Indian business. The valuation profession is expected to get a boost with the introduction of the concept of Registered Valuers in the Companies Act 2013. Registered Valuers will provide valuation in respect of property, stocks, shares, debentures, securities, goodwill or any other assets or net worth of a company or its assets or liabilities. The Government has framed the rules regarding the qualification and experience of persons who will be eligible to be registered as Valuers. Cost Accountant who is in whole-time practice for at least five years is now eligible to be registered as a Registered Valuer. This diploma course aims to develop proficiency in Valuing assets and liabilities through a learning process that blends concepts with applications. 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 Valuation and by analyzing case studies.

Eligibility Criteria:

The candidate must have passed the final examination of the Institute of Cost Accountants of India.

Pedagogy

The course will be delivered through distance learning mode, supported by webinars. However, after the conclusion of each module of the course, personal contact classes will be scheduled to engage participants in analyzing business cases related with Valuation. Analysis and discussions on case studies, completion of a detailed project report/ case study write-up will be mandatory for the completion of the course.

Faculty

Faculty will be drawn from academicians associated with top academic Institutes, practitioners engaged in business valuation 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 valuation in real life situations in different contexts. In particular, participants shall:

1. Develop proficiency in valuation
2. Develop capabilities to offer advisory/consultancy services in the area of valuation

Course Duration:

Course will be of one year duration and will involve investment of 240 hours of learning including personal contact classes of 72 hours. 60% attendance in contact classes is mandatory. In addition, a participant is expected to invest around 50 hours in completing a valuation project in the last leg of the course concurrently.

Course Fee: INR Twenty Thousand (Rs. 20,000/-) only.

The course fee excludes the examination fee and the cost for attending personal contact classes, to be organized at Hyderabad and few other cities depending on the number of students in different locations.

Registration Procedure

Registration will be online, please visit the Institute's web site www.icmai.in.

Please download the application from the website, complete it and send the same to the Directorate of Advanced Studies, along with the specified fee.

Evaluation Mechanism

Participants will be evaluated through written examination.

Examination will be conducted by the Examination Department of the Institute twice a year along with other examinations. First examination will be held in July 2015.

Examination fee is Rs. 1,200 per attempt. A student may appear in all the papers in one attempt or may appear in a single paper in one attempt.

The detailed guidelines and framework for writing the case study and preparing the project will be issued to the participants in due course. The originality and relevance of work shall be evaluated in the viva voce. Plagiarism of any kind will be punished severely.

The participants will be evaluated for each module of the course. The participants who will score 50 percent or more in the examinations for each module and will obtain B or higher grade in the project will be awarded the Diploma in Valuation by the Institute. Grades will be awarded on project work and will not be included in calculating aggregate marks.

Course Contents

Each paper will carry 100 marks.

Paper I: The Principles of Business Valuation

1. Valuation Fundamentals & Contexts

Concept of Valuation – Standard of value, Purpose and Role of Valuation, Valuation contexts, Distinction between Price and Value; Independence and objectivity; Overview of different valuation models, financial statements and value drivers.

2. Reorganizing and Analysis of Financial Statements Accounting policy

Accounting policy, Reorganizing and Analyzing Key Financial and Non-Financial Ratios to support forecasting future cash flows.

3. Forecasting Cash Flows

Industry Analysis e.g. (Porter's Five Force Model), Audit of internal and external environment e.g. (PEST Analysis); Company analysis (e.g. Analysis of the sources of past growth in ROIC and revenue and sustainability of the same in the context of capabilities of the company Analyzing the core competence of the business and its ability to take future opportunities and resilience to address challenges)

Establishing the relationship between each line item in the Profit and Loss account with revenue and other drivers of costs and expenses.

4. Income Approach in valuation

(i) 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.

(ii) Accounting Based Valuation

(iii) Business valuation in international setting.

(iv) Techniques to manage Risk in Business Valuation

(v) Market Approach

Direct comparison with comparators and multiples

(vi) Other approaches

Asset approach and real option/contingent claim approach

(vii) 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: Application of Valuation Principles

1. Valuation in Mergers and Acquisitions

Strategies: Intensive Growth, Diversification Growth, Spin-offs, split-offs Motives and Synergies: Monopoly theory, Valuation theory

2. Fair Value in Financial Reporting
3. Valuation of closely held companies (SMEs)
4. Valuation of stressed companies
5. Valuation of IPOs
6. Valuation of financial institutions - banks and insurance companies

- Valuation of Intangibles
- IPR
- Brand Valuation
- Goodwill

7. Other Valuations

Asset Valuation

Valuation of Derivatives

Bond Valuation and Valuation of securitized

Instruments including mortgage based securities

Paper III: Business Valuation Standards and Preparation of Business Valuation Reports

1. Ethics in Valuation
2. International standards on Valuation
3. Data collection for Business Valuation
4. Writing a Business Valuation Report
5. Engagement procedure for valuation assignment, term of reference and deliverable

Project

Every student will be required to complete a project on Business Valuation before or after passing the written examinations. The candidate will register his/her project with the Institute and shall commence working on the same after receiving approval from the Director (Advanced Studies). He/she will submit the project report within six months from the date of the issuance of the approval by the Director (Advanced Studies).

Last Date for receipt of completed application forms is 15Th APRIL 2014.

Note: *No CEP Credit Hours will be awarded to Members pursuing or completing this course.*

For more information, please mail at advstudies.murthy@icmai.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)
EXAMINATION TIME TABLE & PROGRAMME – APRIL 2014
FOUNDATION COURSE EXAMINATION
(Multiple Choice Questions – Online Mode)

Day & Date	**Foundation Course Examination**	
	Syllabus-2008	
Sunday, 6 th April, 2014.	**Paper – 1 & 2 (100 Marks)** **Time : 10 A.M. to 12.00 Noon** Paper 1 : Organisation and Management Fundamentals (50 Marks) Paper 2 : Accounting (50 Marks)	**Paper – 3 & 4 (100 Marks)** **Time : 2 P.M. to 4.00 P.M.** Paper 3 : Economics and Business Fundamentals (50 Marks) Paper 4 : Business Mathematics and Statistics Fundamentals (50 Marks)
	Syllabus-2012	
Sunday, 6 th April, 2014.	**Paper – 1 & 2 (100 Marks)** **Time : 10 A.M. to 12.00 Noon** Paper 1 : Fundamentals of Economics and Management (50 Marks) Paper 2 : Fundamentals of Accounting (50 Marks)	**Paper – 3 & 4 (100 Marks)** **Time : 2 P.M. to 4.00 P.M.** Paper 3 : Fundamentals of Laws & Ethics (50 Marks) Paper 4 : Fundamentals of Business Mathematics and Statistics (50 Marks)

Examination Fees

Foundation Course Examination	Inland Centres	Rs1000/-
	Overseas Centres	US $ 60

1. **The Foundation Examination in both syllabus (2008 & 2012) will be conducted in M. C. Q. Mode through Online only.**
2. Total Questions : 100 (Multiple Choice Questions), Maximum Marks : 100 (Each Question will carry 1 Mark). There will be no negative marking for wrong answers.
3. **(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.**
(b) Application Forms for Foundation Examination is available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US$10 per form.
(c) Students can also download the Examination Form free of cost from ICAI Website at www.icmai.in.
(d) Students can also pay their requisite fee through payfee module of IDBI.
4. **Last date for receipt of Examination Application Forms without late fees is 19th February, 2014 and with late fees of Rs300/- is 1st March, 2014. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of Rs300/- will be waived if applied within 1st March, 2014.**
5. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" and payable at Kolkata.
6. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
7. **Examination Centres:** Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Gandhidham, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Nasik, Nellore, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Port Blair, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Valsad, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat. **(If no examination centre is available at a particular location, examinees will be accommodated at the nearest Centre available)**
8. **A candidate who is completing all conditions will only be allowed to appear for examination.**
9. **Probable date of publication of result : Foundation – 16th April, 2014.**

A. Das
Director (Examination)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – JUNE 2014

	PROGRAMME FOR SYLLABUS 2008		PROGRAMME FOR SYLLABUS 2012	
Day, Date & Time	**Intermediate – 2008** 9.30 A.M. to 12.30 P.M.	**Final – 2008** 2.00 P.M. to 5.00 P.M.	**Intermediate – 2012** 9.30 A.M. to 12.30 P.M.	**Final – 2012** 2.00 P.M. to 5.00 P.M.
Wednesday, 11th June, 2014	—	Capital Market Analysis & Corporate Laws	Financial Accounting	Corporate Laws and Compliance
Thursday, 12th June, 2014	Financial Accounting	Financial Management & International Finance	Laws, Ethics and Governance	Advanced Financial Management
Friday, 13th June, 2014	Commercial and Industrial Law & Auditing	Management Accounting - Strategic Management	Direct Taxation	Business Strategy & Strategic Cost Management
Saturday, 14th June, 2014	Applied Direct Taxation	Indirect & Direct - Tax Management	Cost Accounting & Financial Management	Tax Management & Practice
Sunday, 15th June, 2014	Cost & Management Accounting	Management Accounting - Enterprise Performance Management	Operation Management and Information Systems	Strategic Performance Management
Monday, 16th June, 2014	—	Advanced Financial Accounting & Reporting	Cost & Management Accountancy	Corporate Financial Reporting
Tuesday, 17th June, 2014	Operation Management and Information Systems	Cost Audit & Operational Audit	Indirect Taxation	Cost & Management Audit
Wednesday, 18th June, 2014	Applied Indirect Taxation	Business Valuation Management	Company Accounts and Audit	Financial Analysis & Business Valuation

EXAMINATION FEES

Group (s)		Final Examination	Intermediate Examination
One Group	(Inland Centres)	₹1250/-	₹1000/-
	(Overseas Centres)	US $ 100	US $ 90
Two Groups	(Inland Centres)	₹2250/-	₹1600/-
	(Overseas Centres)	US $ 200	US $ 100

1. (a) **Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.**
   (b) Application Forms for Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹100/- per form. In case of overseas candidates forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (c) Students can also download the Examination form free of cost from ICAI Website at www.icmai.in
   (d) **Students can also pay their requisite fee through payfee module of IDBI.**
   (e) Examination fees can also be paid through **Bank Demand Draft** drawn in favour of **"The Institute of Cost Accountants of India"** and payable at Kolkata
2. **Last date for receipt of Examination Application Forms without late fees is 31st March, 2014 and with late fees of ₹300/- is 10th April 2014. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 10th April, 2014.**
3. Students may submit their Examination Application Form (filled copy) along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
4. **Finance Act 2013, involving Assessment Year 2014-2015 will be applicable for the Subjects Applied Direct Taxation, Applied Indirect Taxation and Indirect & Direct Tax Management for Syllabus 2008 and Direct Taxation, Indirect Taxation and Tax Management & Practice for Syllabus 2012 for the purpose of June 2014 term of Examination.**
5. **Examination Centres:** Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Haridwar, Howrah, Hyderabad, Indore, Jaipur, Jalandhar, Jamshedpur, Jammu, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Nashik, Navi Mumbai, Noida, Port Blair, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thane, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Visakhapatnam, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
6. **A candidate who is fulfilling all conditions will only be allowed to appear for examination.**
7. **Probable date of publication of result : Inter & Final – 22nd August 2014**

A. Das
Director (Examination)

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)
www.icmai.in

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You are requested to please verify and update your journal mailing address through the online membership system and/or contact the membership department for correcting it. This would help you to receive the journals regularly. Please visit the Institute's website at www.icmai.in for details

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CD of List of Members, 2013 will be made available for sale to the Members at a price of Rs.100/- per copy. Members interested to procure the same may remit Rs.100/- by Demand Draft in favour of "The Institute of Cost Accountants of India", payable at Kolkata, addressed to the Secretary, The Institute of Cost Accountants of India.

Notification

It is hereby notified vide Notification Nos. 18-CWR (4249 - 4315)/2013 dated 30th December 2013, 18-CWR (4316 - 4328)/2014 dated 1st January 2014, 18-CWR (4329 - 4349)/2014 dated 6th January 2014, 18-CWR (4350 - 4371)/2014 dated 14th January 2014, 18-CWR (4372 - 4396)/2014 dated 15th January 2014, 18-CWR (4397 – 4412)/2014 dated 20th January 2014, 18-CWR (4413 – 4441)/2014 dated 31st January 2014 and 18-CWR (4442 – 4458)/2014 dated 3rd February 2014 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of members, details of which are uploaded on the Institute's website www.icmai.in

Benevolent Fund for members of The Institute of Cost & Works Accountants of India

The Benevolent Fund for the members of the Institute of Cost and Works Accountants of India was instituted with an objective of extending financial assistance to its members and families at the time of distress and death.

We, therefore, appeal to all the members of our Institute to become Life Members of our Benevolent Fund. The members and others are requested to donate generously for the noble cause. The donations to the Fund are exempted under Section 80G of the Income Tax Act, 1961.

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We invite quality articles and case studies from members in the industry with relevance to Cost and Management Accountancy, Finance, Management, and Taxation for publication in the journal. Articles accompanied by colour photographs of the author can be sent to: editor@icmai.in

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