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'ABC for port activities should be done at regular intervals' PAGE 68

*the* MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

MAY 2014 VOL 49 NO. 5 ₹100

# PRICE AND COST COMPETITIVENESS

COST OF PRODUCTION AND COMPETITIVENESS

VALUE RECOGNITION AND PRICING

PRICE AND COST COMPETITIVENESS: A CASE STUDY OF THE INDIAN HEALTH SECTOR IN THE GLOBAL MARKET

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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# 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.

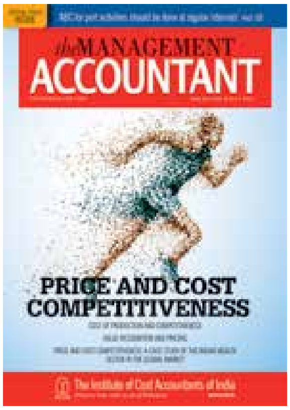
## VISION STATEMENT

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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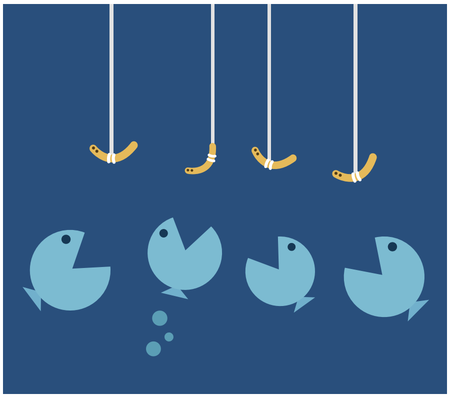
# May 2014

# Inside

## COVER STORY





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# FROM THE EDITOR'S DESK

**Greetings!**

Competitiveness is basically an enterprise-level concept, referring to the relative performance of firms in particular product markets. It is the ability of a country's enterprises to sustain superior market positions and profitability relative to their domestic and international competitors by producing products and services of superior quality and functionality, at competitive prices, delivered on time to both domestic and international buyers. Dynamic competitiveness i.e. competitiveness over the longer term refers to the ability of enterprises to respond flexibly, quickly and in a sustained manner to changes in demand, technology and resource availability and to the actions of competing firms. This can be achieved through adjustments in, among other things: (a) the efficiency of the production process; (b) product differentiation; and (c) innovative capacity, including both process and product innovation, and by developing entirely new markets for existing and new products.

Many interacting factors at different levels shape the competitive performance of an enterprise, including:

- Its resources (people, skills, physical capital and technology, among other things);
- Its market power, for example through branding and customer loyalty;
- Its capacity to respond effectively to competitors, including potential substitutes for its products;
- Its capability and flexibility to respond to changing circumstances, for example in the availability of key resources, capacity for process and product innovation;
- Its capability to create new market niches;
- The business environment which conditions its performance, such as the process of business licensing that controls ease of entry;
- The policy and regulatory environment, for example tax policy, competition laws and export/import procedures; and
- Supporting services provided by both public and private organizations, for example the quality of physical infrastructure and logistics systems, and both general and specific skill-related education services.

Most of the organizations try to enhance their profit margin but it is not possible for an organization to charge higher price for a product due to competitive market. Effective pricing strategy brings competitive advantage in an organization.

For most businesses, pricing is a combination of costs and a reasonable profit. If the market is perfectly competitive, all companies will charge the same price for a similar product. In this situation if a business charges price above the average then the customers will go elsewhere and if charges price below the average then it will be difficult to stay in business. Beyond that, there are strategic decisions that could affect price point.

When an organization sets price for its product it makes sense to look at the price of competitive offerings. Every product has a price range, the new organization at first look at its competitors pricing to find the range for its product or it can compare its product to those of its competitors. The products with the most features can charge the highest price, so again an organization should ensure what are the extra attributes it is providing than its competitors before charging a higher price. Core features of all the products should be similar, if not the same, so the organization needs something special to raise the price of your product.

This issue presents a good number of articles and interview by distinguished experts and authors on the 'Price & Cost Competitiveness', the cover story theme of this issue. The 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.

# CMAs' EXPERTISE OF ENTERPRISE COST MANAGEMENT SYSTEMS KEY TO THE ECONOMIC RECOVERY PROCESS

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

*When one door of happiness closes, another opens, but often we look so long at the closed door that we do not see the one that has been opened for us. – Helen Keller*

## My Dear Professional Colleagues,

I am happy to inform that the Annual Day function will take place at Hotel Ashok, New Delhi on May 19, 2014. I request all the Regions and Chapters of the Institute to celebrate the Annual Day in their respective jurisdiction on May 19, 2014. To commemorate the day, the Institute is organizing a 'CFO Summit' for providing a platform to CFOs and Finance leaders from various public and private sector organizations to deliberate on the current industry challenges and to learn from each other's experience on the theme of Role and Expectations of CFOs – preparing CFOs for Finance Leadership, Management Accounting – Redefined and Corporate Restructuring for Sustainability and Growth. Top level executives from Corporate Houses, CFOs, Officers of the Government, Industry Associations, Academicians, Cost and Management Accountants and experts on the subject shall participate in the deliberations. On this occasion, CMA-CFO Awards will also be presented to the CFOs who are CMAs and have achieved excellence in their domain area. The award will be given in the categories of Manufacturing Sector- Public& Private and Service Sector. The awards shall further be categorized into Large, Medium and Small organizations on the basis of turnover. I urge the members to attend the summit and share the success stories of the top CMA-CFOs.

## Meeting with officials of Government of Gujarat

The undersigned had meeting with Shri Varun Nath Maira, IAS (Retd.), Chairman, Uttar Gujarat Vij Company Ltd and discussed about the study undertaken by the Institute on cost of services for the Power Sector. The undersigned also met Shri Girish Chandra Murmu, IAS, Principal Secretary to Hon'ble Chief Minister of Gujarat and submitted the proposal for introduction of CAT course in Gujarat. In the meeting with Shri H.K. Dash, IAS, Additional Chief Secretary Forests and Environment Department, Government of Gujarat discussions were held on the Study of cost - benefit analysis on Environment. Discussions were held with Dr. Guruprasad Mohapatra, IAS, Municipal Commissioner, Ahmedabad Corporation to undertake a study as a "Pilot Project" for the cost of different services provided by the Municipal Corporations and the management of the Ahmedabad Chapter has been requested to take up the matter. I am thankful to the Chairman, Vice-Chairman and Secretary of the Ahmedabad Chapter who accompanied me for the meetings at Ahmedabad and assured to follow up the matter. I had the opportunity to have an interaction with the members and students of the Ahmedabad Chapter at Chapter building in the evening.

## Regional Cost Conference of SIRC

I had the opportunity to attend the SIRC of the Institute organized its Regional Cost Conference on April 18-19, 2014 at Chennai on the theme Emerging Sectoral Perspectives- Global CMA professionals. The discussions were centred on the four key sectors of Indian economy i.e. Health care, Infrastructure, Agriculture and Education. The CMAs with expert understanding and knowledge of the enterprise cost management systems can play a key role in spearheading the economic recovery process in the Indian economy by laying down systems for cost accumulation, collation, and presentation highlighting efficiency, productivity and competitiveness of industry. CMAs can play a vital role in the growth of health sector by providing appropriate information regarding the cost of the services, cost of research and developments and standardizing the cost of providing health care. CMAs need to hone their knowledge and skills set to contribute meaningfully in the desirous task of supporting, creation and provision of the infrastructure in India. Agriculture still remains the backbone of Indian economy. Appropriate costing of agriculture operations through full cost accounting is vital for valuing the environmental and social costs and benefits of activities that are external to the market. In the education sector, there is a need for analysis of the cost structures at various levels of the education system of the country so that avoidable cost could be identified leading to rationalization of the cost structure in the education sector. The growing integration of the business the world over requires new skills and mind set focusing on optimum utilization of scarce resources with special emphasis on strategies relating to Cost Control and cost reduction through application of emerging new concepts of cost and performance management. This poses a challenge for the professionals to acquire desired skills to play the lead role as per expectations of the corporate world in steering the business through the competitive maze.

### Institute signs an MoU with Bharatiya Mahila Bank

I am happy to inform that the Institute has signed two Memorandums of Understanding with the Bharatiya Mahila Bank for the Students and Members of the Institute respectively by me and Mrs. Usha Ananthasubramanian, CMD of Bharatiya Mahila Bank on 18thApril 2014 at Chennai during the Regional Cost Convention of the SIRC of ICAI. Dr. TV Somanathan, Director, Special Projects, World Bank, CMA (Dr.) AS Durga Prasad, Vice-President, ICAI, CMA M Gopalakrishnan, Past President & CCM, CMA PVS Jagan Mohan Rao, CCM, CMA DLS Sreshti, CCM and CMA P Raju Iyer, Chairman, SIRC of ICAI and other RCMs of SIRC were the dignitaries present at the function amongst others. As per the MoUs, the Bharatiya Mahila Bank has tie up arrangement with the Institute for overall banking relationship and for assisting the Institute, its students and its members, whether individuals / firms, for availing various banking facilities including financial assistance/accommodation or any other banking services from the Bank.

### Golden Jubilee of Bangalore Chapter

It is a matter of pleasure that the first chapter of the Institute, Bangalore Chapter of Cost Accountants has completed fifty years of its establishment. The chapter organized a function to commemorate the Golden Jubilee celebrations at Bangalore on April 26, 2014. On the eve of the Golden Jubilee Celebrations, I had the opportunity to discuss with Shri SK Pattanayak, IAS, Additional Chief Secretary, Government of Karnataka on the introduction of CAT course for the students of the State and other initiatives which can be taken up with the State Government. Shri DH Shankaramurthy, Hon'ble Speaker, Karnataka Legislative Council, Govt. of Karnataka, Chairman of the Valedictory session, appreciated the Cost and Management Accounting for the benefit of the stakeholders.

### Programmes for the officers of CBEC

The Institute has been organising training programmes / workshops for various Government departments including Central Board of Excise &Customs. I attended the inaugural session of the Workshop conducted for the Officers of the Ahmedabad Zone of Central Excise, Customs and Service Tax on 24thApril, 2014 at Ahmedabad. The third such programme has been organized at Chennai for the Officers of the Central Excise zone of Chennai on April 28 and 29, 2014 in two batches. The Institute has received many more requests from various Excise Commissionerates for organizing such programmes.

### Meeting with Secretary, MCA

The Secretary to the Government of India, Ministry of Corporate Affairs invited the stakeholders for a meeting on Registration of Valuers and modalities for maintaining Databank of Independent Directors on April 16, 2014 at New Delhi. I along with the Vice-President attended the meeting and the views of the Institute were placed before the Secretary, MCA for consideration. We have met Secretary and Additional Secretary, MCA and put forth our views regarding Cost Audit Rules. They assured us that the same would be duly considered while finalizing the rules.

### National Taxation Seminar

The Institute organized National Seminar On "Tax Reforms & CMAs" on 7thApril 2014 at Kolkata. Dr. Parthasarthi Shome, Adviser to Finance Minister, Govt. of India was the Chief Guest while Shri Karan Sharma, Settlement Commissioner, CBEC and Dr. R.N. Dash, Former Director General (International Taxation), Member, Appellate Tribunal for Prevention of Money Laundering, Ministry of Finance were the Guests of Honor in the Seminar. There were two sessions on Direct taxes and Indirect Taxes respectively. The seminar was well attended.

### MoU with the Kolkata University

At the initiative of Prof. Suranjan Das, Vice Chancellor, University of Kolkata, necessary steps are being taken to have an MoU with the University for conducting study and research on Social Accounting and Audit for the benefit of the stakeholders.

### National Award for Excellence in Cost Management – 2013

The Jury under the Chairmanship of Hon'ble Justice Dr. Arijit Pasayat in its meeting dated 22nd April, 2014 has finalized the Award Winners of the 11thNational Award for Excellence in Cost Management – 2013.

### Cost Management Practices in the port sector

I had the opportunity to meet Shri A Janardhana Rao, Managing Director, Indian Ports Association along with Vice President and discussed on studies of Cost Management Practices in the port sector. The study of Kolkata and Haldia port has been taken up by the Institute as a Pilot Project. It was agreed to conduct One Day Seminar on Cost and Management practices in association with Indian Ports Association in June, 2014 at New Delhi.

### Meeting with CMD and Director (Finance), HAL

I along with Vice-President, Chairman SIRC and Bangalore Chapter had the opportunity to meet Dr. R.K. Tyagi, Chairman and Dr. A.K. Mishra, Director (Finance), Hindustan Aeronautics Ltd and discussed on different areas where the Institute can provide expert services to HAL. The Chairman, HAL agreed to provide a Chair at ICAI – Hyderabad Centre of Excellence for conducting research relating to defence production.

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

The diploma course in Information Systems Audit and Control (IS Audit and Control) has started in the first week of April 2014 with twenty four participants and three classes have been conducted as per schedule. The last date for registration for the second batch of the Diploma Programme on IS Audit and Control has been fixed as 20thMay 2014. The Directorate has announced two more diploma programmes viz. Diploma in Business Valuation and Diploma in Internal Audit. For details of these diploma courses please visit the website of the Institute.

### CMA Committee

I am glad to inform you that the Cost & Management Accounting Committee of the Institute organized a meeting of the Expert Group constituted under the Chairmanship of Shri S Jayaraman, Former Member of CERC, with the Chairman, Gujarat Electricity Regulatory Commission (GERC) Shri Pravinbhai Patel and Dr. MK Iyer, Member Finance, GERC at Ahmedabad on 9th April 2014. The GERC organized an Interactive Session with all the Heads of utilities in the State, regarding the "Cost to Serve Model" for power distribution cost, which is a key component of Power Sector reforms for the nation. The meeting was a great success and all the Utilities who participated in the meeting agreed to provide inputs on Generation, Transmission and Distribution factors for the "Cost to Serve Model". The Expert Group is planning is to organize similar meeting in other states to arrive at a model template.

## CPD Programmes

During the month, a webinar was organized on 'Cost Reduction through Process Improvement – A Case Study of Financial BPO'. The session was well received by a large number of CMAs. I am proud to inform that during the month our Regional Councils and Chapters actively organized many programmes, seminars and discussions for the members on the topics of professional relevance such as Internal Audit, Companies Act 2013 – Scope for CMAs, Energy Audit, Challenges of Implementing CSR Under the Companies Act 2013, Service Tax and Excel as an Audit Tool, Recent Trends in Financial Management Including Companies Act, 2013, Discussion on Rules on Companies Act 2013 issued by Ministry of Corporate Affairs (MCA), Indian Taxation System – Its Impact on Economy & Industrial Growth, Low Cost Farming – A Biomanure Experiment, Discussion on Exposure Draft on CAS-22 and so on. Further, Regional Councils & Chapters are requested to focus on updating members on the new Companies Act 2013 and the changes taken place in Direct Tax and Indirect Tax.

## Directorate of Studies

From 1stApril, 2014, Directorate of Studies has introduced exemption from Communication and Soft Skill Training for the students pursuing Intermediate Course on the basis of following parameters:

(a) holding Masters Degree (other than in performing arts) or Engineering or passed finalists from the Institute of Company Secretaries of India/ Institute of Chartered Accountants of India / Actuaries / Registered Valuers; and

(b) having a work experience of not less than three years in any Government or Public or Private sector or University or College or Academic Institution (Recognised by AICTE or UGC).

## Examination Directorate

Examination Directorate conducted Foundation online mode of Examination on 6th April 2014 at 76 centres across the country. The results of the same were declared on 16th April 2014. The 3rd Annual National Students' Convocation of the Institute was held on 8thApril 2014 at Science City Auditorium at Kolkata. Shri MK Narayanan, Honorable Governor of West Bengal was the Chief Guest in the event. Prof. Suranjan Das, Vice Chancellor of Calcutta University, Dr. Parthasarathi Shome, Advisor to Finance Minister, Government of India and Padma Bhushan CMA (Dr.) M.B. Athreya were Guests of Honor. A total of 388 Rank holders and Prize winners of December 2012 and June 2013 examinations were invited to attend the National Students' Convocation 2014. A motivational Session for the students was also organized where CMA Pawan Ruia, CMD, Dunlop India Ltd., CMA DD Purkayastha, MD & CEO, ABP Pvt. Ltd., Shri D Bandyopadhyay, ROC and CMA Milan Sandhukhan, CFO, Linde India Ltd. addressed the students

## ICWAI MARF Programmes

During the month of March 2014, a programme for the Nepal Telecom Company, Kathmandu, Nepal was organized on the topic 'Human Resource Development' during 24 - 31 March 2014 at Delhi/ NCR. The programme was well appreciated by the participants.

## International Affairs

The next SAFA events are scheduled to be held at Islamabad, Pakistan during 2-4 May 2014 which will be attended by the Institute representatives. The next CAPA Events are schedule to be held at Colombo, Sri Lanka during 19-23rd May 2014. The Institute representatives will be attending the same.

## Membership Department

The soft copy of the database of the members' profile containing relevant details of the members like the sector/industry where the member is employed, area of specialization, details of training undergone by the member, co-curricular activities undertaken and the like has been uploaded on the Institute website under 'Updates for Members' for the members to download and fill in the same. The same can be viewed by visiting the link www.cmaicmai.in/external/Home.aspx. The members are requested to visit the link, download the form, fill and send the same to the Membership Department. I am happy to share with you that during the month 342 members have been admitted to the Associateship and 79 members have been advanced to the Fellowship of the Institute. Also, 13 members of IMA, USA and 05 members of IPA, Australia have been admitted to the Associateship of the Institute.

## Placement Directorate

As you are aware, the Institute has been assisting the final qualified students in finding their future career through campus placement programmeme. For December 2013 final qualified students, the Institute has so far organized campus placement programmeme in 4 locations and 30 companies have participated in this process and selected around 180 candidates. This programmeme will take place in 5 more locations. For the first time, campus placement programmeme for the experienced CMAs is being organised in Delhi on 30th April, 2014.

## Research, Innovation and Journal Directorate

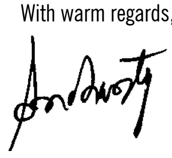
The Directorate of Research, Innovation and Journal has taken up the initiative to contact and build up relationship with the reputed Universities so that members of the Institute can avail Ph.D registration and in undertaking collaborative research activities. CMA Manas Kumar Thakur, Chairman, Research, Innovation & Journal Committee met Professor (Dr.) TB Subba, Vice Chancellor of Sikkim University on 28thApril 2014 at Sikkim. The major points of discussion were on Ph.D registration for the members, Institute to be recognized as the authorized Research Centre of the University, Collaborative research and publications, Joint Seminars, workshops etc. A similar kind of discussion has also been initiated with Prof. Subhrangshu Sekhar Sarkar, Dean, School of Management Sciences, Tezpur University, Assam.

## Technical Directorate

I am happy to inform that Cost Accounting Standards on Royalty and Technical Know-how Fee (CAS-20) and Quality Control (CAS-21) and Annexure 1 of the Appendix to the Cost Accounting Standard -4 (CAS 4) have been approved by the Council of the Institute and hosted on the website of the Institute. The Cost Accounting Standards Board in its meeting dated 23rd April, 2014 has finalized the Cost Accounting Standards – 22 on "Manufacturing Cost". In its quest to develop the regional cooperation amongst the SAARC Countries, the Institute, on the request from CMA Srilanka has nominated CMA S.R. Bhargave, Council Member as Coordinator and Dr. Asish K. Bhattacharyya, Chairman Advance Studies Board as Technical Expert to provide necessary support in developing Cost Accounting Rules and Cost Accounting Standards for Srilanka.

I wish prosperity and happiness to the students, members and their family on the occasion of May Day, Rabindra Jayanti, Hazrat Ali Birthday and Budh Purnima.

With warm regards,



**(CMA Suresh Chandra Mohanty)**
1st May 2014

the MANAGEMENT ACCOUNTANT
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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 |
|---|---|---|
| June 2014 | Ethics of Accountants | • Standards in Professional Conduct<br>• Financial fraud prevention tools and procedures<br>• Financial Literacy and Ethics<br>• Accounting Scandals and Ethics<br>• Corporate Governance and Professional Ethics<br>• Competition and Ethics<br>• Legitimate Conduct vs. Ethical Conduct<br>• Code of Ethics for Professional Accountants |
| July 2014 | Government Accounting and Role of CMAs | • Government Accounting Processes and System<br>• Traditional methods Vs. Modern methods of government accounting.<br>• Government accounting and financial reporting<br>• Gap analysis of government accounting based on accounting standards<br>• Ethical considerations in government accounting<br>• The constitutional and financial responsibilities of principal government officers<br>• Professional opportunities for Cost and Management Accountants in government accounting |
| August 2014 | Cost Accounting Standards and its Economic implications | • Mandatory Cost Accounting Standards and CASB<br>• CAS – a must for cost competitiveness<br>• CAS in manufacturing, mining and service sector<br>• Companies Act 2013 and CAS<br>• Challenges in implementing CAS – case studies<br>• Areas where new CASs can be formed / implemented |
| September 2014 | Forensic Accounting (FA) & Audit | • Definition, objectives and techniques<br>• FA in comparison to other accounting parameters<br>• FA – applicability and consequence in today's economy<br>• FA and Performance Evaluation<br>• Fraud Risk Management Strategy<br>• FA - an application of Techno-Management Accounting<br>• Fraud Triangle and examination |

**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**
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# ICAI-CMA SNAPSHOTS

## Glimpses of National Students' Convocation - 2014




# ICAI-CMA SNAPSHOTS


**1.** CMA Amit A. Apte, Council Member & Chairman, CAT, inaugurates the Training of Trainers Programme for the faculty members of CAT-ASAP at Kozhikode on 25 March 2014. Others present were CMA TCA Srinivasa Prasad, Council Member, CMA H. Padmanabhan, Vice Chairman of SIRC and Shri Madhusudhanan C., Head of Quality Control, ASAP Mission of Government of Kerala.

**2.** Programme arranged by Corporate and Allied Laws Committee of the Institute in association with Hyderabad chapter on 'Companies Act 2013, Directors' Role and Responsibilities - Cost and Management Accountant' under the chairmanship of CMA Dr. P.V.S. Jagan Mohan Rao, Council Member. Other Council Members present were CMA M. Gopalakrishnan, CMA Aruna Soman, CMA Amit A. Apte, and CMA Manas Kr. Thakur.

**3.** Five day seminar on 'Service Tax - ABC to Proficiency' held in Hyderabad. From left are CMA Vijay Kiran Agastya Secretary HCCA, CMA D.L.S. Sreshti Council Member of the Institute, CMA B. L. Kumar, Chairman HCCA, Mr. B.B. Prasad, Chief Commissioner of Central Excise, Customs & Service Tax, CMA Manas Kr. Thakur and CMA Dr. P.V.S. Jagan Mohan Rao, Council Members of the Institute.

**4.** CMA Dr. Athreya receiving the Padma Bhushan medal and scroll from the Hon'ble President of India, Shri Pranab Mukherjee, in the Investiture Ceremony, at the Rashtrapati Bhavan, on 26 April 2014.

**5.** CMA SC Mohanty, President of the Institute cutting the red tape for inaugurating the Library Hall of the Institute's Asansol Chapter.

# LETTERS

My first impressions of *The Managment Accountant:* Congratulations to the Research & Journal team for the wonderful job they have done. Not only is the design great, I thought I was looking at some international magazine. The contents are also of very high quality. It gives all the information that we require. The same is true of the e-bulletin.

Keep it up. Wishing you all the best.

**CMA Prakash Sevekari**

I liked the e-version of the journal. It is quite attractive. It is better to circulate the e-magazine because it will cut down circulation cost and also remain eco-friendly.

**CMA Asit Kumar Ganguly**

## 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**

### Attention Members

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

### Articles invited

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*

### NOTIFICATION

In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) of Clause (c) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the names of the members vide Notification No. 16-CWR (21825-23547)/2014dated 30th January 2014 for non-payment of prescribed fees the details of which are uploaded on the Institute website www.icmai.in

### Attention please!

We are in the process of updating certain details relating to your membership profile. Requesting you to kindly spare your precious time to fill in the details in the prescribed proforma which is uploaded under 'Members' section on the Institute website www.icmai.in

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# ECONOMY UPDATES

## Income Tax

**• Mandatory e-filing for firms, political parties and trusts giving notice of accumulation of income –**
Income-Tax (Fourth Amendment) Rules, 2014 - Amendment in Rule 12 & Substitution of Forms SAHAJ (ITR-1), ITR-2, SUGAM (ITR-4S) AND ITR-V vide Notification *No.24/2014[F. NO.142/2/2014-TPL] /SO 997(E), dated: 1-4-2014.*
*For details please visit: http://incometaxindia.gov.in > Notification No.24/2014, dated: 1-4-2014.*

**• Clarification regarding treatment of expenditure incurred for development of roads/ highways in BOT agreements under Income – tax Act, 1961**
CBDT u/s 119 of Income – tax Act, 1961 hereby clarifies that the cost of construction on development of infrastructure facility of roads/highways under BOT projects may be amortized and claimed as allowable business expenditure under the Act. The amortization allowable may be computed at the rate which ensures that the whole of the cost incurred in creation of infrastructural facility or road/ highway is amortized evenly over the period of concessionaire agreement after excluding the time taken for creation of such facility. In the case where an assessee has claimed any deduction out of initial cost of development of infrastructure facility of roads/ highways under BOT projects in earlier years, the total deduction so claimed for the Assessment years prior to the Assessment year under consideration may be deducted from the initial cost of infrastructure facility of roads/ highways and the cost's so reduced shall be amortized equally over the remaining period of toll concessionaire agreement.
*Source: Circular No. 09/2014, dated: 23rd April, 2014*

## CUSTOMS

**• Tariff Value in respect of some of the imported goods** – As per Notification 31/2014-Cus (NT), dated: 15-04-2014 CBEC amends principal notification no. 36/2001-Customs (N.T.), dated: 3rd August, 2001 (last amendment vide Notification No. 25/2014-Customs (N.T.), dated: 31st March, 2014) and fixes the tariff values specified in column (4) of the Table below, in respect of the im¬ported goods of the description specified in the corresponding entry in column (3) of the said Table and falling under Chapter or heading or sub-heading No. of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975).

**TABLE – 1**

| Sl. No. | Chapter/ heading/ sub-heading/tariff item | Description of goods | Tariff value US $ |
|---|---|---|---|
| 1 | 1511 10 00 | Crude Palm Oil | 935 |
| 2 | 1511 90 10 | RBD Palm Oil | 964 |
| 3 | 1511 90 90 | Others – Palm Oil | 950 |
| 4 | 1511 10 00 | Crude Palmolein | 979 |
| 5 | 1511 90 20 | RBD Palmolein | 982 |
| 6 | 1511 90 90 | Others – Palmolein | 981 |
| 7 | 1507 10 00 | Crude Soyabean Oil | 961 |
| 8 | 7404 00 22 | Brass Scrap (all grades) | 3893 |
| 9 | 1207 91 00 | Poppy seeds | 3473 |

**TABLE – 2**

| Sl. No. | Chapter/ heading/ sub-heading/tariff item | Description of goods | Tariff value (US $) |
|---|---|---|---|
| 1 | 71 or 98 | Gold, in any form, in respect of which the benefit of entries at serial number 321 and 323 of the Notification No. 12/2012-Customs dated 17.03.2012 is availed | 431 per 10 grams |
| 2 | 71 or 98 | Silver, in any form, in respect of which the benefit of entries at serial number 322 and 324 of the Notification No. 12/2012-Customs dated 17.03.2012 is availed | 646 per kilogram |

**TABLE – 3**

| Sl. No. | Chapter/ heading/ sub-heading/tariff item | Description of goods | Tariff value (US $ Per Metric Tons ) |
|---|---|---|---|
| 1 | 080280 | Areca nuts | 1908 |

**• Anti Dumping duty** - Levy of provisional anti-dumping duty on imports of cast aluminium alloy wheels or alloy road wheels used in motor vehicles when imported into India from People's Republic of China, Korea RP and Thailand for a period of 6 months vide Notification 15/2014-Cus (ADD), dated: 11-04-2014.

## SEBI

**• Revision of guidelines for Liquidity Enhancement Scheme in the Equity Cash and Equity Derivatives Segments** vide *Circular CIR/MRD/DP/14/2014 dated: April 23, 2014.* For details please visit - www.sebi.gov.in > Circulars.

**• Corporate Governance in listed entities** - Amendments to Clauses 35 B and 49 of the Equity Listing Agreement vide Circular - CIR/ MRD/DP/14/2014, dated: April 23, 2014.

**• Establishment of Connectivity with both depositories NSDL and CDSL – Companies eligible for shifting from Trade for Trade Settlement (TFTS) to**

**Normal Rolling Settlement** -
The stock exchanges may consider shifting the trading in these securities to normal Rolling Settlement subject to conditions that at least 50% of other than promoter holdings as per clause 35 of Listing Agreement are in dematerialized mode before shifting the trading in the securities of the company from TFTS to normal Rolling Settlement. For this purpose, the listed companies shall obtain a certificate from its Registrar and Transfer Agent (RTA) and submit the same to the stock exchange/s. However, if an issuer-company does not have a separate RTA, it may obtain a certificate in this regard from a practicing company Secretary/Chartered Accountant and submit the same to the stock exchange/s. There are no other grounds/reasons for continuation of the trading in TFTS.
*Source: Circular - CIR/MRD/DP/ 13 /2014 April 15, 2014*

**• Change in investment conditions / restrictions for FII/QFI investments in government debt securities**
FIIs/QFIs shall henceforth be permitted to invest only in dated government securities having residual maturity of one year or above. Existing FII/QFI investments in T-Bills shall be allowed to taper off on maturity/sale. No further purchases in T-Bills shall be permitted. The investment limits vacated at the shorter end shall be available at longer maturities. The overall Government Debt investment limit for FIIs/QFIs shall remain unchanged at US$ 30 billion.
Accordingly the FII/QFI debt investment limits are shown in the table below.

| Sl. No. | Type of Instrument | Cap (USD bn) | Cap (INR Crore) | Remarks |
|---|---|---|---|---|
| 1 | Government Debt | 20 | 99,546 | Available on demand. Eligible investors may invest only in dated securities of residual maturity of one year and above, and existing investment in Treasury Bills will be allowed to taper off on maturity/sale |
| 2 | Government Debt | 10 | 54,023 | Available on demand for FIIs registered with SEBI as Sovereign Wealth Funds, Multilateral Agencies, Endowment funds, Insurance Funds, Pension Funds and Foreign Central Banks. Eligible investors may invest only in dated securities of residual maturity of one year and above. |
| 3 | Corporate Debt | 51 | 244,323 | Available on demand. Eligible investors may invest in Commercial Papers only up to US$ 2 billion within the limit of US$ 51 billion |
| | **Total** | **81** | **397,892** | |
| *Source: Circular - CIR/IMD/FIIC/8/2014, dated: April 07, 20* | | | | |

**• Disclosures pertaining to assets under management**
SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014 captioned 'Enhancing disclosures, investor education & awareness campaign, developing alternative distribution channels for Mutual Fund products, etc'.
It has been decided that, in Para A of the aforementioned circular, the term 'Asset under Management (AUM)' shall be read as 'Monthly Average Asset under Management (Monthly AAUM)'. Accordingly, data to be disclosed as per the format at annexure A1 and A2 of the aforesaid circular shall be Monthly AAUM instead of AUM.
*Source: Circular - CIR/IMD/DF/07/2014, dated: April 2, 2014*

## BANKING

**• Term Repo under Liquidity Adjustment Facility**
As announced in the First Bi-monthly Monetary Policy Statement 2014-15, it has been decided to increase the quantum of liquidity provided under 7-day and 14-day term repos from 0.5 per cent of net demand and time liabilities (NDTL) of the banking system to 0.75 per cent with immediate effect.
*Source: RBI/2013-2014/550 (FMD.MOAG. No.101/01.01.009/2013-14) dated: Apr 01, 2014*

**• Liquidity Adjustment Facility**
As announced today in the First Bi-monthly Monetary Policy Statement 2014-15, it has been decided to decrease the quantum of liquidity provided under overnight repos under the Liquidity Adjustment Facility (LAF) from 0.5 per cent of bank-wise NDTL to 0.25 per cent with immediate effect.
*Source: RBI/2013-2014/549 (FMD.MOAG. No. 100/01.01.001/2013-14) dated: Apr 01, 2014*

**• Foreign Exchange Management Act, 1999 (FEMA) Foreign Exchange (Compounding Proceedings) Rules, 2000 (the Rules) - Compounding of Contraventions under FEMA, 1999**
In reference to the circular UBD.BPD (PCB) Cir. No.19/14.01.062/2012-13 dated October 15, 2012 on 'Uploading of Reports in 'Test Mode' on FINnet Gateway' UCBs were advised to upload reports as required by FIU-IND using only FINnet gateway. With the amendments to Prevention of Money Laundering (PML) Rules, notified by the Government of India vide Notification No. 12 of 2013 dated August 27, 2013 and in terms of amended Rule 3, every reporting entity is required to maintain a record of all transactions including the record of all cross border wire transfers of more than Rs. 5 lakh or its equivalent in foreign currency, where the place of either origin or destination of the fund is in India. FIU-IND has advised that the information of all such transactions may be furnished to Director, FIU-IND by 15th of the succeeding month.
*Source: RBI/2013-14/555 (UBD.BPD (PCB) Cir. No. 54/14.01.062/2013-14) dated: Apr 07, 2014*

**• Risk Management & Inter-Bank Dealings: Booking of Forward Contracts – Liberalization**
It has been proposed to allow all resident individuals, firms and companies with actual foreign exchange exposures to book foreign exchange derivative contracts up to US$ 250,000 on declaration, subject to certain conditions.
*Source: RBI/2013-14/557, A.P. (DIR Series) Circular No. 119 dated: Apr 07, 2014*

**• Rupee Drawing Arrangement – 'Direct to Account' Facility**
In order to facilitate receipt of foreign inward remittances directly into bank accounts of the beneficiaries, it has been decided to allow foreign inward remittances received under Rupee Drawing Arrangement (RDA) to be transferred to the KYC compliant beneficiary bank accounts through electronic mode, such as, NEFT, IMPS, etc.
*Source: RBI/2013-14/559, A.P. (DIR Series) Circular No.120, dated: Apr 10, 2014*

# ECONOMY UPDATES

**• Trade Credits for Imports into India – Review of all-in-cost ceiling**
It has been decided that the all-in-cost ceiling as specified under paragraph 4 of A.P. (DIR Series) Circular No.28 dated September 11, 2012 will continue to be applicable till June 30, 2014
*Source: RBI/2013-14/561, A.P. (DIR Series) Circular No.122, dated: Apr 10, 2014*

**• Differential Rate of Interest for Micro and Small Enterprises (MSEs)**
In reference to part 'B' of the First Bi-monthly Monetary Policy Statement, 2014-15 announced on April 1, 2014 certain measures have been proposed to be adopted by banks in order to give a fillip to the flow of credit to micro and small enterprises (MSEs) borrowers. In this regard it is advised that while pricing the loans to MSE borrowers, banks should take into account the incentives available to them in the form of the credit guarantee cover of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the zero risk weight for capital adequacy purpose for the portion of the loan guaranteed by the CGTMSE and provide differential interest rate for such MSE borrowers, than the other borrowers. However, banks should note that such differential rate of interest is not below the Base Rate of the bank.

Further, banks are advised to undertake a review of their loan policy governing extension of credit facilities to the MSE sector, with a view to using Board approved credit scoring models in their evaluation of the loan proposals of MSE borrowers.
*Source: RBI/2013-14/564 (DBOD.Dir. BC.No.106/13.03.00/2013-14) dated: Apr 15, 2014*

**• Reporting of information / data relating to Cash and Suspicious Transactions to the Director, Financial Intelligence Unit-India (FIU-IND)**
NBFCs are required to report information / data relating to Cash and Suspicious Transactions to the Director, Financial Intelligence Unit-India (FIU-IND) on the FIN net Gateway in Test Mode to test their ability to upload the reports electronically till the time NBFCs are informed about 'go-live' of the project. The project has since gone 'live' and henceforth NBFCs may discontinue submission of reports in CD, using only FIN net gateway for uploading of reports in the new XML reporting format. Any report in CD will not be treated as a valid submission by FIU-IND.
*Source: RBI/2013-14/569 [DNBS (PD).CC. No.375 /03.10.42 /2013-14] dated: Apr 22, 2014*

**• Uniform Accounting Standards at ARCs**
Pursuant to the recommendations of the Key Advisory Group (KAG) constituted by the Government of India on the Asset Reconstruction Companies (ARCs), Reserve Bank of India advises the guidelines on uniform accounting standard for ARCs as under:
a. Acquisition cost (Pre and post acquisition)
b. Revenue Recognition
c. Valuation of Security Receipts (SRs)
d. Applicability of 'Operating Cycle Concept' under Schedule VI
*Source: RBI/2013-14/571 [DNBS (PD) CC. No. 38/SCRC/26.03.001/2013-14] dated: Apr 23, 2014*

## INDIAN ECONOMY NEWS

**• S&P: India ratings to depend on next govt's policies**
Standard and Poor's may upgrade India's outlook if the government that is elected next month addresses some of the country's fiscal and economic challenges through steps such as passing a goods and services tax.
Source: Reuters, dt: April 17, 2014

**• A star abroad, RBI boss riles bond traders at home**
Since taking the helm of the Reserve Bank of India, Raghuram Rajan's agenda to reform markets has put the noses of Mumbai bond traders firmly out of joint by upending practices that provided them with a relatively secure rate of return.
*Source: Reuters, dt: April 17, 2014*

**• Bonds rally; RBI raises $3.3 billion in record auction**
Government bonds jumped on Thursday, recovering from two sessions of falls, after the RBI fully sold the 200 billion rupees ($3.31 billion) worth of debt on offer, accomplishing the country's biggest-ever auction.
*Source: Reuters, dt: April 17, 2014*

**• Food prices push inflation up, limit RBI's room to act**
Rising food prices drove inflation in India up more than expected in March, reversing a slowdown and leaving the RBI with less room to support the economy amid fresh signs of slowing growth.
*Source: Reuters, dt: April 15, 2014*

**• March core inflation seen at around 7.9 percent - analysts**
India's core consumer prices were estimated to have risen around 7.9 percent in March from a year earlier, unchanged from a 7.9 percent rise in February, according to a Reuters snap survey of three dealers and economists.
*Source: Reuters, dt: April 15, 2014*

**• March consumer price inflation quickens to 8.31 percent**
India's annual consumer price inflation in March quickened to 8.31 percent, driven by higher food prices, government data showed on Tuesday.
*Source: Reuters, dt: 15 Apr 2014*

**• Domestic fund managers start to bet on own economy - Reuters poll**
India-based fund managers are growing more confident in the domestic economy and plan to raise allocations to auto makers and private sector lenders, betting that no change to interest rates will underpin an economic recovery, a Reuters poll showed.
*Source: Reuters, dt: 15 Apr 2014*

**• India's policy reforms to affect sovereign ratings - S&P**
The direction and pace of policy reforms in India, more than which political party takes control after elections, will have a bearing on the sovereign rating, said Standard and Poor's rating agency on Tuesday.
*Source: Reuters, dt: 15 Apr 2014*

**• March WPI inflation hits three-month high of 5.70 pct**
India's wholesale prices-based inflation accelerated to a three-month high of 5.70 percent in March, driven up by increases in food and fuel costs.
*Source: Reuters, dt: 15 Apr 2014*

**• Shock fall in industry output, exports deepen economic gloom**
India's economic gloom deepened on 11th April,14 with a surprise contraction in industrial output, a fall in exports and a jump in the trade deficit, underscoring the enormity of challenges awaiting a new government that takes over in May.
*Source: Reuters, dt: 11 Apr 2014*

**• Industrial output shrinks 1.9 percent in Feb - govt**
Industrial production unexpectedly shrank 1.9 percent year-on-year in February, government data showed on 11th April, 14.
*Source: Reuters, dt: 11 Apr 2014*

**• Consumer inflation rate forecast to edge up in March**
India's consumer inflation rate is forecast to have edged up slightly in March due to higher food prices, and factory output in February is expected to have risen at its fastest annual pace in five months.
*Source: Reuters, dt: 10 Apr 2014*

**• Forex reserves post highest weekly rise in four months**

India's foreign exchange reserves surged $5.04 billion in the week ending March 28, its biggest weekly rise in four months, as the Reserve Bank of India (RBI) started to buy dollars regularly in an effort to build up its defences against any potential global turmoil.
*Source: Reuters, dt: 04 Apr 2014*

**• Post-election showdown looms for Raghuram Rajan**
India's high-profile RBI governor is likely to come under political pressure to retreat from his hawkish stance on inflation if opposition leader Narendra Modi wins power in the general election.
*Source: Reuters, dt: 04 Apr 2014*

**• Factory expansion eased in March poll** - Indian manufacturing activity grew at a slower pace in March as weaker domestic demand dragged on output growth, a business survey showed on 1st April, 14. The HSBC Manufacturing Purchasing Managers' Index (PMI), which gauges business activity in Indian factories but not its utilities, fell to 51.3 in March after surging to a one-year high of 52.5 in February. Foreign orders came in at their fastest pace in almost three years but the overall new orders index - which measures both domestic and foreign demand - fell to 52.7 in March from 54.9. That pushed the output index down to its lowest level this year, although at 52.2 it was still comfortably above the 50 mark that divides growth from contraction. The momentum in the manufacturing sector eased on the back of a slowdown in order flows and raw material shortages.
*Source: Reuters, dt: 01 Apr 2014*

**• RBI chief says current policy rate appropriately set**
The Reserve Bank of India should not be in the business of bailing out banks by infusing cash to make up for year-end distortions and the current policy rate has been appropriately set, the central bank chief said post the policy review on Tuesday.
*Source: Reuters, dt: 01 Apr 2014*

**• Election Commission allows RBI to announce new bank licences**
The Election Commission on Tuesday allowed the Reserve Bank of India (RBI) to announce new bank licences even ahead of general elections set to conclude next month, according to a notice in the commission's website.
*Source; Reuters, dt: 01 Apr 2014*

***(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA E-Bulletin, May 2014, Vol 2, No. 5, in the 'Research and Publications' section.)***

# 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**<br>(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**<br>(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]**

# COST OF PRODUCTION AND COMPETITIVENESS

The strategic absence of public services in several areas (and presence in perhaps the wrong sectors) may not be conducive to competitive conditions, particularly when the private companies transfer large rents to regulators in our country and slowly capture the market beyond recuperation

**Dr. Saibal Kar**
Centre for Studies in Social Sciences, Calcutta and IZA, Bonn, Germany

The cost of production as the mainstay in the subject of cost accounting is also the most important pillar of the economics of production. Historically speaking, economics as a subject evolved from the very basic tenets applicable to accounting principles, of which calculation of total cost incurred for the production of certain amounts of goods and services held the centre stage. The dual of cost minimization is profit maximization, and either of these objectives serves the optimization plan just as well for a firm, albeit with different implications. The cost

of production at the firm level and further aggregated to the level of respective industries is an accumulation of costs arising from the use of land, labor, capital and entrepreneurial activities. The firms choose to maximise the profit earned from the sale of commodities and services produced at every point in time. In its simplest form the profit is the difference between the revenue earned and the cost incurred at the aggregate or per unit of output. This suggests that unless the firm in question has a strong control over the market and can choose a high price for itself, the only instrument of adjustment it is left with is the choice of inputs and more generally, the cost function.

In light of the same argument, the concerned reader would certainly figure out a lack of flexibility or manoeuvrability for firms that operate strictly within the remit of 'competitive' markets. The perfectly competitive market, quite contrary to what the name suggests, offers very little scope for inter-firm competition whether in terms of selling prices or determining profit maximising output at the firm level.

Perfect competition, in fact, turns out to be absence of competition in the market, where every producer takes prices as given at both ends of the chain, outputs and inputs. Since nobody makes prices in this market, and buyers cannot affect the supply price either, the price level prevailing in the aggregate for that commodity subsequently determines competitiveness even across national boundaries.

I will elaborate on this point in terms of the famous Ricardian (David Ricardo – an English economist of the 19th century credited with as much parenthood of the subject as Adam Smith) example on international trade in wine and cloth between England and Portugal. In terms of basic calculations of the cost of production of wine and cloth, both produced under competitive market conditions, it turned out at the time of David Ricardo that England made garments at a much cheaper price compared to that of Portugal. The trading partner on the other hand produced wine (the quality question was not part of the discussion yet; product varieties and monopolistic competition were of much later vintage in the history of evolution of the subject of economics) at a cheaper price compared to England. This gave birth to the celebrated theory of comparative cost advantage in the sphere of international economics. The theory improved upon the absolute cost advantage criterion used by Adam Smith to discuss the direction of international trade. According to Smith, a country that faces a lower cost of production in an absolute sense over the cost of production of the same good in the other country turns out to be the exporter of the good, whereas the high cost country becomes the importer (and perhaps exporter of some other good which it produces at an absolute lower cost). But this comparison has to be in an absolute sense – country A has to be absolutely better than country B in the production of a particular good. In other words, country A must have an absolute cost advantage over country B with regard to cost of production of say, cloth, in case of England. The problem with this argument is that if a country is better than the other for all products, then sustaining bilateral trade would be rather difficult.

**Perfect competition, in fact, turns out to be absence of competition in the market, where every producer takes prices as given at both ends of the chain, outputs and inputs**

In a two country world if goods exchange for goods and if country B is cost inefficient in producing all the commodities, what would it sell to the better country A? Assuming that country B cannot pay with anything else, such as a stock of gold, silver or uranium to country A, then it must earn by selling goods to A, which is ruled out owing to cost inefficiency. The only solution perhaps is to pay with the help of a huge budget surplus in country B an outcome of high revenue and low internal expenditure. The cost inefficiency, interestingly, can be an endogenous outcome of stringent cost control on infrastructure and other facilities that affect productive efficiency positively. High tax rates on the other hand raise cost of production and make it unviable over a large range of commodity prices. Whichever it is, the condition is far from rosy and once the cost competitiveness slips out of the hands of the production units and for the country in an aggregative sense, it is very difficult to restore it without the help of some path breaking technological innovations.

An important aspect of the development paradigm for markets actually rests on this argument and both in terms of the variety of output and trade in goods, Paul Krugman attributed the patterns to scientific innovations and research and development. The seminal contribution, which eventually won Krugman a Nobel Prize in Economics, showed that it is possible for very similar countries to engage in trade if the commodity has several varieties produced according to Chamberlain's (and later Avinash Dixit's and Joseph Stiglitz's) monopolistic production function. This is also the reason why UK and France currently trades in seventeen different varieties of cheese despite similarities in tastes and preferences. Each variety of cheese qualifies as an industry and competes with similar (but distinct) products in order to retain its market space. The advertisement in favour of eggs or chicken that one often comes across is an example, whereby an industry as a whole, and no firm independently, tries to stay competitive. These function, however, in typical competitive markets – can we tell the name of the 'brand' of eggs that we devour for breakfast along with equally unbranded bananas (well, some brand names such as the Chiquita Bananas are quite popular in the western countries)? But perhaps, we will be able to name the brand of the bread or the jam and with more certainty the monopoly butter company of India.

**Cost inefficiency, interestingly, can be an endogenous outcome of stringent cost control on infrastructure and other facilities that affect productive efficiency positively. High tax rates on the other hand raise cost of production and make it unviable over a large range of commodity prices**

Whether such products are competing with others or not, the cost calculations still remain the most important criteria leading to the production decision. Suppose the US made cars were switched into right hand drives and imported to India for a very low duty, wouldn't the automobile market be jeopardised in this country? For those who are aware of the price structure in the US market, at least for good used cars would certainly agree to this point. The exposure to international trade opens up newer dimensions with regard to cost competitiveness.

The monopolistically competitive trade would still be inadmissible in typical competitive cost models of David Ricardo. In comparison to what Adam Smith suggested, Ricardo proved that a country does not need to have absolute advantage for producing a basket of goods. All it needs to have is a relative cost advantage over the same basket of goods produced by its trading partner. Let me elaborate on this briefly. Suppose the only input used in the production of cloth and wine in both England and Portugal is labor. Now assume that the production of one meter of cloth requires two workers in England and four in Portugal. In contrast, suppose one cask of wine needs six workers in England and eight in Portugal. Clearly, England has absolute cost advantage in the production of both goods since the country uses less number of workers for producing one unit of each good. According to Smith, England should then produce and sell everything, leaving Portugal with no option to produce anything at all, but import both goods from England. According to Ricardo, that should not be the case. Both England and Portugal should calculate the cost of producing one unit of cloth vis-à-vis a cask of wine. From the above example, the labor share between cloth and wine is one-third in England and one-half in Portugal. Since 0.33 is less than 0.5, England should definitely produce and export cloth to Portugal and leave the production of wine to Portugal solely, despite clear competitive edge in production of wine also. This exemplifies a case of complete specialization of production across countries. The example could even reverse itself depending on other examples wherein England may still have relative cost competitiveness in the production of cloth compared to Portugal.

If it sounds puzzling that a country with absolute cost advantage refrains from producing all the goods, then a well known analogy with lawyers and secretaries can help. A lawyer certainly knows his subject but may also know how to type legal documents and he/she may not be particularly bad with typing. The secretary on the other hand would know typing for sure, but may also be aware of legal terminologies much more than an average citizen. It is further possible that the lawyer with a better level of human capital can type faster than the secretary; should he/she then fire the secretary and do everything alone? The answer is no. The lawyer despite being good at both should still leave the typing job to the secretary and focus only on the legal practice. The reason for this choice is simple – albeit the lawyer has a better typing skill compared to the secretary, his legal expertise is several times more than hers. Thus, by focusing more and more on the legal practise the lawyer actually displays a lot more productive efficiency. This productive efficiency is just the dual of cost efficiency and could even be constructed as the opportunity cost of legal practice. The opportunity cost, many would already recollect, provides the next best alternative to what an individual is currently engaged in and receives as a payoff. If the opportunity cost is very high, the person stops doing what he/she is doing at present and switches to the alternative without further delay. The opportunity cost may also be very low for people in various occupations. Supposing that the rural workers in India had several highly productive alternative occupations, then attracting them to NREGA would have been highly difficult. But in the absence of such alternatives, a poorly conceived public employment guarantee scheme may still be projected as the crowning glory of the ruling government. Minimization of cost and remaining competitive in the labor market is hardly ever an issue with regard to such public programmes made operational in poor countries. The assumption is that the opportunity cost of the large pool of unemployed or partially employed workers is usually zero. This may have a strong bearing on the subject of cost competitiveness in an economy drawing on such pool of workers. The large literature on outsourcing of production and off shoring (i.e., outsourcing beyond national borders) is a direct outcome of differential cost outlays. Both China and India over the last two decades have been the biggest beneficiaries of the modern trends in production and service outsourcing as part of the production fragmentation popularized globally by various types of firms.

The market for inputs is another important aspect that needs to be understood alongside a discussion of the cost competitiveness in product and factor markets. The public sector in developing countries is treated almost as a duty-free entity with no incentive to improve and no compulsion to limit costs and stay competitive. Various public sector undertakings in India are infamous for squandering resources with absolutely no regard either for the quality or the efficiency of the products and services. The enormous subsidy that goes towards maintenance of Air India, for example, is unparallel in the history of public sector companies. The government guarantees that Air India remains off the ground by mandating government officials to use this airline on official purposes (this is however, not too uncommon in other countries as well, except that many of those airlines record significantly better performance), and in a way acknowledging that the cost control is beyond the purview of the government. A similar example could be in the public telecommunication sector, where despite large investments and almost monopoly market power to begin with, poor managerial decisions and of course uncontrolled corruption has eaten away the rent and made way for private companies to barge in. The healthy competition is never a bad thing and the dual presence of public and private companies should be heralded as the purveyor of efficiency in the market for goods and services. However, the strategic absence of public services in several areas (and presence in perhaps the wrong sectors) may not be conducive to competitive conditions, particularly when the private companies transfer large rents to regulators in our country and slowly capture the market beyond recuperation. The cost efficiency and market competition – all of these are reduced to nothing unless such institutional poverty in developing countries is dispensed with. MA

**The public sector in developing countries is treated almost as a duty-free entity with no incentive to improve and no compulsion to limit costs and stay competitive**

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# PRICE AND COST COMPETITIVENESS

Competitive cost reduction by improving production methods through Research and Development will help any organization sustain growth

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Determining the price policy to be followed by a concern is a very important function which is closely allied to selling; it is important as it affects the earnings as also the successful functioning of any concern. It is not only important but also a difficult function because prices are not to be determined by consideration of a few independent known factors but after pondering over a very large no. of complex and inter-dependent factors, some of which may be even beyond exact physical measurement. It will be obviously futile to think of any price policy if there is perfect competition whereunder, price is determined by an inter action of supply of and demand for a product and no supplier has the power to modify, leave apart, fixing the price. Under perfect competition, the market is the birth place of prices and a supplier has to adjust his charges accordingly. Let us analyse in detail the major factors to be considered while setting the price of any product.

## Cost factor

It is a simple preposition that prices charged must be such as to cover total unit cost and even a reasonable profit. This cost is arrived at after taking into account both variable and fixed expenses. This factor will require that approximate adjustments be made in prices for different sales conditions. Strategic price setting in this case, involves lower costs for cash sales and large scale sales as compared to retail sales on credit basis. Similarly, prices of seasonal products are loaded with storage costs, interest on capital locked up in stock and loss due to deterioration.

The practice of pricing solely on the basis of costs plus a reasonable margin is most common for commodities under government control which is generally termed as cost plus pricing. So long as there is utilized plant capacity, this type of pricing will unduly restrict sales. To illustrate it, we may assume that a plant has been built with a capacity of production of one lakh units a month. Let us further suppose that the monthly fixed expenses are Rs 10 lakhs and the variable cost per unit is Rs 90. If , for reasons like new launch of the product, the demand is say for one lakh units, then the average total unit cost will be:

$$\text{Variable cost/unit} + \frac{\text{Total Fixed Expenses}}{\text{Output in units}}$$

i.e. Rs 90+Rs 10, 00,000/100000=Rs 100/=. If this high price is fixed, and if the concern is unable to sell anything, it has to suffer a loss of Rs 10 Lakhs, i.e. the amount of fixed expenses, which will continue to be incurred whether the production is carried on or not. It may therefore, be better for a concern to charge less than total unit cost to increase demand. It is wrongly supposed that a price less than the average total unit cost should not be charged as it results in loss. In fact, it may enable a concern to minimise its loss arising due to fixed expenses. If the price charged is slightly higher than the average variable cost, say Rs 95/, the concern may be able to recover at least {1 lakh x (95-90)} i.e. Rs 5 lakh, of the fixed expenses and reduce the loss from Rs 10 lakh to Rs 5 lakh.

However, such prices, in many cases, bear no relation to costs. For e.g., in case of patented medicines, prices have nothing to do with costs, as the buyers carry a feeling that the more they pay, the better the medicine. Thus, under this pricing strategy, the graveyard of business gets filled up with skeletons of companies which attempt to price their products solely on the basis of costs. Also, this strategy of prestige pricing does not ascertain the total cost easily and accurately. If a concern produces more than a product, like a sugar factory, the basis of allocation of common expenses to various products may be arbitrary and hence the pricing may not be related to true costs. Further, cost and price are variables which react upon one another. Prices may be fixed below the present average total unit cost in anticipation of increased turn over and consequent reduction of total unit cost in future. This may be done when the product is new or when the concern's monopoly or price leadership position is threatened.

## The demand factor

Any concern should attempt to find out its market composition, i.e.. whether commercial or domestic; if it is domestic, then the prospective customers and the class to which they belong; the motives which impel them to buy; what is the relative utility of the product to the buyer and so on. The value of service principle is seen as an important element in the strategy of pricing. The buyer is likely to place a high value upon a product which carries with it the facility of free servicing, thus enabling fixing of higher prices for it.

## Distribution channel

Pricing also entails the study of the length of the distribution channel selected for sales; the longer the channel, the higher the margin to be added to cost for price setting. Proper adjustments should also be made for rebates, concessions, or other price reductions allowed as an incentive for sales promotion.

Strategic price setting involves coordination of an organisation's policies regarding the product, its customers and other sales appeals. When the organisation is able to differentiate its products or services from those of its rivals, it may either charge a higher price than its competitors, or a comparable price by setting a superior quality to attract customers, or the cream of the market can be skimmed off by setting a higher price initially and lowering the same to competitive levels, later on. This decision may mainly depend on how much unit cost would drop, if the organisation decides to increase the sales volume or production. The organisation should also take into account the possibility of price reduction by its competitors' at this stage. A price war will cut into the profit margins in such situations. However, if the quality of the goods is indeterminate and the price schedules cannot be easily compared by the customers, the competitors reaction may be slower.

## Cost competitiveness

Cost competitiveness comes into picture as no sales manager can afford to ignore the prices charged by his competitors. While a higher price than that charged by his competitor will wean customers away, a lower one may create suspicion in the minds of the customers about the quality of the product and may adversely affect the sales. When there is keen competition, a higher price may be charged along with product differentiation.

Cost competitiveness is also achieved by estimating the volume of sales at different prices and the combined effect of changes in price, volume and the cost on the total net profit, taking into account the elasticity of demand and availability of substitutes in general, and the competitors reaction in particular.

When a company deals with more than one product, a strategic price setting involves formulation of a pricing policy which establishes some relationships among the prices of different grades of products; preferably, to carry only one or two styles of a product at each price level. For e.g., a product of an economy brand without fancy features and a deluxe brand may be introduced to sustain the price competitiveness.

Sustenance is also ensured through a sophisticated way of charging different prices from different categories of customers through grant of discounts to a certain class on the list prices. This class of customers may be bulk customers (e.g., Govt.) or customers whose patronage is important. This strategy of dual pricing or discriminatory pricing is better seen in Railways. For the same distance of travel, the services are sold to passengers at different prices under different classes. Price concessions may also be allowed during slack periods to sustain the growth. Another measure of sustainable growth is the regional or geographical differentiation of prices. The prices of petrol over different zones are a good case in point.

### Competitive cost reduction

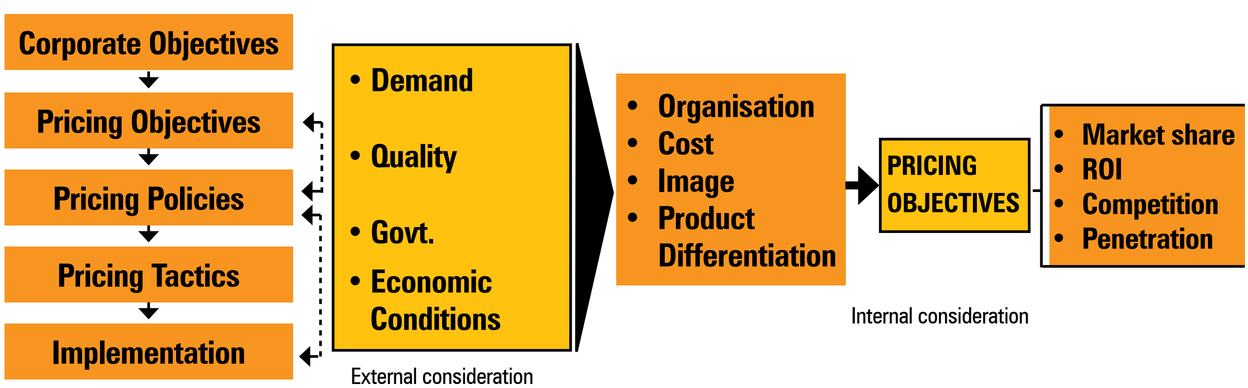
When a company is driven to sell below cost, it fixes the price level such as to enable it to recover the out-of-pocket or variable costs and as much of fixed costs and overheads as possible; competitive cost reduction helps the firm at times of stock clearance or anticipation of a fall in prices, or when the stock tends to perish or become obsolete. Such cost reduction may also be adopted to a standard product brand very much in demand, to attract customers to buy other brand products, thus making good the loss suffered on sale of the standard brand at a lower price.

> **WHEN A COMPANY IS DRIVEN TO SELL BELOW COST, IT FIXES THE PRICE LEVEL SUCH AS TO ENABLE IT TO RECOVER THE OUT-OF-POCKET OR VARIABLE COSTS AND AS MUCH OF FIXED COSTS AND OVERHEADS AS POSSIBLE**

### Competitive cost reduction through mark downs

This marking down is done when the company feels there is very little time left for stock clearance. However, this strategy may be advisable where frequent changes of price setting are not adopted. Cost reduction should be carefully considered as it may directly affect its production and the capital budget of the customers.

Cost efficiency is at its best when the aspect of resale price maintenance is also given a closer monitoring. Through this strategy, the company ensures that its products are not used as



**COST EFFICIENCY IS AT ITS BEST WHEN RESALE PRICE MAINTENANCE IS CLOSELY MONITORED. THROUGH THIS THE COMPANY ENSURES THAT ITS PRODUCTS ARE NOT USED AS BAIT TO SELL OTHER PRODUCTS**

baits to sell other products. It also helps the company to maintain its reputation and market as also a strategy for sales promotion and advertising. However, this resale price maintenance strategy is still an open issue inviting controversies in the US and UK.

The strategy of price setting begins with determination of corporate objectives. In other words long range goals are often the pricing strategies. The objectives may be ROI, Market Share, and Competition. The relative importance of price setting shall be seen in the charts.

Thus, from the above analysis, we find that Strategic setting of prices may involve customary pricing, prestige pricing, geographic pricing, dual pricing, administered pricing, monopoly and Penetration pricing.

### The major laws which affect strategic pricing decision are

- Monopolies and Restrictive Trade Practices Act 1969
- The Essential Commodities act 1955
- Drugs Price Control Act

The theory of cost competitiveness and price setting can be better comprehended while we look at the currently growing aviation companies amidst tough competition.

A private company named Ryan Air has resorted to price reduction by

**Fig. 1. Average price trend on the Rome Ciampino–London Stansted route according to different daily departure times**

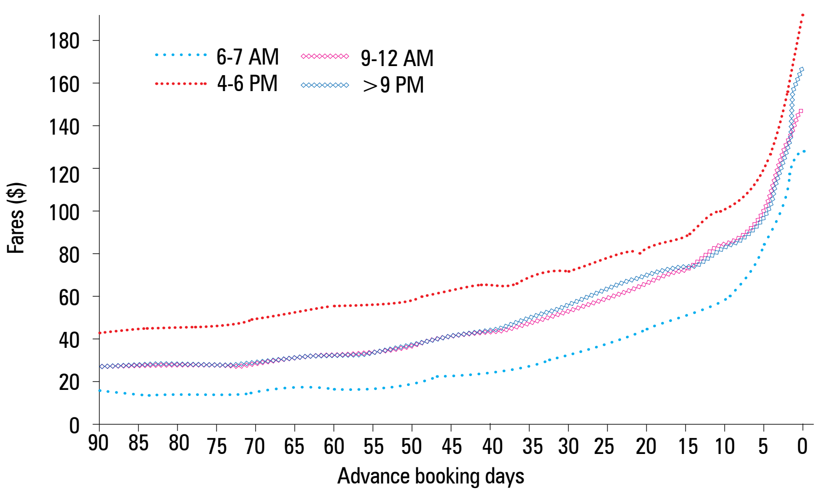



**Fig. 2 Comparison between the daily average price and the estimated price on CIA–STN route.**

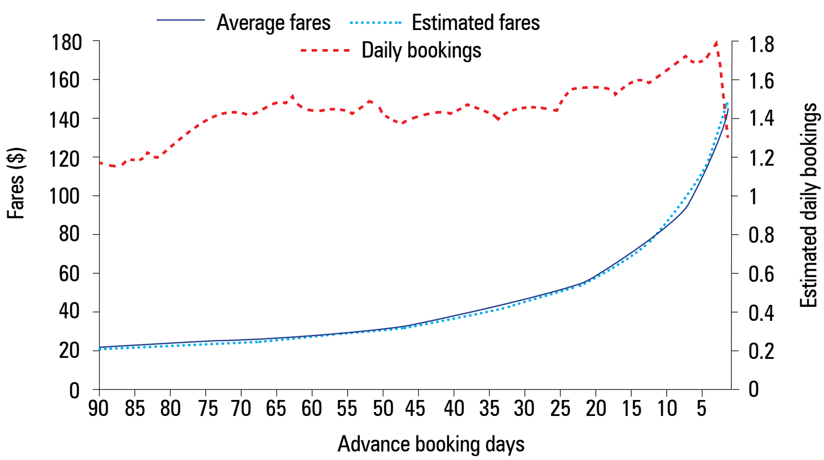
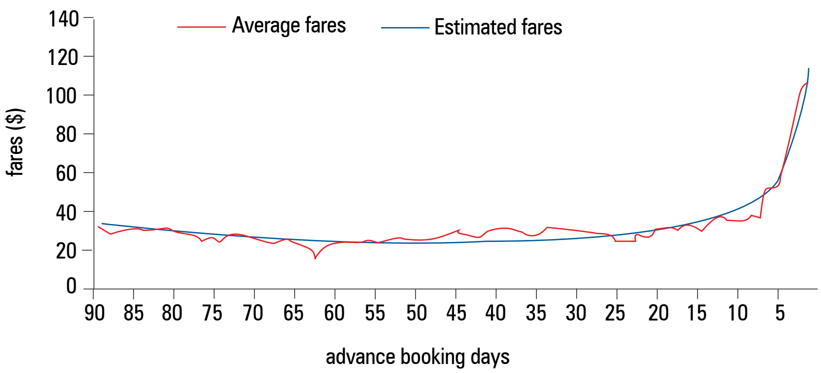


**Fig. 3. Comparison between the daily average price and the estimated price for the Rome Ciampino–Shannon route.**




eliminating some comfort and services like suppression of free in-flight catering, use of secondary airports, i.e. point to point network, use of homogeneous fleet and so on..The concept of Dynamic pricing has been well applied by this aviator through a thorough evaluation of the present market competition. It has done a commendable job through greater emphasis on cost benefit concentration, price choices, and has delved into the characteristics of demand which are decisive for pricing. It has also ensured that bookings are done only online, thereby cutting down on costs. This way, it has not failed to realize that the coherent choices are essential in pricing policies. Widespread use of Internet for sale of tickets tends to reduce price dispersion.

Thanks to the efficiency of the electronic markets, as this phenomenon is partly attributed to them.

The analysis of the pricing policy of this aviation company proves that the success of the price setting is based on balance between fare levels, load factors, and operating costs. First, the study of pricing of this company deals with demand curve derived from its prices. It further shows that the price trend depends on the tradeoff between the option of waiting for lower price and the risk of seats becoming unavailable.

The results of the study of dynamic pricing techniques in correlation with the features of its network show that the fares are clearly innovative in relation to its pricing strategies and are influenced by the degree of price competitiveness. The study also proves that an excellent pricing strategy for perishable assets results in an increase in turnover.

Length and route frequency are also found to be significant variables i.e.. the price trend of this carrier seems to acquire steadiness with increase in route length and frequency of travel.

**Cost reduction should not overlook quality of the product or service offered merely for the sake of competing. Rather, it should aim at elimination of wasteful elements in the process of manufacture and maintenance of performance**

## Conclusion

Competitive cost reduction in the real sense with a permanent feature through improvements in production methods, by means of Research and Development, will help any organization to sustain the growth envisaged amidst its competitors. Cost reduction should not overlook quality of the product or service offered, merely for the sake of competing. Rather, it should aim at elimination of wasteful elements in the process of manufacture and maintenance of performance according to predetermined standards. Cost reduction is always a corrective function to sustain growth and competition. Competitive cost reduction envisages improvement in product design, production methods or techniques, marketing and finance through budgetary control, standardisation of products or services, automation, Operational and Marketing Research and Value Analysis.

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# VALUE RECOGNITION AND PRICING OF VARIETIES OF GOODS AND SERVICES

Pricing of goods and services in a tumultuous world has remained the biggest headache, because the future of the organization depends on the right pricing of goods and services

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## Context of pricing

The context of pricing has had numerous problems related to knowing and judging whether there would be takers vis-a-vis a whole array of givers of a variety of goods and services for value. This rather simple process of give and take is complicated by a maze of pricing mechanisms intended to please the particular tastes of takers belonging to different markets in different countries, each of the markets being segmented on the basis of different criteria, within each of which there occur tectonic shifts of likes and dislikes, inter-segment mobility over time. As if this was not enough, existing goods and services are challenged by substitutes for similar end-uses. Change being the only constant, marketers of goods and services are required to be on their toes all the time. A whole world of goods and services long for takers at prices dictated by them, not by the givers in most cases. Typicality of the free market being such, developing the right sensitivities has all the while remained a crying need, sometimes heeded, sometimes ignored or glossed over. Pricing of the goods and services in a tumultuous world has remained the biggest headache, because on the right pricing of the goods and services would depend the future of the organization, recalling what the late Professor Peter F. Drucker said, 'profits arise in the market place'. Among the many approaches for wooing the consumers is what may be called value recognition on behalf of consumers for pricing goods and services of different kinds. Knowing and judging the consumers' mind through constant interaction with them are a continuous process and the right responses from the givers may bring forth returns beyond expectation. The following paragraphs seek to highlight some of the burning issues concerning value recognition from the points of view of the customers and generation of the right responses by the sellers for reaching an amicable meeting point, in a complex, wide expanse of considerations, concerning value to the customer and profit to the seller. It calls for emphasis that these two do not always ramify in the interactions between them. To generalize the relationship or even to particularize the interactions would very much mean counting the stars in the sky. They are too many to successfully track and, more significantly, to act upon, howsoever faint the signs and symptoms. In such a situation, marketing success and consumer satisfaction are many a time left to chances. However, deliberate targeting of what the customers seek and remaining prepared for changes in their tastes through constant interaction may bring unexpected results. This in fact may be no better than a rescue act depending on the prevailing conditions. For more lasting results, management may turn to enhancing value to the customer, as perceived by him, servicing his total requirements rather than specific needs for profit at both ends.

## Value management considerations

Value management has two essential components, namely, value engineering implying the technical issues contributing to the total, functional effectiveness of the items in view, and value analysis covering the ways in which the total effectiveness of the item can be enhanced from the points of view of the customer. Value management has all the essential ingredients of management principles such as planning, motivation, coordination and control that can be applied with signal effects. In practice, the tenets of value management are hardly given the consideration they deserve. The advent of the 'service economy' has given a new meaning to value management, though it remains generally underplayed. The contexts of mass production on one hand, and the typicality of individual items that command discrete responses from the customers on the other, have hardly received the required stress at the levels of marketing managers stressing on the wood rather than the trees. This is especially true in regard to their pricing. To the discerning management accountants, the differentiation figures as value enhancement while to the economists, it ramifies as consumer surplus. As discrete objectives, these issues do not find their rightful place in the techno-economic and the techno-managerial analyses. Traditional pricing formulae are not applicable in toto in such cases as the prices the consumers are agreeable to pay and the cost incurred by the seller may not submit themselves to any rational relationship. Of course, prices may not submit themselves to any scientific reasoning or formulae and each case may exhibit behaviour typical to the buyer and seller. Even the context of pricing by bids would not, in many cases, submit itself to a rational approach, due mainly to the innate desire of bidders at an auction to profit beyond measure. However, there are some characteristic features that tend to dominate the proceedings some of which are listed hereunder mainly as illustration. Mention may be made in this context that such pricing approaches do not necessarily have a sound rationale at their back though in many cases a certain base price is fixed below which the item would not change hands. In many a case, even the base price may be fixed rather arbitrarily. It is appropriate at this stage to refer to the typology of values, that may turn out to be clinchers in the context of the deals for finalizing.

### Typology of values

The typology of values indicated here are basically rough and ready ones just to distinguish one from the other on one hand and the features that qualify them to be categorized as such. Such values may be overt and covert while in some, value accretion takes place as years pass by. Prices, however, may or may not have any overt relation to the features noted and in many cases would depend on how possible acquirers think of them. For purposes of pricing, the typicality of each may be stated as under:

a. Historical value of items like original letters of important persons like Napoleon, Mahatma Gandhi, George Washington, important treaties or declarations, or any other types like old coins, postage stamps, arms, etc.;

b. Antique value of items very old utensils, brass or silver or gold idols, or coins of Buddhist or Jain or Hindu regimes;

c. Scarcity value of items like defective printing on postage stamps, currency notes, coins, etc.;

d. Vintage value like that of very old cars, dresses of important persons, weapons, etc.;

e. Superior performance value of machinery, tools, gadgets, etc. in terms of latest technology, higher production and productivity, less wear and tear, greater adaptability for manufacturing different products, etc.;

f. High input value like gold as against silver, copper as against aluminium, etc., as underlined by Lord Wilfred Brown in his book entitled Product Analysis Pricing, Tavistock Publications, London,1962;

g. Appearance value of the item which is cute to look at, has excellent finish and can be handled easily and without hassle;

h. Longevity value implying that longer the life, the less would be depreciation and handling charges and overall running costs, assuming no obsolescence, the instance that readily comes to mind is furniture made of Burma Teak, which has been time-tested, free of termites and other usual processes of decay, buyers would readily pay a higher price because of the higher longevity cum esteem value;

i. Prestige value involving display of items of high value, often branded items known for their distinctive features and high prices commanding respect and admiration; and, last but not least,

j. Works of art of old and new, dead and living painters commanding high value at the auctions in different cities, the possession of which puts such connoisseurs on the high of self-esteem.

**FOR MORE LASTING RESULTS, THE MANAGEMENT MAY TURN TO ENHANCING VALUE TO THE CUSTOMER, AS PERCEIVED BY HIM, SERVICING HIS TOTAL REQUIREMENTS RATHER THAN SPECIFIC NEEDS FOR BENEFITS AT BOTH ENDS**

The items which may be of sentimental value, like the family silver, and for which there may be longing among peoples of different religions and various relics of the heritage of different communities may command high sentimental attachments for which high price may not matter. Value recognition, however, does not stop here. It may be relevant to mention in this context that gem, Syamantak, was no better than an ordinary stone to the tribal head. Lord Krishna staked his life to find it out and regain possession defeating the tribal head in a duel. The value of the gem to the tribal head was no more than an ordinary stone while this was considered a proud possession of the Yadavas. This is but a story, though it holds several lessons regarding value recognition. Further, one may suddenly come across an item for which one did not aim earlier, but which one values highly for its high usefulness in practice. This is called serendipity, Penicillin or the much advertised Amrit Ras, for reasons in addition to those already mentioned. On the other side of the coin there are instances where value management becomes a common practice. Value management is in fact a conflation of value engineering and value analysis, though something more than just the two may also emerge as a gestalt, meaning an organized whole in which every individual part affects every other, the whole being greater than the sum of its parts . Team effort introduces several new dimensions which, individually, neither value engineering nor value analysis is capable of realizing. Coordination plays a key role in all this to ensure that no element in any of these efforts goes out of gear.

### Value engineering

Value engineering underlines that a product can be improved and its cost lowered through analyzing the operation of the product or service, estimating the value of each operation by trying to keep the costs low at each step, or part, through different ways such as input substitution, size reduction calling for lower quantum of inputs while enhancing performance standards and integrating additional operating features. All this sounds like a tall order but umpteen instances are available where value engineers have successfully dealt with apparently difficult situations to make their products market savvy. The story of Sony and its rise to prominence are replete with instances in which small and almost unrecognizably small parts and components of products caused revolutionary impacts worldwide. The Sony story has been ably narrated by Akio Morita in Made in Japan. The story of Sony did not end with the transistor radio, mini tape recorder or the other small electronic gadgets. Vio P.C. and the laptops of various sizes have marched more miles ahead than Morita anticipated. Users of these numerous gadgets turned out by Sony know that all these items are value engineered for making them user-friendly. It is indeed possible to present a detailed list of each and every item that constitutes the finished products with thorough checks of their functionality. Value engineering underlines different steps some of which may be,

a. Dividing the product into parts and operations for enhancing operative features;

b. Identifying the cost of each part and operation and assessing likelihood of change;

c. Pinpointing relative value of contribution of each part to that of the final part; and

d. Finding a new approach for those items which appear to have a high cost but low value, perceived by the customers belonging to particular markets or segments;

e. Perceived low values and high costs engage the value engineers' attention for enhancement of values through processes of:

i) destructive tests involving individual parts and components of each significant input where such tests are practicable;

ii) changes in parts and components to make them more responsive to both existing and future requirements;

iii) enhancing value through adaptation for new end-uses, may be through adding new components, size reduction and improved functionality; and

iv) modification of designs, parts and components so that values are either enhanced or kept stable, while costs are reduced.

All these are not easy but taking the customer as the point of focus, changes caused for reversing the existing standpoints of low value and high costs would be considered warranted. Illustrations of total rethinking with respect to the products and their various components are offered by the destructive tests conducted in the cases of high capacity transformers for testing their capacity to withstand natural disasters like lightning, heavy storms, floods and droughts. Such simulative tests are considered a must for all those items of use which operate being kept in the open, and are supposed to stand the vagaries of nature like droughts and floods, heavy rains, storms, earthquakes, etc., stated earlier. These are all high-priced items and the large scale buyers like SEB, NTPC and other large organizations, are particular about the quality of the items ordered. Moreover, the items for rigorous test, including the rigorous test, are randomly selected by the buyers themselves The tenets of value engineering, it may be stressed, have evolved from experience but as yet, requirements are stated only in broad terms because of the varying nature of experience and requirements for tiding over the challenging requirements. Value maximization does not end with value engineering alone though the synergy aspects of the proposition came to be realized later addressing the customers and the market later and, as an effective adjunct.

## Value analysis

Value analysis process, on the other hand, where the engineering technicalities have ended. Together with value engineering, managers approach the value analysis ways. The two approaches underline that managers understand the tastes of the consumers, today, to-morrow and day after, may be with reference to the markets, market segments and individual customers in each. Detailed perceptual mapping may be adopted as a regular and systematic exercise, underscoring what Professor Peter F. Drucker said, 'profits arise in the market place'. Markets are no beds of roses as they are infested by all kinds of challenges to overcome. Value management therefore underlines planning, coordination, motivation and control all along the line. Value to the consumer being the major aim, value management covers the entire gamut of management, both on the manager's table and the market place. Excellence in management underlines that the markets and the customers come in for a mutual understanding of each other in an interactive relationship. Costs figure prominently in this relationship but only as an adjunct to the whole process of creating value to the customer, value as perceived both by the management and the customer. In a competitive market with all kinds of products and substitutes in the fray, and a price war among the competitors raging all the time, it calls for the best in management to make both ends meet. All this is further complicated by the fact that in a free market, production has to be carried on in anticipation of demand, making the role of advertisement crucial. Information regarding products, availability, quality, distribution channels and all other relevant details are indicated in such advertisements. But mere advertising is not enough. Scenario planning, environment scanning and response management literally cry for adoption as management strategy and policy, as a part of organizational culture. These all are in fact a detailed process involving composite expertise and the information thrown up would have shown directions of the decisional phenomena, implying presenting an array of alternatives from which one would be selected for implementation.

## Pricing based on values

Once the value of an item has been more or less determined, and the intending buyer has decided in favour of the acquisition, he may vote for the price he is willing to pay for the item. His ability and willingness to pay become crucial factors, but he shows restraint because his over-eagerness may induce the seller to raise the price further. Many a time, one comes across collectors who garner such items at prices either determined by auction bids or by the sellers in private deals. Art Exhibitions displaying the works of art in different forms like paintings – charcoal, water colour, acrylic, etc., sculptures - brass, marble, sandstone, etc. It is common experience that disproportionately high prices are charged for rare items – rarity adds to the value in the sellers' and buyers' perception, yet the buyers feel satisfied apparently endorsing the nebulous notion of consumer surplus. High prices paid for these types of items act as prestige symbols. In many a case, the measurement of consumer surplus becomes a knotty issue – a sort of chasing will-o'-the-wisp, but as long as the buyer feels satisfied, further arguments become irrelevant and the buck stops there. The stock of ball pens and roller ball pens at the Company's shop at South City Mall on Prince Anwar Shah Road, Kolkata with signatures of Shah Rukh Khan and Sachin Tendulkar sold like hot cakes at prices fixed by the company. No body asked any question as the pens carried the signatures. Signature ball pens, roller ball pens and fountain pens are brought out by Mont Blanc, Sheaffer and Pierre Cardin periodically; many of such writing instruments have very distinguishing features, often they are diamond studded, sometimes these have singular designs and these are offered for sale only in limited numbers. Their prices are high but the buyers hold the view that they have got their money's worth. To a discerning analyst, howsoever inaccurate it may look, attempts at measuring such surplus appear to be both stimulating and rewarding, as they offer broad directions, up or down. The movement – the trend - is the clou, in an otherwise uncharted territory. The problem in assigning a price to such items stated in the categories is the uncertainty regarding the responses that may be generated among the buyers. Instances of low pricing of presentation items exported from this country, on occasions like religious and other festivals, birthdays, New Year's Day, X-mas, Valentine's Day, Fateha Doaz Daham, Id-Ul-FiTter, Muharram, etc., were all returned because the price quoted was too low and overtly did not make any impact on the esteem of the importer and the ultimate users. The extremely knotty problem of attempting to measure the immeasurable referred to earlier, would call for some comments, as attempted in the following paragraph.

## Measuring consumer surplus

A company seeks to offer a product which it considers to have high acceptance among the customers. This may be of daily use, of occasional use or simply for display which the customer considers distinguishes himself from the rest in the milieu. How much he is prepared to pay for a product, and at what price he is likely to get it, involves an unlikely tug-of-war between the seller and the buyer. In an old book shop at College Street in Kolkata, a buyer comes across a book for which he had been on the look out for long. The price printed on the third page of the book was Rs. 250. According to the Seller's admission, he bought it by weight for Rs. 15. When asked how much was the price, the seller mentioned that he would like to have Rs. 200 for it. The buyer knew this was a rare book, out of print for a long time and highly valued by connoisseurs. The intending buyer requested him to reduce the price to the extent he considered appropriate. Sensing that the buyer was intent on the purchase, he refused to reduce. Reluctantly, he purchased the book for Rs. 200. Afterwards, when he met the same book seller he was told that he would buy back the book for Rs. 500, as another buyer offered him Rs. 1000 for the book. But he was not ready to part with the book. The real consumer surplus in this case, he reckoned, was not Rs. 500 – Rs. 200= Rs. 300 but Rs. 1000 – Rs. 200 = Rs. 800. The name of the book was Modern Corporation and Private Property, ( Macmillan, New York, 1932), authored by Adolf Berle and Gardiner Means. This book, incidentally, provided the impetus for several other serious studies by well-known researchers like Cochran & Miller, The Age of Enterprise, that threw some new light about the factors and forces released by the cult of managerialism, also underlined by James Burnham in his well-reputed work, Managerial Revolution. This detour was warranted for demonstrating the pace-setting, noticed later. One can engage oneself in all kinds of sophisticated analysis of matters of daily occurrence to come to conclusions which are easily visible even without any hard, sophisticated analysis. The fact remains that the concept of consumer surplus helps one to understand the processes of pricing of goods and services especially the bounds of the elements that comprise the concept and practice of consumer surplus. MA

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# MEETING COMPETITION THROUGH STRATEGIC COST MANAGEMENT: GLIMPSES OF APPLICATIONS

Strategising cannot be achieved by laying down a Standard Operating Procedure. There can be no strait-jacketed approach. The best results would accrue to that team that has the passion to bring about major improvements

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Management of costs can be approached at two levels: Operational Management, and Strategic Management. Measuring the impact of such decisions is best done by seeing the impact on Earnings per share. Both Operational Management and Strategic Management impact EPS, but the effect that Strategic Cost Management has on EPS is much greater than that had by Operational Management.

Strategic Cost Management sets cost analysis in a broader context in which cost information is used to develop superior strategies. It goes beyond tactical issues and cost control measures; if Operational Management controls costs by timing the point for Reorder of stocks, Strategic management looks at the bigger canvas such as timing a deal. Hindalco purchased Novellis when it was incurring losses, had a debt-equity ratio of 7:1, and had contracted with four customers (who formed 20% of total sales) not to increase prices even if raw material aluminium prices went up – and aluminium prices went up 39%. If Operational Management evaluates alternate technologies for reducing costs, Strategic Management purchases the base itself for future technology (Daiichi - Ranbaxy deal where Daiichi got to takeover Ranbaxy's 1100 strong R & D team, and 300 innovative research teams for Generic business); if Operational Management evaluates through KRAs the cost savings, Strategic Management generates profit potential by eliminating competition or obstructing competition (M&M bought Punjab Tractors when TAFE bought Eicher Motor's tractor division bringing TAFE within striking distance of M&M and gave TAFE access to markets in Punjab, UP, HP). It examines the larger ramifications such as the Opportunity costs of dealing with too many brands (Hind Unilever's Power brand strategy), sharing resources with competitors (Indus Towers as a solution to Bharti Airtel, Vodafone, Idea), managing the regulators/environment (Public Private Partnerships), planning profit portability and tax at a global level (locating tax havens) etc. Indian case studies are presented to illustrate how the Strategies were made to work.

### Outsourcing can be cheaper in the long run even if variable costs increase in the short run

Bata India (BATA), which was a non-performer till 2005, has now put the shine back in its shoes. They have resorted to Outsourcing of manufactured products.

Here is an interesting strategy observed during 2008 and 2010. BATA has managed to increase the proportion of Outsourced materials in relation to Own manufacture. In the Table below it can be seen that the ratio of COGS to Sales is marginally reducing. It was 47% in 2008 but reduced to 46.0% in2010. But within the COGS, the share of Purchase of Traded goods has very distinctly increased from 51% in 2008 to 68% in 2010 (see **Table 1**).

***How does this impact the bottom line?***

By controlling the proportion of Own Manufacture cost despite the increase in absolute Sales, BATA has got an opportunity to reduce Salaries and Workmen related costs.

What BATA has done is that it has managed the increased Sales with increased Outlets with almost the same manpower. Added to this the company has announced VRS for its workers incurring Exceptional costs of Rs.2.4 crores in 2010 and Rs.10.08 crores in 2012. The Batanagar plant in Bangalore is being modernised with a thrust on automation leading to lower manpower costs. VRS is being planned for the Bangalore plant also.

The increase in number of outlets and reduction of Manpower costs will result in increasing sales and lowering fixed costs.

Reaching into Tier II and Tier III towns by setting up outlets (see **Table 2**)

The aggressive Store expansion strategy is evident after 2009. The resultant impact on Sales is given in **Table 3**.

**Table 1**

**Bata India (Rs./crores)**

| Item | 2010 | 2009 | 2008 |
|---|---|---|---|
| Sales | 1292 | 1121 | 1023 |
| Cost of Goods sold: | | | |
| Raw materials consumed | 211 | 214 | 227 |
| Purchase of traded goods | 406 | 292 | 247 |
| Others | -22 | 7 | 8 |
| Total | 594.5 | 513.4 | 482.6 |
| COGS/Sales (%) | 46.0% | 45.8% | 47.2% |
| Purchase of Traded goods/COGS (%) | 68.3% | 56.9% | 51.3% |

**Table 2**

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Nos. Stores | 1174 | 1172 | 1173 | 1165 | 1161 | 1209 | 1259 | 1388 | 1403 |
| Addition (net of closed) | NA | -2 | +1 | -8 | -4 | +48 | +50 | +129 | +15 |
| Sales (Rs./crores) | 753 | 822 | 904 | 1024 | 1121 | 1292 | 1549 | 1842 | 2065 |

**Table 3**

| Period | Sales (Rs./crores) | CAGR |
|---|---|---|
| 2001 to 2013 | 776 to 2065 | 8% |
| 2001 to 2008 | 776 to 1024 | 4% |
| 2009 to 2013 | 1121 to 2065 | 17% |

The Operating leverage of BATA will increase taking EBIT markedly up in the years to come.

### Time the deal

The 'watch and wait' approach for timing an acquisition is one of the best strategies for closing in on a handsome price. One of the most illustrative cases is the acquisition of ITC Classic Finance by ICICI Ltd. (now ICICI Bank). It yielded ICICI a prized target with practically no cash outgo. ITC Ltd. the parent company of ITC Classic had been through a bad patch in 1996 after half the executives in the board of directors were in jail for alleged FERA and Excise violations. The fallout was a run on ITC Classic by the depositors and fifty crores of rupees were withdrawn in a few days. ITC Classic was reeling under losses from secondary market operations of Rs.170 crores, lending was concentrated in real estate and cross holdings represented dead investments. In June 1997 it declared a Rs.285 crore loss which almost wiped out its net worth. ITC was therefore desperate to find a buyer for ITC Classic. Attempts to secure a buyer were not positive as GE Capital and the Hinduja group offered very stiff terms. It was at this time when ITC had given up hopes of ever being able to find a buyer, living with the fear that its own brand was getting very severely tarnished by ITC Classic, that ICICI struck.

Behind the master mind of ICICI in generating an extraordinary cost advantage was that it would have access to 7 lakh base of depositors and

**IT IS AS MUCH AN ART TO BE ABLE TO DEVELOP BUSINESS INITIATIVES AS IT IS A SCIENCE WITH FORMALISED TEMPLATES TO EVALUATE ALTERNATIVES**

700 brokers. The tax break would be Rs.110 crores. The master strokes of ICICI were the swap ratio of 1 ICICI shares for 15 shares of Classic, and subscribing to a preferential share issue of Rs.350 crores for a nominal interest rate of Re.1 for every Rs.1 crore of share capital for 20 years! ICICI made ITC pay for Rs.272 crores of secured creditors of ITC Classic, assume the liabilities for all guarantees issued by ITC Classic, pay for the NPAs of ITC Classic, make up for the losses due to decline in investments made by ITC Classic's subsidiaries, and retain employees of ITC Classic not required by ICICI!

ICICI knew full well that the swap ratio would be lapped up by ITC Classic shareholders because they would now at least have the comfort of belonging to a reputed company instead of a bankrupt company. The depositors were happy to become depositors of ICICI albeit at a lower rate of interest on their deposits. The borrower base of ITC Classic did not trouble them as many borrowers of ITC Classic were also directly or indirectly borrowers of ICICI and hence ICICI had the capability to exert pressure on the borrowers.

### Structuring can be used as an effective Cost Management tool

By restructuring, companies can achieve cost economies and control. Demerger is one such route to restructuring. In the Pharma industry there is a trend to hive off R & D into separate entities. Sun Pharma was probably the first company to go ahead and hive off its innovative research and development (R&D) unit into a separate company.

**Sun Pharma Advanced Research - R & D (Rs./lakhs)**

| Item | 2012-13 | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---|---|---|---|---|
| Revenues | 8888 | 3012 | 5958 | 3463 | 3524 |
| Loss | 2249 | 7223 | 850 | 2155 | 914 |
| R & D exp. | 10909 | 10314 | 7013 | 6422 | 6807 |
| R & D to revenue | 125% | 356% | 120% | 187% | 193% |

Why? The key factors which drive R & D are very different from those that drive main product - generics. In the generics business, earnings are driven by operational efficiency, production cost and timely delivery. In contrast, success in R & D-led business is determined by the ailment curing ability of the product and, most importantly, the company's ability to register the product in major regulatory areas. Pharma R & D is very different from that seen in other industries. Of the hundreds of things which people work on, only one or two products finally make it to the market.

Structure is related to Responsibilities, Goal setting and Performance measurement. So, this part of the organisation needs to work with a different mindset. This makes it necessary to separate R&D from generics business. When expectations are created with R & D managements, there are failures if the expectations are not met. Use of structures helps in creating expectations relevant for R & D. Managing expectations in an efficient manner is part of the transition process for the R&D industry.

If structures are not brought in place, there are considerable Man management issues which are 'hidden costs' though not costs in the accounting sense.

The burn rate of cash being very high, the losses incurred by R & D units bring down the valuation of the generics business if they are in the same entity (*see table above*)

Sun Pharma allowed the two businesses to be together as long as the R & D business required funding from the generics business. When the R & D business had reached a level of sustenance, it was separated.

### Manage costs more effectively by hedging the risks

When Tata Tea decided to diversify from the commoditised tea business and transform itself into global beverage player, it took over Tetley, a UK-based firm. This gave it access to the

| The Tata Tea – Tetley combination | | | |
|---|---|---|---|
| Merger variables | Tata Tea – pre-acquisition | Tetley – pre acquisition | Tata Tea + Tetley – post acquisition |
| Position in the value chain | 40% of turnover from packet tea/tea bags | 100 % of turnover from packet tea/ tea bags | Moving up the value chain with 84% of turnover from packet tea/ tea bags |
| Increased outsourcing | Produced 95% of its tea requirement in-house | Outsourced entire requirement from 35 different countries | 70% of its tea requirement is outsourced from 20 different countries and thereby risk arising with fluctuation in production reduced |
| Predictable margins | Margins highly correlated with tea cycle | Margins inversely correlated to tea cycle | Margins hedged |

high margin branded tea business. That was a leveraged buyout with Tetley being acquired for a price four times the net worth of Tata Tea and served as the starting point for more acquisitions. But the success of this approach lay not only in securing global market share with more than 35 countries coming into the fold, but equally in getting outsourcing opportunities in these global regions thereby adding cost saving opportunities:

The strategy to become a global player was combined with the strategy to exit the Plantation company model, a syndrome Tata Tea had lived with for over a 100 years. Tata Tea has not looked back to this day.

### Borrow not strategies for Cost Management, from other business models

M & M Financial Services, a wholly owned subsidiary of Mahindra & Mahindra, has followed a contrary strategy for Manpower. Most NBFCs use agents for their promoting services but MMFSL does not employ agents. It has over 11000 employees and the sales have seen a 33% CAGR. The reasons for this strategy are clear:

MMFSL was earlier promoting products of only its parent company at one time. With a view to improve the bottom line they extended loans to non-related auto products including competitor products, so much so that right from 2004-05 30% of their balance sheet are non-M&M products. To manage better the disbursements and collections they had to move rural to be on the spot. They repositioned their offerings between a private money-lender and a bank: they were faster than banks but more expensive; they were cheaper than money-lenders but were slower. For the nature of business which meant dealing significantly in cash transactions, they needed a dedication factor which could only be served by employees and not agents. They also found that beyond just dedication, it was more strategic to use employees for marketing related services such as Insurance. Although this seemed a more expensive model as compared to using agents, the economies of scale worked exponentially in their favour as they scaled up.

### Generate Tax shields

One of the dominant motives in an acquisition is the Tax shield arising out of taking over the losses of the target company. This makes the M & A story generate gains with a multiplier effect: the synergies that accrue to the acquirer, plus tax breaks!

A classic case of getting the tax advantage was demonstrated by Voltas when it acquired Hyderabad Allwyn (HAL). HAL had three lines of business: Fabrication of Bus bodies (auto division), Manufacture & sale of refrigerators, steel furniture, and Manufacture & sale of wrist watches.

HAL was a dividend paying company till 89-90 but started suffering setbacks from 90-91 and became a sick company under SICA. In February 1992 the AP Government invited offers from about 200 companies for transfer of controlling interest.

Voltas wanted to acquire only one business segment from HAL: the Refrigerator and furniture division. The objective could have very well achieved by merely acquiring that business alone. Making HAL do a Slump sale to Voltas could have done the trick. But then the tax advantage would have been very limited. What Voltas did was a masterpiece: It first merged HAL with it to get the full tax shield on the carryforward losses, then it demerged the other businesses to other companies. This was a unique merger-cum-rehabilitation scheme that was approved by BIFR. After the merger, the demerger would be accomplished by transferring the Watches undertaking to Allwyn Watches Ltd. and leasing out the Auto division to Allwyn Auto Ltd. for 5 years. Both these were incidentally Government of Andhra Pradesh undertakings. Tax saved by Voltas was Rs.36 crores!

Whilst Tax was an added feather in the Voltas deal, the underlying synergies Voltas achieved were expansion of the manufacturing base for refrigerators and compressors at much lower cost than would otherwise be possible, and a ready market in AP for sale of products. These were strategic areas of growth for Voltas.

### Avoid tunnel vision of classifying costs

Rigid approach to costs classification when doing an analysis is sinful. It forecloses opportunities to be open to Cost reengineering. For example to treat Salaries and wages as Fixed is a mockery of practicality. Most costs today have alternative structuring possibilities: Outsourcing, Bench, Flexi-hours, Pay-per-use etc are in vogue and eliminate the need to 'commit' costs.

This is well demonstrated in the auto industry where 'people costs' is the second largest cost.

Automobile companies strategise using permanent workers in core areas such as press shop, welding shop, paint shop and assembly line, and use contract workers for maintenance jobs ranging from house-keeping to electrical maintenance. These workers are not unskilled; they hold an ITI certification. In India the labour laws do not permit downsizing of labour unlike Austria and Indonesia where this is permitted if compensation to the person being terminated is as per the guidelines. In the USA it is the norm to let go off temps during a downturn. In Germany when there was a down cycle four years back carmakers asked workers to work for fewer hours and take lesser salaries. The solution in India has come through this category of Contract workers.

Over half of the 300,000-odd shop floor workforce at India's auto and component makers is temporary. Temporary workers are not earning on par with permanent employees – the disparity is almost four times.

### Anticipate future trends and be quick to adapt

Trends can often be anticipated using common sense. Even if not a trend setter, be an adaptor without waiting for a doctorate type research report. BPOs which have been big time operators are today commanding the lion's share of the employment market. But whilst Urban BPOs are the flavour of the day, there is not much awareness that the industry is getting increasingly rural. Rural BPOs have increased in popularity due to the following: Attrition rates are as low as 3 to 5%. Urban BPOs suffer 50% attrition; Operating costs are as low as 40 % of Urban BPOs; employees no longer need to worry about fending for themselves in big cities where accommodation costs can be prohibitive; travel times to place of work is low, in worst scenario cases it could be a couple of hours.

Larger BPO outfits such as Wipro BPO and Infosys BPO are already operating rural BPOs. Whilst firms in the KPO business may consider such a format effective, even non-KPO business houses may find the concept worthwhile to locate general skill based back-end work force in rural areas.

### Think out-of-the-box for strategising for costs

Strategies cannot be transplanted across models. For instance if one looks at the Microfinance industry, what should be the strategy for ensuring recoveries? Ticket sizes are as tiny as Rs.7000, frequencies of payments by borrowers are weekly, payments are by cash most often times, and the interest rate (of course now under regulation) were well above 30% pa, and even today can well exceed 20%. Borrowers have no collateral, no proven repayment capacity to talk of, and their sustenance is on a day-to-day basis. The innovative Joint Liability model propounded by Mohammed Yunus (Grameen Bank) serves as an extraordinary illustration of how strategies need to be evolved based on business model variables. In this model borrowers form groups of five members each who share responsibility for the repayment of the repayment of the loan of every individual in the group. If one member defaults the other members must repay the loan on behalf of the defaulter. The joint liability mechanism generates social pressure among members to repay their loans.

Before the SKS Microfinance controversy bombed the microfinance industry, recovery rates were as high as 98% with portfolio-at-risk at less than 2%.

> ONE OF THE MOST STRIKING EXAMPLES OF STRATEGY WAS DEMONSTRATED BY CIPLA WHEN IT HAD TO TAKE ON HEADLONG MNCS IN THE WAR AGAINST THEIR DRUGS

### 'Manage' the environment

One of the most striking examples of Strategy was demonstrated by Cipla, the No.2 drug maker of the country when it had to take on headlong MNCS in the war against their drugs. It achieved this by announcing steep pricing cuts. It slashed anti-cancer drug prices for the second time, this time by as much as 63% in certain cases. The first time was in May 2012, when it reduced prices of three kidney cancer drugs.

Cipla was well placed to do this because it sound on its financial parameters. It is the second company after Sun Pharma in terms of Profit margin on Sales. It has an uncanny sense of timing. The Indian government seems to be backing up domestic manufacturers against MNCs by invoking a clause under TRIPS of WHO. It is called 'issue of compulsory license' where production of a generic patented drug is allowed if its price makes it affordable to Indian patients. Then if an MNC fights for patent protection, such a fight would be in vain. For instance, domestic firm Natco Pharma was permitted to charge a price which was 30 times lower as compared to MNC Bayer for cancer drug Nexavar (Rs. 8880 for 120 tablets as against Rs. 2.80 lakhs of Bayer). For Cipla the success story started with drug Erlocip. For this drug Cipla won a patent litigation battle against Roche which sells the drug under the brand Tarceva. Now Cipla has received India's first compulsory license from the government for the drug Sorafenib.

By dropping selling prices, it still has the capacity to take the impact of the reduction. The present Gross margin on Sales for Cipla is overall 49% of Sales. It is a volume game where the reduction in selling price is made up by market share. This will be a sure-shot success act in outdoing competition provided the MNCs do not respond with a price cut.

## Postscript

Strategising cannot be achieved by laying down an SOP. There can be no strait-jacketed approach. It is as much an art to be able to develop business initiatives as it is a science with formalised templates to evaluate alternatives. But above all, it is a role to be played by all senior management members starting right from the top management. The best results would accrue to that team which has a passion to bring about major improvements.

**Automobile companies strategise using permanent workers in core areas such as press shop, welding shop, paint shop and assembly line, and use contract workers for maintenance jobs ranging from house-keeping to electrical maintenance. These workers are not unskilled; they hold an ITI certification**

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# TURNING COST CUTTING INTO COST COMPETITIVENESS: EMPIRICAL EVIDENCE FROM SOME SELECTED COMPANIES

This study is an attempt to look into the importance of managing cost components in order to improve the competitive strength of a firm where sample firms were selected from six different industrial sectors, three from the best industry and three from worst industry

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Competitiveness is the ability or performance of an organization to do better in a particular time frame. To be cost competitive in the market company should provide better quality of products at a relatively lower cost as compared to other competitors. This will help to enhance the competitive strength of individual firms by utilizing the available resources efficiently and effectively. Indeed, competitiveness is the fundamental determinant of the level of prosperity a country can sustain (Porter M. , 2005).There are different views about the competitiveness. While Porter (1998) argues that competitiveness meant the ability to compete in world markets with a global strategy. Buckley'view of competitiveness is at the firm level (Buckley et al., 1988); a firm is said to be competitive if it can produce goods and services of superior quality at a relatively lower costs than its domestic and international competitors. Competitiveness creates the ability of a firm to be sustained in the market for a long period of time and be able to generate higher rate of return to the shareholders.

There is, however, more or less a consensus on which measures could be used to assess competitiveness. Measurement can be made according to two disciplines: first, the neo-classical economics which focuses on trade success and which measures competitiveness with the real exchange rate, comparative advantage indices, and export or import indices; and second, the strategic management school which places emphasis on the firm's structure and strategy.

## Literature review

Some relevant literatures were reviewed to identify the research gap if any in the context of cost competitiveness of the firms. There is a general consensus in the strategic thinking that the ability of an organization to develop and exploit knowledge faster than its competitors is a key component of its competitive advantage (Prahalad& Hamel, 1990; Leonard-Barton, 1995; Nonaka& Teece, 2001).

Michael E. Porter's notes that a business can develop a sustainable competitive advantage by following two strategies: Cost leadership strategy or differentiation strategy (Porter, 1985). Under a cost leadership, Kleiman argues that firms must provide the same services or products as its competitors, but at a lower cost (Kleiman, 2000).

Porter was one of the first to underline the importance of firm's strategy and structure in developing their competitiveness. Furthermore, Porter (Porter M. E., 1990) constructed the "diamond model", which defines four competitiveness factors: factors of resources, demand conditions, corporate strategies and the existence of related and supporting industries.

More research has been conducted on strategic responses to domestic low-cost competition, both conceptual (Porter M. E., Competitive Strategy, 1980) and empirical (Campbell-Hunt, 2000). When facing domestic low-cost competition scholars have pointed out that market incumbents need to carefully analyze their new rivals, identify their source of competitive strength, and adapt their strategies accordingly (Kumar.N, 2006). When a low-cost entrant reduces average profit margins within an industry, companies respond by differentiating their products, cutting prices, or doing both at the time (Spanos YE, Zaralis G, Lioukas S, 2004). True competitive advantages achieved through higher entrant product quality and product advantage facilitate entry and lead to higher market shares (Gatignon H, Weitz B, Bansal P, 1990).

Market shares are usually defined as the proportion (percentage) of the total available market (or segment) output or sales that is produced or sold by a company or an industry (Werden, 2002). Fischer and Schornberg (2007) have argued that market share is a useful competitiveness indicator at the company level even when analysing aggregates, market shares may be problematic. Buckley et al., (1988) states that competitiveness includes both efficiency (reaching goals at the least possible cost) and effectiveness (having the right goals).

From the said literature we found that no study has so far been commenced considering the variables impacting firm's cost competitiveness position as well as profitability and market share covering global financial meltdown period.

## Statement of the problem

Presently, under the global village concept the market has been extended globally. The firms are competing in the global level in the same market with similar basket of product. Competition is fierce in respect of capturing market share. Thus understanding the cost structure and becoming cost leader is a necessity. So identifying all cost components of each major processes and sub-processes of the business then evaluate value adding and non value adding components in each process and justify how the non-value adding components can be either eliminated or combined, outsourced, or automated. Thus, a holistic and intelligent approach to total cost reduction, either for operating advantage to produce rapid economic value or for structural advantage with a focus on sustained efficiency and long-term growth is the need of the hour.

This has warranted formulation of appropriate cost cutting strategies to attain competitive edge over the peers as well as competitors in the hyper-competitive environment arose in the recent past. However organizations try to achieve cost leadership position in economic downturn on panic (cost reduction), hasty and unilateral decisions do not fully consider long-term impact. Again reduction or cut employee cost, marketing and selling cost, R & D cost which gives an adverse effect of long term competitive advantage.

## Objectives of the study

In the context of the above problems following objectives are considered for the study:

- To find out the cost components that the firms used to cut during recession periods to achieve the cost competative position.
- To study the influence of cost cutting on the firm performance.

## Hypothesis

The firms are trying to find out the cost reduction tools without hampering product utility. So to achive the cost competitiveness position following hypothesis is generated for the study:

- The firms over the industries have acclimatized to the changing economic hover in the context of evolving cost cutting strategy to ensure its growth in market share along with profitability over the years.

## Research methodology

In order to achieve the objectives of the study, the best three and worst three performing industry based on some criteria (shown in Table A) are taken into consideration. Again out of the selected industries we opt the leader on the basis of sales turnover for the financial year 2013. The relevant secondary data are collected from Capitaline corporate database. To analysis the cost components of the firm under the study we have considered some relevant variables: Raw Materials(RM), Employee cost (EC), Selling & Administration Expenses (SAE), advertisement expenses (ADE), Interest Cost(INTE), other expenses (OE) during seven years from March 2007 to March 2013. On the other hand, for measuring the financial performance of the sample firms CAGR of Reported Net Profit (RNP), Reported Net Profit to Sales % and Market Share are considered in this study.

In order to analyse the significant impact of cost components on sales revenue, following stepwise constant coefficient model is used:

$$SR_{it} = \alpha + \beta\ RM_{it} + \beta_2\ EC_{it} + \beta_3\ SAE_{it} + \beta_4\ ADE_{it} + \beta_5\ INE_{it} + \beta_6\ OE_{it} + \varepsilon_{it}$$

where $\alpha$ is the constant term and $\mu_{it}$ is the Error term

Total cost components are divided into 6 categories like RM, EC, SAE, ADE, INE and OE.

**Table-A: Industry Analysis for search the best & worst performing industry by applying some criteria.**

| | | A | B | W |
|---|---|---|---|---|
| | **Criteria/No of Industry** | 305 | 305 | 305 |
| a. | Sales > 10,000 cr (FY 2013) | 85 | 85 | 85 |
| b. | Sales < 1,000 cr (FY 2013) | 72 | NA | NA |
| c. | Total Expenditure as % of Sales>80% (FY 2013) | 249 | NA | 56 |
| d. | Total Expenditure as % of Sales<80% (FY 2013) | 56 | 29 | NA |
| e. | CAGR* on Total Expenditure as % of Sales(2007-13) < -4% | 16 | 9 | NA |
| f. | CAGR on Total Expenditure as % of Sales(2007-13) >4% | 11 | NA | 3*** |
| g. | CAGR on PBIDTM% (2007-13) = Positive or > | 109 | 8 | NA |
| h. | Reported Net Profit to Sales %(FY 2013) > 7% | 75 | 7 | NA |
| i. | CAGR Reported Net Profit to Sales(2007-13) = Positive or > | 85 | 3** | NA |

*A= Each criteria search from all 305 Industries (As per Capitaline corporate database).*
*B & W = Each criteria search on Previous Criteria' result.*
**CAGR is the compound annual growth rate;* $\mathrm{CAGR}(t_0, t_n) = (V(t_n)/V(t_0))^{\frac{1}{t_n - t_0}} - 1$
*$V(t_0)$ : Start value; $V(t_n)$ : finish value, $t_n$-$t_0$ : number of years.*
*** Best Industry i.e. - Banks - Private Sector, Finance –Medium, Finance – Small.*
**** Worst Industry i.e. - Aluminium, Textiles Others, Telecommunications - Service Provider.*

## Results and discussion

To get an overall picture of cost cutting in the recession periods we scheduled depth resolution of Indian industry. We apprehended the best three Industries which managed cost along with profitability was increasing and vis-à-vis worst three Industries.

## Industry analysis

**Table A** shows that only 85 industries' turnover was more than Rs 10000 cr and for 72 industries it was less than Rs 1000 cr at the end of the financial year 2013. This indicates that more than half of the industries are in medium volume. Most of the industries be confronted the sluggish and die situation in the International and domestic market, for that near about 249 industries are facing enormous total expenditure out of 305 total. Only 56 industries somehow manage to control total expenditure less than 80% of their turnover. This is justified by the outcome of the result by applying criteria of "CAGR on Total Expenditure as % of Sales (2007-13) >4%" that matched only in case of 11 industries. To find out the best industry we follow the criteria a, d, e, g, h, and i. as shown in table A and result comes out with three industry i.e. Banks - Private Sector, Finance –Medium, Finance – Small. For the worst company we follow a, c and f criteria and select the three industries namely, Aluminium, Textiles Others, Telecommunications - Service Provider. Finally we choose three best firms from each industry on the basis of turnover.

In table 1 and 2 we have calculated the CAGR each of the components during the period from March31, 2006 to March31 2013 and Percentage change in one component in FY 2007 compared with FY 2013 along with CAGR of Percentage change in one component during the same period. We assume that during the regime of demand slowdown the firms had adopted competitive cost cutting strategy to remain competitive in the market. In order to assess the impact of each of the costs we have considered direct cost cutting tools like material cost, employee cost, selling & administrative expenses, interest expense, advertisement etc. We have also analysed the impact of other factors like net working capital and inventories on sales. Here it is assumed that the reported net profit on sales and market share of the company on selected industries are two vital components for achieving the cost competitiveness.

## Performance of companies selected from best industry

**Table 1** shows the performance of companies selected from the best industry. It is evident from the table A that all best industries are from banking & financial service sectors. A look into the table 1 reveals that in case if Indian private sector banks interest expenses is the main component of cost and the percentage of interest expenses on sale is considerably higher that other proportion of cost components. This is quite natural because deposit mobilization is the core banking activity and payment of interest on deposit is the fixed contractual obligation for banks. A cursory look into the table reveals that share of interest expenses has reduced

**Table 1: Cost performance of companies select from best industry**

| Industry | | | Banks - Private Sector | | | Finance - Medium | | | Finance – Small | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Companies** | | | **Axis Bank** | **HDFC Bank** | **ICICI Bank** | **Bajaj Fin.** | **L&T Infra Fin** | **SREI Infra. Fin.** | **Capri Global** | **L & T Finance** | **Manappuram Fin.** |
| **Components** | | | | | | | | | | | |
| **Raw Materials** | % of NS | 2007 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| | | 2013 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| | CAGR on % of NS | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| | CAGR | NA | NA | NA | NA | NA | NA | NA | NA | NA | |
| **Employee Cost** | % of NS | 2007 | 9 | 12 | 7 | 8 | 15 | 5 | 17 | 3 | 13 |
| | | 2013 | 9 | 11 | 10 | 8 | 2 | 3 | 1 | 5 | 15 |
| | CAGR on % of NS | 0 | -1 | 5 | 0 | -30 | -10 | -38 | 8 | 2 | |
| | CAGR | 36 | 31 | 16 | 40 | 55 | 14 | 209 | 52 | 97 | |
| **Selling &Adm. Exp.** | % of NS | 2007 | 8 | 11 | 5 | 20 | 19 | 7 | 50 | 4 | 17 |
| | | 2013 | 6 | 6 | 4 | 11 | 3 | 3 | .5 | 7 | 12 |
| | CAGR on % of NS | -6 | -10 | -5 | -9 | -27 | -11 | -54 | 13 | -6 | |
| | CAGR | 27 | 19 | 5 | 29 | 62 | 13 | 129 | 58 | 81 | |
| **Total Expenditure** | % of NS | 2007 | 31 | 48 | 38 | 54 | 38 | 17 | 75 | 11 | 40 |
| | | 2013 | 31 | 35 | 26 | 32 | 9 | 9 | 98 | 24 | 31 |
| | CAGR on % of NS | 0 | -5 | -6 | -8 | -21 | -10 | 5 | 14 | -4 | |
| | CAGR | 35 | 25 | 3 | 30 | 76 | 14 | 422 | 60 | 86 | |
| **Interest** | % of NS | 2007 | 67 | 48 | 74 | 30 | 1 | 54 | 0 | 50 | 21 |
| | | 2013 | 64 | 55 | 65 | 39 | 61 | 82 | 0 | 59 | 53 |
| | CAGR on % of NS | -1 | 2 | -2 | 5 | 96 | 7 | NA | 3 | 17 | |
| | CAGR | 34 | 35 | 8 | 48 | 337 | 36 | NA | 44 | 126 | |
| **Advertisement** | % of NS | 2007 | 1 | 3 | 1 | 0 | 0 | 0.2 | 0 | 0 | 5 |
| | | 2013 | 0 | 1 | 0 | 0 | 0 | 0.2 | .01 | .1 | 1 |
| | CAGR on % of NS | -7 | -24 | -12 | NA | NA | -2 | NA | NA | -21 | |
| | CAGR | 26 | 0 | -2 | NA | NA | 25 | NA | NA | 53 | |
| **RNP** | % of NS | 2007 | 15 | 17 | 14 | 12 | 38 | 20 | 8 | 23 | 25 |
| | | 2013 | 19 | 19 | 21 | 19 | 22 | 6 | 4 | 10 | 9 |
| | CAGR on % of NS | 4 | 2 | 7 | 8 | -9 | -19 | -11 | -13 | -15 | |
| | CAGR | 41 | 34 | 18 | 52 | 103 | 3 | 342 | 22 | 64 | |
| **Market Share** | % of | 2007 | 1.82 | 2.71 | 8.97 | 17.69 | 0.59 | 18.02 | 0 | 1.23 | .2 |
| | Industry ST | 2013 | 3.43 | 4.42 | 5.06 | 26.33 | 13.62 | 14.14 | 16.02 | 17.95 | 19.52 |
| | CAGR | 11 | 9 | -9 | 7 | 69 | -4 | 455 | 56 | 115 | |

in 2013 as compared to 2007 in case of Axis Bank & ICIC Bank. On the other hand, in case of HDFC Bank although it has increased from 48% in 2007 to 55% in 2013, the percentage is still much bellow than other two firms. But in terms of managing the interest costs, both ICICI and Axis Bank have performed well during the study period. It is also observed from the table that all the three banks have managed the lower Selling&Admin.expenses as a % of NS. Human resources are considered as the main driving force for service sector in the knowledge based economy. Percentage of employee cost for ICICI Bank is found to be comparatively higher than other two selected banks. In this respect the results advocate in favour of the efficiency of HDFC bank in the matter of managing employee cost followed by Axis Bank. All of them have tried to reduce advertisements cost in that periods and finally all of these boosted to increase the RNP margin and CAGR ,in market share they also hold on their position. In Finance-Medium industries it is seen that Bajaj Fin, L&T Infra Fin, SREI Infra are efficient in controlling employee cost and Selling & Adm. expenses as evident from the observed from the CAGR percentage on NS. The share of employee cost and selling & administrative expenses on NS have also reduced significantly in 2013 as compared to 2007 for all the firms. In this respect mention can be made about the performance of L&T Infra Fin, where the firm has been able to reduced the employee cost percentage on sales from 15 % to 2% during 2007-2013, but the company could not control the interest expenses percentage and the percentage of NWC in 2013 as compared to that of in 2007.In the matter of managing interest cost and net working capital, Bajaj Fin & SREI Infra have shown better performance. On the other hand, by reducing the percentage of total expenditure cost in 2013 than that of in 2007, L&T Infra Fin has achieved the highest position on RNP margin in this group and finally has obtained 13.62 % MS in 2013 from 0.6 % in 2007.The results show that the Finance Small industries are in growth phase and the firms have given first priority to increase market share, even to trade in low RNP margin. In this respect mention can be made about the performance of Capri Global and Manapuram Fin. Both the firms have been able to improve the market share to very high level by managing different cost components effectively.

### Performance of companies selected from worst industry

**Table 2** shows the cost performance of companies selected from three worst industries – aluminium, textiles and telecom. It is evident from the table that the total expenditure as a percentage of net sales of the three companies belonging to aluminium sector has increased in 2013 as in comparison to 2007. Specifically, such increase is quite high in case of Natl Aluminium and Bharat Aluminium. The reason for such increase in total expenditure is due to increase in RM expenditure and employee costs during the study period. As a result, the RNP of the companies has reduced significantly. This is evident from the negative percentage of CAGR on net sales. On the other hand, reduction in RNP results in lower market share of the firms. Slightly better performance is observed in case of firms selected from textiles sector where the market share of two firms has increased during the study period, although the RNP of all the three firms has declined in 2013 as compared to that of in 2007. This contradictory finding prompt us to think some other influential factors that positively affected the market share. In case of telecommunication sector, two firms (Bharati Airtel and Idea Cellular) have shown improvement in terms of reduction in employee cost. But in case of Bharat Sanchar Ltd., the employee cost as a percentage of net sales has increased from 22 in 2007 to 55 in 2013. As a result, total expenditure of the company has increased from 63 percent in 2007 to 103 percent in 2013. As a consequence of the failure of managing cost components, the RNP and market share of Bharat Sanchar Ltd. has gone down significantly in 2013. The results shown in the table, thus, clearly indicate the importance of cost reduction in order to improve the competitive strength of a firm.

### Regression results on the impact of different cost components on sales

In order to examine the influence of different cost components on sales value of the companies selected from each industrial sector, stepwise regression method is employed. The advantage of this method is that only significant variables can be identified. Regression results are shown in **table 3**. In table 3 standardized coefficients are shown to identify the comparative influence of the significant variables on sales value. Results show that in case of private banking sector three cost components namely, employee cost, selling &adm. expenses and interest expenses, significantly and positively influence the sales value. The standardized coefficient of interest expenses is 0.683 and the result is significant at 1 percent level. Similarly in case of finance sector (medium) two significant cost components are employee cost and interest expenses. While only interest expenses is the significant cost component that positively influence the sales value in case of Finance (small) sector. On the other hand, in case of knowledge based service sector – telecommunication the significant factors are same as in case of private sector banks. Indeed,

**Table 2: Cost performance of companies select from worst industry**

| Industry | | | Aluminium | | | Textiles Others | | | Telecom.- Service Provider | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Companies** | | | **Hindalco Inds.** | **Natl. Aluminium** | **Bharat Aluminium** | **Raymond** | **Hanung Toys** | **Bombay Rayon** | **Bharat Sanchar** | **Bharti Airtel** | **Idea Cellular** |
| **Components** | | | | | | | | | | | |
| **Raw Materials Exp.** | % of NS | 2007 | 57 | 8 | 30 | 30 | 74 | 70 | NA | NA | NA |
| | | 2013 | 61 | 16 | 34 | 37 | 85 | 61 | NA | NA | NA |
| | CAGR on % of NS | 1 | 11 | 2 | 4 | 2 | -2 | NA | NA | NA | |
| | CAGR | 7 | 14 | 1 | 12 | 40 | 34 | NA | NA | NA | |
| **Employee Cost** | % of NS | 2007 | 3 | 6 | 5 | 17 | 3 | 7 | 22 | 6 | 6 |
| | | 2013 | 5 | 16 | 7 | 16 | 1 | 8 | 55 | 3 | 5 |
| | CAGR on % of NS | 10 | 17 | 8 | -1 | -17 | 3 | 16 | -10 | -4 | |
| | CAGR | 16 | 20 | 7 | 7 | 14 | 40 | 11 | 5 | 25 | |
| **Selling&Adm. Exp.** | % of NS | 2007 | 2 | 3 | 3 | 15 | 2 | 4 | 9 | 13 | 21 |
| | | 2013 | 2 | 5 | 1 | 15 | 1 | 4 | 7 | 24 | 9 |
| | CAGR on % of NS | 4 | 10 | -10 | 1 | -9 | 1 | -5 | 11 | -13 | |
| | CAGR | 10 | 12 | -11 | 8 | 24 | 38 | -10 | 30 | 14 | |
| **Total Expenditure** | % of NS | 2007 | 75 | 36 | 57 | 90 | 86 | 90 | 63 | 60 | 66 |
| | | 2013 | 85 | 80 | 83 | 95 | 94 | 84 | 103 | 70 | 77 |
| | CAGR on % of NS | 2 | 14 | 6 | 1 | 1 | -1 | 9 | 3 | 3 | |
| | CAGR | 8 | 16 | 5 | 9 | 39 | 35 | 3 | 20 | 34 | |
| **Interest Exp.** | % of NS | 2007 | 1 | 1 | 3 | 4 | 3 | 3 | 2 | 2 | 8 |
| | | 2013 | 2 | 2 | 1 | 8 | 9 | 9 | 1 | 4 | 4 |
| | CAGR on % of NS | 4 | 23 | -13 | 13 | 18 | 22 | -8 | 13 | -11 | |
| | CAGR | 10 | 25 | -14 | 22 | 61 | 67 | -13 | 32 | 17 | |
| **Advertisement Exp.** | % of NS | 2007 | 0 | 0.1 | 0.08 | 5 | .15 | 0.12 | .06 | 2 | 5 |
| | | 2013 | 0 | 0 | 0.13 | 5 | .02 | 0.04 | .16 | 1 | 2 |
| | CAGR on % of NS | NA | -100 | 8 | 0 | -29 | -15 | 19 | -9 | -13 | |
| | CAGR | NA | -100 | 7 | 8 | -4 | 16 | 13 | 7 | 15 | |
| **RNP** | % of NS | 2007 | 13 | 37 | 20 | 15 | 10 | 11 | 23 | 23 | 11 |
| | | 2013 | 6 | 8 | 1 | -2 | 4 | 6 | -31 | 11 | 4 |
| | CAGR on % of NS | -12 | -22 | -36 | NA | -16 | -10 | NA | -11 | -17 | |
| | CAGR | -7 | -21 | -37 | NA | 16 | 23 | NA | 4 | 8 | |
| **Market Share** | % of | 2007 | 62.20 | 20.57 | 14.56 | 15.54 | 3.27 | 5.82 | 37.68 | 19.43 | 4.75 |
| | Industry ST | 2013 | 69.70 | 18.26 | 10.75 | 12.87 | 11.34 | 20.14 | 14.48 | 25.61 | 12.45 |
| | CAGR | 2 | -2 | -5 | -3 | 23 | 23 | -15 | 5 | 17 | |

| Table 3: Step Wise Regression Results (Sales value is the dependent variable) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Industries | β value (Standardized Coefficients) | | | | | | | Adj.R2 | F value (sig.) |
| | Raw Materials Exp. | Employee Cost | Selling &Adm. Exp. | Advertisement Exp. | Interest Exp. | Other Costs | | | |
| Banks - Private Sector | - | 0.228* | 0.169* | NS | 0.683* | NS | | 0.997 | 1813.67* |
| | | (7.109) | (4.92) | | (34.63) | | | | |
| Finance - Medium | - | 0.643* | NS | NS | 0.516* | NS | | 0.992 | 842.42* |
| | | (23.34) | | | (18.74) | | | | |
| Finance - Small | - | NS | NS | NS | 0.831* | NS | | 0.674 | 42.403* |
| | | | | | (6.512) | | | | |
| Aluminium | 0.793* | NS | 0.233* | NS | NS | NS | | 0.993 | 1518.78* |
| | (23.47) | | (6.9) | | | | | | |
| Textiles Others | 0.729* | NS | 0.620* | -0.619* | NS | NS | | 0.994 | 1040.93* |
| | (25.57) | | (14.15) | (-7.30) | | | | | |
| Telecom.- Service Provider | NS | 0.540* | 0.875* | NS | 0.208* | NS | | 0.863 | 42.873* |
| | | (6.15) | (9.95) | | (2.37) | | | | |

*Notes: * indicates significant at 1 % level; NS indicates that coefficient is not significant;'t' values are shown in parenthesis*

for all the service sector employee cost and interest expenses significantly and positively influence the sales of the firm. It is obvious that employees play crucial role in service provider industry. The role of human resources has gained tremendous importance in the knowledge based fast changing economy. Human resources are considered as the main component of intellectual capital in this new economy.

In case of traditional tangible assets dominated industries like aluminum and textiles raw material expenses is a significant factor that influences positively the sales value. Another significant cost component is the selling and distribution expenses. In case of textile sector, advertisement expenses are negatively associated with sales value, which is contradictory and needs to further investigated. The observed regression results clearly indicate the cost components in each industrial sector that significantly influence the sales value.

In order to test the goodness of fit of the regression model, Adj. R2 and F-statistic are shown in the table. The observed Adj. R2 varies between 0.674 (Finance-small) and 0.997 (Banking- Private Sector). F-statistic is significant at 1 percent level for each run of the regression model. The observed values of Adj. R2 and F-statistic are, thus, sufficient to speak in favour of the goodness of fit of the regression model.

## Conclusion

The present study is a modest attempt to look into the importance of managing cost components in order to improve the competitive strength of a firm. To achieve the objective of the study, sample firms were selected from six different industrial sectors, of them three are from best industry and other three are from worst industry. The reported results relating to the performance of companies selected from banking, financial and telecommunication service sectors indicated that three cost components like employee cost, selling & administration expenses and interest cost are the significant factors that influence the sales value of the firm. This is supported by the results of regression analysis. To improve the firm performance, the companies should take steps either to reduce the cost components or improve the productivity in order to reduce the percentage of cost on sales. On the other hand, for the firms slected from traditional physical capital based manufacturing sector like aluminium and textiles; raw material cost and selling & administration expenses are found to have an impact on sales value. By reducing this cost components firms may be cost competitive and may enhance the competitive strength in the market.

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CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959

**REGISTRATION NUMBERS CANCELLED FOR JUNE-2014 TERM OF EXAMINATION UPTO**

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**SRS/000001 - 026999,031001 - 031257**

**WRS/015708**

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**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

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R. N. PAL

SR. DIRECTOR OF STUDIES

# COST COMPETITIVENESS AND PRICING STRATEGIES

Cost' is a fact and 'price' is a strategy. Both relate to 'product' which is another area of an enterprise's strategies. This article reviews the techniques of quality-value-cost optimization for enhancing competitiveness which is the main focus of today's business strategies

**CMA Debtosh Dey**
Director, Ripley & Co Ltd, Kolkata

## Economics as the foundation of 'pricing'

Economics tells us that demand-supply of a product determines its price and consequential profit. 'Utility' and 'cost' of the product underlie demand-supply. In short-run, an enterprise may earn super-profits or suffer losses. But in the long-run, it has to earn at least reasonable profits justifying investment of capital in business.

We will review in an appropriate place in this article that 'utility' which is synonymous to 'quality' in management terminology, is also related to 'price' (or cost). We will also consider quantitative techniques that are being practiced for quality-price analysis. Relevant cost accounting techniques are also outlined at appropriate places.

'Demand' in economics refers to want backed by purchasing power (money). Therefore, distribution of money in an economy is an important consideration for segmenting[1] market with respect to product and price.

Scope of pricing also depends on the type of economy i.e. whether it is free or controlled, open or closed. In this article, we will assume economy like that of India which is reasonably free for private entrepreneurship[2] and is quite open[3] to foreign-trade and foreign-investment.

(In this article, the term 'product' is used in wider sense to include anything which enters trade and includes goods, estate, transferrable rights and services. Correspondingly, the term 'production'

[1]Market segmentation refers to grouping of markets on the basis of selected factors like income groups, habits, ages, sex, demography, etc. Selection of such factors depends on the type of product.

[2]At present, private entrepreneurship is allowed in almost all sectors excepting a few like atomic energy and railways. Restrictions apply for location, land, environment, unfair competition. Govt also controls prices of some goods, directly or indirectly, like fertilizer, some agricultural products, oil and gas, etc.

[3]Export-import and foreign exchange policies are sufficiently liberalized. There are various tax incentives on exports besides nil export duty on almost all goods and easier export financing. These make export pricing a specialized exercise. Further, foreign direct investments (FDI) are allowed in almost all sectors barring a few which are prohibited (like real estate, tobacco products, chit fund, gambling, etc). FDI upto 100% is allowed in many cases and fewer cases require Government approvals.

includes mining, agriculture, manufacture, construction, transportation, storage and provisioning of all other services).

## 'Time' factor in competitive strategies: The 'Long and Short' story

Capital investment commits an enterprise for long. Since business scenarios change with changes in demand-supply, competition, societal regulations, etc therefore, risk management is an important entrepreneurial process for long-run success. Long-run enables an enterprise to remove many of the constraints through innovations or improvements, sometimes involving projects like product modification, technology upgradation, market expansion, business integration, process outsourcing, etc. Small iterative improvements may also accumulate to a significant change over a period of time[4]. Sometimes, an enterprise may take recourse to drastic re-engineering of processes (usually with bench-marking) for improving its competitiveness.

Short-run is too short a period for an enterprise to enter or exit industry or introduce a product or renew plant & machineries. It implies that once capital is invested, immediate divestment is quite difficult unless major unforeseen changes supervene and compel an enterprise to divest. In short-run, an enterprise can only control physical inputs (materials) and manpower (subject to labour laws in force). Therefore, economics of short-run is quite different from that of long-run. We will review this later in this article.

## Business risks and profit element in price: The 'SWOT' theory

Profit is the reward for risk-bearing, though it is used for measuring capital productivity (in terms of 'Return on Capital Employed' or ROCE). Four basic facts about risks are stated below :

a) Risks arise for unforeseeable changes in technology, demand, competition, economy and regulations. Bearing risks of such changes (threats) entail either gain or loss to an enterprise. Such risks are non-insurable.

b) Other common threats are catastrophe, accidents, war, riots, strikes, etc which are less dynamic and statistically predictable. These entail losses only and can be insured against. In commercial contracts, such threats are usually covered under 'forced majeure' clause.

c) An enterprise may also have internal threats like limitations or constraints on resources. The long-run and short-run approaches outlined above, address such threats.

d) Normally, more the time horizon considered, more is the risk.

It is difficult to measure business risks deterministically, nor is it possible to establish precise cause-effect relationship between enterprise's processes and its results. However, this does not make risk-bearing a blind speculation. Risk-bearing[5] involves information-driven strategies, continuous learning from results and even experimentation. Many indicators are being used for assessing risks as follows : adverse financial ratios and budget variances, unabsorbed overheads, negative contribution, liquidity crisis, erosion of net worth, etc. Statistical trend analysis throws useful lights on possible effects and standard deviations of an uncontrollable factor provide some clue to risks.

It is noteworthy that in all strategy-making exercises, external opportunities and threats are evaluated with respect to internal strengths and weaknesses of the enterprise (This is sometimes referred to as 'SWOT' analysis, the acronym comprising the letters underlined). Finally, strategies are translated into plans which are implemented through organization deployed by the enterprise with leadership as the ultimate controller.

## Improving Cost Competitiveness: The key strategic areas

Competitive edging is ultimately reflected in enterprise's profitability. Though cost hardly governs price in today's demand-driven markets, a cost ceiling is normally targeted for ensuring reasonable profit. It needs techno-commercial evaluation of enterprise's products and processes for improving cost competitiveness. Sometimes re-engineering becomes inevitable for containing cost within given ceiling or bench-mark. Areas of cost competitiveness co-extend to all activities of an enterprise. We will illustrate this below with the help of Diagram 1 adapted from Total Quality Management (TQM) :

***Illustration 1:*** Every enterprise has a chain of basic activities comprising suppliers-input-process-output-customers (acronym 'SIPOC', also called horizontal process or value creation process). The enterprise deploys an organization (human-structure or team) that uses technology including information & communication technology in driving SIPOC chain, while plan-delegate-evaluate (PDE) cycle of management ensures control (delegate-evaluate process is sometimes referred to as vertical process of feed-forward & feedback). Diagram 1 gives an overview of the strategic areas and their interplays.

It is being emphasized that cost competitiveness is the result of team-technology driving SIPOC chain with PDE cycle underpinning and that quality-value (as considered later) sets the limit for 'cost'. Specific key areas

[4]'Tipping point theory' (Malcom Gladwell, 2000) reveals that small but continuous improvements progress faster than big one-time change, through ripple effect and virtuous learning.

[5]Risk is managed by avoidance, minimization, sharing and bearing. Possible gains are weighed against possible pains for appropriate course of action. Risk-bearing alone gives rise to profit or loss, though other courses of actions as appropriate are also adopted. Risk is borne when it is accepted and provisioned in planning.

of cost competitiveness and the techniques that are available for analysis, are outlined below :

**1. PRODUCT DESIGNING**

Creating product value for customers' money, is the basis for cost-effective product design. Customers' needs have to be understood through market research, analyzing sufficient data collected through sampling of potential customers. Wasteful costs can be considerably avoided by evaluating product's usefulness (reliability, efficiency, life, etc) regard being had to type of product (i.e. whether consumers' product or producers' product). Sometimes, esteem factor influences product which is brand-sensitive.

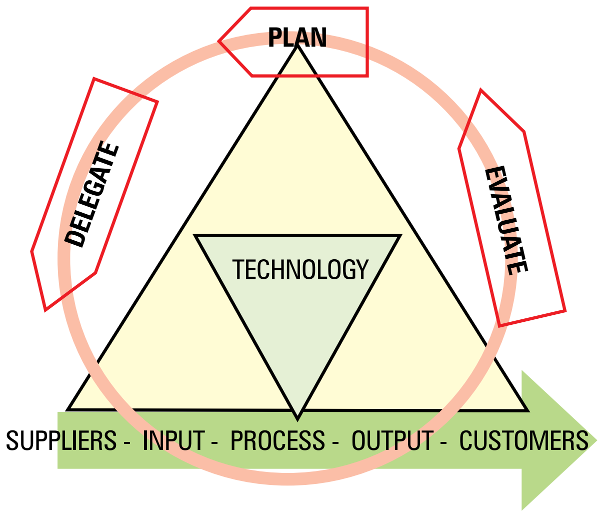
Some models which are used for conceptualizing quality-value-cost are as follows:

Intrinsic value = Use value + Esteem value
Extrinsic value = Exchange value = Price
But, extrinsic value = intrinsic value (in commercial world)
Therefore, Price = Use value + Esteem value
Since, Profit = Price – Cost
Therefore, Profit = Use value + Esteem value – Cost

It is being emphasized that product alone is not focused in a strategy. Market and its segments, distribution channels, resources, price and every other thing matters[6].

[6]'Interestingly, the concept of integrated management emerging in recent years, fosters unified approach to enterprise's operations, commercial practices and finance. Integrated management is also termed as 'holistic management' (Ref. Kotler and keller in "Marketing Management", 14th Edn). Integration should align an enterprise to customers' needs (Adapted from Peter Drucker's "Managing for the Future", 1993). Similar views are found in TQM practices popularized after Deming, Kaizen, ISO, Six Sigma, etc. Supply-Chain Management (Keith Oliver, 1982) and Value-Chain (Michael Porter, 1985) are allied concepts for internal integration and segmentation.

**Diagram 1: Model for Competitive Edging**




"Quantity changes quality". Therefore, numerical evaluation of every attribute of product is a key to quantitative solution of problem. In the Illustration 2 below, we will consider quality-value-cost relationship taking an example from iron ore beneficiation.

***Illustration 2:*** Iron-ore is crushed to desired sizes and screened for separating fines. Fines can be sold as it is or after re-screening and washing for removing dust and slime respectively. These processes improve iron (Fe) % in fines fetching higher selling price at each stage but lowers yield progressively and raise cost per ton (High grade fines can also be produced by selective mining of good ore but at increased cost. Similarly, timely renewal of crusher-liners, screens, nozzles, drives, etc prevents defectives). A graph below **(in Diagram 2)** shows maximum profit at 62% Fe which is the optimum grade for a given quantity.

**2. PRODUCTION ENGINEERING**

a. **Technology selection** – Selection of machineries and materials have far reaching effects on cost of product. It includes collaborations (outlined later under 'Supply Chain Management').

b. **Plant location, layout & ergonomics** – Appropriate location of a plant reduces inbound & outbound logistics costs and transportation time. Appropriate layout reduces in-house logistics costs and handling time. Layout should also consider ventilation, light, space, waste disposal and other human conditions (some of these are regulated by statutes). Workplaces should be designed appropriately for safe working with minimum fatigue. Such health, safety and ergonomic measures have favorable effects on productivity.

c. **Process planning & control** – Use of digital technology with computers and networks help better planning & control of machine conditions, workflow and inventory.

d. **Materials handling** – Mechanized or automated handling contributes to phenomenal increase in productivity and reduction of cycle-time. Volume of handling should justify mechanization or automation. A cost-benefit analysis is desirable before making major investments.

e. **Quality management** – Output is the tail end of all processes and hence quality control of output is not enough to remove inefficiencies from the processes. Quality assurance requires inspection at input and processing stages also. Finally, TQM as stated above, extends to all activities. TQM favours decentralized controls with trained, motivated and empowered employees.

### 3. SUPPLY-CHAIN MANAGEMENT (SCM)

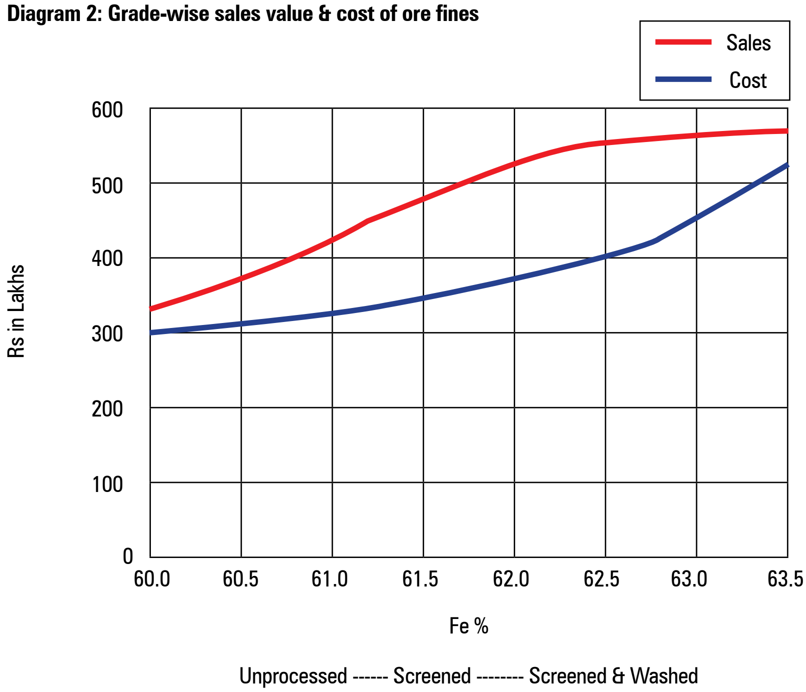
a. **In-sourcing vis-à-vis outsourcing** – No enterprise is self-sufficient in resources for all situations. Therefore, it needs to focus more on its core competence and outsource non-core activities. Outsourcing changes cost structure as many of the erstwhile fixed costs are replaced by variable costs adding to controllability. But quality of outsourced services should be guarded against with applicable standards and evaluation of vendors' performances.

b. **Internal integration of supply process** – Isolated functions of purchasing-storing-production-warehousing-delivery may not have the desired agility and economy. SCM integrates these functions. Several enterprises have repeated benefits of such integration.

c. **Computer aided logistics** – Information and communication technology (ICT) is one of the major means of integrating supply processes. ICT is also an instrument for exploring external supply network relevant to the enterprise, implementing e-Commerce and reviewing internal resources. These help managing logistics more effectively than before.

d. **Vendor partnering** – In leveraging supply network, SCM locates key suppliers who can be partnered for sharing technology and information. Such partnering may be necessary for strengthening core competence and it takes different forms like hiring, leasing, build-operate-transfer (BOT), supply-operate-maintain (or its different variants like supply-operate, supply-maintain, operate-maintain), etc.

**Diagram 2: Grade-wise sales value & cost of ore fines**




### 4. MANAGEMENT PROCESSES

a. An enterprise needs to put all the elements of SIPOC-technology-team in place appropriately for competitive edging. The appropriateness is the subject of PDE cycle.

b. It is worth noting that plan need not be the only yardstick for performance evaluation. Comparison with past performance and benchmarks are also important.

c. New opportunities emerging during evaluation, need to be incorporated in current plans instead of carrying these forward. This leads to early improvements. As threats or situations may change randomly, periodical evaluation is a pre-requisite of continuous improvement (Ref. works of Demings, Kaizen, Drucker, Kaplan and Goldratt).

d. Team-building and organizational hierarchy are two major aspects of man-management, though conflicting quite often. Team building involves human motivation with role-goal clarities and co-operation which in turn influence organizational learning, innovations and employee morale. Whereas, right sizing of organization (with appropriate skills and hierarchy) reduces cycle-time, employee costs and other overheads (Ref. 'Lean Organization' concept).

e. Technology absorption necessitates development of human resource. Technology sharing agreements should include training by collaborators and documentation of new procedures.

Various techniques that are used for problem identification and solution in quality-value-cost analysis are as follows : (a) Quantitative Techniques (Mathematical Programming and Statistical Analysis) (b) Group Creativities (brain storming) (c) Comparative Studies (bench-marking from best practices or industry averages). Many standard quantitative models like Transportation, Queuing, Inventory, Reliability, Games, etc are used

**'DEMAND' REFERS TO WANT BACKED BY PURCHASING POWER (MONEY). THEREFORE, DISTRIBUTION OF MONEY IS IMPORTANT WHEN SEGMENTING MARKET WITH RESPECT TO PRODUCT AND PRICE**

with the help of computers. In computer application, Systems Analysis is an important technique for standardizing procedures. These apart, scientific techniques like engineering analysis, work study, ergonomics, etc are mention worthy. There are other descriptive techniques like 'What-How' analysis, 'Why-How' analysis, "What-If' analysis, etc.

## Pricing strategies in a competitive environment

We have considered above that integrated strategies take into account product, market, price and other related factors together. We have also considered product-price effect stemming from quality-value-cost relationship. We will now consider the basic marketing fact that price has important bearing on product life for the 'timing' factor.

### 1. SHORT-RUN PRICING STRATEGIES

Profit maximization is envisaged for given product-mix, assuming forecast demands corresponding to different prices of each product, current constraints and latest standards for costs (including provisions for replacement of fixed assets, calculated risks and opportunity costs).

Fixed costs and profits may not enter short-run prices. The following examples explain such circumstances :

a) New price-sensitive product, new market or where the enterprise has just commenced its business – Here, price may have to be kept below total cost for promotional reasons.

b) Keen competition – Price cutting for ousting potential competitors (as in 'predatory' or 'penetrative' pricing).

c) Declining demands in later phase of product's life ('milking the machinery' strategy).

d) Differential product made to order for utilizing surplus capacities of machineries.

e) Product used for boosting sales of another product ('Loss leader' product strategy – This may also be a long-term strategy where a basket of complementary products are offered with prices decided on the basis of their effects on total profits).

f) Temporary trade depression.

On the other hand, a new 'image' product with fairly inelastic demand, may be subject to high prices, differentiated according to market segments (as in 'market skimming' pricing). Here, super-profits are earned in a short time till competition sets in.

It may be noted in the context of pricing that some of the traditional cost accounting practices are being reviewed globally for realistic analysis. Two cases are explained briefly below :

- **Linear relationship of cost-volume** – Linear behavior of cost need not be realistic in many cases, as for example, where power or fuel are major components of cost (in power-intensive industries or for diesel-driven machineries). Maintenance cost also exhibits non-linear and erratic behavior depending on the usage of machineries, maintenance practice, etc. Increasing use of quantitative techniques (like regression analysis) with computers is becoming a fascinating exercise for ascertaining approximate cost-volume relationship. It is noteworthy that marginal cost in non-linear cost behavior may not be a constant (Ref. **Illustration 3**).
- **Direct labour as variable cost** – Time-rated wages (daily or monthly wages) do not vary with production. This is particularly true in short-run if labour cannot be retrenched as and when production falls. With increased mechanization and automation of production, direct labor is substantially getting replaced by machine overheads (Note : Enterprises deploying manual systems, engage minimum workmen on fixed-pay basis but increase casual labour or work overtime when production increases. In

such cases, wages remain fixed upto a point of production after which these increase in steps).

**Illustration 3**

Let cost-volume relationship for two products 'A' and 'B' sharing the same machineries is found to be as follows:

$y=25x_1^2+35x_2^2+375x_1+400x_1^{0.5}+500x_2+20,00,000$

Where $x_1$, $x_2$ represent volume of sales in units for 'A' and 'B' respectively and 'y' represents total yearly cost in rupees (Subject to : $x_1 + x_2 \le 50,000$ units per annum).

Marginal cost for 'A' at $x_1$=10,000 units is $2 \times 25 \times 10000 + 375 + 0.5 \times 400/10000^{0.5}$ or Rs. 5,00,377/-.

## 2. LONG-RUN PRICING STRATEGIES

Pricing itself influences product life in the long-run much as product features, promotional measures and customers' acceptance. Since reasonable ROCE should be earned over product life, strategies centre around maximizing profits and minimizing investment of capital. The iterative improvements during the product life as well as one-off changes through business process re-engineering (BPR), if any, should achieve such prime objectives.

Depending on the growth of product demand, price is increased with or without added features in the product. As demand achieves it peak, an enterprise starts concentrating on the strengths of the product and maintain the price.

Financial model of cash-flows over a period (T) discounted at internal rate of return (R) is used widely for long-term pricing, taking net cash inflow (I) for any year (t) in a period (T). Assuming anticipated inflation from the second year and onwards, 'R' can be validated for different prices either by trial and error or on a computer following the condition that R below minimum expected rate of return (r) is rejected.

Usually, 'T' is taken as the life of investment (as plant & machinery wear) unless a shorter product life is expected (e.g. fixed term contract of service). Therefore, this model is analogous to life-cycle costing. The model can also be adopted for negotiating supplier's price on long-term contracts. The analysis is also helpful for developing project report for loans, share issue, etc.

The above model can be formulated as follows:

$$\sum_{t=1}^{T} \frac{I_t}{(1+R)^{t-1}} = 0 \quad (t = 1,2,3,.....,T, \quad r \le R < 1, \quad 0 < r < 1)$$

**Illustration 4**

Let long-term price = Rs 100 per unit with 5% inflation anticipated p.a. 90% of sales are realized every year and balance next year. Rest figures in the table (Diagram 3) below are self-explanatory. The table shows net inflow totaling Rs 352 lakhs over 10 years with investment of Rs 1,012 lakhs. The periodicities of these data make R = 16%. Thus, price can be manipulated for desired R. MA

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**Diagram 3: Discounted cash-flow model for Long-run pricing (figures in lakhs)**

| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| OUTPUT (UNITS) | | 6 | 22 | 35 | 35 | 35 | 35 | 28 | 12 | 5 | 213 |
| INFLOWS | | | | | | | | | | | |
| Receipts from trade debtors | | 540 | 2,139 | 3,711 | 4,059 | 4,250 | 4,456 | 3,877 | 1,950 | 882 | 25,933 |
| Receipts from mechinery scrapping | | | | | | | | | | 122 | 122 |
| **Total Inflow** | **-** | **540** | **2,139** | **3,711** | **4,059** | **4,280** | **4,496** | **3,877** | **1,950** | **1,004** | **26,055** |
| OUTFLOWS | | | | | | | | | | | |
| Down payment to machinery supplier | 150 | | | | | | | | | | 150 |
| Loan repayments | | 100 | 105 | 112 | 122 | 125 | 140 | 158 | | | 862 |
| Payments to trade creditors | | 435 | 1,745 | 2,934 | 3,282 | 3,328 | 3,409 | 3,117 | 1,657 | 874 | 20,751 |
| Interest payments | | 70 | 65 | 55 | 48 | 45 | 30 | 12 | | | 328 |
| Other payments (including salaries and taxes) | 12 | 85 | 295 | 497 | 558 | 576 | 613 | 523 | 266 | 147 | 3,572 |
| **Total Outlow** | **162** | **690** | **2,210** | **3,601** | **4,010** | **4,074** | **4,192** | **3,810** | **1,933** | **1,021** | **25,709** |
| **Net inflow** | **(162)** | **(150)** | **(71)** | **110** | **49** | **206** | **304** | **67** | **17** | **(17)** | **352** |
| Receipts from issue of equity stores | 150 | | | | | | | | | | |
| Loan (against machinery) | 862 | | | | | | | | | | |
| Cash Balance | 850 | 700 | 629 | 739 | 787 | 993 | 1,297 | 1,364 | 1,381 | 1,364 | 1,364 |

# Global Competitiveness Index 2013-14

| Country/Economy | GCI 2013–2014 Rank (out of 148) | GCI 2013–2014 Score (1–7) | GCI 2013–2014 Rank among 2012–2013 economies* | GCI 2012–2013 |
|---|---|---|---|---|
| Switzerland | 1 | 5.67 | 1 | 1 |
| Singapore | 2 | 5.61 | 2 | 2 |
| Finland | 3 | 5.54 | 3 | 3 |
| Germany | 4 | 5.51 | 4 | 6 |
| United States | 5 | 5.48 | 5 | 7 |
| Sweden | 6 | 5.48 | 6 | 4 |
| Hong Kong SAR | 7 | 5.47 | 7 | 9 |
| Netherlands | 8 | 5.42 | 8 | 5 |
| Japan | 9 | 5.40 | 9 | 10 |
| United Kingdom | 10 | 5.37 | 10 | 8 |
| Norway | 11 | 5.33 | 11 | 15 |
| Taiwan, China | 12 | 5.29 | 12 | 13 |
| Qatar | 13 | 5.24 | 13 | 11 |
| Canada | 14 | 5.20 | 14 | 14 |
| Denmark | 15 | 5.18 | 15 | 12 |
| Austria | 16 | 5.15 | 16 | 16 |
| Belgium | 17 | 5.13 | 17 | 17 |
| New Zealand | 18 | 5.11 | 18 | 23 |
| United Arab Emirates | 19 | 5.11 | 19 | 24 |
| Saudi Arabia | 20 | 5.10 | 20 | 18 |
| Australia | 21 | 5.09 | 21 | 20 |
| Luxembourg | 22 | 5.09 | 22 | 22 |
| France | 23 | 5.05 | 23 | 21 |
| Malaysia | 24 | 5.03 | 24 | 25 |
| Korea, Rep. | 25 | 5.01 | 25 | 19 |
| Brunei Darussalam | 26 | 4.95 | 26 | 28 |
| Israel | 27 | 4.94 | 27 | 26 |
| Ireland | 28 | 4.92 | 28 | 27 |
| China | 29 | 4.84 | 29 | 29 |
| Puerto Rico | 30 | 4.67 | 30 | 31 |
| Iceland | 31 | 4.66 | 31 | 30 |
| Estonia | 32 | 4.65 | 32 | 34 |
| Oman | 33 | 4.64 | 33 | 32 |
| Chile | 34 | 4.61 | 34 | 33 |
| Spain | 35 | 4.57 | 35 | 36 |
| Kuwait | 36 | 4.56 | 36 | 37 |
| Thailand | 37 | 4.54 | 37 | 38 |
| Indonesia | 38 | 4.53 | 38 | 50 |
| Azerbaijan | 39 | 4.51 | 39 | 46 |
| Panama | 40 | 4.50 | 40 | 40 |
| Malta | 41 | 4.50 | 41 | 47 |
| Poland | 42 | 4.46 | 42 | 41 |
| Bahrain | 43 | 4.45 | 43 | 35 |
| Turkey | 44 | 4.45 | 44 | 43 |
| Mauritius | 45 | 4.45 | 45 | 54 |
| Czech Republic | 46 | 4.43 | 46 | 39 |
| Barbados | 47 | 4.42 | 47 | 44 |
| Lithuania | 48 | 4.41 | 48 | 45 |
| Italy | 49 | 4.41 | 49 | 42 |
| Kazakhstan | 50 | 4.41 | 50 | 51 |
| Portugal | 51 | 4.40 | 51 | 49 |
| Latvia | 52 | 4.40 | 52 | 55 |
| South Africa | 53 | 4.37 | 53 | 52 |
| Costa Rica | 54 | 4.35 | 54 | 57 |
| Mexico | 55 | 4.34 | 55 | 53 |
| Brazil | 56 | 4.33 | 56 | 48 |
| Bulgaria | 57 | 4.31 | 57 | 62 |
| Cyprus | 58 | 4.30 | 58 | 58 |
| Philippines | 59 | 4.29 | 59 | 65 |
| India | 60 | 4.28 | 60 | 59 |
| Peru | 61 | 4.25 | 61 | 61 |
| Slovenia | 62 | 4.25 | 62 | 56 |
| Hungary | 63 | 4.25 | 63 | 60 |
| Russian Federation | 64 | 4.25 | 64 | 67 |
| Sri Lanka | 65 | 4.22 | 65 | 68 |
| Rwanda | 66 | 4.21 | 66 | 63 |
| Montenegro | 67 | 4.20 | 67 | 72 |
| Jordan | 68 | 4.20 | 68 | 64 |
| Colombia | 69 | 4.19 | 69 | 69 |
| Vietnam | 70 | 4.18 | 70 | 75 |
| Ecuador | 71 | 4.18 | 71 | 86 |
| Georgia | 72 | 4.15 | 72 | 77 |
| Macedonia, FYR | 73 | 4.14 | 73 | 80 |
| Botswana | 74 | 4.13 | 74 | 79 |
| Croatia | 75 | 4.13 | 75 | 81 |
| Romania | 76 | 4.13 | 76 | 78 |
| Morocco | 77 | 4.11 | 77 | 70 |
| Slovak Republic | 78 | 4.10 | 78 | 71 |
| Armenia | 79 | 4.10 | 79 | 82 |
| Seychelles | 80 | 4.10 | 80 | 76 |
| Lao PDR | 81 | 4.08 | n/a | n/a |
| Iran, Islamic Rep. | 82 | 4.07 | 81 | 66 |
| Tunisia | 83 | 4.06 | n/a | n/a |
| Ukraine | 84 | 4.05 | 82 | 73 |
| Uruguay | 85 | 4.05 | 83 | 74 |
| Guatemala | 86 | 4.04 | 84 | 83 |
| Bosnia and Herzegovina | 87 | 4.02 | 85 | 88 |
| Cambodia | 88 | 4.01 | 86 | 85 |
| Moldova | 89 | 3.94 | 87 | 87 |
| Namibia | 90 | 3.93 | 88 | 92 |
| Greece | 91 | 3.93 | 89 | 96 |
| Trinidad and Tobago | 92 | 3.91 | 90 | 84 |
| Zambia | 93 | 3.86 | 91 | 102 |
| Jamaica | 94 | 3.86 | 92 | 97 |
| Albania | 95 | 3.85 | 93 | 89 |
| Kenya | 96 | 3.85 | 94 | 106 |
| El Salvador | 97 | 3.84 | 95 | 101 |
| Bolivia | 98 | 3.84 | 96 | 104 |
| Nicaragua | 99 | 3.84 | 97 | 108 |
| Algeria | 100 | 3.79 | 98 | 110 |
| Serbia | 101 | 3.77 | 99 | 95 |
| Guyana | 102 | 3.77 | 100 | 109 |
| Lebanon | 103 | 3.77 | 101 | 91 |
| Argentina | 104 | 3.76 | 102 | 94 |
| Dominican Republic | 105 | 3.76 | 103 | 105 |
| Suriname | 106 | 3.75 | 104 | 114 |
| Mongolia | 107 | 3.75 | 105 | 93 |
| Libya | 108 | 3.73 | 106 | 113 |
| Bhutan | 109 | 3.73 | n/a | n/a |
| Bangladesh | 110 | 3.71 | 107 | 118 |
| Honduras | 111 | 3.70 | 108 | 90 |
| Gabon | 112 | 3.70 | 109 | 99 |
| Senegal | 113 | 3.70 | 110 | 117 |
| Ghana | 114 | 3.69 | 111 | 103 |
| Cameroon | 115 | 3.68 | 112 | 112 |
| Gambia, The | 116 | 3.67 | 113 | 98 |
| Nepal | 117 | 3.66 | 114 | 125 |
| Egypt | 118 | 3.63 | 115 | 107 |
| Paraguay | 119 | 3.61 | 116 | 116 |
| Nigeria | 120 | 3.57 | 117 | 115 |
| Kyrgyz Republic | 121 | 3.57 | 118 | 127 |
| Cape Verde | 122 | 3.53 | 119 | 122 |
| Lesotho | 123 | 3.52 | 120 | 137 |
| Swaziland | 124 | 3.52 | 121 | 135 |
| Tanzania | 125 | 3.50 | 122 | 120 |
| Côte d'Ivoire | 126 | 3.50 | 123 | 131 |
| Ethiopia | 127 | 3.50 | 124 | 121 |
| Liberia | 128 | 3.45 | 125 | 111 |
| Uganda | 129 | 3.45 | 126 | 123 |
| Benin | 130 | 3.45 | 127 | 119 |
| Zimbabwe | 131 | 3.44 | 128 | 132 |
| Madagascar | 132 | 3.42 | 129 | 130 |
| Pakistan | 133 | 3.41 | 130 | 124 |
| Venezuela | 134 | 3.35 | 131 | 126 |
| Mali | 135 | 3.33 | 132 | 128 |
| Malawi | 136 | 3.32 | 133 | 129 |
| Mozambique | 137 | 3.30 | 134 | 138 |
| Timor-Leste | 138 | 3.25 | 135 | 136 |
| Myanmar | 139 | 3.23 | n/a | n/a |
| Burkina Faso | 140 | 3.21 | 136 | 133 |
| Mauritania | 141 | 3.19 | 137 | 134 |
| Angola | 142 | 3.15 | n/a | n/a |
| Haiti | 143 | 3.11 | 138 | 142 |
| Sierra Leone | 144 | 3.01 | 139 | 143 |
| Yemen | 145 | 2.98 | 140 | 140 |
| Burundi | 146 | 2.92 | 141 | 144 |
| Guinea | 147 | 2.91 | 142 | 141 |
| Chad | 148 | 2.85 | 143 | 139 |

* This column shows the rank of each economy based on last year's sample of 144 economies.

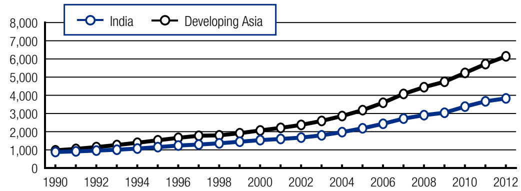
Source: World Economic Forum, The Global Competitiveness Index Report 2013-14

# India

## Key indicators, 2012

| | |
|---|---|
| Population (millions) | 1,241.5 |
| GDP (US$ billions) | 1,824.8 |
| GDP per capita (US$) | 1,492 |
| GDP (PPP) as share (%) of world total | 5.63 |

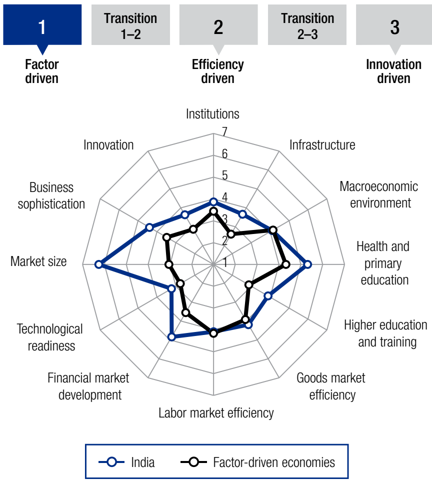
GDP (PPP) per capita (int'l $), 1990–2012




## Global Competitiveness Index

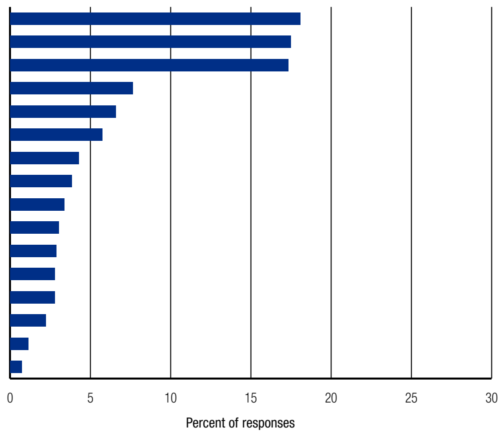
| | Rank (out of 148) | Score (1–7) |
|---|---|---|
| **GCI 2013–2014** | **60** | **4.3** |
| GCI 2012–2013 (out of 144) | 59 | 4.3 |
| GCI 2011–2012 (out of 142) | 56 | 4.3 |
| **Basic requirements (60.0%)** | **96** | **4.2** |
| Institutions | 72 | 3.9 |
| Infrastructure | 85 | 3.7 |
| Macroeconomic environment | 110 | 4.1 |
| Health and primary education | 102 | 5.3 |
| **Efficiency enhancers (35.0%)** | **42** | **4.4** |
| Higher education and training | 91 | 3.9 |
| Goods market efficiency | 85 | 4.2 |
| Labor market efficiency | 99 | 4.1 |
| Financial market development | 19 | 4.8 |
| Technological readiness | 98 | 3.2 |
| Market size | 3 | 6.2 |
| **Innovation and sophistication factors (5.0%)** | **41** | **4.0** |
| Business sophistication | 42 | 4.4 |
| Innovation | 41 | 3.6 |

Stage of development




## The most problematic factors for doing business

| | |
|---|---|
| Inadequate supply of infrastructure | 18.1 |
| Inefficient government bureaucracy | 17.5 |
| Corruption | 17.3 |
| Tax regulations | 7.6 |
| Policy instability | 6.6 |
| Restrictive labor regulations | 5.8 |
| Inflation | 4.3 |
| Access to financing | 3.9 |
| Tax rates | 3.4 |
| Poor work ethic in national labor force | 3.0 |
| Foreign currency regulations | 2.9 |
| Government instability/coups | 2.8 |
| Insufficient capacity to innovate | 2.8 |
| Inadequately educated workforce | 2.2 |
| Crime and theft | 1.2 |
| Poor public health | 0.7 |




**Note:** From the list of factors above, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: World Economic Forum, The Global Competitiveness Index Report 2013-14

# India

## The Global Competitiveness Index in detail

| | INDICATOR | VALUE | RANK/148 |
|---|---|---|---|
| | **1st pillar: Institutions** | | |
| 1.01 | Property rights | 4.4 | 58 |
| 1.02 | Intellectual property protection | 3.7 | 71 |
| 1.03 | Diversion of public funds | 2.8 | 98 |
| 1.04 | Public trust in politicians | 2.2 | 115 |
| 1.05 | Irregular payments and bribes | 3.2 | 110 |
| 1.06 | Judicial independence | 4.7 | 40 |
| 1.07 | Favoritism in decisions of government officials | 2.8 | 94 |
| 1.08 | Wastefulness of government spending | 3.0 | 87 |
| 1.09 | Burden of government regulation | 3.1 | 104 |
| 1.10 | Efficiency of legal framework in settling disputes | 3.8 | 62 |
| 1.11 | Efficiency of legal framework in challenging regs. | 3.8 | 48 |
| 1.12 | Transparency of government policymaking | 4.2 | 61 |
| 1.13 | Business costs of terrorism | 4.7 | 113 |
| 1.14 | Business costs of crime and violence | 4.7 | 71 |
| 1.15 | Organized crime | 4.8 | 85 |
| 1.16 | Reliability of police services | 4.0 | 82 |
| 1.17 | Ethical behavior of firms | 3.7 | 86 |
| 1.18 | Strength of auditing and reporting standards | 4.9 | 52 |
| 1.19 | Efficacy of corporate boards | 4.6 | 65 |
| 1.20 | Protection of minority shareholders' interests | 4.4 | 52 |
| 1.21 | Strength of investor protection, 0–10 (best)* | 6.0 | 41 |
| | **2nd pillar: Infrastructure** | | |
| 2.01 | Quality of overall infrastructure | 3.9 | 85 |
| 2.02 | Quality of roads | 3.6 | 84 |
| 2.03 | Quality of railroad infrastructure | 4.8 | 19 |
| 2.04 | Quality of port infrastructure | 4.2 | 70 |
| 2.05 | Quality of air transport infrastructure | 4.8 | 61 |
| 2.06 | Available airline seat km/week, millions* | 3,288.0 | 13 |
| 2.07 | Quality of electricity supply | 3.2 | 111 |
| 2.08 | Mobile telephone subscriptions/100 pop.* | 68.7 | 123 |
| 2.09 | Fixed telephone lines/100 pop.* | 2.5 | 118 |
| | **3rd pillar: Macroeconomic environment** | | |
| 3.01 | Government budget balance, % GDP* | -8.3 | 141 |
| 3.02 | Gross national savings, % GDP* | 29.8 | 28 |
| 3.03 | Inflation, annual % change* | 9.3 | 130 |
| 3.04 | General government debt, % GDP* | 66.8 | 116 |
| 3.05 | Country credit rating, 0–100 (best)* | 60.0 | 47 |
| | **4th pillar: Health and primary education** | | |
| 4.01 | Business impact of malaria | 4.6 | 112 |
| 4.02 | Malaria cases/100,000 pop.* | 1,946.2 | 116 |
| 4.03 | Business impact of tuberculosis | 4.7 | 103 |
| 4.04 | Tuberculosis cases/100,000 pop.* | 181.0 | 114 |
| 4.05 | Business impact of HIV/AIDS | 4.8 | 96 |
| 4.06 | HIV prevalence, % adult pop.* | 0.30 | 60 |
| 4.07 | Infant mortality, deaths/1,000 live births* | 47.2 | 120 |
| 4.08 | Life expectancy, years* | 65.5 | 111 |
| 4.09 | Quality of primary education | 3.6 | 84 |
| 4.10 | Primary education enrollment, net %* | 93.3 | 80 |
| | **5th pillar: Higher education and training** | | |
| 5.01 | Secondary education enrollment, gross %* | 63.2 | 110 |
| 5.02 | Tertiary education enrollment, gross %* | 17.9 | 98 |
| 5.03 | Quality of the educational system | 4.4 | 33 |
| 5.04 | Quality of math and science education | 4.7 | 32 |
| 5.05 | Quality of management schools | 5.0 | 30 |
| 5.06 | Internet access in schools | 4.1 | 77 |
| 5.07 | Availability of research and training services | 4.5 | 47 |
| 5.08 | Extent of staff training | 4.2 | 53 |
| | **6th pillar: Goods market efficiency** | | |
| 6.01 | Intensity of local competition | 5.6 | 24 |
| 6.02 | Extent of market dominance | 4.4 | 26 |
| 6.03 | Effectiveness of anti-monopoly policy | 4.7 | 29 |
| 6.04 | Effect of taxation on incentives to invest | 4.1 | 44 |
| 6.05 | Total tax rate, % profits* | 61.8 | 128 |

| | INDICATOR | VALUE | RANK/148 |
|---|---|---|---|
| | **6th pillar: Goods market efficiency** *(cont'd.)* | | |
| 6.06 | No. procedures to start a business* | 12 | 129 |
| 6.07 | No. days to start a business* | 27 | 103 |
| 6.08 | Agricultural policy costs | 3.7 | 87 |
| 6.09 | Prevalence of trade barriers | 4.4 | 61 |
| 6.10 | Trade tariffs, % duty* | 11.7 | 128 |
| 6.11 | Prevalence of foreign ownership | 4.3 | 94 |
| 6.12 | Business impact of rules on FDI | 4.6 | 67 |
| 6.13 | Burden of customs procedures | 3.8 | 88 |
| 6.14 | Imports as a percentage of GDP* | 33.7 | 107 |
| 6.15 | Degree of customer orientation | 4.5 | 78 |
| 6.16 | Buyer sophistication | 3.6 | 59 |
| | **7th pillar: Labor market efficiency** | | |
| 7.01 | Cooperation in labor-employer relations | 4.4 | 61 |
| 7.02 | Flexibility of wage determination | 5.3 | 50 |
| 7.03 | Hiring and firing practices | 4.1 | 52 |
| 7.04 | Redundancy costs, weeks of salary* | 15.8 | 76 |
| 7.05 | Effect of taxation on incentives to work | 3.7 | 67 |
| 7.06 | Pay and productivity | 4.1 | 58 |
| 7.07 | Reliance on professional management | 4.6 | 46 |
| 7.08 | Country capacity to retain talent | 3.8 | 50 |
| 7.09 | Country capacity to attract talent | 3.7 | 54 |
| 7.10 | Women in labor force, ratio to men* | 0.36 | 137 |
| | **8th pillar: Financial market development** | | |
| 8.01 | Availability of financial services | 5.0 | 45 |
| 8.02 | Affordability of financial services | 4.8 | 38 |
| 8.03 | Financing through local equity market | 4.6 | 18 |
| 8.04 | Ease of access to loans | 3.3 | 38 |
| 8.05 | Venture capital availability | 3.3 | 27 |
| 8.06 | Soundness of banks | 5.5 | 49 |
| 8.07 | Regulation of securities exchanges | 5.1 | 27 |
| 8.08 | Legal rights index, 0–10 (best)* | 8 | 28 |
| | **9th pillar: Technological readiness** | | |
| 9.01 | Availability of latest technologies | 5.2 | 58 |
| 9.02 | Firm-level technology absorption | 5.0 | 48 |
| 9.03 | FDI and technology transfer | 5.0 | 32 |
| 9.04 | Individuals using Internet, %* | 12.6 | 120 |
| 9.05 | Fixed broadband Internet subscriptions/100 pop.* | 1.1 | 106 |
| 9.06 | Int'l Internet bandwidth, kb/s per user* | 5.2 | 113 |
| 9.07 | Mobile broadband subscriptions/100 pop.* | 4.9 | 99 |
| | **10th pillar: Market size** | | |
| 10.01 | Domestic market size index, 1–7 (best)* | 6.2 | 3 |
| 10.02 | Foreign market size index, 1–7 (best)* | 6.4 | 4 |
| 10.03 | GDP (PPP$ billions)* | 4,684.4 | 3 |
| 10.04 | Exports as a percentage of GDP* | 24.2 | 125 |
| | **11th pillar: Business sophistication** | | |
| 11.01 | Local supplier quantity | 5.7 | 2 |
| 11.02 | Local supplier quality | 4.4 | 76 |
| 11.03 | State of cluster development | 4.9 | 16 |
| 11.04 | Nature of competitive advantage | 3.4 | 80 |
| 11.05 | Value chain breadth | 4.2 | 40 |
| 11.06 | Control of international distribution | 4.4 | 38 |
| 11.07 | Production process sophistication | 4.1 | 52 |
| 11.08 | Extent of marketing | 4.4 | 52 |
| 11.09 | Willingness to delegate authority | 3.9 | 58 |
| | **12th pillar: Innovation** | | |
| 12.01 | Capacity for innovation | 4.0 | 41 |
| 12.02 | Quality of scientific research institutions | 4.5 | 37 |
| 12.03 | Company spending on R&D | 3.6 | 39 |
| 12.04 | University-industry collaboration in R&D | 4.0 | 47 |
| 12.05 | Gov't procurement of advanced tech products | 3.3 | 92 |
| 12.06 | Availability of scientists and engineers | 5.0 | 15 |
| 12.07 | PCT patents, applications/million pop.* | 1.4 | 64 |

**Notes:** Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (*). For further details and explanation, please refer to the section "How to Read the Country/Economy Profiles" on page 97.

Source: World Economic Forum, The Global Competitiveness Index Report 2013-14

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1. Contributors are requested to send soft copies (in MS Word format) through emails to The Editor, The Management Accountant, Institute of Cost Accountants of India, CMA Bhawan, 4th Floor, 84 Harish Mukherjee road, Kolkata 700 025. The soft copy of the article should be mailed to **editor@icmai.in.**

2. In case of theme article, the soft copy to be mailed to the above stated mail ID latest by 1st of the preceding month in which the article is sought to be published. That is, for an article to be published in February, the same may be forwarded by 1st of January, at least.

3. The articles must be relevant to the economy, society and the nation.

4. The articles should be around 2500 to 3500 words and must be an exclusive contribution for the Journal.

5. The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address and an abstract of not more than 150 words.

6. References should be given at the end of the manuscript and should contain only those cited in the text of the manuscript.

7. The contribution must be original in nature and is neither published nor under consideration for publication anywhere else. A scanned copy of signed Declaration by the author is to be attached with the article. The format of the declaration is given below.

8. A scanned passport size photograph (at least, 300 dpi) of the author and in case of joint authorship of all the authors should also be mailed along with the soft copy of the article.

9. Figures and tables should be numbered consecutively and should appear near the text where they are first cited. The figures should be accommodated within two-thirds of A4 size paper. Captions of the figures of the bottom and tables at the top are to be given. Section and sub-section headlines should start from the left-hand margin.

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# EXPLORING THE POSSIBILITY OF FINANCIAL INCLUSION THROUGH THE POST OFFICE: PART 1

A comparison of various options available today, the best possible solution for achieving financial inclusion in India is through the Indian post office because they can be a highly important platform for driving financial inclusion in India and branchless banking

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With the advent of economic growth, the income of households is continuously increasing which has led to improvement in quality of life of people of the country. There is no dispute on the fact that the country has moved on to a higher growth trajectory. But the important matter of concern is that a very high percentage of people are excluded from this development and participation of the economically weaker segments of the society is yet to become a reality. The wide gap between rich and poor is still increasing. Poor households still don't have any formal financial services which formal financial institutions provide to higher income households. Poor depend on informal mechanisms for saving and protecting themselves against risk and threats. They mortgage jewellery and other personal assets against loans taken from moneylenders. These mechanisms are risky and often expensive. Since independence India has experimented various methods to achieve Financial Inclusion.

Financial development of a country does not directly impact the life of poor unless they are connected to formal financial system. Access to appropriate financial services by the poor helps families in the informal sector and small businesses better manage their affairs and are a pre requisite for poverty reduction and achieving inclusive growth. The motive of the financial development should be to reduce income inequality and lift the poor from the present poverty level and this can only be possible by financial inclusivity. Evidence shows that mere providing financial services will not help in improving life of poor. It is important to look at overall aspect of well-being by focussing not only on the supply side of the financial services but also the demand side of it. It is critical to understand what consumer wants and how the services can improve their life .Does the current financial services helps them to enhance their financial capabilities or its mere connecting the unbanked?. Recent financial crisis and related events have increased the criticality of financial inclusion and policy makers are taking financial inclusion as a priority. The bottom line is unless the financial services are able to improve the life of the poor, we cannot achieve financial inclusivity.

## The objective of this paper

1) What are the critical factors which impacts inclusion?
2) What are the catalysts for enhancing financial inclusion?
3) How post offices can act as driver for inclusion.

## Methodology

As an attempt for exploratory research the extensive research work and literature on financial inclusion done globally has been explored to understand the challenges of inclusion and with cases an attempt has been made to understand the key drivers of financial inclusion. The data for the research is taken from World Bank data base, CGAP, RBI website, centre of financial inclusion.

## Literature review

As per report by World Bank around 2.5 billion working age adults have no access to any kind of formal financial services. Instead of going to reliable formal source of financial services they rely on informal way of financial services. For example, asking credit from money lenders etc. Ultimately it turns out that they are highly expensive and risky.

Financial inclusion basically means delivery of financial services to the poor people at affordable cost. As per Sri.V.leeladhar (RBI 2006) financial inclusion means delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. United Nations broadly defines the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking / payment services to all 'bankable' households and enterprises at a reasonable cost. The Government of India's "Committee on Financial Inclusion in India" defines financial inclusion "as the process of ensuring access to financial services, timely and adequate credit which are needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost".

As per CGAP, financial inclusion means both households and business have access to Finance and can effectively use appropriate financial services and also such service must be provided responsibly and sustainably in a well regulated environment. Financial inclusion is the combination of accessibility of financial services at affordable price. The financial literacy is defined as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being" (Hung et al 2009). But the actual measurement of financial inclusion is its utility. Before going further, we need to understand that why financial exclusion occurs.

As per Elaine Kempson Claire Whyley 1999, some of the reasons why financial exclusion happens are mentioned below:

- firms are unable to accept certain people as their customer
- self-exclusion
- marketing issues
- pricing
- product design.

Financial inclusion boils down to widening access so that low income households feels included in financial service provision. Financial product design and delivery is key to drive accessibility and in turn enhances financial inclusion. As per (Elaine kemson, Clairewhyley 1999), any product design and delivery should focus on the -Simplicity, flexibility (change as per consumer need), delivery (mode of payment) and appropriate marketing.

Another important aspect of any financial product is its affordability which can be enhanced if extra cost can be reduced (e.g. transaction cost, infrastructure cost). Here innovative financial inclusion plays a big role. Innovative financial inclusion means improving access to financial services for poor people through a safe and sound new approach which are wide spread across the country. Example (G20 financial inclusion expert group, 2010). Example (M-pesa Kenya, G-cash).

One more important factor to be considered is that innovation should not end up in consumer exploitation, and financial literacy plays a huge role in preventing such scenario. Consumer who plan ahead, monitor their finances and live within their means are less vulnerable to exploitation in financial markets (Margaret miller 2012). Another important aspect of availability of financial literacy is that it enhances financial capability of individual. As per Margaret millor (2012) Financial capability refers to the combination of knowledge, understanding, skills, attitude and especially behaviour that people need to make sound personal finance decisions suited to their social and financial circumstances.

But is it possible to assume that people who are very poor and have low level of basic literacy are able to get the financial capability through knowledge?. It is doubtful that the regulators can play an important facilitating role of protecting consumer through financial inclusion laws. But it is even difficult for regulators to get updated with changing financial scenario.

At the end when a financial decision has to be made consumer is ultimately responsible. Even if regulator, try to monitor and control this, they end up making too many regulations which indirectly slows down growth of good positive innovation. However, having said that there are ways to reduce this problem. One of the factors can be to create financial product as per the need and behaviour of the consumers rather than making the innovative product and educate the consumer about its use. This can help in creating simplicity in the products . Ultimately consumer will be motivated to use it as this will address his problems.

Value for customers is created throughout the relationship, partly in interaction between the customers and partly by the supplier or service provider. The focus is not on product but on the customer, the value creating process where value emerges for customers and is perceived by them. (Gronroos 2000).

## Why financial inclusion is important

The world's poor are those who live on a daily wage of less than $2 a day. This definition is one of the most general definition given today .We need an inclusive growth in our country which should give more access to opportunities to common public. Financial Inclusion is one step which can provide access to poor and underserved people to formal financial services of formal financial institution of the country. People who are poor and live in remote areas have low awareness of formal financial service products and benefits which make them move towards informal way of finance , through money lenders , landlords etc. which is highly risky .Financial inclusion has become one of the major priority of most of the countries in the world .A strong financial system is a pillar of economic growth, development and progress of an economy. The availability of banking facilities and strong bank branch network are the major facilitators of developmental and expansionary activities.

## Defining financial inclusion

There are many attempts which has been made to define what financial inclusion means Some of them are mentioned below:

Asian development bank has defined financial inclusion as "provision of a broad range of financial services such as deposits, loans, payment services,money transfer and insurance to poor and low income households and their micro enterprises."

The process of ensuring access to financial service and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. (Report of the committee on financial inclusion in India C.rangarajan 2008).

A financial sector that provides access to credit for all bankable people and firms, to insurance for all insurable people ad firms and to savings and payments services for everyone. Inclusive finance does not require that everyone who is eligible should use each of the services, but they should be able to choose to use them if needed.

The financial Service needs of the poor are not complicated, but if formal financial services are given in the appropriate manner to the poor people it can increase their satisfaction level to far reaching level.

Financial services provide avenues for saving and savings can provides benefits to poor like shield against emergencies, helps during illness, natural disasters .Financial inclusion minimizes the probability of poor fall back to poverty. Inclusive growth means broad based benefits to all sections of people.12th five year plan of India (2012-2017) has made sustainable financial inclusion as one of the key objective. Economic growth of our country depends highly on inclusivity which will provide equal access to opportunity to all.

The number of people with access to the products and services offered by the banking system continues to be very limited even years after introduction of inclusive banking initiatives in the country through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks, etc. Over the past five

**NO. OF FARMER HOUSEHOLDS (HH) IN LAKH**

| Region | Total HHs | Indebted HHs | % to total HHs | Non-indebted HHs | % to total HHs | Indebted to formal sources | % to total HHs | Excuded by formal sources | % to total HHs |
|---|---|---|---|---|---|---|---|---|---|
| Northern | 109.46 | 56.26 | 51.40 | 53.2 | 48.60 | 27.423 | 25.05 | 82.04 | 74.95 |
| North Eastern | 35.40 | 7.04 | 19.90 | 28.36 | 80.10 | 1.448 | 4.09 | 33.95 | 95.91 |
| Eastern | 210.61 | 84.22 | 40.00 | 126.39 | 60.00 | 39.467 | 18.74 | 171.14 | 81.26 |
| Central | 271.33 | 113.04 | 41.60 | 158.29 | 58.40 | 60.814 | 22.41 | 210.52 | 7739 |
| Western | 103.66 | 55.74 | 53.70 | 47.92 | 46.30 | 45.586 | 43.98 | 58.07 | 56.02 |
| Southern | 161.56 | 117.45 | 72.70 | 44.11 | 27.30 | 69.072 | 42.75 | 92.49 | 57.25 |
| Group of UTs | 1.48 | 0.49 | 33.10 | 0.99 | 66.90 | 0.15 | 10.14 | 1.33 | 89.86 |
| All India | 893.50 | 434.24 | 48.60 | 459.26 | 51.40 | 243.96 | 27.30 | 649.54 | 72.70 |
| NE, C & E Regions * | 517.34 | 20430 | 39.49 | 313.04 | 6031 | 101.73 | 19.66 | 415.61 | 80.34 |
| Share to All-India (%) | 57.90 | 47.05 | | 68.16 | | 41.70 | | 63.99 | |

*NE = North-Eastern Region. C = Central Region. E = Eastern Region years, Reserve Bank of India, as also other policy makers have resolutely pursed the agenda of financial inclusion and achieved discernible progress in improving access to financial services for the masses. According to the survey findings done by World bank findex survey(2012), only 35% of Indian adults had access to a formal bank account and 8% borrowed formally in the last 12 months. Only 2% of adults used an account to receive money from a family member living in another area and 4% used an account to receive payment from the Government (Keynote address delivered by Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India at the Finance Inclusion Conclave organized by CNBC TV 18 at New Delhi on September 6, 2013).

The farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. In terms of absolute numbers these regions taken together account for 64% of farm households not accessing credit from formal sources (ref: NABARD report of the committee of financial inclusion)

The table on the opposite page clearly shows that much work needs to be done and there are challenges in pursuit of the goal of inclusion. Shibalalmeher in his paper "Financial inclusion in India an interstate analysis"- clearly identifies that performance of financial inclusion in low income state is worse than the middle and high income group .

## Indian scenario of financial Inclusion

Rural and remote areas of India are the one which are significantly affected by financial exclusion. Out of total number of rural households (1,479 lakh), only 48.40 percent of rural households are financially included and out of total marginal farmer households(589 lakh), only 45 percent are financially included.(committee on financial inclusion , 2008). This scenario will improve In the near future if the Government is taking the issue of financial inclusion in priority. RBI has done some strong initiative for financial inclusion namely :allowing no frills account , easier credit facility , simpler KYC norms , and Use of information technology .The effectiveness of the policies and its real results may take longer time but progress is there.

## Challenges around financial inclusion

Challenges for financial inclusion is more or less general in all countries but below are some of the challenges specific to Indian scenario (ref: financial inclusion, inclusive growth, and poverty: Padmajarajan, Alokranjanbehera, and Himanshusekhar Rout):

- Difficulty for banks to expand their business to remote areas: Banks generally find it tough to expand their business in remote areas due to infrastructure challenges and low competitive market.
- Quality of Staff especially at bank branches in remote areas: lack of trained personnel (specially computer literacy), low focus on customer-centric quality.
- High Cost of maintenance: working in remote areas, reaching poor people is a tough process and generally the cost is high unless backed by other alternative solutions
- Lack of awareness especially in remote areas population
- Problem of technological backwardness.

## Drivers for financial inclusion:

**Income rising at the base of the pyramid:** Growing income of people from near subsistence to a level that provides small disposable income .These people need opportunity and platform to access formal financial services for saving and future purposes.

**Technology is reducing cost and expanding reach:** After the success of Kenya's M-pesa other countries also started mobile payment system, which includes G-cash , Orange money , Eko-India. ICT enabled business model has reduced cost considerably. It has provided safer way of money transfer.

**The opportunity for non-banking players:** After technological revolution in banking innovation, non-banking players find financial inclusion attractive, due to its innovativeness.
(Ref: Seizing the Moment: on the road to financial inclusion, financial inclusion 2020 a global forum, centre of financial inclusion)

## Service provider of financial inclusion

Potential service providers range from informal institution to formal institution. Their level of formality depends on the many aspects namely , governance , organization structure etc. Highly informal providers have simpler organizations (if any) and are not supervised by a government entity, and formal institutions are the mirror image. At the informal end of the spectrum, there are moneylenders, community savings clubs, deposit collectors, and agricultural input providers, traders, and processors. Private and public banks are the most formal. The middle ground is inhabited by member-owned institutions, non-governmental organizations (NGOs), and non-bank financial institutions (see **Figure 1**).

As per World Bank report on financial inclusion it is very important for all formal financial institutions to make serving the poor as their main agenda then only there is a greater chance of enhancing the inclusiveness of financial ecosystem. Level of involvement of Commercial Banks is explained in **Figure 2**.

Commercial banks need to invest in technological innovations that can

**Figure 1; The spectrum of Financial Service Providers**

Informal ⟷ Member-based ⟷ NGOs ⟷ Formal financial ⟶ Institutions

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Friends & family | Moneylenders | ROSCAs | CVECAs | Cooperative financial institutions | NGOs | NBFIs | State-owned banks, including postal banks |
| | Savings collectors | ASCAs | FSAs | | | | Rural banks |
| | Traders | | SHGs | | | | Specialized MF banks |
| | | | | | | | Full-service commercial banks |

Note: ROSCAs = rotating savings and credit associations; ASCAs = accumulating savings and credit associations; CVECAs = Caisses Villageoises d'Epargne et de Credit Autogerees; FSAs = financial service associations; SHGs = self-help groups; NGOs = nongovernmental organizations; NBFI = nonbank financial institution.

**Figure 2: Levels of Commercial Bank involvement in financial services for the poor**

**Higher level of engagement**

| | |
|---|---|
| **Commercial bank specialized in microfinance** | **Equity Bank, Kenya**<br>Serving poor clients is the main business line |
| **Bank creates loan service company** | **Sogebank, Haiti**<br>Created loan service company Sogesol in 2000 |
| **Bank invests equity in MFI** | **Jammal Trust Bank and Credit Libanais, Lebanon**<br>Have equity stake in Ameen, a CHF microfinance program |
| **Bank buys MFI portfolio and/or contracts MFIs** | **ICICI Bank, India**<br>Contracts microfinance operations with self-help groups and MFIs |
| **Wholesale lending** | **Raiffeisen Bank, Bosnia**<br>Lends to multiple MFIs in Bosnia |
| **Sharing/renting facilities** | **Garanti Bankasi, Turkey**<br>Provides front office functions through branch network to Maya Enterprise for Microfinance |
| **Bank provides front or back-office functions** | **ProCredit Bank, Georgia**<br>Rents space in its offices to Constanta, a local NGO |

Lower level of engagement

*Source: (GAP.*
*Note: CHF = Cooperative Housing Foundation; MFI = microfinance institution; NGO = nongovernmental organization.*

bring financial services closer to where poor people actually live and work. It may not be financially fruitful to open a branch in remote villages but by opening retail outlets, or internet/ Mobile banking we can reach out to the poor.

## A review of the study / research already done in this field

Various agencies including RBI have done extensive research in the area of Financial Inclusion. RBI in the report on Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (2013) suggested some recommendations and some of them are listed below:

**Building a ubiquitous electronic payments network and universal access to savings:** Every resident should be issued a Universal Electronic Bank Account (UEBA) automatically at the time of receiving their Aadhaar number by a high quality, national, full-service bank. The bank would need to be designated by the customer from amongst the list of banks that have indicated to UIDAI that they would be willing to open such an account with the understanding that it would attract no account opening fee but that the bank would be free to charge for all transactions, including balance enquiry with the understanding that such transactions 'charges would provide the host banks with adequate compensation. The Bank would be required to send the customer a letter communicating details of the account thus opened. The Committee recommends that the RBI issue a circular indicating that no bank can refuse to open an account for a customer who has adequate KYC which specifically includes Aadhaar.

RBI should require a strong Proof of Identity (POI) for each and every customer and a documentary proof of one national address but waive the requirement of documentary proof for the current address, for the purpose of opening a full-service bank account. It should instead enjoin upon banks to carry out careful tracking of usage and transactions patterns to ascertain the risk levels of the customer and take necessary action based upon risk-based surveillance processes developed internally by each bank.

Under the existing rural branching mandate, a qualifying branch may be understood to have specified features regarding minimum services available, minimum hours of operation, nature of employment of staff, minimum infrastructure configuration, nature of ownership of infrastructure and premises, and minimum customer protection. In addition, this mandate is to be reviewed regularly and be phased out once the goals specified in the vision statement for payments services and deposit products have been achieved.

Aadhaar is the key piece of infrastructure to enable a customer to be identified and authenticated so that repudiation and fraud risks are minimised and therefore should become the universal basis for authentication. However, with slow enrolment in some areas and low penetration of biometric devices and internet network connectivity in many areas, intermediate authentication methods such as PIN numbers and OTP could be used. State Governments need to coordinate more closely with UIDAI, NPR, and BBNL to ensure rapid coverage of their states for both Aadhaar and broadband.

RBI to work with TRAI to ensure that all mobile phone companies, including those with Payments Bank subsidiaries, be mandated to provide USSD connectivity as per recent TRAI regulations with the price cap of Rs. 1.5 per 5 interactive sessions and to categorise all SMSs related to banking and financial transactions as Priority SMS services with reasonable rates and to be made available to the banking system.

## Recommendations regarding credit

**a**. Banks must be required to disclose their concentration levels to each segment in their financial statements.

**b.** Credit facilities documented as bonds or Pass-Through Certificates (PTC), whether originated directly or purchased in the secondary markets should be permitted to be held in the banking book of a bank based on declared intent and not merely based on source or legal documentation.

**c.** Universal reporting to credit bureaus should be mandated for all loans, both individual and SME, but in particular SHG loans, Kisan Credit Card, and General Credit Card

**d.** There is a need to develop a robust legal and regulatory framework around customer data generated in various transactions (credit and payments, digital and off-line), with the objective of customer ownership of their own transactions data and its use, among others, for signalling credit-worthiness.

**e.** RBI should constitute a Working Group comprising TRAI, CERC, and Credit Information Companies to develop a framework for sharing of data between telecom companies, electrical utilities, and credit bureaus. This framework should be in keeping with the FSLRC's draft Indian Financial Code which recommends the creation of regulations on the collection, storage, modification and protection of personal information by financial services providers and establishment of mechanisms to ensure that consumers have access to, and are given an effective opportunity to seek modifications to their personal information.

## Recommendations regarding measurement and monitoring of comprehensive access to financial services

RBI should mandate all formal providers of financial services to households and small businesses to report data on a quarterly basis at the level of each one of their access points such as branches, outlets, BCs, ATMs, and POS terminals, as applicable. This includes data on geo-spatial location, access, services offered, quantum of transactions, depth of penetration, and application of Suitability process. This data should be verified periodically by the RBI using standardised quality control and follow up visits conducted by trained enumeration field teams within randomly selected sub samples.

In order to measure access, usage, and affordability of financial services, RBI should mandate two surveys of consumers to gain a more accurate picture of progress towards achieving the desired outcomes outlined by the vision statements. The Financial Access & Usage Survey should be a nationally representative survey of consumers undertaken annually to collect data on access and usage of financial services and can be incorporated as additional modules in nationally representative surveys that are being undertaken for other purposes by institutions such as the National Sample Survey Organisation (NSSO) and the Centre for Monitoring Indian Economy (CMIE). The Cost & Return Survey should be a nationally representative survey of consumers undertaken triennially to collect data on costs of credit, insurance and investment products, as well as returns on deposits and investment products. For this survey, RBI should commission institutions which have appropriate capacity and expertise in conducting such nationally representative surveys with the required academic rigour.

## Centre of financial inclusion

Centre of Financial inclusion in the report Seizing the Moment: On the Road to Financial Inclusion has given a Roadmap and Principles which are given below:

**1. Financial capability: Shift the paradigm**

• Those involved in financial inclusion must shift the paradigm from financial education as knowledge transfer to financial capability as promoting sound financial choices and behaviour.

• All participants in financial inclusion should integrate financial capability building into every aspect of work with current and prospective customers.

**2. Addressing client needs: Easy to say; hard to do**

• Providers need to be customer-oriented by developing the ability throughout their organization to listen to customers and prospective customers.

• Providers have a responsibility to build on the knowledge that already exists on the financial lives of the poor and insights from behavioural economics to create products and delivery systems valuable to customers and actively used .

**3. Technology-enabled business models: Pave the way for dramatic Change**

• Regulators should create facilitating rules that allow technology-enabled business models and providers to operate smoothly at the base of the pyramid .

• Governments need to use their own resources creatively, such as G2P payments, to promote Technology-enhanced inclusion .

**4. Credit reporting: It takes a village**

• Providers, governments and credit reporting organizations must make the sustained collaborative effort required to establish credit reporting systems that work for all parties and seamlessly cover the BOP .

• The entire financial inclusion community can encourage the use of alternative data to enable "thin file" customers to access financial services, while protecting customer rights to correct errors and sign off on use by third parties .

**5.Consumer Protection: Everyone's Promise**

• Providers need to incorporate consumer protection into their professional identity and, as a corollary, to apply a client bill of rights and related standards.

• Regulators and support organizations should set a global goal of effective consumer protection regulation and supervision in every country by 2020

## Access through innovation

***Report of the G20 Financial Inclusion Experts Group(2010) have analysed GAPs and Opportunity in financial inclusion***

***Gap***: Branchless banking and financial capability are nascent fields with only small bodies of evidence. Several providers have implemented varying efforts to increase uptake of their respective branchless banking services and instruct users on the operational and practical elements of these services. Research on the efficacy of these "instructional efforts" is absent. Additionally, apart from the soon-to-launch CSR intervention focused on improving poor customer's quality of life through financial capability education, to date none of the branchless banking providers we analysed have attempted to engage in financial capability education. As explained above, such a campaign may include areas of skill building around such topics as budgeting, responsible use of credit, the importance of emergency savings, etc.

The key to promoting this trend will be encouraging increased monitoring and evaluation efforts, which have thus far been insufficient to understand the nuanced ways in which financial capability may contribute to branchless banking, and vice versa, Going forward ,this can be partially attributed to the fact that profit-focused private sector companies often have insufficient incentives to conduct pilots and testing. In particular, smaller regional mobile network operators may lack the capacity to run comprehensive evaluation programs. Given the proper evaluation tools and technical assistance, however, private sector branchless banking providers are uniquely positioned to collect data about branchless banking usage and the effects of financial capability.

***Opportunity: More pilots can be developed making the best use of resources across sectors.***

Civil society, donors, and governments should provide assistance or incentives for private sector actors to conduct monitoring and evaluation. Investments in transparent monitoring, evaluation, and piloting may provide the evidence necessary to encourage firms around the world to consider financial capability initiatives. Governments that consider financial inclusion a public good may also be more likely to support branchless banking providers. In other words, the various stakeholders focused on improving financial inclusion may consider developing pilots to understand how clients become empowered or more financially capable with branchless banking services, where and why they fail do be empowered and how financial capability can be used to increase consumer trust with traditional financial services as well. Pilots can also consider how clients can build on the consumer empowerment strategies that they develop in their attempts to remedy problems with branchless banking services and eventually transfer these skills to dealing with traditional banking services.

***Gap: There is not yet a hub for information around financial capability and branchless banking, making the research process challenging and limiting the opportunities for knowledge sharing.***

As additional research emerges on interesting advances and opportunities in both the financial capability and branchless banking fields in the context of developing countries, there is presently no place to find such information. For those policy makers and researchers following the development of financial capability in this context, most information is gleaned from company press releases and industry blogs[1]. There are information-sharing platforms on other financial inclusion topics. For example in the area of financial literacy the OECD International Gateway for Financial Education[2] provides information and opportunities for exchange among 70 countries, and in the area of Microfinance, CGAP's Microfinance Gateway[3] serves a similar function, offering comprehensive and current information in three languages. However, there is no common gateway or information-sharing platform on both branchless banking and financial capability. If donors want to follow innovations and look for developments in the field and branchless banking providers want to learn what best practices exist in financial capability, there is presently no centralized resource to find such information.

***Opportunity: Develop a common gateway to share information***

International organizations can act as clearinghouses for information about branchless banking and financial capability and can facilitate communication of best practices. Private sector firms lacking the materials to conduct financial capability education as part of their branchless banking programs may look to civil society and international organizations to provide support. As pilots are developed and results become available from impact evaluations, having a platform to share insights and information and to create a community of practice could be valuable. This could be supported by a web-based platform to facilitate knowledge sharing.

***Gap: Financial capability training should be appropriate and accessible for the poor.***

Providers should be wary of one-size-fits-all approaches to financial capability. Consumers in different situations often have vastly different understandings and attitudes about finances, and those providing financial capability training should be aware of the specific demographics of their target audience. If, for example, consumers do not understand the concept of percentage points, providers may want to rephrase their materials in terms of absolute money saved ("save 12 Kenyan shillings vs."save 5 percent").

***Opportunity:*** When developing instructional materials and delivery mechanisms for financial capability interventions, it is essential to consider key population characteristics such as literacy rates, adult educational levels, experience with finance, experience with electronic transactions, and trust in financial institutions. Materials and mediums of presentation should be adjusted accordingly. In all cases, however, providing financial capability training must be a viable business proposition for the provider. Private sector branchless banking providers

[1]The most advanced research on the connection between financial capability and branchless banking prior to the present paper comes from a 2007 study by Microfinance Opportunities entitled "Financial Education: A Bridge Between and Branchless Banking and Low Income Clients" See: www.globalfinancialed.org/documents/Branchless%20Banking.pdf

[2]http://www.financial-education.org/

[3]http://www.microfinancegateway.org/

should not be expected to provide comprehensive financial advice if it does not favour their product.

***Gap: At this point in the branchless banking industry's development, financial capability efforts are still focused on growing the market and issues such as customer adoption decisions rather than around either consumer protection or competition issues.***

Interviews with providers confirmed that the focus of any financial capability interventions that they were undertaking was focusing on adoption. However, this is only a starting point. More financial capability training is needed regarding comparison shopping, responsible use of credit, and consumer protection.

***Opportunity:*** Governments and civil society agents may have critical roles to play in providing broader financial advice about topics like comparison shopping, as these topics may cause conflicts of interest for private firms. Additionally, government and international organizations can, in this early moment in the field of branchless banking, develop the best understanding of the intricacies of branchless banking and develop solid consumer protection frameworks. These insights about the latest innovations in branchless banking and the corresponding needs for financial capability of users and prospective users can also be considered as a key component when developing national financial capability strategies.

***Gap: Delivery channels for financial capability are difficult to navigate.***

One of the unique opportunities presented by branchless banking is the direct channel of communication with a low-income customer via the same device that she is using to manage her finances. However, thus far few providers have attempted to push financial capability education through the cell phone. Although the rapid proliferation of cellular technology has been impressive, in many developing countries only basic phones are economical These phones are often limited to only voice and SMS, both of which have significant limitations. While voice is easily accessible, it is difficult to solicit user input. SMS, on the other hand, is limited to bursts of 160 characters and provides no inherent structure for feedback. Both voice and SMS are inherently linear and provide few options for differences in language. Due to these constraints, branchless banking providers often struggle to design intuitive and usable interfaces for even the most basic banking transactions. Pushing financial capability education through these channels would be even more challenging.

***Opportunity: Once more advanced cellular technology becomes available, mobile money providers should seize the opportunity to utilize these more complex channels of financial capability delivery.***

Data from Gartner shows that over fifty per cent of the handsets shipped to developing countries in the year 2009 are data-enabled "enhanced phones."[4] As these phones become more affordable for the bottom of the pyramid and mobile network operators make mobile data plans cheaper, branchless banking providers must keep up with this evolving channel of distribution. Phones that double as rudimentary web browsers provide enhanced opportunities for providers to offer a richer interface and a wider array of financial tools. Furthermore, providers that were once restricted by the simplicity of SMS will soon have the opportunity to supply financial capability content in multimedia form.

## Case studies

**Case study 1**: South African Bank of Athens's Wizzit (South Africa) **(taken from Access Through Innovation—Report of the G20 Financial Inclusion Experts Group(2010)**

Wizzit operates in South Africa. Its mobile money system offers a familiar set of basic features: cash in/out, payments, and airtime top-up. In addition, Wizzit provides debit cards that allow its users to interact with a broader range of POS devices and ATMs. One aspect of Wizzit's marketing campaign, however, sets it apart: Wizzit deploys over 800 "WIZZkids", previously unemployed individuals that the company uses as sales agents. These agents often engage in informal financial capability education as they attempt to express the value proposition of Wizzit by explaining the risks of cash. They also build rapport with their customers, many of whom come from similar backgrounds as the WIZZkids themselves. Thus, while Wizzit does not explicitly pursue financial capability education, some of their initiatives may nonetheless impact the financial capability of their customers.

Wizzit believes that financial capability is squarely their responsibility as the provider of the financial service. They believe that financial capability can positively impact their profits, and that pursuing financial capability education could be a viable corporate strategy. However, they lack evidence to make this case and justify resources for non-branded or non-product specific training or outreach activities. As a result, Wizzit is not actively engaged in financial capability education.

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[4]Gartner. 2009. "Forecast: Mobile Devices Worldwide, 2003-2013." Stamford, CT: Gartner.

**To be continued in the next issue**

# 'ABC for port activities should be done at regular intervals'

**CMA A. Janardhan Rao**
Managing Director, Indian Ports Association

Q&A

**MA The Indian shipping industry has lot of potential. What steps Government has taken to ensure that the unexploited potential is realized?**

Yes, the maritime industry is the backbone of the country's global trade. Around 90% of the country's import and export trade is moved through sea ports of India. Government is committed to develop ports on the continuous basis. During the recent past, the Government has taken a number of policy initiatives to boost the port sector and some of them are the introduction of:

- PPP policy
- Land Policy
- Captive Policy
- Tariff Reforms by linking it with performance
- Empowerment to Ministry and ports by way of enhanced of delegation of powers
- Setting up of two New Major Ports

In addition to the above policy initiatives, attempts are also being made to develop seamless connectivity with the ports through expressways and DFCs for faster evacuation of cargo from ports and massive mechanization in the port sector to meet the increasing demand of the trade. The creation of adequate port capacities, increasing the draught levels from 14 meters to 17 meters to accommodate Post Panamax size vessels as per international standards are in currently in focus. The existing tariff regulations converted into service-level regulation to bring harmony in port trade and also encourage extensive private participation.

**MA Why India has failed to attract foreign investments in shipping?**

No. As per the Government policy, 100% FDI is permitted in port development projects. Huge Foreign Investment is attracted in port projects in India. For example, in India, most of the private container terminal operators are among the top container handling companies of the world like DP World (Dubai), PSA (Singapore), AP Moller (Denmark), LDA (France), etc. and made the investment to create the world class infrastructure. Such facilities and infrastructure give a boost to the up-gradation/ modernisation of major ports.

**MA Do you think India needs to increase its share in the global EXIM trade? Can you please elaborate the importance of shipping transport on this expedition?**

The main factors that will lead to an increase in global EXIM trade through Indian ports are as follows.

- Anticipated increase in demand in consumption of petroleum production leads to increase in import of crude.

- Anticipated exportable surplus of POL production
- Anticipated demand in natural gas for power generation, fertilizer industry, etc.
- Shortage of indigenous coal for power generation leads to increase in import of coal
- Anticipated increase in production of steel as per the national steel policy required to import coking coal
- Anticipated increase in exportable Iron ore production
- Anticipated increase in fertilizer imports
- Growth in container traffic is envisaged to international trade growth, penetration of containerization and hub and feeder service structure.

**MA What are the major problems faced by the ports in India? How can the problems be overcome?**

The constraints in ports are said to be lack of deep drafts, massive mechanisation, effective hinterland connectivity and efficiency in Cargo handling. However, the creation of additional cargo handling capacity is also one of the basic requirements to tackle the increased volume of cargo at major ports. The ports as well as the Government have already chalked out a number of plans to enhance the port capacity from the present level of 800 million to more than 1 billion tonnes by the end of 12th five year plan. Also, concerted efforts are being made to enhance drafts by dredging, PPP models in mechanization, composite efforts to create a modal split in evacuation and increase in productivity levels. As mentioned earlier, the Government has already taken a number of initiatives on the subject matter and resolving the issues in consultation with all the stakeholders involved to resolve such problems.

**MA How did rupee depreciation affect the shipping business? What is your strategy to protect the sector from this dilemma?**

The affect of rupee depreciation is not particular to the Port Sector alone but the adverse effects of the rupee devaluation in the economy will also consequence on this sector also. The fall in EXIM trade will have a large bearing the port and shipping sectors. As far as the revenue is concerned, Port charges for vessel related activities are being collected in the US $, so loss in trade will be offset to some extent by the increased dollar rate. However, the overall impact on the shipping industry will be negative. The steps which Government normally takes to regain the value by imposing economic regulations, viz., revision of REPO, encouraging exports, increasing import duty, etc. will be expected to boost EXIM trade and reduce the balance of trade, etc.

## 'THE GOVERNMENT AIMS TO FACILITATE ENHANCED PRIVATE INVESTMENT FOR IMPROVED SERVICES AND PORT PERFORMANCE AT PAR WITH THE BEST PRACTICES IN THE WORLD MARITIME SECTOR'

**MA What role do you see for PPP model to boost up Port and Shipping sector in India?**

The Government of India aims at facilitating enhanced private investment for improved services and port performance at par with the best practices in the world maritime sector through economic liberalization, competition, and upgraded technology. Towards this endeavour, GOI encouraging more private ports in maritime states and Private terminals in major ports also to meet the global demand and to stay internationally competitive. In fact, the PPP model in port & shipping sector is considered to be most successful & preferred model in the overall infrastructure sector.

**MA Do you feel proper Cost Management techniques are necessary to enhance the efficiency and performance in this sector? Please suggest in what way Cost and Management Accountants may offer their expertise in this quest.**

Yes, basically ports are service oriented organizations. Induction of various Cost and Management techniques related to service sectors will not only enhance the efficiency and performance but also helps for the cost control/cost reduction in this sector. Activity based costing (ABC) for cargo handling, berthing, pilotage, railways activity, etc., should be done at regular intervals and a management information system to analyse the performance will be of immense use for decision making to the management for achievement of better results by way of performance and profitability.

Another area where the costing techniques are pertinent is assessing the cost benefit analysis which making the huge expenditure or investment. Ports should explore the possibilities of the scenarios like 'Make or buy', 'Inhouse or outsourcing' or 'Private or public', etc. by using appropriate costing and management techniques. However, due care must to taken before making such analysis since some of proposals may relate to social or obligatory and may be incidental if not, directly related to any activity.

A perpetual inventory system may be the need of the hour, which will perhaps reduce unwanted or obsolete inventory in the stores and in turn reduce the inventory-carrying cost and working capital.

In determining and evaluating the ideal revenue share to be obtained from private operators in PPP projects, CMAs can play a vital role.

**MA What kind of support do you expect from the Government for the overall growth of this important sector?**

The port and shipping sector is looking forward to enhanced delegation of existing powers and also delegate the non-statutory powers in clear terms with conditions for exercise of those powers. Also while approval is granted for a project, there should be no need of distinction between new and replacement projects as both the projects entails same outlay and hence, the distinction should be removed. Port Trust Boards be empowered to approve PPP projects at their level up to Rs.100 crore with due appraisal.

Powers to be given to the Ministry of Shipping for settling the environment clearance within the periphery of Government guidelines, so that delay on such matters could be avoided.

Government should also accord infrastructure status to dredging projects and also exemption in the import duties of port equipment & machineries etc.

# 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.

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.

# THE INDIAN SUMMER AND INDIRECT TAXATION: TRENDS & CASES

The tax trends in the Union Indirect taxation clearly reveal a complex web of opaque statutory provisions compounded by often arbitrary methods of compliance enforcement by the revenue authorities

**Dr. Ravindran Pranatharthy**
Advocate – Indirect taxes & IPRs

The Indian sub-continent relies on the two monsoons – the southwest and the northeast - for sustenance and growth. Despite the perennial talk of strengthening the Indian economy to let it become immune to the vagaries of the monsoon, the annual ritual of rains still holds the key to the momentum in the economic fortunes year after year. The forecast for 2014 is disappointing. The El-Nino effect may be felt and the southwest monsoon is likely to be less than the long-period average. Thus the effect of the summer may be prolonged in this year. It appears that the still-to-arrive monsoon has cast its long shadow over the coming budget. There is of course a glimmer of hope that the El-Nino may not materialize in its virulent form and the rains would still come and drop their generous bounty on the country. Nevertheless, it would be prudent to anticipate an El-Nino and a below-normal monsoon and prepare for the effects on the economy. It is a moot point whether any tax reforms could be vigorously enforced in a rain-deficient year. The policy-makers may be tempted to lay their hands on additional taxation to deal with the fiscal demands of a below-normal monsoon economy. It is this tendency that should be eschewed in the long-term interests. The cumulative Indirect tax rates are already at high levels and the economy is caught in a low-growth rut. It will be weighed down by a monsoon failure and should not be further aggravated by tax hikes. There should not be any additional imposts till the GST reforms are rolled in. The GST is predicted to boost the economy by increasing the transactions in goods and services across the country through a tax-cost reduction and by stream-lining the indirect taxation. The GST tide will lift all the boats over a three-four year period. A national GST (dual GST merged at the collecting point and shared between the union and state governments) with a single collecting administration and a single GST India return has the potential to take India ahead of China and Japan by the next decade. The current low-growth crisis and a potential monsoon failure prescribe that there ought to be a better strategic design of the GST to lift the country as a whole. Though the GST is badly delayed, its currently talked about model of dual GST and dual tax collections is no panacea and would do the country little good. The unappetising, uneconomic, status-quoist dual structure would not make the GST the game-changer that it is held out to be. So, the delay would still have been in the collective interests if the all-important design of the GST were now to be transformed to make India a tax common-market. Let us hope for the best tidings on the GST waterfront.

Even as we swelter under the relentless Indian

**THE NEED OF THE HOUR IS AN EFFICIENT SYSTEM OF TAX COLLECTION WHICH IS NOT ONLY SPEEDY AND FAIR BUT ALSO FELT TO BE SPEEDY AND EQUALLY FAIR, ON THE GROUND**

Sun and wait for the rain gods to smile on us, we have had a rough ride on the indirect taxation front in the recent past. Remember the statutory changes in the excise valuation rules last November intended to fetch considerable additional revenues to the union exchequer. This was followed by the CBEC circular putting to use the Fiat India judgement against the industry adding to its potential tax cost. The temporary cuts in central excise duty on select goods in the automobile sector made in the February stop-gap budget have not induced the consumer buying spree fondly anticipated. So, the revenue loss arising from such duty cuts may not be significant. Apart from the few concessions in the interim Budget and the largely inconsequential refund of Cenvat credit availed under partial reverse charge mechanism there has been little respite from the tax heat for the taxpayers in the current year. Against this backdrop, we have to note with satisfaction that there have been several caselaws reported in the current year which have come like cool rains on a sweltering day. These will be discussed in the paras to follow.

### Time-bar of tax demand bars consideration of other issues in a case

In the case of MONSANTO MANUFACTURERS PVT LTD Vs COMMISSIONER – 2014- TIOL-550-HC-ALL-ST, the Allahabad High Court has laid down a salutary principle in the adjudication of tax cases that when the Tribunal has found an order to be time-barred, it would be illegal for the Tribunal to enter the question of the merits of the case. In the words of the Court:

*"The Tribunal came to the conclusion that the demand by the Revenue was beyond the period of limitation of one year prescribed under Section 73(1) of the Finance Act, 1994 and that the period of five years could not have been invoked. That part of the judgment of the Tribunal has been confirmed in the companion appeal. Once that be the position and the Tribunal having came to the conclusion that the extended period of limitation could not have been validly applied, the Tribunal, in our view, acted outside its jurisdiction in entering upon the merits of the dispute on whether the demand for duty should be confirmed. Once it is held that the demand is time barred, there would be no occasion for the Tribunal to enquire into the merits of the issues raised by the Revenue".*

This Caselaw reiterates the principle that the issues of jurisdiction and time-bar are the ones to be tackled first in any adjudication (when such issues are pleaded by the affected party). The merits of the case should come next in the order of determination of the issues of the case.

### Acceptance of duty payment by the Revenue bars them from denying availment of Cenvat credit

In the case of COLOUR ROOF INDIA LTD Vs CCE, RAIGAD - 2014-TIOL-628-CESTAT-MUM, The Tribunal relying on the Bombay High Court judgement in Ajinkya Enterprises – 2012 – TIOL-578-HC-MUM-CX held that having accepted the payment of excise duty by the manufacturer and allowed the assessment to stand, it was not open to the Revenue to deny the manufacturer's availment of Cenvat credit even if the activity concerned did not amount to manufacture.

### Refund of seized foreign currency only in that currency

In JATIN C. JHAVERI Vs UNION OF INDIA - 2014 (301) E.L.T. 440 (Bom), the Bombay High Court held that when refund of seized foreign currency was ordered, the customs department had to make the refund in foreign currency though the seized currency had earlier been sold by the department and only the rupee proceeds thereof had been vested with the department.

## Making pre-deposit by using CENVAT credit

Often the Appellate Authorities as well as the Tribunal issue interim directions for the payment of pre-deposit of an amount of tax pending the hearing of an appeal. In such cases, the tax payers may possess considerable amount of Cenvat credit lying in their Cenvat credit account. The issue is whether such Cenvat credit can be adjusted for the pre-deposit. The doubt was answered in favour of the tax-payers by the Tribunal in the case of MAHENDRA SPONGE AND POWER LTD – CCE, RAIPUR -2014 (301) E.L.T. 416 (Tri. - Del.)

## Town seizures by the Customs

In the case of COMMISSIONER OF CENTRAL EXCISE, SURAT Vs MAHADEV ENTERPRISE - 2014 (301) E.L.T. 150 (Tri. - Ahmd), one of the issues was whether customs duty could be demanded on town seizures when redemption fine was imposed. In the instructive words of the Tribunal:

"5. The main issue involved in this appeal filed by the Revenue is whether, at the time of granting an option for payment of fine in lieu of confiscation for seizures in an area other than the Customs area (normally called as Town Seizure), Customs duty is required to be paid by the owner of the goods. In the case of town seizures, the date on which the seized goods are brought into India, is not available. As per the provisions contained in the Customs Act, 1962, the relevant date for determining the rate of duty is the date when the Bill of Entry is filed. In the case of town seizures, such a date will not be available. Therefore, it will be impossible for the adjudicating officer at the time of allowing redemption to determine the rate of duty and accordingly the quantum of duty. As per the provisions of Section 125 of Customs Act, 1962, the quantum of redemption fine is restricted to the market price of the goods minus duty. Once the element of Customs duty payable on the confiscated goods is not ascertainable at the time of redemption, it is presumed that the entire duty payable on the confiscated goods stands included in the value of the confiscated goods and accordingly, no reduction on account of duty element can possibly be allowed by the adjudicating authority granting an option of payment of fine in lieu of confiscation. That is why, in the case of town seizures, the value/price of confiscated goods is always considered to include the duty element, if any, paid or payable with respect to the confiscated goods. In the present case, it is rightly held by Commissioner (Appeals) that the present respondent is not an importer of the goods. At this point, it will be relevant to glance through the definition of 'importer' as given in Section 2(26) of Customs Act, 1962 which reads as follows :-

"importer", in relation to any goods at any time between their importation and the time when they are cleared for home consumption, includes any owner or any person holding himself out to be the importer

6. From the above definition of 'importer', it is evident that in relation to any goods only between their importation and the time when they are cleared for home consumption, includes any owner or any person holding himself out to be the importer. So, the word 'importer' has to be read in the context of the time between their importation and till they are cleared for home consumption, which is the time when the imported goods are in the Customs area. Accordingly, it is held that the Customs duty cannot be demanded in town seizures in addition to redemption fine from the person from whose possession the smuggled goods are seized because the value/price of the seized/confiscated goods is deemed to include the duty element levied/leviable with respect to such goods, and the officer adjudicating the case has considered the same while imposing redemption fine.

## Meaning of "Transaction Value" in Central Excise law

The principle laid down by the Hon'ble Supreme Court in the Fiat India case -2012 (283) E.L.T. 161 (S.C.) is well-known. The echoes from that case are still reverberating. The Apex Court has in effect held that the central excise assessable value cannot be less than the cost of manufacture irrespective of any arm's length consideration received from the buyers at less than the cost of production. Nevertheless, in a recently reported case of COMMISSIONER OF CENTRAL EXCISE, JAIPUR-II Vs M/S SUPER SYNOTEX INDIA LTD & OTHERS – 2014- TIOL-19-SC-CX, the top Court while dealing with the issue of excludability of sales tax (collected but permitted to be retained by the dealer under a scheme of the state government) from the excise assessable value, referred to the policy behind the concept of the transaction value in these words:

***"Purpose and objective in defining "transaction value" or value in relation to excisable goods is obvious. The price or cost paid to the manufacturer constitutes the assessable value on which excise duty is payable".***

Even though this reference in the judgment appears to be mere 'obiter' and does not therefore constitute a binding ratio, it still has some force as it emanates from the highest court in the country. In the above observation, the Court vindicates the transaction value as the excise assessable value even when it amounts to the ***price or cost paid to the manufacturer***. This is the polar opposite of the detailed ratio reached in the Fiat India case.

## Erroneous admission of tax liability by service provider

Sometimes, a taxpayer admits a tax liability in erroneous understanding of law or due to the pressure exerted by tax officials. Later, the Assessee may regret his earlier capitulation and wish to contest the issue. In such cases, it is routine for the Revenue to urge that the dispute not be reopened since the tax payer has already admitted the liability. However, the Delhi High Court has laid down in the case of MAHESH SUNNY ENTERPRISES P. LTD.Vs COMMISSIONER OF SERVICE TAX , DELHI - 2014 (34) S.T.R. 21 (Del.) that such an erroneous concession of law is a technicality and cannot be relied upon by the Revenue to sustain illegal collection of tax.

## Cenvat credit on input services in connection with obtaining export incentives

In the case of COMMISSIONER OF CENTRAL EXCISE, AHEMADABAD Vs AHMEDABAD STRIPS PVT LTD- 2014 (33) S.T.R. 291 (Tri. - Ahmd), the issue was whether a manufacturer could avail Cenvat credit of service tax on activities in connection with obtaining export incentives for goods manufactured and exported by them. The Tribunal held the Cenvat credit admissible. In the words of the Tribunal:

"Manufacturer while manufacturing goods for export and for working out the cost takes into account the export incentives. Export incentives play a very big role in the manufacture and export of goods. This being the position, Service Tax incurred in respect of services for obtaining export incentives can be definitely related to manufacturing activity and therefore the decision of the learned Commissioner holding that respondent is eligible for the input Service Tax credit is to be sustained. Accordingly appeal filed by the revenue has no merit and the same is rejected".

## Inordinate delay in passing order of adjudication after personal hearing

It is a common occurrence that Revenue authorities conduct personal hearings almost on a daily basis in the tax cases before them. The speed with which these hearings are conducted on such a scale is not matched by the speed of issue of orders of adjudication which move at snail's pace, if at all. Orders are kept pending in the pipeline for months and even years. The CBEC has issued instructions to the authorities in the field to issue speaking orders at most within a month of conducting a personal hearing. The salutary policy behind such a stipulation is to ensure that the mind of the adjudicating authority remains relatively fresh to the facts and merits of the case on hand. A long delay in touching the case after concluding personal hearing robs even the semblance of justice from the whole exercise. The orders will mostly be pre-determined to confirm the tax demands in such scenarios of long delay between the date of personal hearing and the issue of order of adjudication. Now, these unconscionable delays in the process of adjudication have been frowned upon by judicial forums.

**The case laws reveal how the tax payers have to knock at the doors of the higher appellate forums and the Courts even for ordinary relief that should have been granted to them without much ado at the first stage of adjudication itself**

The principle that the abnormal delay in passing an order of adjudication after concluding a personal hearing would render the order unsustainable has been laid down by the Hon'ble High Court of Bombay in the case of Emco Ltd Vs Union of India & Others - 2014-TIOL-222-HC-MUM-CX which in turn was based, inter alia, on the landmark Supreme Court judgment in the case of Anil Rai Vs State of Bihar. According to the High Court a delay of several months in passing an order after conclusion of hearing would be prejudicial and that in the interests of justice the matter should be re-heard before an order could be passed.

## Conclusion

The tax trends in the Union Indirect taxation clearly reveal a complex web of opaque statutory provisions compounded by often arbitrary methods of compliance enforcement by the revenue authorities. The tax system urgently needs a thorough overhaul in law, administration and compliance monitoring. The case laws reveal how the tax payers have to knock at the doors of the higher appellate forums and the Courts even for ordinary relief that should have been granted to them without much ado at the first stage of adjudication itself. The need of the hour is an efficient system of tax collection which is not only speedy and fair but also felt to be speedy and equally fair, on the ground. The tax administrations should pay close attention to the perceptions and experiences of the tax-payers in considering any tax reforms. Without the moral support of taxpayers, no tax collection can be fully successful. MA

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# The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

## CLARIFICATION

**Ref. No: BOS/01-04/14-15**

**Dated: Kolkata, 1st April,2014**

**Clarification on applicability of Finance Act, 2013 and CAR 2011, CARR 2011 and CASs for CMA Examinations**

It is clarified for general information of all concerned that:

**(A) Finance Act, 2013 shall be made applicable involving Assessment Year 2014-15 for the following papers in June 2014 and December 2014 terms of Examinations of the Institute:**

| Syllabus 2008 | Syllabus 2012 |
|---|---|
| Paper 7 - Applied Direct Taxation | Paper 7 - Direct Taxation |
| Paper 10 - Applied Indirect Taxation | Paper 11 - Indirect Taxation |
| Paper 14 - Indirect and Direct Tax Management | Paper 16 - Tax Management & Practice |

This is also clarified in the Examination Notification issued by the Directorate of Examination of the Institute (http://icmai.in/examination/notification)

**(B) Cost Accounting Record Rules 2011, Cost Audit Report Rules 2011 and Cost Accounting Standards - 1-17 will also be applicable for the following papers for June 2014 term of Examination:**

| Syllabus 2008 | Syllabus 2012 |
|---|---|
| Paper 17 - Cost Audit and Operational Audit | Paper 19 - Cost and Management Audit |

**(C)** 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. ( Clarified vide*** BOS/01-08/13-14, on 26th August,2013 and reiterated vide **BOS/01-12/13-14 on 18th December, 2013). Applicability of provisions of The Companies Act,2013 for Examinations of the Institute would be notified in due course.**

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

**CMA Chiranjib Das**
**Joint Director, Head - Academics Department ( Board of Studies)**
**Secretary to the Board of Studies Committee**

# AN INTELLIGENT INTERPRETATION OF THE TAX LAW ON CHARITABLE TRUSTS

The stringent provisions regarding conditions to be fulfilled by charitable trusts for claiming exemption under Section 11 have to be read in conjunction with Section 10

**TCA Ramanujam**
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**TCA Sangeetha**
Masters in Law

Some of the most complicated provisions in the Income Tax Law concern the taxation or exemption of income from charitable trusts. Stringent provisions have been made regarding the income derived from charitable trusts, its application and accumulation. Income accumulated or set apart has to be invested or deposited in the forms or modes specified in Section 11(5) of the Income Tax Act, 1961. Under this provision, the Trust must invest its funds in Government Saving Certificates, Post Office Saving Bank Accounts, Scheduled Banks, Government Securities or Debentures of Government companies or public sector companies and deposits or Investment in Bonds issued by a financial corporation providing long term finance for industrial development in India. Income derived from such charitable trust will be exempt from taxation under Section 11 if the funds are invested in the manner provided for under Section 11[5]. Violation of the prescribed modes of investment will entail denial of exemption. Section 13 denies exemption for income of the trust arising from investment in any shares in a non-government company. These are categorical and clear provisions of the law.

### The Case of Jamsetji Tata Trusts Cites 42 docs(view all)

During the proceedings for the assessment year 2010-11, the Assessing Officer found that the Tata Trusts had invested heavily in Tata Consulting Services Limited. Tata Sons Limited donated shares in TCS to the Tata Trusts. Some of the shares were sold. The trust received dividend of Rs.5,48,62,380/- from TCS shares and Rs.14,25,36,643 as dividend on shares of Tata Sons limited. Sale proceeds of TCS shares were reinvested in Tata Sons which is not a public sector company. These investments are obviously not in conformity with the pattern prescribed in Section 11(5). Exemption of income derived by charitable trusts from taxation will be forfeited if the funds are invested in violation of Section 11(5). This is provided for by Section 13. The Assessing Officer therefore held that the trust is not entitled to exemption in respect of its income by way of dividends and income by way of capital gains on sale of shares.

In the appeal, the Senior Council appearing for the trust argued that long term capital gains and dividend on the shares of TCS and mutual funds are exempt under Section 10. There was no breach of the law regarding investment.

The Mumbai Bench of the Income Tax Appellate Tribunal considered the matter in some detail. Exemption is subject to fulfillment of conditions stipulated under Section 11 and 13 of the Act. Application of income and source of income will be governed by Section 11 (5) and Section 13. Investments by Trusts should be in modes permitted under the law. Exemption under Section 11 is available only on the income to the extent the sale is derived in conformity with Section 11. The Assessing Officer denied exemption on dividend income and long term capital gains on shares on the ground that income derived from the property held by the trusts violated the conditions of Section 11 and Section 13. The trusts relied on the exemption provided under Section 10 (34) for dividend, 10 (35) (mutual fund units) and 10 (36) long term capital gains. The Assessing Officer held that the income of the trusts is held as not exempt under Section 11, 12 and 13, the trusts cannot claim alternative exemption. On the other hand, the trusts argued that dividend income is exempt under Section 10 (34) because such income is taxed under Section 115 (O) by way of Dividend Distribution Tax Since it is already subjected to tax at the hands of the distributing company, it cannot again be taxed twice. The argument was that if the income is exempt under Section 10, there is no need to bring in Section 11. Revenue's argument was that both section 10 and 11 were parts of chapter III. Section 11 is a specific provision for exemption of income from property held under trusts. It would over-ride the general provision in Section 10.

The Tribunal pointed out that exemption under Section 11 is person specific though on the income derived from the property held under the trust. Exemption is subject to applications of income and modes of deposits and investments. On the other hand, exemption under Section 10 is income specific. There are no preconditions provided for exemption under Section 10. Sections 11, 12 and 13 will not operate as over-riding effect to Section 10. There is nothing to suggest that Section 10 is subject to the provisions of Section 11, 12 and 13. "The benefit of Section 10 cannot be denied by invoking the provisions of Section 11,12 and 13 of the Act. Once the conditions of Section 10 are satisfied, then no other conditions can be fastened for denying the claim under Section 10 of the Act". The Tribunal Ruled that dividend income on shares from TCs and Mutual funds and long term capital gains on sale of shares are exempt under Sections 10(34), 10(35) and 10 (38) and cannot be brought to tax by applying Section 11 and 13 of the Act. Tata Trusts violated every principle laid down in Section 11,12 and 13 of the Act and still got away with exemption for huge amounts of dividends and capital gains relying on Section 10.

## Agricultural income

Section 10 contains exemption for income from agriculture. Divine Light Mission claimed exemption for its agricultural income. The Delhi High Court Ruled "Section 10(1) of the Act specifically points out that agricultural income shall not be included in computing the total income of a previous year. This income is not required to be considered at all even for the purpose of Section 11 of the Act" 278 ITR 659 (Delhi).

## Educational trusts

Brahmin Educational Society was conducting Chit funds and making use of the commission for the purpose of education. The trusts claimed exemption under Section 10(22) as it then was. The claim was denied because chit fund business yielded income. The Kerala High Court held that if an institution exists slowly for the purpose of education and derives income from any other source and if that income is used only for the purpose of education, then it will come under Section 10(22). Section 11 (4) is applicable only with regard to the income from various properties. It cannot override Section 10(22)" 227 ITR 317.

## Medical centre

Seethakathi Trust was running Educational Institutions and also a medical centre. The Assessing Officer of the opinion that the trust had violated the provisions of Section 11(5) read with Section 13(1) (b) of the Act and denied the benefits of exemption under Section 11 and 12. The Madras High Court decided the matter in favour of the trust citing a Board Circular No.712 dt.July 25, 1995. The Board clarified that Section 10(22) did not impose any restriction regarding mode of investment of funds and such institution are not required to invest their funds with the mode specified under Section 11 (5) of the Income Tax Act. The trust was allowed the exemption.

## Conclusion

The stringent provisions regarding conditions to be fulfilled by charitable trusts for claiming exemption under Section 11 have to be read in conjunction with Section 10. Section 11 cannot over-ride section 10 though both sections are found in Chapter 3 of the Act. Violation of Section 11 will not be a bar to exemption under Section 10. This is a salutary principle which all charitable trusts must take note of for their own benefit. MA

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# TAX TITBITS

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## Regulatory bodies should not be taxable

State organisations charging fees for their services have also become vulnerable in the light of extended interpretation placed by the Assessing Officers on the amendment to section 2(15) targeting charitable trusts and institutions with the object of general public utility having income in the nature of trade, commerce or business. Charging fees for specific services is part of the regulatory functions of the State and could not be treated as business as decided by the High Court in favour of the assessee in Bureau of Indian Standards v. Director General of Income-tax (Exemptions) [2013] 358 ITR 78 (Del). The Supreme Court had now declined special leave to the Department, (2014) 362 ITR (St.) 2. The view taken in this case should extend to State sponsored activities like the issue of certificates of origin for customs purposes by the Chambers of Commerce and other similar activities.

## Sales commission to non-resident agents

Uncertainty in non-resident taxation continues to be highlighted in a number of decisions of the Tribunal and the Courts. Where a non-resident renders services abroad for securing orders described as marketing services in the nature of brokerage bringing the purchaser and the seller together, the law should be understood as one which does not admit of any controversy, that such services should not attract tax in India, unless there is a business connection or permanent establishment in India with income attributable to the activities in India. The Supreme Court in CIT v. Toshoku Ltd. (1980) 125 ITR 525 (SC) has held that such income will not be liable to tax. But it is continued to be taxed by treating it as technical fees. The Tribunal recently dismissed two departmental appeals against the decision in favour of the taxpayer in Asst. Director of Income-tax (International Taxation) v. WNS North America Inc. [2014] 30 ITR (Trib) 646 (Mumbai) and in Infotech Enterprises Ltd v. Addl.CIT [2014] 30 ITR (Trib) 542 (Hyderabad). Such misguided departmental appeal against settled law indicates lack of accountability on the part of those, who authorise such appeals and undermine the confidence of taxpayers even of those officers of rank of Commissioners.

## Secret commission – Should it be disallowed?

Explanation to section 37(1) which bars illegal payments is often misinterpreted by over-zealous Assessing Officers, who disallow payment on the least suggestion of such payment being immoral or unethical. In rare cases, such a view has also been upheld as in CIT v. Dhanpat Rai and Sons [2014] 362 ITR 7 (P&H), where the High Court restored the disallowance of payment of commission and free distribution of specimen copies to teachers by a firm of educational publishers. These were treated as secret commission barred by the Explanation to section 37(1) which could possibly apply only for payments in the nature of bribe to public servants, which is a criminal offence both for the giver and taker. The High Court reversed the decision of the Tribunal after making a reference to Prevention of Corruption Act, 1998, Indian Penal Code, 1860 and Code of Criminal Procedure, 1973, none of which could have had any application for payments under consideration in this case. The provision itself should need review, since the law taxes illegal income like gambling, prostitution and smuggling. In the alternative, a clarification is necessary to the effect that a puritanical approach is not warranted by law.

## Jurisdiction for advance ruling

Advance ruling is not available in law in respect of pending matters. The Authority for Advance Ruling (AAR) was declining to admit applications on the inference that mere filing of return makes all issues relating to return to be pending as for example in SEPCOIII Electric Power Construction Corporation, In re (No. 1) [2012] 340 ITR 225 (AAR). The AAR has now decided that a matter can be treated as pending only, if scrutiny notice under section 143(2) has been issued in Mitsubishi Corporation In re [2014] 360 ITR 704 (AAR) and reiterated now in LS Cable and System Ltd., In re [2014] 362 ITR 18 (AAR). This is a welcome ruling as it helps to resolve contentious issues by advance ruling in matters relating to non-resident taxation. But there is a parallel development in view of the Supreme Court decision to the effect that the jurisdiction of the High Court is not shut out against the ruling of AAR in Columbia Sportswear Company v. Director of Income-tax [2012] 346 ITR 161 (SC). It is time that the intention behind the creation of advance ruling to avoid long-drawn litigation by making it final is statutorily clarified. An expected amendment to undo the effect of this decision is yet to materialise.

## Maintenance of records – Need for improvement in the Income-tax Department

The manner in which records are maintained by the Income-tax Department came to the adverse notice of the High Court in BBC World News Ltd. v. Asst. Director of Income-tax [2014] 362 ITR 577 (Del). The High Court had called for and examined the original records and found that there was no record of proceedings or order sheet relating to the proceedings. It noticed that some of the sheets, which should have been in the custody of the officers had been removed. Records have been kept in a manner, which could admit interpolation or permit them to be changed. Page numbering of papers in chronological order with indexing of papers in the order sheet can avoid such interpolation. Omission to do so is a serious lapse.

The High Court referred to similar adverse comments made earlier with no effect. The situation was described by the High Court as alarming, requiring "urgent, effective remedial steps".

It was also noticed that it is not the practice of the Department to give acknowledgements of papers submitted during assessment proceedings. It is in this context, that it felt that it had to accept the various submissions made on behalf of the assessee for its conclusion, that jurisdiction for reassessment was not justified. These observations were intended by the High Court as advice to the Income-tax Department to ensure better maintenance of records. MA

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### Attention please – Members in Practice

Members in practice can now view their validity of Certificate of Practice by following the procedure as laid down below:

1. go to the home page of the Institute website, ie www.icmai.in
2. go to the members' log in on the top of the Home page by using your membership number as 'User ID' and a combination of your DoB (in dd-mm-year format) and Membership number as your 'Password'
3. immediately you will be led to the 'Membership Management System' page
4. go to the 'Certificate of Practice' menu on that page
5. view the validity of 'Certificate of Practice' which is the last item on that menu

# REFUND OF CENVAT CREDIT

The refund of CENVAT Credit explained in detail

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### Is unutilized CENVAT credit refundable?

Refund of accumulated credit is admissible only in case of exports of finished goods or output service. Where any input or input service is used in providing output service or manufacture of goods which are exported, the CENVAT credit in respect of the input or input service so used shall be allowed to be utilized towards payment of service tax on any other output service or excise duty on other excisable goods. If such adjustment is not possible due to any reason, it will be allowed as refund subject to the safeguards, conditions and limitations specified by the Central Government.

### Refund to exporters

Rule 5 of CENVAT Credit Rules, 2004 ('Rules' for short) deals with the procedure for getting refund of CENVAT credit. Rule 5 was substituted vide Notification No. 18/2012-CE(NT), dated 17.3.2012 with effect from 01.04.2012. The new Rule 5(1) provides that a manufacturer who clears a final product or an intermediate product for export without payment of duty under bond or letter of undertaking, or a service provider who provides an output service which is exported without payment of service tax, shall be allowed refund of CENVAT credit as determined by the following formula subject to procedure, safeguards, conditions and limitations, as may be specified by the Board by notification in the Official Gazette:

A = B+C * D/E

Where A = maximum refund that is admissible;

B = Export Turnover of goods which means the value of final products and intermediate products cleared during the relevant period and exported without payment of Central Excise Duty under the bond or letter of undertaking;

C = Export turnover of services which means the value of the export services calculated in the following manner-

M= N+O-P

Where M = Export turnover of services;

N = payments received during the relevant period for export of services;

O = export services whose provision has been completed for which payment had been received in advance in any period prior to the relevant period;

P = Advances received for export services for which the provision of service has not bee completed during the relevant period

D = Net CENVAT credit which means total CENVAT credit availed on inputs and input services by the manufacturer or the output service provider reduced by the amount reversed in terms of Rule 3(5C), during the relevant period;

E = Total Turnover, which means sum total of the value of- all excisable goods cleared during the relevant period including exempted goods, dutiable goods and excisable goods exported;

- export turnover of services determined in terms of clause (D) of sub-rule (1) above and the value

of all other services, during the relevant period; and
- all inputs removed as such under sub-rule (5) of rule 3 against an invoice, during the period for which the claim is filed.

No refund of credit shall be allowed if the manufacturer or provider of output service avails of drawback allowed under the Customs and Central Excise Duties and Service Tax Drawback Rules, 1995, or claims rebate of duty under the Central Excise Rules, 2002, in respect of such duty; or claims rebate of service tax under the Service Tax Rules, 1994 in respect of such tax.

Explanation 1 to this rule defines two terms 'export service' and 'relevant period'. The terms 'export service' means a service which is provided as per Rule 6A of the Service Tax Rules, 1994, whether payment is received or not. The terms 'relevant period' means the period for which the claim is filed. Explanation 2 to this rule provides that the value of services shall be determined in the same manner as the value for the purposes of Rule 6(3) and 6(3A) is determined.

### Safeguards, conditions and limitations

Notification 27/2012-CE-NT, dated 18.06.2013 prescribes the safeguards, conditions and limitations for refund of CENVAT credit as detailed below:
- the manufacturer or provider of output service shall submit not more than one claim of refund under this rule for every quarter. A person exporting goods and service simultaneously, may submit two refund claims one in respect of goods exported and other in respect of the export of services every quarter;
- in this notification quarter means a period of three consecutive months with the first quarter beginning from 1st April of every year, second quarter from 1st July, third quarter from 1st October and fourth quarter from 1st January of every year.
- the value of goods cleared for export during the quarter shall be the sum total of all the goods cleared by the exporter for exports during the quarter as per the monthly or quarterly return filed by the claimant.
- the total value of goods cleared during the quarter shall be the sum total of value of all goods cleared by the claimant during the quarter as per the monthly or quarterly return filed by the claimant.
- in respect of the services, for the purpose of computation of total turnover, the value of export services shall be determined in accordance with clause (D) of sub-rule (1) of rule 5 of the said rules.
- for the value of all services other than export during the quarter, the time of provision of services shall be determined as per the provisions of the Point of Taxation Rules, 2011.
- the amount of refund claimed shall not be more than the amount lying in balance at the end of quarter for which refund claim is being made or at the time of filing of the refund claim, whichever is less.
- the amount that is claimed as refund under rule 5 of the said rules shall be debited by the claimant from his CENVAT credit account at the time of making the claim.
- In case the amount of refund sanctioned is less than the amount of refund claimed, then the claimant may take back the credit of the difference between the amount claimed and amount sanctioned.

### Procedure for filing the refund claim

The following is the procedure prescribed for getting refund under this Notification:
- The manufacturer or provider of output service, as the case may be, shall submit an application in Form A annexed to the notification, to the Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise, as the case may be, in whose jurisdiction,-
  - the factory from which the final products are exported is situated.
  - the registered premises of the provider of service from which output services are exported is situated.
- The application in the Form A along with the documents specified therein and enclosures relating to the quarter for which refund is being claimed shall be filed by the claimant, before the expiry of the period specified in section 11B of the Central Excise Act, 1944 (1 of 1944).
- The application in the Form A along with the documents specified therein and enclosures relating to the quarter for which refund is being claimed shall be filed by the claimant, before the expiry of the period specified in section 11B of the Central Excise Act, 1944 (1 of 1944).
- The application for the refund should be signed by-
  - the individual or the proprietor in the case of proprietary firm or karta in case of Hindu Undivided Family as the case may be;
  - any partner in case of a partnership firm;
  - a person authorized by the Board of Directors in case of a limited company;
  - in other cases, a person authorized to sign the refund application by the entity.
- The applicant shall file the refund claim along with the copies of bank realization certificate in respect of the services exported.
- The refund claim shall be accompanied by a certificate in Annexure A-I, duly signed by the auditor (statutory or any other) certifying the correctness of refund claimed in respect of export of services.
- The Assistant Commissioner or Deputy Commissioner to whom the application for refund is made may call for any document in case he has reason to believe that in-

formation provided in the refund claim is incorrect or insufficient and further enquiry needs to be caused before the sanction of refund claim.
- at the time of sanctioning the refund claim the Assistant Commissioner or Deputy Commissioner shall satisfy himself or herself in respect of the correctness of the claim and the fact that goods cleared for export or services provided have actually been exported and allow the claim of exporter of goods or services in full or part as the case may be.

### Refund of CENVAT credit to units in specified areas

Rule 5A provides that notwithstanding anything contrary contained in these rules, where a manufacturer has cleared final products in terms of notification of the Government of India in the Ministry of Finance (Department of Revenue) No.20/2007-Central Excise, dated the 25th April, 2007 and is unable to utilize the CENVAT credit of duty taken on inputs required for manufacture of final products specified in the said notification, other than final products which are exempt or subject to nil rate of duty, for payment of duties of excise on said final products, then the Central Government may allow the refund of such credit subject to such procedure, conditions and limitations, as may be specified by notification.

### Refund of CENVAT credit to service providers providing services taxed on reverse charge basis

Vide Notification No. 28/2012-Central Excise-NT, dated 20.06.2012 Rule 5B was substituted for the earlier Rule. The new Rule 5B provides that a provider of service providing services notified under sub-section (2) of section 68 of the Finance Act and being unable to utilize the CENVAT credit availed on inputs and input services for payment of service tax on such output services, shall be allowed refund of such unutilized CENVAT credit subject to procedure, safeguards, conditions and limitations, as may be specified by the Board by notification in the Official Gazette. Notification 30/2012-ST, dated 20.06.2012 notified certain services and the extent of service tax to be paid by the persons other than the service providers.

### Procedures, safeguards, conditions and limitation

In exercise of the powers conferred by Rule 5B of CENVAT Credit Rules, 2004 the Central Board of Excise and Customs gives directions to give refund of CENVAT credit to a provider of services notified under Section 68(2) subject to the procedures, safeguards, conditions and limitations as specified in Notification No. 12/2014/CE-NT, dated 3.3.2014. The following are the safeguards, conditions and limitations specified by the Board:
- The refund shall be claimed of unutilized CENVAT credit taken on inputs and input services during the half year (from 1st April to 30th September; and from 1st October to 31st March) for which refund is claimed, for providing the following output services, namely:-
- Renting of a motor vehicle designed to carry passengers on non abated value, to any person who is not engaged in a similar business;
- Supply of manpower for any purpose or security services; or
- Service portion in the execution of a works contract.
- The refund of unutilized CENVAT credit shall not exceed an amount of service tax liability paid or payable by the recipient of service with respect to the partial reverse charge services provided during the period of half year for which refund is claimed;
- The amount claimed as refund shall be debited by the claimant from his CENVAT credit account at the time of making the claim;
- The claimant shall submit not more than one claim of refund under this Notification for every half year;
- The refund claim shall be filed after filing of service tax return as prescribed under Rule 7of the Service Tax Rules for the period for which refund is claimed;
- No refund shall be admissible for the CENVAT credit taken on input or input services received prior to 01.07.2012.

The formula for calculation of unutilized CENVAT credit taken on input and input services during the half year for providing partial reverse charge services= (A) – (B)

$$\textbf{Where A} = \begin{array}{l}\textbf{CENVAT credit}\\ \textbf{taken on inputs}\\ \textbf{and input}\\ \textbf{services during}\\ \textbf{the half year}\end{array} \times \frac{\textbf{Turnover of output service under partial reverse charge during the half year}}{\textbf{Total turnover of goods and services during the half year}}$$

B= Service tax paid by the service provider for such partial reverse charge services During the half year.

The following is the procedure prescribed in this Notification for refund claim:
- The applicant shall submit an application in Form A along with the documents and enclosures to the Jurisdictional Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise, as the case may be, before the expiry of one year from the due date of filing of return for the half year;
- The last date of filing application for the period standing from 1st day of July 2012 to 30thday of September 2012, shall be the 30th day of June 2014;
- If more than one return is required to be filed for the half year, then the time limit of one year shall be calculated from the due date of filing of the return for the later period;

- The applicant shall filed the refund claim with the copies of returns filed for the half for which the refund is claimed;
- The Authority may call for any document in case he has reason to believe that information provided in the refund claim is incorrect or insufficient and further enquiry needs to be caused before the sanction of refund claim;
- At the time of sanctioning the refund claim the Authority shall satisfy himself or herself in respect of the correctness of the refund claim and that the refund claim is complete in every aspect.

The following are the particulars to be provided in Form A –

- Description of service;
- Value of output services during the half year;
- Total service tax liability during the half year;
- Service tax liability discharged by the provider of output service during the half year;
- Service tax liability of the receiver of such output service during the half year

The following are the particulars are to be given for the refund:

- Period for which refund is claimed;
- Service tax liability of the receiver of such output service during the half year;
- Amount of unutilized CENVAT credit taken on inputs or input services during the half year for providing services taxable under partial reverse charge;
- The eligible refund amount.

The details of the bank account of the applicant to which the refund amount is to be credited is to be furnished and the required declaration in Form A.

The refund claim will be processed and the eligible refund amount will be deposited in bank account of the applicant.

## Issues in refund of credit

Some of the issues involved in respect of refund of CENVAT credit is illustrated with reference to decided case laws as detailed below:

## Denial of refund

In 'Commissioner of Service Tax, Bangalore V. Focus Infosys (India) Private Limited' – 2013 (31) STR 553 (Tri. Bang) the respondent was registered with STPI authorities as a 100% EOU and also granted licence to operate a bonded warehouse by the Custom Authorities. They were only to export of services and they were not rendering any services in the DTA. The credit taken on the services are verifiable from the documents available with the respondent assessee. Therefore the denial of refund merely on the ground that the refund relates to the period prior to registration may not be justified.

In 'Commissioner of Central Excise and Customs V. NBM Industries' – 2013 (29) STR 208 (Guj) CENVAT credit on inputs used in manufacture of goods cleared by DTA units to 100% EOU. It was held that refund was available. It could not denied on the ground that it was a case of deemed export and refund could not be granted only in case of physical export.

## Disallowing of refund

In 'C. Cubed Solutions Private Limited V. Commissioner of Central Excise, Bangalore' – 2013 (293) ELT 398 (Tri. Bang) the appellant is a 100% EOU under STPI scheme and is engaged in providing IT enabled service. They preferred refund claim of unutilized accumulated credit on input services used in the export of taxable services. The Original Authority sanctioned the refund of Rs.196349/- out of a claim of Rs.230125/- and rejected the balance claim for Rs.33,776/-under the category of advertisement, house keeping charges, Annual maintenance contract service, clearing & forwarding service, Chartered Accountant's services, manpower recruitment or supply service and security agency services. The Commissioner (Appeals) allowed credit in respect of Chartered Accountant's services, manpower recruitment and supply service and security agency service. The Tribunal held that the advertisement had been used for the purposes of advertisement for recruiting manpower. There is no justification for disallowing this credit. Hiring of furniture has been for use in their office and 'house keeping service' related to the running of the office. Therefore the credit should have been allowed for these services. Inasmuch as the 'clearing and forwarding services' were used in relation to input or equipments by the assessee, the same also should be treated as input services. In view of the above the order of the Commissioner (Appeals) in disallowing the refund of the credit in respect of these services cannot be upheld.

## No refund for exempted goods

In 'Bajaj Food Limited V. Commissioner of Central Excise, Ahamedabad – II' – 2013 (295) ELT 275 (Tri. Ahmd) it was held that under Rule 6 CENVAT credit was not available on inputs used in manufacture of exempted goods. Also refund could not be allowed under Rule 5 ibid as export was neither under bond nor or on letter of undertaking. Hence no refund is permissible as no credit accumulation was possible. The exporter had to follow prescribed procedure for claiming refund of duty paid on inputs used in manufacture of fully exempted export products. Section 11 AB of Central Excise Act, 1994 was not applicable as exporters were claiming refund of duty on inputs which were not manufactured by them and hence had no locus standi to seek refund.

## THE REFUND OF CENVAT CREDIT IS ADMISSIBLE IN RESPECT OF INPUTS IF THOSE INPUTS HAVE ACTUALLY GONE INTO CONSUMPTION OF EXPORTED GOODS

### Entitlement for refund

In 'Automobile Corporation Limited V. Commissioner of Customs and Central Excise, Goa' – 2013 (31) STR 496 (Tri. Mum) the appellants filed refund claim under Rule 5 in respect of duty paid on inputs used in fabrication of bodies. The refund claims were rejected by the Adjudicating Authority on merits. The Commissioner (Appeals) dismissed the appeal on the ground that the appellants are not eligible to file refund claims under Rule 5 as the appellants are neither manufacturer of the final products which were cleared for export under bond nor they are manufacturers of the final product cleared for home consumption. The Tribunal held that as per Rule 5 where the manufacturer is unable to utilize the credit accumulated in respect of the inputs used in the manufacturer of excisable goods which were exported, the manufacturer is entitled for refund subject to the condition prescribed therein. In view of the above provision of the Rules, it cannot be said that the appellants are not eligible to file refund claims. The Tribunal set aside the order and remanded the matter to decide the refund claim of the appellants on merits after affording them a reasonable opportunity of being heard.

### Limitation

In 'Raymond Limited V. Commissioner of Central Excise, Bhopal' – 2013 (289) ELT 353 (Tri. Del) the appellant reversed the CENVAT credit on the advice of the jurisdictional Central Excise Officer. Subsequently realizing that they were not required to reverse the credit the appellant filed a refund claim. The refund claim was rejected by the jurisdictional Assistant Commissioner on the ground of limitation. On appeals the case was dismissed. The Tribunal held that the limitation period would run from the date of discovery of mistake. The date of discovery of mistake has to be ascertained on the basis of the appellant's correspondence on this issues with the department, the date on which they claimed for the first time that the reversal was wrong would be treated as date of discovery of mistake. If there is no such correspondence the details on which the refund claims were filed for the first time would have to be treated as the date of discovery of mistake.

### Equal footing for 'inputs' and 'input services'

In 'Bombay Dyeing & Manufacturing Co. Limited V. Commissioner of Central Excise, Raigad' – 2013 (288) ELT 283 (Tri. Mum) the appellant filed refund claim for the unutilized CENVAT credit availed on inputs used in the manufacture of final products. The claim was rejected. The case, in its travel, came to the Tribunal. The appellant contended that they have unutilized the CENVAT credit in their CENVAT account and under Rule 5 of CENVAT Credit Rules they are entitled for refund of the unutilized CENVAT credit in respect of those inputs which have been gone in manufacture of the goods which have been exported during the relevant quarters only and not in respect of any other inputs either already utilized in the past and or lying the stock to be utilized in the future. The appellant contended that there is no one to one co-relation required to be fulfilled by the appellants for claiming the refund. The Tribunal held that under Rule 5 inputs and input services are treated on equal footing. The refund of CENVAT credit is admissible in respect of inputs if those inputs have actually gone into consumption of exported goods.

### Excess credit effect

In 'Commissioner of Central Excise, Ghaziabad V. Techno Chem Enterprises' – 2013 (291) ELT 431 (Tri. Del) the Original Authority sanctioned the refund claim of Rs.27,951/-. The Revenue filed appeal before Commissioner (Appeals) which was rejected. The Revenue filed appeal before the Tribunal. The Revenue contended that the respondents have shown excess quantity of inputs in ARE-1 to take the benefit of refund of CENVAT credit wrongly by including the amount of CENVAT credit of duty. The Tribunal found that the Revenue's case is based on arithmetical calculation on input output ratio and there is no evidence produced by revenue to establish that the appellant had taken excess credit by showing excess receipts of inputs. The Tribunal rejected the appeal. MA

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## DIRECT TAXES

### Case Laws

- **Scope of retro-amendments couldn't be curtailed by treaty - HC's passing remarks; denies stay on recovery of demand -** The scope and effect of the legislation cannot be curtailed by the DTAA, if after it comes into force an Act of Parliament is passed which contains contrary provision. This issue could have been discussed further had the petitioner questioned the legality of the Finance Act, 2012 inserting *Explanations 5* and *6* in section 9(1)(*vi*) of the Act. The Tribunal had rightly directed deposit of 50 per cent of tax liability on the grounds urged by the petitioner seeking grant of interim stay - *Vodafone South Ltd.* v. *Dy. DIT (International Taxation)* [2014] 43 taxmann.com 444 (Karnataka)
- **Sec. 54F relief couldn't be withdrawn if residential property was subsequently put to use for commercial purpose -** Subsequent change in usage of property does not disentitle assessee to relief under section 54F, if what was acquired was originally a residential property - *Shyamlal Tandon* v. *ITO* [2014] 43 taxmann.com 155 (Hyderabad - Trib.)
- **Payment for transponder service is 'royalty'; ITAT refers Explanation 6 to sec. 9(1)(vi) to interpret 'process' -** Payment of fees for use of transponder service is 'royalty', taxable under Article 12 of India-USA DTAA. Since, the word 'process' as used in Article 12 of India-US DTAA has not been defined in the DTAA, its meaning shall be interpreted as per Income-tax Act, 1961 in view of Article 3(2) of said DTAA. The use of transponder for broadcasting programme involves transmission by satellite which falls in the expression 'process' as per Explanation 6 of section 9(1)(*vi*) - *Viacom 18 Media (P.) Ltd.* v. *ADIT (International Taxation)* [2014] 44 taxmann.com 1 (Mumbai - Trib.)

### Statutes

- **Mandatory e-filing for firms, political parties and trusts giving notice of accumulation of income -** The CBDT amended rule 12 with Income-tax (Fourth Amendment) Rules, 2014, which brings following assessee within the net of mandatory e-filing of return or notice, as the case may be:

  (1) **Partnership firms:** Earlier e-filing of return was mandatory only for those firms who were liable to get their accounts audited. In view of this amendment, every firm is now required to e-file the return even when they are not liable for tax audit for Assessment Year 2014-15.

  (2) **Political parties:** Earlier political parties were given an option to file e-returns. Now every political party (if its income exceeds the maximum amount not chargeable to tax) is under an obligation to file e-return.

  (3) **Specified Trust:** As per section 11(2) every trust can accumulate its income for application in subsequent years if its total income wasn't applied or was not deemed to have been applied for charitable purposes in India during the previous year. Such trusts are required to give notice to the Assessing Officer in prescribed format regarding accumulation of income. These trusts are now required to file such notice in electronic mode - Notification No. 24/2014 [F.No.142/2/2014-TPL]/SO 997(E), DATED 1-4-2014

- **FinMin releases DTC Bill for public comments; 153 out of 190 recommendations of Standing Committee may be accepted -** Since the DTC Bill, 2010 was introduced in the Parliament; amendments were carried out in the Income-tax Act and the Wealth-tax Act through Finance Acts, 2011, 2012 and 2013. Hence, a new revised DTC incorporating all the amendments was drafted.

  Some of the recommendations of the Standing Committee on Finance which are proposed to be accepted are as under:

  (1) **Relaxation of senior citizen's age:** The age for senior citizens may be relaxed from 65 years to 60 years.

  (2) **Deduction of interest on housing loan:** For the purposes of deduction of interest on loan taken for self occupied house property, the loan given by the employer should also qualify for this concession.

  (3) **GAAR:** The General Anti Avoidance Rules may be reviewed to bring more clarity and precision. The onus of proof should rest on the tax authority invoking GAAR. The taxpayers may also be permitted to obtain an advance ruling to determine whether a transaction would attract GAAR.

  (4) **Additional tax of 10 % on dividend exceeding one crore rupees:** The draft DTC proposes to levy 10% additional tax on the resident receiving dividend in excess of Rs.1 crore.

  (5) **Higher tax burden on super rich:** Individual, HUFs and artificial juridical persons proposed to be taxed at 35% tax rate if their total income exceeds Rs. 10 crores.

  (6) **Taxation of indirect transfer of assets:** The DTC Bill, 2010 provides for a threshold of 50% of global assets to be located in India for taxation of income from indirect transfer in India. This threshold is too high. Accordingly, the revised DTC may reduce such threshold limit to 20%. Further, exemption may be provided for transfer of small share holdings (upto 5%) outside India - PRESS RELEASE, DATED 31-3-2014

- **Partners are not liable to pay tax on income, which is exempt in hands of firm; CBDT clarifies -** The CBDT clarifies that 'total income' of the firm for section 10(*2A*), includes income which is exempt or deductible under various provisions of the Act. Thus, the income of a firm is to be taxed in the hands of the firm only and the same cannot be taxed in the hands of its partners.

  Accordingly, the entire profit credited to the partners' accounts in the firm would be exempt from tax in the hands of such partners, even if the income chargeable to tax becomes *Nil* in the hands of the firm due to any exemption or deduction. - CIRCULAR NO. 8/2014 [F.NO.173/99/2013-ITA-I], DATED 31-3-2014

## INDIRECT TAXES

### Case Laws

- **No VAT on hiring of machinery to contractors engaged in project -** Where project owner had hired out sophisticated machinery to its contractors engaged in construction/execution of said project, such hiring did not amount to 'transfer of right to use' and cannot be charged to VAT, it is liable to service tax only - *State of Andhra Pradesh* v. *Rashtriya Ispat Nigam Ltd.* [2014] 43 taxmann.com 310 (SC)
- **Fees for excise license is to be paid as per rate prevalent on date of consideration of application by deptt. -** Consideration of application for licence should be only with reference to rules/law (including fees payable) prevailing or in force on date of consideration of application by excise authorities and not as on date of application- *Sanjay Shetty* v. *Deputy Commissioner of Excise, Udupi* [2014] 43 taxmann.com 361 (Karnataka)
- **Aid and counselling to earthquake victims is 'relief and rehabilitation' -** Activity of free legal aid and counselling to various victims of earthquake and making them aware of various packages made available by Government amounts to 'relief and rehabilitation' for purpose of Central Excise Exemption - *Rajpipla Social Service Society* v. *Collector* [2014] 43 taxmann.com 262 (Gujarat)
- **Service element in composite contracts was liable to service-tax even prior to 1-6-2007 -** In case of composite contracts including manufacture and supply of ready mix concretes, service element thereof could be charged to service tax even prior to 1-6-2007 under 'Construction Services' or 'Erection, Commissioning and Installation Services'- *YFC Projects (P.) Ltd.* v. *Union of India* [2014] 43 taxmann.com 219 (Delhi)
- **HC permits transfer of unutilized Cenvat credit from one division to another division of same assessee -** Where assessee is granted single registration in place of two separate registrations of two divisions in same premises, credit pertaining to one division can be transferred to Cenvat credit register of another division - *CCE* v. *Rajshree Sugars & Chemicals Ltd.* [2014] 43 taxmann.com 257 (Madras)

### Statutes

- **E-payment of VAT in Tamil Nadu : Tamil Nadu Govt. orders e-payment of VAT for dealers having turnover of more than 2 crores in preceding year -** Tamil Nadu Value Added Tax Rules, 2007 - NOTIFICATION NO.G.O.(Ms.) No.30
- **Reverse charge on services received by Indian banks from foreign banks -** Indian Banks to pay ST under reverse charge for services received from foreign Banks for import/export dealings - TRADE NOTICE NO. 20/13-14-ST-I [F.NO.V/ST-I/TECH-I

# PASSIVE INFRA SHARING IN TELECOM INDUSTRY – AN OVERVIEW

It is beneficial for mobile operators to share the infrastructure of tower companies rather than expanding their own network as it will result in faster and cheaper rollout of networks as well the improved tenancy ratio

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## Passive Infra Sharing in Telecom Industry – an Overview

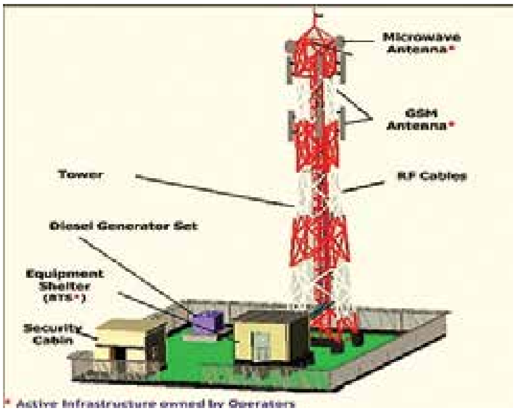
During initial years the telecom operators were involved in the installation, maintenance and operation of mobile network resulting in huge capital investment & Operational cost. The intense competition between various players in the telecom space forced the operators to reduce the cost of operations by outsourcing the non –core activities including network related operations. In this process, operators segregated their tower assets into separate tower company and focused on core activities of providing the quality of service and enhancing customer relationship. The segregation of tower assets in separate companies enhanced the prospects of sharing passive infrastructure and having as additional stream of revenue, thereby unlocking the value embedded therein.

## Components of Telecom Infra

Telecoms infrastructure primarily consists of:

## Telecom tower structure with key components

Telecom towers are the key elements of telecom infrastructure which are responsible for providing connectivity to the subscribers. It is estimated that ~500,000 telecom towers are installed in India.




| Active | Passive | Backhaul |
|---|---|---|
| Electronic Infrastructure such as spectrum, switches, radio antennae, base trans-receiving station, RF Cable, Microwave equipments etc. | Non electronic infrastructure such as lease holding, steel towers, shelters, power regulation/ conditioning equipment, rectifiers, battery bank, DG set, air conditioner, security cabin etc. | Intermediate links between core network and sub-networks such as transmission equipments, Optical Fiber equipments, etc. |

## Types of Telecom Tower

Telecom towers are broadly classified on the basis of their placement as Ground-based and Roof-top.

**A. Ground-Based Tower (GBT):** These towers are erected on the natural ground with suitable foundation and are taller (typically 200 to 400 feet). GBTs are mostly used in rural and semi-urban areas because of the easy availability of real-estate space there. GBTs involve a capital expenditure in the range of Rs. 20 to 40 lakh, depending on the height of the tower and can accommodate 5 to 6 tenants.

**B. Roof-Top Tower (RTT):** Roof-top towers (RTTs), which are generally erected on the existing building with raised columns and tie beams, are shorter (than GBTs) and more common in urban and highly populated areas, where there is paucity of real-estate space. In cities like Mumbai and Delhi where the high rise buildings are available, instead of towers, poles are erected for installing antennas. These poles are known as Roof Top Pole (RTP). These towers involve a capital expenditure of Rs. 10 to 20 lakh. A roof top tower can accommodate 2 to 3 tenants.

## Types of Tower Infrastructure Company

1. Operator Owned Tower Companies (i.e. Subsidiary)

This category consists of companies created by hiving off the tower portfolios of telcos into subsidiaries. Among operator-owned companies, most are owned by a single telco. Example: Bharti Infratel, Reliance Infratel.

2. Tower Company jointly owned by Operators (i.e. Joint Venture)

In this category, telecom operators pool their passive infrastructure together and create a joint venture company. These companies build, own and lease telecom towers to telcos. Example: Indus Towers Limited (ITL), the shareholding in which is held by three telcos: Bharti Airtel Limited (42%), the Vodafone group (42%), and the Idea Cellular group (16%).

3. Independent Tower Infrastructure Companies (ITICs)

These are specialist "Towerco" companies that do not operate networks. Independent companies assume responsibility for tower deployment and maintenance, entering agreements with operators that allow them to install their BTSs on the towers. Example: GTL Infra, ATC, Tower vision etc. In this model, the ownership of passive infrastructure equipment lies with the tower company.

## Govt. Regulations on Infrastructure Sharing

In order to develop an independent business model to encourage creation of towers, Department of Telecommunication (DoT) introduced a new class of service providers called Infrastructure Provider Category – I (IP-1) on 13.08.2000 and allowed sharing of passive infrastructure. In Feb 2008, DoT approved sharing of active infrastructure electronic elements such as antenna, feeder cable, Node B, Radio Access Network (RAN) and transmission system.

## Tower sharing – various business models

The Indian telecom market pioneered the concept of tower infrastructure sharing. Industry tenancy has increased from 1.05 in 2008 to ~1.6 in 2012, due to a rise in the sharing of tower infrastructure.

**A. Inter-operator tower sharing under Bilateral Agreement**

Bilateral Infrastructure Sharing agreements are based on the concept of Cost sharing. Initially this concept got implemented in Indian Telecom Industry and the Operators used bilateral arrangements to execute Inter-operator sharing of passive infrastructure. The two parties agree to install active equipment such as BTSs & backhaul on each other's towers. Inter-operator sharing is an operational method adopted to cut down on network costs. This makes network operations more economical by:

- Reducing network deployment costs
- Reducing time for roll-out
- Reducing Network Operating costs
- Creating the potential for generating additional income through rentals earned from other operators using the towers (depending of the structure of the contract)

**B. Sharing from Tower Companies under MSA**

The Cost sharing model graduated to a Revenue model during the period 2006-07 and that's the time the major Tower Infrastructure companies came in to existence. A tower infrastructure company generally follows the Contract Approach for setting up the tower sites. Under Contract approach, tower company sets up the tower sites based on the requirements provided by the operators and the terms of the contracts are predefined in the Master Service Agreements (MSAs). Some Tower companies followed an Anticipatory Approach in the beginning where in the tower company builds the tower sites first based on the estimated demand and subsequently leases out to operators; however this model is no more in practice today. Once the site is ready, the site is leased out to telecom service providers for installation of active equipment. After installation of active equipment, the site starts radiating. After radiation, the site maintenance including provision of support services such as back-up power, air-conditioning and security etc. are handled by the tower companies. For carrying out all passive infra provisions, tower Infrastructure Company enters into separate Master Service Agreements (MSAs) with its tenants i.e. telecom operators.

These MSAs are generally considering 10 to 20 years of lease which ensures stable and predictable cash flow for the tower company by way of rent. The business model provides for a high incremental profit when the tenancy ratio is improved. The working capital requirement is relatively low as most of the operating expenses are pass-through and recovered from the tenant operators.

## Tower sharing vs. building own towers:

**1) Quick Roll-out of services**

Availability of ready infrastructure enables the operators to reduce their time to market. Fast growth in subscribers in rural market has led operators to look for ready base of towers to enable faster rollout in semi urban and rural areas.

**2) Saving in Capital Expenditures (Capex)**

Telecom operators' spending is dominated by considerable investment in building and operating network deployment and sites roll-out. Given such investments are fixed, sunk and irreversible, they represents a high risk factor. Therefore sharing the passive infra with other operators or taking the towers on lease from independent tower companies can result savings in capital expenditures.

**3) Reduction in Operational costs (Opex)**

By sharing costs of shared infrastructure to multiple operators and implementing various cost saving initiatives for cutting down energy cost and maintenance cost by the tower company, telecom operators are benefitted through opex cost reduction.

**4) Focus on service innovation**

Infrastructure sharing allows operators to shift their focus from network deployment to improved innovation, better customer service quality, brand building, better tariff plans and healthier competition.

**5) Reduction in Carbon Footprint**

Infrastructure sharing reduces the energy consumption per operator, thereby directly reducing the Carbon foot print from Network Operation.

## Accounting Treatment

In the case of Inter-operator tower sharing model, the operator owning and sharing the assets recognize the sharing revenue of passive assets which includes primarily recovery of interest cost and depreciation on shared assets as revenue in its Profit and Loss Account and the reimbursement of operating expenditures like rent, security charges, municipal taxes, repairs and maintenance, and energy charges are netted off against their respective expense heads. On the other hand, the beneficiary operator recognizes infra sharing expenses and the operating expenditures as Expenses in its Profit and Loss Account.

In case of passive sharing from Independent Infrastructure Company under MSA, the tower company recognizes the MSA rental as operating lease receipts on a straight line basis in its Profit & Loss Account and the reimbursement of pass through expenses i.e. Energy costs is adjusted from the actual energy costs incurred. The sharing operators however account for the MSA rent as operating lease payments under AS 19 and energy charges as network operating expenses.

## Taxation aspects on Telecom Towers

The Telecom sector was formally given an infrastructure status in April 2013. As a result of the newly acquired status, the tower industry will be permitted a higher limit on external commercial borrowing and will be able to access soft lending rates. This means the companies which currently borrow money from the markets at 12-13% interest rates for a period of five to seven years will now be able to get loans at 3-4% for 10 to 15 years.

DoT has recommended that a 100% tax holiday under section 80-IA of Income Tax Act for 10 years in a block of 20 years be given to the telecom industry, including towers. It has sought benefits for the industry like viability gap funding and lower insurance premium on infrastructure assets, lower import duties on equipment and excise exemption. It has also recommended that capital goods used to erect towers - angles, beams and pre-fabricated shelters - be included in the Central Value Added Tax credit rules to reduce the overall cost of offering services.

## Conclusion

The telecom industry has witnessed exponential growth in the last few years with significant increase in subscriber base and expansion in network coverage driven by capacity constraints and increased rural penetration. The growth has been promoted by various forms of sharing such as Intra circle roaming / national roaming. It is beneficial for the mobile operators to share the infrastructure of tower companies as it will result in faster and cheaper rollout the network by co-locating with Infrastructure operators (IP) rather than expanding their own network as well the improved tenancy ratio that will reflect healthy bottom line of tower companies, prompting new wave of growth in telecom business. MA

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# A CRITICAL COMMENT ON NEW BANK LICENSES

RBI's moves are fraught with the risk of chocking the flow of funds to the desired sectors because banks in the private sector operate purely on commercial consideration and not for societal good

**J D Sharma**

President, Indian Overseas Bank Officers' Association

Joint General Secretary All India Bank Officers' Confederation

Director Indian Overseas Bank


The Reserve Bank of India Act empowers the bank to issue new bank licences. The Reserve Bank of India (RBI) has been following the practice of considering applications from business entities and corporate houses for issuing new licences for commencing banking operations. Section 23 of RBI Act provides that RBI should consider the applications having regard to the following aspects:

(1) Financial conditions and history of applicant bank
(2) General character of its Management
(3) Adequacy of its Capital Structure
(4) Whether operations of new bank will serve any public interest

After the process of globalisation started in 1991-92, RBI as a part of financial sector reforms and with a view to creating enhanced competition in the banking space started considering applications for grant of new bank licences. But in the scheme of things of RBI, it was felt not to grant licences under on-tap basis. Hence RBI considered first set of applications for grant of new bank licences in 1992-93 and about ten new-gen banks emerged on Indian banking space. RBI is expected to carry out a stiff back ground check on the applicants and evaluate their capabilities of conducting business of banking. The past experience shows that out of ten new-gen banks, four got merged with stronger new-gen banks while Global Trust Bank got merged with a Public Sector Bank to protect the interests of various stakeholders. RBI's view that – "it is though not definite" - is a reflection of inadequate assessment of the applicants' capabilities before grant of bank licence. After a decade, RBI again opened the licensing to start new banks in 2003-04 and granted two licences to Kotak Mahindra Bank (2003) and Yes Bank (2004). Both these banks appear to have been doing well broadly indicating that RBI did a fairly good KYC check on the new entities' group. These developments were followed by the initiatives to grant some more licences to business houses/ corporates in this decade thereby giving an impression that grant of new bank licences by RBI is 'ten-yearly affair'.

The process of considering new bank licences in the current decade began with a policy statement made by the then Union Finance Minister in his budget speech of 2010-11. There was much fervor about financial inclusion and RBI and Government of India have been emphasising on the banks to launch comprehensive drive to take the banking to the door steps of financially excluded families in far-flung areas of the country. It was in this background that the Government of India felt that the entry of new banks will enhance the capacity and penetration of financial services while also increasing the inclusion strategies of the potential licensees. But RBI wanted more powers especially powers to supersede the Board of the Banks if so warranted in overall public interest. RBI also insisted with government to amend the statute so as to empower it to conduct scrutiny of accounts of other associate companies of the bank. With the change of guard in the Finance Ministry, the pressure mounted on RBI to initiate the process of licensing new banks by calling for applications. But the then RBI Governor resisted the intense pressure by rejecting the suggestion of Finance Ministry until the Parliament passed an amendment to the laws demanded by RBI. It was in this background that the amendment to the related laws was passed in Parliament before RBI initiated the process of applications for new bank licences.

## New guidelines

As a follow up of the budget announcement, RBI put a discussion paper in public domain on entry of new banks in private sector in August 2010. It invited suggestions from the stakeholders to fine-tune its existing provisions to deal with applications of corporate and business houses for issuing new bank licences. There was overwhelming response to RBI discussion paper and many useful suggestions were received.

In February 2013, RBI came out with another discussion paper on the banking sector inviting comments to explore possibilities of differentiated licences for small banks and whole sale banks as well as continuous desirability of on-tap licensing. The differentiated licensing is partial bank licensing wherein restricted banking operations are permitted to be conducted. This will allow the entities to have banking capabilities with a relatively smaller size and help them to apply for full fledged banking licences in the course of time. The idea behind such a concept of partial licensing is to enable such entities to gain experience during the period of incubation before getting ready for grant of full-fledged banking licence.

RBI released guidelines for licensing of new banks in private sector. These guidelines spelt the eligibility criteria and brought about the concept of wholly-owned Non Operative Financial Holding Companies (NOFHC). The entities in private sector owned and controlled by residents and entities in public sector were made eligible to promote a bank through NOFHC. The other conditions included fit and proper criteria on the basis of past record of sound credentials and integrity having successful track record of ten years without coming under the scanner of enforcement and investigative agencies. The minimum voting equity capital requirement was maintained at Rs.500 crore with 40 per cent being locked in for a minimum period of five years with a further condition that the new banks should get listed on the stock exchange within three years from the commencement of its business. The new framework also provided that atleast 50 per cent of the directors of NOFHC should be independent and the corporate structure should not impede effective supervision of the bank and NOFHC. The Non-resident shareholding in the new bank should not exceed 49 per cent for the first five years after which it will be as per the existing guidelines. The existing policy provides for a foreign equity upto 74 per cent. This has changed the capital structure of the Axis Bank recently. It has earlier helped ICICI Bank to become a foreign controlled bank as majority of its equity holders are no longer Indian residents. Such a subtle provision to help change the capital structure of the banking institutions is fraught with the risk to creeping take-over of the Indian banks by the foreign institutions in course of time. This becomes an indirect route for the foreign entities to control the banking system in India. The all important condition relates to opening of 25 per cent of the branches in rural and unbanked areas having population upto 9999 apart from observing compliance with priority sector lending targets & sub-targets as applicable to existing domestic banks. But existence of alternatives like buying Priority Sector Lending Certificates, Agricultural Credit Lending Certificates from those banking institutions that have surplus exposure to these sectors diluted the rigour of such mandatory provisions. It can be further circumvented by investing funding to the extent of shortfall in achieving the targets designated bonds issued by SIDBI and NABARD.

## New applicants

RBI invited applications from corporate and business houses in 2013 for opening new banks. The last date for submission of such applications was 1st July 2013. RBI received 25 applications for grant of new bank licences. After analysing the implications of new stiff & stringent norms, particularly regarding NOFHC structure, TATA group withdrew its application. Similarly, Value Industries promoted by Videocon group also dropped out from the race of seeking licence to start a new banking institution. The prominent applicants who remained in the contention included Birlas, Anil Ambani group, Larson & Tubro, NBFCs like LIC Housing Finance Company, India Post, EDELWEISS, micro lenders Janalakshmi, Bandhan Financial Services and IDFC.

RBI constituted a small committee under the convener-ship of Mr. Bimal Jalan, former RBI Governor. This committee was expected to carry out the scrutiny of the applications received by RBI and recommend the eligible applicants for grant of banking licence. By the time committee completed its task and recommended the short-listed names to the committee of Central Board of Directors for considering grant of new bank licences, the country has plunged into the 'general election mode' and Election Commission of India has imposed model code of conduct thereby putting restrictions on major policy decisions lest it benefits any political party. It was under this background that RBI Governor in his anxiety to ensure clearance of new licences, took up the matter with Election Commission of India requesting permission for grant of new bank licences. The Election Commission in its meeting considered the proposal of RBI and after detailed deliberations arrived at a decision to grant clearance to RBI for issuance of licences to start new banks in private sector. On very next day, the committee of Central Board of RBI met and decided to clear licences to two applicants, (1) IDFC - A diversified Financial Services Company with special focus on infrastructure financing and (2) Bandhan – Country's largest micro lender based in Kolkata.

IDFC is reported to have planned a nine-year strategy for new banks. First three years after setting up the bank would be given a focus on regulatory compliance and experimentation. The next phase of three to six years would have a focus on ramping up of business. The last phase of three years is likely to witness returning to growth, sustaining the growth and thereafter the acceleration would commence. These strategies will be accompanied by building essential bank infrastructure, putting in place the systems and processes which could make the new bank a profitable venture. It is inexplicable as to how RBI has planned to ensure financial inclusion through IDFC which has no network in rural areas unlike Bandhan. Moreover they specialise in bulk infrastructure financing and do not have any competency in doing retail business both on Liabilities and Assets sides. It is completely contrasting in the case of Bandhan which has more than 2000 branches spread over 22 States/Union Territories probably with exception of Chhattisgarh, Jammu & Kashmir, Nagaland, Tamil Nadu, Kerala, Andhra Pradesh and Karnataka. Bandhan with 13000 field staff and more than 60 lacs borrowal accounts with significant rural depositors' base makes a good case to accelerate financial inclusion. However the challenge before Bandhan as a commercial bank would be to build capability in the field of corporate banking. Its large portfolio of unsecured loans in the present form would be another challenge as it would attract high risk weight factor to compute Risk Weighted Assets value to determine the capital requirement in terms of Basel-III norms. Bandhan would need to infuse adequate capital on a regular basis as its banking operations grow and expand.

It is also reported that the application of a government entity viz., India Post has also found favour from Bimal Jalan panel for a new bank licence but a formal decision has been withheld by RBI and is likely to be taken after consulting Government of India. Why the government consultation could not be completed before grant of in-principal approval to two other applicants? But there are explicit indications that the Government of India is not in favour of granting more than Rs.600 crores towards capitalisation of a new bank by India Post. Does it smack of a non-public sector stance by RBI and Government of India in dealing with such a vital issue in a sector which has witnessed great strides having been made by PSBs despite a stiff competition from new domestic and foreign players in the banking space? Not only PSBs have carried the agenda of the Government in priority and preferred sector lending but have also been able to hold 72 per cent of market share posting consistent profit to contribute to Government exchequer. The rationale behind such a view in Ministry of Finance, Government of India defies logic. If the intentions of the budget announcement were to enhance the level of financial inclusion and banking penetration, India Post with more than one lakh outlets would be the largest vehicle of financial inclusion. This alone should make the Government of India

> **THE RESILIENCE SHOWN BY INDIAN BANKS DURING THE GLOBAL FINANCIAL CRISIS OF 2008 NEEDS TO BE PRESERVED AND STRENGTHENED THROUGH STRINGENT REGULATORY INFRASTRUCTURE**

invest about Rs.600 crores to ensure that the well-thought objective of financial inclusion is accomplished at the earliest. It is understood that Bimal Jalan panel did not favour the applications of those entities which were under the glare of investigative agencies in connection with scams and hence RBI has dropped their names from contention.

The in-principal approval will have a validity of 18 months and the licensee is expected to commence banking operations within that period. The period of 18 months is provided to help the applicants to comply with the requirements under the existing guidelines and fulfill all other conditions that may be stipulated by RBI. The final licence for commencement of banking operations will be issued by RBI after the applicants have fully complied with all the norms and conditions to the satisfaction of RBI. It is also stipulated that until a regular licence is issued by RBI, the applicants will be barred from doing banking business.

The applicants whose applications did not find favour from RBI for grant of full-fledged banking licence, would be eligible to apply to differentiated licence for doing only payment or lending and thus come into the system once RBI completes the process of creating the proposed framework for grant of such differentiated licences. Creation of such a framework may take few months' time though RBI has not fixed any date for completing the setting up of proposed framework. The concept of differentiated licence for doing banking business was put in public domain by RBI through a discussion paper in October 2007. It is after more than six years that RBI is of considered opinion that some of the private entities which were aspiring for full-fledged banking licence, are more suited to differentiated licence in the present condition. RBI holds a view that its decision to give only two licences may be seen by some as conservative but it reflects the public concern about governance and hence must be seen as most appropriate stance in the given circumstances. The tentative framework of differentiated bank licensing envisages the banks undertaking payment business where an account holder will be allowed to have a maximum deposit of Rs.50000/-. The other category of wholesale banking under differentiated licence category would undertake the lending business too. It sounds a non pragmatic approach to allow a maximum deposit of Rs.50000/- in an account in today's scenario of high inflation and low purchasing power of rupee. It will compel the common man to have bank accounts with more than one bank.

RBI's move to approach Election Commission of India for getting clearance to go ahead with issuance of new bank licences even when the model code of conduct is in play raised the eye brows in many quarters as country's main opposition political parties – BJP – had raised stiff opposition to such a move. The contention of BJP was that RBI should wait till the new government took charge after election results next month. But the anxiety and alacrity on the part of RBI to ignore such objections of principal opposition party of the country remains inexplicable and defies logic especially when the operative period of in-principal approval is 18 months and deferment of grant of in-principal approval by one or two months should not have been such a serious cause of concern for RBI or even for the applicants who have waited for so long.

The thought on the part of RBI to create a framework to consider opening of a window for continuous on-tap licensing is debatable. The banking is a sensitive service sector as a critical component of broader financial sector. It deals with the public savings and the entities to be given bank licence must be having unquestionable record of corporate governance and integrity. It is also appropriate for RBI to carry out the gap study in the banking space before considering grant of new banking licences. It is for this consideration the past practice of opening the window for new licences once in about ten years sounds reasonable and logical. Moreover in the proposed framework, individual application has to be considered as and when received and it may deny the advantage to RBI of seeing the relative merits in the application. On the other hand, the present framework affords such an opportunity as in the recent case RBI was able to identify theoretically the two best applications out of twenty five. Such a proposition lends more credence to the suitability of the applicant and also helps RBI to have a choice to select best of the applicants at any given point of time. It is for this reason RBI would do good by continuing the present system and not resorting to the proposed framework of continuous on-tap licensing.

## Challenges for existing banks

It is common belief that entry of any competitor in the given business space poses some challenges to the existing players in the field. Hence it is true in the case of grant of new bank licences to the corporate and business houses too. It would be appropriate to understand the level of competition in the Indian banking space before discussing the challenges that will be posed by new entrants in the field. The Indian banking system consists of the following competitors:

| COMPETITORS IN INDIAN BANKING SYSTEM | |
|---|---|
| **PSBs** | |
| Nationalised Banks | 19 |
| State Bank Group | 6 |
| IDBI Bank | 1 |
| **Private Sector Banks** | |
| Old-gen Banks | 15 |
| New-gen Banks | 7 |
| Foreign Banks | 42 |
| Urban Cooperative Banks | 33 |
| Regional Rural Banks | 59 |
| Total | 182 |

Although the number of foreign banks is 42, the total number of foreign bank branches operating in India is 327. Out of 327, 247 branches are operated by 6 banks. Remaining 36 banks, own only 80 branches. The major players in foreign banks category are Standard Chartered Bank (101 branches), HSBC (50 branches), Citi Bank (42 branches), Royal Bank of Scotland (24 branches), Deutsche Bank (18 branches) and DBS (12 branches).

The major challenges posed by new banks to the existing banks will be on two fronts – (1) Business shares and (2) Human Resources. The new banks will slowly carve out their share of business largely by taking over accounts from existing competitors and for this they are expected to leverage their technology, penetrating pricing and liberal approach in determining the quantum of finance. Similarly on Human Resources (HR) front, the existing banks are likely to lose the higher end of their talents across the Grades to the new entrants. The monetary compensation plays a vital role in having the choice of employer. It therefore goes without saying that the employees who are paid low in the existing system will tend to migrate to new employers if the monetary compensation offered is superior to their existing package. If we look into the compensation package offered in banking space, we find that the Public Sector Banks (PSBs) pay relatively lower compensation package to their employees as compared to private sector and foreign banks. It is therefore anticipated that while business share will migrate from almost all the competitors in the banking space, PSBs are likely to lose more on HR front.

It is also pertinent to remember that the PSBs were the major losers in the decade of 90's to new-gen private sector banks when many of their performing talents opted to switch over to new banks for the consideration of greener pastures in terms of monetary compensation and also career prospects. Similarly in the last decade, again the PSBs lost good number of people to Kotak Mahindra Bank and Yes Bank. The depletion of HR talents at PSBs in the decade of 90's followed by special Voluntary Retirement Scheme (VRS) 2000-01 and loss to Kotak Mahindra Bank and Yes Bank has left the PSBs poorer in terms of HR capabilities. However, it is to the credit of PSBs that they have withstood such depletion of talents by developing better recruitment and training models with the help of Institute of Banking Personnel Selection (IBPS) after experimenting with own recruitment channels in the wake of Government deciding to dismantle the Banking Service Recruitment Board (BSRB) which served the PSBs for more than two decades.

## Coping with strategies

The PSBs being at the losing end need to develop more viable coping strategies to deal with the potential loss of business and HR talents. It is suggested that PSBs should go for large scale technology upgradation and reengineer their business processes to bring about higher levels of efficiency to reduce not only the processing time but also the transaction costs in different segments. This will help PSBs to render cost-effective & efficient service and product delivery to their clients. Such a strategy will help them to enhance their competitiveness and protect their existing business. This will also help them attract new clients.

As regards protecting their existing HR talents, PSBs have to develop better HR models which offer enhanced monetary compensation, non monetary benefits, better performance management, career management, appropriate rewards & recognition, better incentive system, rationale accountability policy, deployment strategies etc. These components of HR models have been found effective in overall talent management and retention/attrition control.

The effectiveness of talent management would depend on several other factors which are significantly important in case of PSBs. Some of such factors are:

1. Unhealthy legacy issues
2. Ageing work force
3. Trade Union rigidities
4. Antiquated work practices
5. Burden of social banking
6. Mandatory rural and semi-urban postings
7. Lower and slower technology implementation
8. Lower capabilities of attracting and retaining higher end talents
9. Excessive vigilance and accountability indulgence

The PSBs are also experiencing a situation of more aspirants seeking jobs with them. It is mainly on account of more graduates turning out of Indian educational institutions having not very high standards of quality education and lack of opportunities for them in the current employment markets. The PSBs having grown phenomenally in the decade of 1970s & 80s are facing large scale superannuation of experienced bankers and are in need of replenishment apart from needing more hands to manage the recent growth and expansion drive mandated by RBI and government as a part of Financial Inclusion agenda. These initiatives have given a fillip to the recent recruitment drive by PSBs. A large number of vacancies are arising in PSBs in recent years and such trend is expected to continue atleast for the next 5-7 years. PSBs will need to recruit about 7 lakh people in the next 5 years in different categories. It takes several years to train and groom a good banker. The new entrants into banking space would initially need job-ready bankers for managing the affairs of their banks. In the given set up, PSBs are more vulnerable for talent migration to new competitors. The attraction to work at PSBs and stay puts to have the advantage in the form of Defined Benefit Pension Scheme has also been lost by implementation of New Pension Scheme which is founded on the principle of Defined Contribution and not the Defined Benefits for those who have joined PSBs after 01.04.2010. This is one important ground to accelerate the talent migration from PSBs unhindered.

Private sector banks are placed at better footing on the grounds discussed above and hence there will be little impact on their HR front. But as far as business share is concerned, they also stand on similar footing as that of PSBs. The silver line in the given business environment is that the economy in the country has almost bottomed out and the coming years are expected to see revival. It will take about 18 months for new banks to start their banking operations and it affords reasonable time to PSBs to re-orient their HR models and remove the deficiencies discussed herein before to make the job at PSBs as attractive as at private & foreign banks. The government as owner of PSBs needs to unshackle itself from its traditional thinking and take urgent initiatives to seriously work to strengthen PSBs from the view point of creating positive exit barriers for its HR talents before the competition heats up by next year end. The profitability of PSBs despite quite stringent loan provisioning norms can help the government and PSBs to have more realistic and sustainable HR models. The government needs to remember that PSBs have played an important role in carrying out its agenda of social upliftment and the task remains still unfinished. The PSBs are therefore an important component of government's scheme of taking the banking to the door steps of hitherto neglected sections of the society. It calls for a strong and vibrant banking infrastructure in the country and PSBs controlling 71 percent of market share can play a dominant role.

RBI's latest announcement that in long term RBI should not be in the business of bailing out banking system with infusion of liquidity when the banking system is creating its own problems is quite unusual and alarming. RBI appears to be oblivious of the fact that as an effective Regulator it has to play its role in ensuring that Regulatory framework is so developed that the banking model in the country remains self sustainable but in an event of crisis situation arising, it is the prime responsibility of the Regulator to ensure that the public money is not allowed to wither away. While there will always be scope to incentivise the banks with better level of compliance, RBI at no stage can distance itself from its prime responsibility of effectively regulating the banking institutions. It assumes more significance when it comes at the time when RBI has started granting in-principle approval for new bank licences.

The RBI's concerns regarding window-dressing around financial year end to build the Balance Sheet by the banks are quite genuine. But its solution to withdraw from providing the liquidity appears to be a knee-jerk reaction. It should act as a caution not only to the existing players in the banking space but also to the new aspirants. It is also heartening to note that RBI has learnt how to do vetting carefully and that will be part of the process in handling application for new bank licences in future. It would be more appropriate if such lessons learnt by RBI are documented and made part of bank licensing process. The observation by RBI that if the government is not stable and does not show appropriate concerns about the economy of the country, fiscal conditions etc., RBI suspects that after an initial bout of turmoil, there might be re-assessment which will be positive. The positive note sounded by RBI Governor regarding preparedness for eventualities is a good thought but he has not spelt out the specific areas in which such preparations are needed. Let us hope that the new bank licences to be issued to two business entities would help in creating two new credible banking institutions unlike the decade of 90's when the institution like Global Trust Bank (GTB) made people believe that it was the 'Global Mistrust

Bank' which was eventually merged into Oriental Bank of Commerce (a PSB) at the behest of RBI/government to safeguard the interest of depositors. Thereby a major financial casualty was averted. RBI needs to be watchful of such eventualities which cannot be ruled out. Private Institutions like IDFC and Bandhan would need closer monitoring as a full-fledged bank. The Indian experience in the management of micro finance institutions has not been very good. It therefore surprises that why the Public Institutions like LIC Housing Finance Limited and India Post are not granted banking licences.

## Conclusion

The avowed objective of granting new bank licenses to enhance the level and penetration of financial inclusion appears to have waned as the PSBs have done a commendable job in last 3-4 years. The financial inclusion drive by PSBs has been accompanied by large-scale expansion of branch networks in remote rural and unbanked centres. It is significant to understand that to enhance the level of financial inclusion, the banks need to open more and more branches in rural and unbanked areas and for that it is not necessary to have few more private sector banks, more particularly to be owned by corporate houses whose ultimate objective is to exploit the profitable potential centres for doing banking business. Even if RBI puts stringent conditions for the new banks to open certain percentage of branches at rural centres, these banks will try to fulfill the criteria by opening the branches in the villages which are part of urban agglomeration. We need to open branches in rural areas where 96 percent of the villages in the country do not have any bank branch. PSBs have got the ability, willingness and wherewithal to take the banking services to hitherto neglected sections of the society and the policies of government and RBI should aim at making best use of such capabilities to accomplish the mission of financial inclusion. It would call for strengthening PSBs. The government has exited most of the infrastructure-related fields by leaving it exclusively to private sector players or by forging Public-Private partnerships. It has resulted in many infrastructure projects like Road, Power, Civil Aviation, etc., in a vulnerable position as many of the infrastructure loans given by the banks have turned soar.

**The rationale quoted by RBI behind granting new bank licenses is significant the progress made in improving the quality of risk management processes by the banks. The veracity of the assessment by RBI in this regard is suspect as the rising NPAs are a reflection of inadequacy of risk management processes**

Another rationale behind granting new bank licenses quoted by RBI is significant progress made in improving the quality of risk management processes by the banks. The veracity of the assessment by RBI in this regard is suspect as the rising NPAs are a reflection of inadequacy of risk management processes. RBI as a Regulator needs to do more in strengthening the risk management processes in banks. The level of NPA reflected in the Balance Sheet of the banks is misleading from the point of view of the risk management processes. A very vital and significant component of NPAs does not find place in the Balance Sheet of the banks due to emergence of Assets Reconstruction Companies which are in the business of purchasing the 'stressed assets' from the banks at a huge discount. If such sale of stressed assets is stopped, the banks' Balance Sheets would show a different picture. Similar is the case in respect of the borrowal accounts under Corporate Debt Restructuring (CDR) portfolio.

The thought of RBI to weaken the Public Sector character of the banks in India is fraught with risk of chocking the flow of funds to the desired sectors as the banks in private sector operate purely on commercial consideration and not on the consideration of societal good. RBI would therefore do better by not introducing continuous on-tap bank licensing window in the interest of a sound banking system in the country. The resilience shown by Indian banks in the wake of global financial crisis (2008) needs to be preserved and further strengthened through stringent regulatory infrastructure. When the world economy has not recovered from the shock of severe financial crisis primarily caused by subprime mortgage trigger at American banks which were not only private but also very loosely regulated, it is premature to embark on loosening the regulatory system in Indian banking space. MA

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# DEPRECIATING RUPEE AGAINST DOLLAR

What could be the reasons for recent depreciation of the Indian rupee? This article tries to find out the probable reasons of the recent depreciation of the rupee and which theory explains this situation best

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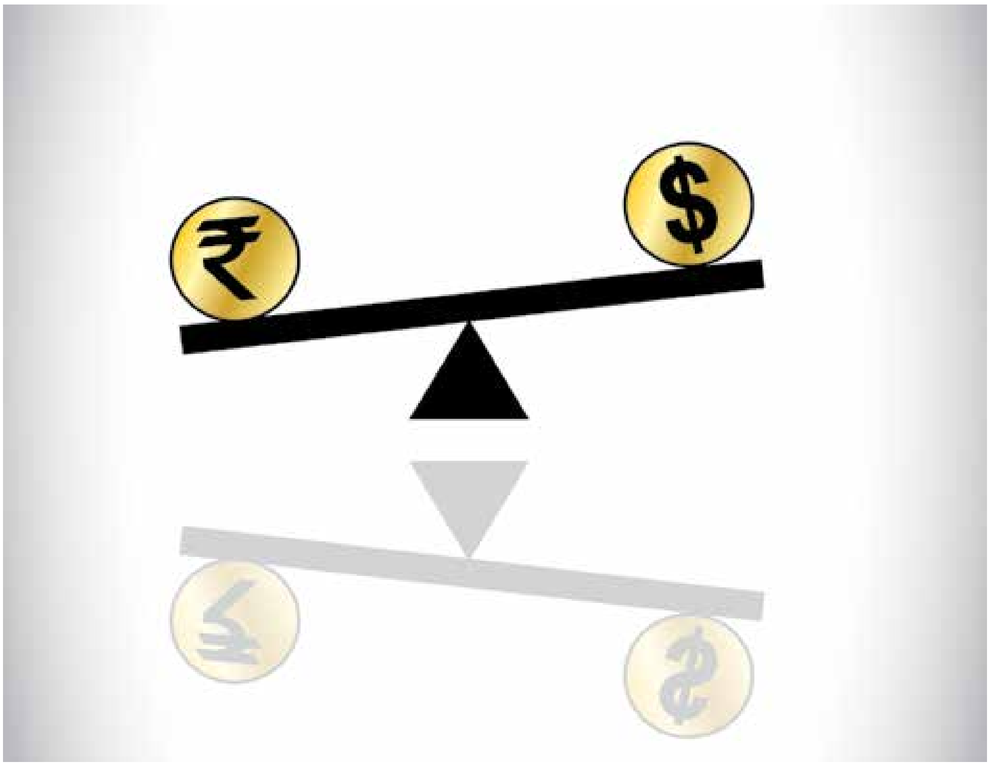

In October, 2012, one had to sell about ₹53 to buy 1 US $. After twelve months, he had to sell about ₹11 more to get 1 US $. During this twelve months' period, Indian ₹ depreciated sharply by about 21% against the US $; average month-to-month (m-o-m) fall rate was 1.72% and on monthly compounding basis, fall rate was 1.55%. In terms of 36 country REER and 6 country REER (Oct'12-Sept'13) ₹ depreciated by about 13.6% and 16% respectively. Rate of fall of ₹ during the last 12 months was more than the rate during the last twelve years (2001 to 2012) in which period ₹ fell by about 13%; y-o-y fall rate was 1.6% and annual compounded fall rate was 1%. Such an ongoing depreciation of ₹ has been the subject of many discussions, seminar and articles. Central Government was also very

| Table 1 | | | | |
|---|---|---|---|---|
| **Months** | **Exchange Rate (₹/$)** | **Import (in ₹ billion)** | **Export (in ₹ billion)** | **Deficit in Balance of Trade (BOT) ( in ₹ billion)** |
| Apr'2012 | 51.81 | 1977.72 | 1232.71 | 745.01 |
| May'2012 | 54.47 | 2298.09 | 1352.11 | 945.98 |
| Jun'2012 | 56.03 | 2025.90 | 1396.51 | 629.39 |
| Jul'2012 | 55.49 | 2254.17 | 1281.92 | 972.25 |
| Aug'2012 | 55.56 | 2072.78 | 1285.35 | 787.43 |
| Sep'2012 | 54.61 | 2296.24 | 1359.79 | 936.45 |
| Oct'2012 | 53.02 | 2368.09 | 1274.00 | 1094.09 |
| Nov'2012 | 54.78 | 2264.00 | 1273.55 | 990.45 |
| Dec'2012 | 54.65 | 2369.69 | 1394.59 | 975.10 |
| Jan'2013 | 54.32 | 2480.66 | 1394.83 | 1085.83 |
| Feb'2013 | 53.77 | 2218.26 | 1385.30 | 832.96 |
| Mar'2013 | 54.40 | 2227.75 | 1661.59 | 566.16 |
| Apr' 2013 | 54.38 | 2287.69 | 1318.84 | 968.85 |
| May'2013 | 55.01 | 2459.33 | 1355.65 | 1103.68 |
| Jun'2013 | 58.40 | 2095.25 | 1384.63 | 710.62 |
| Jul'2013 | 59.78 | 2272.41 | 1523.78 | 748.63 |
| Aug'2013 | 62.79 | 2320.73 | 1654.91 | 665.82 |
| Sep'2013 | 63.78 | 2195.59 | 1764.62 | 430.98 |
| *(Source: www.rbi.org.in)* | | | | |

much concerned with such a situation and decided to deal it with harsh measures. But then, what could be the reasons for recent depreciation of the Indian rupee? Notwithstanding various theories explaining appreciation and depreciation of a currency, divergent views were given on this issue by central government, economists and other academicians. While officials of Ministry of Finance attributed the main reasons to global recession causing slow GDP growth since 2008, others gave blame on the Central Government for its lack of clarity on the policy front, particularly in the area of checking persistent inflation, controlling fiscal deficit, non implementation of committed reform process etc. With the advent of floating rates in 1973, though economists and finance theorists have made several theoretical studies and empirical analyses, none of those can explain and predict actual behaviour of exchange rates in the short and the long run. With this background, the modest objectives of this paper is to provide the readers with a none-too-technical survey of exchange rate determination theories and find out the probable reasons for recent depreciation of ₹ and which theory does explain such a situation in a better way[1].

The paper is structured as follows. After briefly stating about the data base, we discuss in section 1 the probable reasons for recent depreciation of ₹. In section 2, we discuss two important theories, namely, interest parity and purchase power parity which explain the exchange rate fluctuation. Section 3 discusses the validity of the exchange rate determination theories in explaining the recent depreciation of ₹ by using regression analysis technique. In section 4, we conclude.

## Database and reference period

We have carried out the empirical analyses on the basis of data available from various sources[2] for a shorter period (18 months) from April'12 to August'13 excepting for calculation of CAD as percentage of GDP for which we have taken quarterly data from 2010 to the second quarter of 2013.

## Section 1: Probable reasons for recent depreciation of Rupee

Summing up the views of experts, the key factors responsible for depreciation of ₹ are as follows: More demand and less supply of US $ mainly due to more imports and less exports of goods and services widening deficit in both Bal-

[1] For detailed and rigorous discussion on the various exchange rate determination theories, readers may refer D Grauwe (1989), Maedonald and Taylor (1993), Argy (1994), Maedonald and Marsh (1999), Moosa (2000), Roseuburg (2003) and Gandolfo (2004).

[2] Sources : www.rbi.org.in; www.usinflationcalculator.com; www.oanda.com , www.inflation.eu, www.planningcommission.gov.in

ance of Trade and Current Account; less inflow compared to outflow of FDI and FII; recovery in the US economy making greenback stronger against other currencies; Central Government's policy on capital control; Interest rate differential between two currencies; persistent inflation in Indian economy and speculative trading. We shall now address these issues one by one and examine whether these factors are responsible for recent depreciation of Indian rupees.

## Demand-Supply gap

In a floating-rate regime, *raison d'etre* of change in the rate of exchange is thought to be determined by the 'law of demand' that with higher demand or lower supply of a foreign currency, its value appreciates against domestic currency. As one knows demand and supply for foreign currency arises on account of import and export of goods and services and purchase or sale of financial securities. In a situation when value of US $ is higher causing less import and consequently demand for foreign currency, the demand curves slopes downward to the right. Similarly, supply curve of the US $ moves upward to the right with a rise in the value of export and resultant rise in supply of US $. The equilibrium value of the rupees is the point where the supply curve intersects the demand curve. Now, let us see what was the position of demand and supply of US $ during our reference period.

From **Table 1**, one would find that the rupee was fairly stable around ₹54-55 to a dollar between July'12 and May'13 when deficit in BOT hovered around ₹ 1000 billion. Surprisingly it fell sharply to around ₹64 in Sept'13 when position of BOT improved though the value of import exceeded the value of export in every month and average m-o-m growth rate of export (2.4%) was higher than that for import (0.9%). The excess of demand over supply of dollar had obviously pulled down the value of ₹ during this period. But then, notwithstanding the fall reflecting a general depreciation of emerging-market currencies, it has raised a debate on what would be the equilibrium value of ₹. As real supply-demand gap of US $ is reflected in current account balance, we have examined the movement of CAD during the period from the first quarter of 2010 to the second quarter of 2013. We find that CAD has widened. Table 2 gives the picture of CAD and its value as percentage of GDP at Factor Cost (FC).

In 2004-05, CAD was ₹111.842 billion (0.38 % of GDP at FC). It widened to ₹1218.66 billion (5 % of GDP at FC) in the second quarter of 2013. This increase was mainly due to deficit in Balance of Trade (BOT) which grew from ₹1257.25 billion in 2004-05 to ₹10348.43 billion in 2012-13. Growing deficit of BOT was mainly due to demand of US $ to import gold and petroleum products. It is interesting to note that during the last twelve months (Sept' 12 to Aug' 13), BOT deficit did not increase much. In fact, deficit in BOT decreased (Table-1). This reduced requirement of US $ was due to less import of gold restricted by the government by imposing quantitative restriction in respect of import of gold on one hand, and on the other hand, reduction in international price in the crude oil. As one knows BOT is equal to GDP minus Domestic Absorption and CAB is equal to GNP minus Domestic Absorption, the amount by which total output exceeds total spending or absorption is represented by a surplus balance of trade. If Domestic Absorption is more than GDP, there will be deficit in balance of trade. Thus, in order to bring about equilibrium in the balance of trade, the government has

**Table 2**

| Year | Quarter | Exchange Rate (₹/$) | CAD ( ₹ in billion) | GDP at Factor Cost ( ₹ in billion) | CAD as percentage of GDP |
|---|---|---|---|---|---|
| 2010 | Jan-Mar | 45.93 | 589.79 | 16967.31 | 0.27 |
| | Apr-Jun | 45.63 | 552.21 | 16580.21 | 0.28 |
| | Jul-Sep | 46.49 | 780.94 | 16798.91 | 0.28 |
| | Oct-Dec | 44.86 | 447.60 | 19118.53 | 0.23 |
| 2011 | Jan-Mar | 45.27 | 288.35 | 20172.02 | 0.22 |
| | Apr-Jun | 44.71 | 784.20 | 19460.92 | 0.23 |
| | Jul-Sep | 45.78 | 864.81 | 19520.44 | 0.23 |
| | Oct-Dec | 50.93 | 1016.32 | 21911.32 | 0.23 |
| 2012 | Jan-Mar | 50.28 | 1094.42 | 22642.27 | 0.22 |
| | Apr-Jun | 54.10 | 895.46 | 22117.19 | 0.24 |
| | Jul-Sep | 55.22 | 1236.82 | 22282.89 | 0.25 |
| | Oct-Dec | 54.15 | 1762.37 | 24727.85 | 0.22 |
| 2013 | Jan-Mar | 54.16 | 984.15 | 25482.20 | 0.21 |
| | Apr-Jun | 55.93 | 1218.66 | 24378.98 | 0.23 |

*(Source: www.rbi.org.in, www.planningcommission.gov.in)*

Table 3

| Months | Exchange Rate (₹/$) | FDI ( US $ million) | FII (US $ million) | % Change in FDI | % Change in FII |
|---|---|---|---|---|---|
| Apr'12 | 51.81 | 2821 | -1306 | 136.59 | 51.81 |
| May'12 | 54.47 | 2286 | 12 | -100.92 | 54.47 |
| Jun'12 | 56.03 | 2203 | -318 | -2750.00 | 56.03 |
| Jul'12 | 55.49 | 2490 | 2208 | -794.34 | 55.49 |
| Aug'12 | 55.56 | 3279 | 1566 | -29.08 | 55.56 |
| Sep'12 | 54.61 | 5117 | 4215 | 169.16 | 54.61 |
| Oct'12 | 53.02 | 3279 | 2945 | -30.13 | 53.02 |
| Nov'12 | 54.78 | 2431 | 2026 | -31.21 | 54.78 |
| Dec'12 | 54.65 | 2561 | 4882 | 140.97 | 54.65 |
| Jan'13 | 54.32 | 3672 | 6117 | 25.30 | 54.32 |
| Feb'13 | 53.77 | 3108 | 4176 | -31.73 | 53.77 |
| Mar'13 | 54.4 | 3002 | 1246 | -70.16 | 54.4 |
| Apr'13 | 54.38 | 3518 | 1542 | 23.76 | 54.38 |
| May'13 | 55.01 | 2870 | 6704 | 334.76 | 55.01 |
| Jun'13 | 58.4 | 2896 | -8706 | -229.86 | 58.4 |
| Jul'13 | 59.78 | 2567 | -4703 | -45.98 | 59.78 |
| Aug'13 | 62.79 | 2383 | -2018 | -57.09 | 62.79 |

*Source: www.rbi.org.in*

to increase output or income. Increase in income without corresponding and equal increase in absorption will lead to improvement in balance of trade. *This is called the expenditure switching policy*. In a situation where resources are fully employed, output cannot be expanded and the balance of trade deficit can be remedied through decreasing absorption without a corresponding fall in output. *This is known as the expenditure-reducing policy*. Again, Current Account Balance is excess of aggregate Domestic Savings over aggregate investment in economy. Thus, deficit in current account implies that savings available in the economy are not sufficient to meet the requirement of investment to be made. Change in foreign exchange reserve is sum total of change in Current Account Balance and Capital Account Balance. In the recent times, foreign exchange reserves got depleted due to deficit in both Current Account and Capital Account balance. As the Indian economy was showing down, increasing output or income was not possible. Central Government could not also decrease the fiscal deficit as it was expected. Result was deficit in BOT and CAB. Again, with widening of CAD in a stable economy of a country, it is expected that there would be more net inflow in capital account to meet the CAD. During the last seventeen months (April' 12 – Aug' 13), this has not happened. On the contrary there has been less inflow of FDI and more outflow of FII (Table 3).

One would find from Table 3 that there has been wide fluctuation in both inflow of FDI and FII. Amount of inflow of FDI has decreased from 2821 US $ million to 2383 US $ million during the period from Apr' 12 to Aug' 13. On the other hand, Foreign Institutional investors withdrew about 17051 US $ million during this period. Outflow of both FDI and FII created higher demand of dollar resulting in its appreciation. To sum up, we observe that more demand of US $ compared to supply of US $ was a factor responsible for recent depreciation of `.

## Recent recovery of US economy

As the Federal Reserve unwinds its ultra-loose monetory policy, the dollar remained strong and posted further gains due to US economy's relative international strength, strong financial markets, improving fiscal health and narrowing trade and current account deficit. Organization for Economic Cooperation and Development's (OECD) leading indicators show the US growth outpacing other economies. Monetory policy of US Fed which enhanced monetory stimulus and eased quantitative restrictions have made US bond investment more attractive which helped strengthen the dollar. Improved US fiscal deficit, trade and current account balances, a strong domestic financial market have made dollar a recognized safe-haven currency. US current account deficit has improved from 6% of GDP in 2006 to 3% of GDP in 2012. (Source: Data stream as on 20.9.2013) US Govt. net borrowing/ lending as percentage of GDP has improved from 13.3% in 2008 to 6.6% in 2013. (Source: as above). Trimming of stimulus by the US may lead to further outflow from India's equity and debt markets and put more pressure on the current account deficit and ultimately the rupee.

### Speculative trading

According to RBI, currency derivative market is a speculative hub where the dollar rules higher. Volume of trading in exchange-traded currency derivatives increased from ₹2.6 billion in Sept' 2008, when such trading was first permitted, to ₹234.4 billion in June, 2013. According to RBI, reasons for depreciation of ` run from speculation to exchange rate volatility. It may be possible that the sudden and sharp depreciation of rupee is the result of the spillover onto domestic spot market for the currency of speculation- driven price trends in derivative markets.

### Section 2: Theories explaining exchange rate

Two theories, namely, Covered Interest Parity Theorem (CIPT) and Purchasing Power Parity Theorem (PPPT) are the simplest and useful in explaining the change in exchange rate of two currencies. CIPT states that in absence of restrictions on capital flows, taxes and transaction costs, for any pair of currencies, ratio between the maturity yield of the respective currencies for a given period in debt market shall be equal to ratio between forward rate and spot rate in foreign exchange market for the same period. For example, if the rate in Indian Debt Market in India is 10% p.a. and the same in US Debt Market is 7% p.a. and ₹/$ spot rate is 40, then forward exchange rate after one year would be ₹40(1.10÷1.07)= ₹41.14Thus, forward margin is 3% which is equal to interest rate differential between two currencies.

The absolute form of PPPT states that in absence of tariff/ trade barriers and restriction on the movement of goods between two countries, exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services. In the relative from of PPP, changes in the exchange rate over a period of time reflect changes in price levels over the same period. This implies that currency of a country that experience significant inflation will tend to depreciate. How do these two theories and the 'Law of Demand' theory work in reality? Can they explain the recent depreciation of rupee? We take up these issues in the next section.

### Section 3: Testing the validity of Law of Demand, CIPT and PPPT theories

The literature on testing of validity of these theories are many (Obstfeld, 1995). In our empirical analyses, we have used regression analysis techniques for finding out their robustness. For 'law of demand' theory, we have run four linear regressions with exchange rate as dependant variable and deficit in balance of trade (BOT), deficit in current account balance (CAB), foreign direct investment (FDI) and foreign institutional investment (FII) as explanatory variables. Table 4 shows the outcome of regression analyses.

Outcome of the empirical analyses indicate that deficit in Balance of Trade (BOT) explain only 37% variation in the exchange rate. More would be the deficit in BOT, the demand for dollar should be more resulting more depreciation

**Table 4**

| Dependent Variable | Independent Variable | R2 | Adjusted R2 | Standard Error | Significance of F | Beta Value | Value of T | Significance of T |
|---|---|---|---|---|---|---|---|---|
| Exchange rate | Deficit in balance of trade | 0.37 | 0.33 | 2.68 | 0.007* | -0.61 | -0.31 | 0.007* |
| Exchange rate | Current account deficit | 0.61 | 0.57 | 2.88 | 0.001* | 0.78 | 4.31 | 0.001* |
| Exchange rate | Foreign direct investment | 0.10 | 0.04 | 2.65 | 0.20(NS) | -0.32 | -1.32 | 0.20(NS) |
| Exchange rate | Foreign institutional investment | 0.31 | 0.26 | 2.33 | 0.02** | -0.55 | -2.58 | 0.02** |
| (Source: Table 1, Table 2 and Table 3) | | | | | | | | |
| * represent 1% level of significance, ** represent 5% level of significance, | | | | | | | | |
| NS represent Not Significant, | | | | | | | | |

| Table 5 | | | | |
|---|---|---|---|---|
| **Month** | **Exchange Rate (₹/$)** | **Fed Rate (% p.a.)** | **Call Money Rate (% p.a.)** | **Interest Rate Differential** |
| April' 2012 | 51.81 | 0.14 | 8.38 | 8.24 |
| May' 2012 | 54.47 | 0.16 | 8.09 | 7.93 |
| June'2012 | 56.03 | 0.16 | 8.21 | 8.05 |
| July'2012 | 55.49 | 0.16 | 8.03 | 7.87 |
| Aug'2012 | 55.56 | 0.13 | 7.96 | 7.83 |
| Sept,2012 | 54.61 | 0.14 | 7.48 | 7.34 |
| Oct'2012 | 53.02 | 0.16 | 8.00 | 7.84 |
| Nov'2012 | 54.78 | 0.16 | 8.02 | 7.86 |
| Dec'2012 | 54.65 | 0.16 | 8.31 | 8.15 |
| Jan'2013 | 54.32 | 0.14 | 7.82 | 7.68 |
| Feb'2013 | 53.77 | 0.15 | 7.85 | 7.70 |
| Mar'2013 | 54.4 | 0.14 | 8.30 | 8.16 |
| April' 2013 | 54.38 | 0.15 | 7.76 | 7.61 |
| May'2013 | 55.01 | 0.11 | 7.15 | 7.04 |
| June'2013 | 58.4 | 0.09 | 7.19 | 7.10 |
| July'2013 | 59.78 | 0.09 | 8.33 | 8.24 |
| Aug'2013 | 62.79 | 0.08 | 10.23 | 10.15 |
| *(Source: www.rbi.org.in, www.federalreserve.gov.in)* | | | | |

| Table 6 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Month** | **Exchange Rate (₹/$)** | **Change in Exchange Rate (ΔS)** | **CPI (India) Base-1982 (P1)** | **CPI (USA) Base-1982 (P2)** | **P1/P2** | **ΔP1-ΔP2** | **ΔP1/ΔP2** | **St/St+1** |
| Apr' 2012 | 51.81 | | 943 | 230.085 | 4.10 | | | |
| May' 2012 | 54.47 | 2.66 | 947.6 | 229.815 | 4.12 | 4.87 | -17.04 | 0.95 |
| Jun'2012 | 56.03 | 1.56 | 956.8 | 229.478 | 4.17 | 9.54 | -27.30 | 0.97 |
| July'2012 | 55.49 | -0.54 | 975.2 | 229.104 | 4.26 | 18.77 | -49.20 | 1.01 |
| Aug'2012 | 55.56 | 0.07 | 984.4 | 230.379 | 4.27 | 7.92 | 7.22 | 1.00 |
| Sept'2012 | 54.61 | -0.95 | 989 | 231.407 | 4.27 | 3.57 | 4.47 | 1.02 |
| Oct'2012 | 53.02 | -1.59 | 998.2 | 231.317 | 4.32 | 9.29 | -102.22 | 1.03 |
| Nov'2012 | 54.78 | 1.76 | 1002.8 | 230.221 | 4.36 | 5.70 | -4.20 | 0.97 |
| Dec'2012 | 54.65 | -0.13 | 1007.4 | 229.601 | 4.39 | 5.22 | -7.42 | 1.00 |
| Jan'2013 | 54.32 | -0.33 | 1016.6 | 230.28 | 4.41 | 8.52 | 13.55 | 1.01 |
| Feb'2013 | 53.77 | -0.55 | 1025.8 | 232.166 | 4.42 | 7.31 | 4.88 | 1.01 |
| Mar'2013 | 54.40 | 0.63 | 1030.4 | 232.773 | 4.43 | 3.99 | 7.58 | 0.99 |
| Apr' 2013 | 54.38 | -0.02 | 1039.6 | 232.531 | 4.47 | 9.44 | -38.02 | 1.00 |
| May'2013 | 55.01 | 0.63 | 1048.8 | 232.945 | 4.50 | 8.79 | 22.22 | 0.99 |
| June'2013 | 58.40 | 3.39 | 1062.6 | 233.504 | 4.55 | 13.24 | 24.69 | 0.94 |
| July'2013 | 59.78 | 1.38 | 1081 | 233.596 | 4.63 | 18.31 | 200.00 | 0.98 |
| Aug'2013 | 62.79 | 3.01 | 1090.2 | 233.877 | 4.66 | 8.92 | 32.74 | 0.95 |
| *(Source: www.labourbureau.nic.in/indtab.html -Labour Bureau, Govt. of India, US Dept. of Labour, Bureau of Labour Statistics)* | | | | | | | | |

| Table 7 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Dependent Variable** | **Independent Variable** | **R2** | **Adjusted R2** | **Standard Error** | **Significance of F** | **Beta Value** | **Value of T** | **Significance of T** |
| Exchange rate | Interest rate differentials | 0.31 | 0.27 | 2.25 | 0.02** | 0.56 | 2.61 | 0.02** |
| Exchange rate | Ratio of CPI between India and USA | 0.48 | 0.44 | 1.96 | 0.002* | 0.69 | 3.68 | 0.002* |
| Exchange rate | Change in CPI between India and USA | 0.008 | -0.06 | 1.52 | 0.74(NS) | 0.09 | 0.34 | 0.74(NS) |

*(Source: Table 5 and Table 6)*
** represent 1% level of significance, ** represent 5% level of significance,*
*NS represent Not Significant*

| Table 8 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Dependent Variable** | **Independent Variable** | **R2** | **Adjusted R2** | **Standard Error** | **Significance of F** | **Beta Value** | **Value of T** | **Significance of T** |
| Exchange rate | Deficit in balance of trade | 0.26 | 0.25 | 4.52 | 0.000* | 0.50 | 4.84 | 0.000* |
| Exchange rate | Interest rate differential | 0.26 | 0.25 | 4.26 | 0.000* | 0.51 | 4.84 | 0.000* |

*(Source: www.rbi.org.in, www.federalreserve.gov.in)*
** represent 1% level of significance*

of rupee. Negative sign of the beta coefficient is thus not as expected. With depreciation of rupees, one would expect more export and less import. Data given in Table 1 does not indicate such trend. Standard error is also high though the best fit model is significant at 1% level. This indicates that depreciation of rupee from ₹ 51.81 to ₹ 63.78 a dollar from April' 12 to Sept' 13 was not significantly dependent on surplus or deficit in BOT. On the other hand, results indicate that depreciation of rupees during this period can be significantly (61%) explained by increase in deficit in current account balance. The sign of beta coefficient is also as expected. The model is significant at 1% level (significance value of both F and t coefficient being 0.0006). Again, results indicate that depreciation of rupee was not due to decrease in inflow of FDI, it was rather due to more outflow of FII as twenty six percent of variation in exchange rate is explained by inflow and outflow of FII at 5% level of significance with expected sign of beta value.

For interest rate parity theorem, we have run regression with exchange rate as dependent variable and interest rate differential as independent variable. We have considered interest rate differential as the difference between call money rate in India and Fed rate in USA. Table 5 shows the ₹/$ exchange rate, Fed rate and Call Money rate during the period from April' 12 to Aug' 13.

For *PPP theorem*, we have run regression with exchange rate as outcome variable and ratio of CPI in India and in USA, change in CPI in India and USA as predictive variable. Table 6 gives the picture of ₹/$ exchange rate, change in exchange rate, CPI for India and USA, ratio between CPI for both the countries and ratio of exchange rate of two periods.

The result of above regression analyses is given in **Table 7.**

The result does not show that the interest rate parity theorem is robust in the context of current situation causing depreciation of rupee. 69% of variation in exchange rate is not explained by the interest rate differential. Moreover, forward margin for one year (from Aug'2012 to Aug'2013) was about 13% while interest rate differential was about 8% in the month of Aug'2012. The model being significant at 5% level and with expected sign of beta coefficient, one may say that interest rate differential can be one of the factors for exchange rate fluctuation of rupees. With respect to PPP theorem, we find that, in the context of recent change in ₹/$ rate, the absolute PPP theorem is moderately robust as 48%

of variation in exchange rate is explained by the ratio of CPI of two countries. Relative PPP theorem, however, does not explain the volatility of exchange rate at all. Extending the PPP theory, we have run another regression with ratio of exchange rate (St/St+1) as dependent variable and ratio of change in CPI between two countries (ΔP1/ΔP2) as independent variable. Results also confirm the weakness of relative PPP theorem. We have extended our similar empirical analyses on the basis of data for a longer period (Jan'08 to Aug' 13) to see whether there was any aberration in the output due to data base for shorter period. We get different results **(Table 8)**.

The positive and significant relationship between exchange rate and balance of trade is established with beta showing the expected sign and is significant at 1% level. The significance level of overall model (value of F is 0.000) and individual coefficient (value of t is 0.000) is also satisfactory. Positive and strong association between balance of trade and exchange rate proves that rupee depreciation has a bad impact on balance of trade as the cost of import becomes higher due to the rise in exchange rate.

Purchasing power parity theorem, however, shows same kind of result as in the short run. Absolute PPP proved to be significant to explain the cause of rise in exchange rate whereas relative PPP is not at all significant in the long run.

## Section 4: Conclusion

An exchange rate is an important macro indicator of a country's economy. Inflow and outflow of trade and capital between any two nations largely depend on exchange rate. Many studies made to find out the determinants of exchange rate movements have failed to give a clear understanding of exchange rate behaviour. We have thus set a modest goal for this paper. We have made an attempt to place before the readers the exchange rate determination theories in a simplistic manner and assess with empirical analyses the relative robustness of these theories in the context of current phenomenon of sharp depreciation of ` against US $. We have found that current account deficit rather than deficit in balance of trade has played a significant role in ₹/$ exchange rate. This means that behaviour of the spot rate in the recent time has been much influenced by flows of US $ on account of services and remittances. In the very short run, portfolio decisions of FIIs have generated significant volatility in the rupee exchange rate. Normally non-resident deposits do respond to interest rate differentials and exchange rate expectations. But in the recent past, interest rate differentials have not played significant role. One may thus observe that use of interest rate as a monetory policy instrument has limitation on stabilizing external value of rupees. Large outflow of foreign capital through portfolio investments by foreign financial institutions coupled with a declining export performance have been an important determinant for appreciation of US $. While absolute PPP theorem could explain moderately the volatility of exchange rate, relative PPP theorem could not explain the phenomenon at all. Rising inflation in Indian economy has thus not been the factor responsible for depreciation of rupees. Since outcome of our empirical analyses show that none of the theories could explain satisfactorily the depreciation of rupees in the recent past, we feel that speculative trading may be one of the responsible factors for depreciation of rupee. With uncertain economic and unstable political situation, there is no anchor to a currency's value and such a situation normally harbour speculative trading of foreign currency which causes volatility of exchange rate. MA

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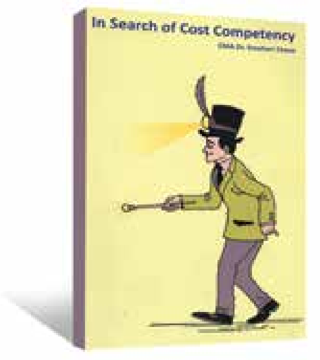


# IN SEARCH OF COST COMPETENCY,

## THE AUTHOR HAS DEMONSTRATED HIS FASCINATION FOR THE 'BIRLA ACUMEN, TATA VISION AND THE SME POTENTIAL' WHILE DEALING WITH VARIOUS ASPECTS OF COST MANAGEMENT

**In Search of Cost Competency**
CMA Dr. Sreehari Chava, Santiniketan Business School, Nagpur
2014, pp. 129, Price Rs.196

THIS unique publication is written in author's story telling style. It is a handy book in cost management in business incorporating many relevant cases.

The book is divided into nine brief but well-written chapters touching many critical areas of cost management viz. Cost Quest (Ch. 1), Activity Based Cost Management (Ch. 2), Target Costing (Ch. 3), Yield Management (Ch. 4), Lean Management (Ch. 5), Experience Curve (Ch. 6), Financial Performance Index (Ch. 7), Stakeholder Equilibrium (Ch. 8), and Cost Punch (Ch. 9). He has beautifully narrated the stories of several small and big enterprises and drew ideas from their experience that become helpful for critical cost management. The author laid more emphasis on cost competency in Indian SMEs because, despite potentials, Indian SMEs have not yet brand their seal in the global market place. It requires no separate mention that one of the critical success factors for these enterprises to achieve competitive advantage would be effective cost management for value creation.

The author very rightly emphasized on cost competency that an enterprise should acquire over its competitors through prudent deployment and utilization of the available resources. It is reflected in the superior outcome achieved by an enterprise over its competitors over a period of time.

In the concluding chapter, he gave some useful 'Cost Tips' to entrepreneurs for achieving cost competency. These are:

1. Adopt ABCM as a Way of Life
2. Target the Conversion Cost
3. Reap the Yield and Rope the Profits
4. Lean is the Means
5. Encash the Experience
6. Enable the Evaluations
7. Stakeholder is the King
8. Other Income is the Order
9. Competency Enablers.

At the end of the book, he itemized chapter-wise references ('Resources') which would be helpful to the curious readers for further debate

The author has demonstrated his fascination for "Birla acumen, Tata vision and the SME potential" while dealing with various aspects of cost management with relevant tools and techniques. He argues that if a Management Accountant can "translate the Birla acumen and Tata vision for an effective positioning by the SMEs", there is no doubt that Indian SMEs will achieve competitive advantage the world over.

The language of the book is lucid, arrangement of the subject matter is logical and the contents, though very brief, are thoughtfully presented along with numerous relevant cases. The caricature diagram at the beginning of each chapter is unique and is likely to give direction to the means to achieve the mission. This case-based analysis of the intricate subject of cost management will be useful to the entrepreneurs and management accountants alike. However, an Index at the end would have enhanced the readability of the book.

The author deserves congratulations for his unique efforts.

***CMA Bhabatosh Banerjee, Ph.D.***
*Former Professor & Dean of Commerce and Management, Calcutta University*

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**ICWAI Management Accounting Research Foundation**
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003
Phones: (D) 011-24666131, 24666130, 24618645; Tele-fax: 011-24666131
E-mail: mdp@icmai.in; Website: www.icwaimarf.org

## FORTH COMING PROGRAMMES

| Dates | Topic | Venue |
|---|---|---|
| 16-18 July, 2014 | Management of Taxation | New Delhi |
| 5-8 Aug, 2014 | Advance Tax, TDS & Tax Planning | Indore |
| | Risk Based Internal Audit for Effective Management Control | |
| 16-19 Sep, 2014 | Contracts and Their Management | Alleppey |
| 14-17 Oct, 2014 | Service Tax- Issues and Problems | Goa |
| | Finance for Non-Finance Executives (F&A) | |
| 12-14 Nov, 2014 | Recent Trends in Financial Management including Companies Act, 2013 | New Delhi |
| 16-19 Dec, 2014 | Service Tax-Issues and Problems | Shirdi |
| | Contracts and Their Management | |
| 20-23 Jan, 2015 | Advance Tax, TDS & Tax Planning | Jaipur |
| | Risk Based Internal Audit for Effective Management Control | |
| 24-27 Feb, 2015 | Service Tax-Issues and Problems | Port Blair |
| 23-26 Mar, 2015 | Recent Trends in Financial Management including Companies Act, 2013 | Srinagar |

## THE TRAINING PROGRAMMES

The ICWAI MARF efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

**Broadly the programmes are classified as :**

- Training programmes for practicing managers of both public and private sectors, Banks, Financial Institutions, Multinationals Insurance Companies and Government Departments.
- Tailor-made in-house training programmes for the Industry, Government Departments and Public Services. It also offers specific programmes for Defence, Railways, Telecom and Public Utility Services.

Chairman

**CMA Suresh Chandra Mohanty**

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ENHANCING VALUE FOR ENTERPRISE

CEP Credit 10 Hrs. for CMA's

ICWAI MARF

# ICWAI Management Accounting Research Foundation

*Promoted by*

**The Institute of Cost Accountants of India**

**Residential Management Development Programme on**

# Recent Trends in Financial Management including Companies Act, 2013

## 17-20 June, 2014
## Kodaikanal

# Recent Trends in Financial Management including Companies Act, 2013

## COURSE COVERAGE

- Companies Act, 2013
- Global Sourcing of Capital
- Financial Risk Management
- Working Capital Management
- Corporate Governance
- International Financial Reporting Standards (IFRS)

## FOR WHOM

Senior and Middle Level Executives of Public and Private Sector, Government Departments, Autonomous Bodies, Banks, Financial Institutions, Insurance Companies and Multinationals, Cost Accountants, Chartered Accountants and Company Secretaries will find the programme rewarding.

## METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

## FACULTY

Eminent experts and professionals will be dealing with the subjects.

## VENUE

Hotel The Carlton,
Lake Road, Kodaikanal-624101
Tel : 04542-248555

## DATES

17-20 June, 2014

Check-In Time - 12.00 Hrs. on 17 June, 2014
Check-Out Time - 10.00 Hrs. on 20 June, 2014

## PARTICIPATION FEE

The programme is Residential. Fee is ₹ 45,000/- plus 12.36% service tax per participant. The Fee includes course fee, course material, accommodation on Single Room Basis, all meals and visits.

The charges for accompanying Spouse would be ₹ 1,500/- (Rupees One Thousand Five Hundred only) for all the days towards accommodation, meals and visits. However children will be charged on actual basis.

The Cheque/DD to be sent along with nominations in favour of '**ICWAI Management Accounting Research Foundation**' payable at New Delhi .

## DETAILS FOR ECS PAYMENT:

| | |
|---|---|
| Account Name | ICWAI Management Accounting Research Foundation |
| Bank Name and Branch | Punjab National Bank, Lodhi Road, New Delhi-110003 |
| Current A/C No. | 0128002100301640 |
| IFS Code | PUNB0012800 |
| PAN No. | AACCI1864P |
| Service Tax No. | AACCI1864PSD002 |

## FOR KIND INFORMATION:

For outstation programmes the participants are requested to get the confirmation from the ICWAI MARF before proceeding to the venue. The ICWAI MARF will not be held responsible if any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the ICWAI MARF. The cancellation/ postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the ICWAI MARF on time.

## REGISTRATION

For Further Details and Registration Please Contact:


**CMA Sanjeev Goel**
Joint Director
(M) 9810965145
cep.sanjeev@icmai.in

ICWAI Management Accounting Research Foundation
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003.
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**Chairman**

**CMA Suresh Chandra Mohanty**

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# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

**(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)**

**CMA BHAWAN, 12, SUDDER STREET, KOLKATA - 700 016.**

Telegram : STANDCOST
Telephones : +91-33-2252-1031/34/35
+91-33-2252-1602/0492
Fax : +91-33-2252-2872
+91-33-2252-1026
Website : www.icmai.in

Ref. No: DOS/8/04/2014-15
April 23, 2014

**CIRCULAR**

**Sub: Grant of Exemption from Communication & Soft Skills Training of CMA Intermediate Course**

As approved by the Council in its 286th Meeting held on 30/3/2014, it is notified that Exemption will be granted from undergoing "Communication and Soft Skills Training" for working Executives and holding qualifications as specified hereunder undergoing CMA Intermediate Courses of the Institute on the basis of the following parameters:

(a) Holding Masters Degree (other than in performing art) or Engineering or Passed Finalists from the Institute of Company Secretaries of India/Institute of Chartered Accountants of India/ Actuaries/Registered Valuers;and

(b) Having a work experience of not less than 3-(three) years in any Government or Public or Private Sectors or Universities or Colleges or Academic Institutions (recognized by AICTE/UGC).

Students those who are eligible, may apply to the Directorate of Studies at 12, Sudder Street, Kolkata-700016, alongwith copies of necessary documents in support of their claim for exemption. Applications may also be made online with scanned copies of relevant documents to studies@icmai.in

This will be effective from 1/4/2014 onwards.

This is for information of all concerned.

(R. N. Pal)
Senior Director (Studies)
Distribution to:
1) All Regional Councils of ICAI
2) All Chapters of ICAI
3) All CMA Support Centres of ICAI
4) Secretariat
5) All HODs including Delhi Office
6) Notice Boards

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Website : www.icmai.in

Ref. No: DOS/8/04/2014-15
April 23, 2014

**CIRCULAR**

**Sub: Discontinuation of Recognition Fee and Annual Recurring Fee received from Oral Coaching Centres.**

As approved by the Council in its 286th Meeting held on 30/3/2014, it is notified that the system of receiving Recognition Fee and Deposit by HQ while according /granting permission for Oral Coaching and Annual Recurring Fee of Rs. 500/- payable to HQ every year by all Chapters conducting Oral Coaching Classes are being dispensed with from the Financial Year 2014-15.

This is for information of all concerned.
(R. N. Pal)
Senior Director (Studies)

Distribution to:
1) All Regional Councils of ICAI
2) All Chapters of ICAI
3) Secretariat
4) Director (Finance)

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# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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+91-33-2252-1026
Website : www.icmai.in

Ref. No: DOS/8/04/2014-15
April 23, 2014

**CIRCULAR**

**Sub: Eligibility of Students for Appearing at CMA Foundation Course Examination in June - 2014**

It is clarified for general information that the students who got admitted to the CMA Foundation Course of the Institute on or before 28/1/2014 shall be eligible to appear at the CMA Foundation Course Examination of the Institute in June 2014 term. The date of CMA Foundation Course Examination (both for 2008 and 2012 syllabus) as notified by the Examination Directorate is on 28/06/2014.

Accordingly, all concerned are requested to please take note of the same and guide the students accordingly.

This circular is in partial modification of the earlier Circular No. DOS/8/2013-14 dated 13/12/2013 on revised cut off dates for admission to the CMA Foundation Course Examination.

(R. N. Pal)
Senior Director (Studies)

Distribution to:
1) All Regional Councils of ICAI
2) All Chapters of ICAI
3) All CMA Support Centres of ICAI
4) Secretariat
5) All HODs including Delhi Office
6) Notice Boards

# 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, 11 th June, 2014** | ----- | Capital Market Analysis & Corporate Laws | Financial Accounting | Corporate Laws and Compliance |
| **Thursday, 12 th June, 2014** | Financial Accounting | Financial Management & International Finance | Laws, Ethics and Governance | Advanced Financial Management |
| **Friday, 13 th June, 2014** | Commercial and Industrial Law & Auditing | Management Accounting – Strategic Management | Direct Taxation | Business Strategy & Strategic Cost Management |
| **Saturday, 14 th June, 2014** | Applied Direct Taxation | Indirect & Direct – Tax Management | Cost Accounting & Financial Management | Tax Management & Practice |
| **Sunday, 15 th June, 2014** | Cost & Management Accounting | Management Accounting – Enterprise Performance Management | Operation Management and Information Systems | Strategic Performance Management |
| **Monday, 16 th June, 2014** | — | Advanced Financial Accounting & Reporting | Cost & Management Accountancy | Corporate Financial Reporting |
| **Tuesday, 17 th June, 2014** | Operation Management and Information Systems | Cost Audit & Operational Audit | Indirect Taxation | Cost & Management Audit |
| **Wednesday, 18 th 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) (Overseas Centres) | ₹1250/- US $ 100 | ₹1000/- US $ 90 |
| Two Groups | (Inland Centres) (Overseas Centres) | ₹2250/- US $ 100 | ₹1600/- US $ 90 |

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 ₹50/- 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 Forms(Hard 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, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Port Blair, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, 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 – 23rd August 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**

**FOUNDATION COURSE EXAMINATION**
**(Multiple Choice Questions – Online Mode)**

| Day & Date | Foundation Course Examination | |
| --- | --- | --- |
| | **Syllabus-2008** | |
| **Saturday,<br>28th June, 2014.** | **Paper – 1 & 2 (100 Marks)**<br>**Time : 10 A.M. to 12.00 Noon**<br><br>**Paper 1** : Organisation and Management Fundamentals ( 50 Marks )<br><br>**Paper 2** : Accounting ( 50 Marks) | **Paper – 3 & 4 (100 Marks)**<br>**Time : 2 P.M. to 4.00 P.M.**<br><br>**Paper 3** : Economics and Business Fundamentals ( 50 Marks)<br><br>**Paper 4** : Business Mathematics and Statistics Fundamentals ( 50 Marks) |
| | **Syllabus-2012** | |
| **Saturday,<br>28th June, 2014.** | **Paper – 1 & 2 (100 Marks)**<br>**Time : 10 A.M. to 12.00 Noon**<br><br>**Paper 1** : Fundamentals of Economics and Management ( 50 Marks )<br><br>**Paper 2** : Fundamentals of Accounting ( 50 Marks) | **Paper – 3 & 4 (100 Marks)**<br>**Time : 2 P.M. to 4.00 P.M.**<br><br>**Paper 3** : Fundamentals of Laws & Ethics ( 50 Marks)<br><br>**Paper 4** : Fundamentals of Business Mathematics and Statistics ( 50 Marks) |

**Examination Fees**

| | | |
| --- | --- | --- |
| **Foundation Course Examination** | **Inland Centres** | **₹ 1000/-** |
| | **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 ₹50/- 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 5th May, 2014 and with late fees of ₹300/- is 15th May, 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 15th May, 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 – 11th July, 2014.**

**A. Das**
**Director (Examination)**

# Northern India Regional Council

## Faridabad Chapter of Cost Accountants

The Chapter organized two seminars on March 23, 2014 and the event started with lighting of Lamp by Hon'ble Chief Guest, Shri Rajive Chawla, Director (Independent) on the Board of The National Small Industries Corporation Ltd. (NSIC), a Govt. of India undertaking under the Union Ministry of Micro, Small & Medium Enterprises, Chairman – IamSMEofIndia and President- FSIA. The morning session started with a presentation by CMA Vijender Sharma, Member NIRC on the topic 'Role of CMAs for Sustainable Growth in Industries. The second session was followed by a presentation by CMA Sanjay Garg, practicing Cost Accountant on the topic 'Role of CMAs in Internal Audit in light of Company's Act 2013'. Special Invitee, CMA Shri Rakesh Singh, Central Council Member and Past President of the Institute also shared his views and it was a grand event earning a total of 4 CEP hours for the members.


# Southern India Regional Council

The Institute and Government of Kerala had organized an Additional Skill Acquisition Program (ASAP) - CAT Trainers Training Program on March 25, 2014 at Kozhikode, Kerala. Chief Guest CMA Amit Apte, Central Council Member & Chairman, ICAI-CAT inaugurated the event. Sri Madhusoodhanan, ASAP GoK Quality Division Head and CMA TCA Srinivasa Prasad, Central Council Member were the faculty members of this event. Nearly 100 participants attended and CMA H Padmanabhan, Vice Chairman, SIRC presided over the function.

## Coimbatore Chapter of Cost Accountants

The Chapter conducted a Professional Development Programme on 'Service Tax – Issues & Recent Trends' on March 18, 2014. CA R. Muralidharan, being the keynote speaker, delivered a speech on the said topic covering all aspects of the issues on Service Tax. Chairman of the chapter, CMA A.R. Ramasubramania Raja welcomed the gathering and the seminar ended with the vote of thanks by the Secretary of the chapter CMA A. Harihara Subramanian. Another Professional Development Programme was held on March 22, 2014 on the topic 'Cost Accounting Standards – 1 &2'. Dr. CMA G.L. Sankaran was the speaker who shared his views being an expert on the said subject. Two programmes on communication and soft skill for Intermediate students were conducted in March, 2014. The students found the programme very useful that would benefit them to improve their communication and group discussion skill. The chapter arranged a programme of intermediate student's participation in stock verification since April 3, 2014 till April 08, 2014 with the initiatives of Chairman of the chapter, CMA A.R. Ramasubramania Raja and Secretary of the chapter, CMA A.Harihara Subramanian.

## Madurai Chapter of Cost Accountants

The Chapter conducted a full day seminar on March 15, 2014 on the theme 'Service Tax-Issues & Trends'. CMA S. Kumararajan, Chairman, PD Committee welcomed the gathering and CMA Dr. I. Ashok, Chairman, introduced the theme of the seminar. Chief Guest Smt. S.E. Rajam, BSNL, Madurai was introduced by CMA M. Govindarajan, Vice Chairman of the Chapter. Smt. Rajam inaugurated the seminar and shared a brief speech on the need of Cost Accountants in the industry. She also proudly asserted the active role played by BSNL in this concern. Dr. Ravindran Pranatharthy, Advocate, Chennai, the speaker described in details the provisions of service tax including centralized registration, payment of service tax, negative list, recent trends and issues in the service tax matters etc. CMA S. Jeyaraj, Secretary of the chapter, proposed the vote of thanks and ended the seminar. The chapter also conducted a Professional Development Programme in association with Madurai Chapter of ICSI on March 22, 2014 and many eminent dignitaries attended the seminar.


## Visakhapatnam Chapter of Cost Accountants


The Chapter in co-ordination with Lions Club Visakhapatnam MVP Blues organized Blood Donation Camp on March 23, 2014 where the blood donors are students and members of the Institute as well as the members of Lions Club Visakhapatnam Blues. The Camp was inaugurated by Dr. V.S.V.D. Siva Prasad, Lions Club District Governor. CMA Prakash Uppalapati, Chairman of the chapter, CMA T. Harinarayana, Secretary of the chapter, CMA M. Srinivasa Rao, Vice-Chairman of the chapter and other dignitaries also attended the programme.

## Hyderabad Chapter of Cost Accountants

The Chapter organized an ICMAT Seminar for ICAI Final Students from March 6 to 9, 2014. On March 10, 2014 the chapter invited rank holders from the previous four examinations of the Institute to share their experiences of studying CMA course, especially about facing the examination to the students. The session was very much interactive and made beneficial for the students resolving their queries.

On March 15, 2014 the chapter in association with the Board of Studies of the Institute conducted a programme on 'Excise Duty – Valuation Based on Cost Information'. Shri D. N. Panda, Judicial Member, CESTAT, Shri Rupesh Kumar, Advocate, Supreme Court & CMA Chiranjib Das, Joint Director, Tax Research Department of the Institute attended the seminar who discussed about the judicial case studies, law relating to the valuation, case on valuation of goods based on cost information on straight calculation basis, reverse calculation basis etc., elaborately.

On March 20, 2014, the Corporate and Allied Laws Committee of the Institute in association with the chapter organized a programme on 'Companies Act 2013, Directors' Role and Responsibilities - Cost and Management Accountant' under the chairmanship of CMA Dr. P.V.S. Jagan Mohan Rao, Central Council member. Other Central Council Members CMA M. Gopalakrishnan, CMA. Aruna Soman, CMA. Amit Anand Apte, CMA Manas Kumar Thakur were also present in the occasion.

On March 21, 22 & 23, 2014 the chapter conducted a seminar on the theme 'ABC of Service Tax' inaugurated by Chief Guest, Shri B.B. Prasad, Chief Commissioner of Central Excise, Customs & Service Tax who was also the keynote speaker. CMA K.K. Rao, Practicing Cost Accountant, CMA V.S.R.M. Kasyapa, Practicing Cost Accountant and Shri Suresh Kumar, excise duty & service tax inspector were the other speakers who discussed on genesis, origin and introduction, Central Excise Law & its relation to service tax, forms & procedures, maintenance of books & records, cenvat credit, billing, point of taxation rules etc. On March 29 & 30, 2014 another seminar was held on Proficiency on Service Tax Act. The speakers were Shri R.S. Maheshwari, Additional Commissioner, Central Excise, Hyderabad, CMA K.K. Rao, Practicing Cost Accountant & Author of Service Tax updates in Company Secretaries monthly magazine 'Chartered Secretary' and Shri R. Muralidharan, Advocate. CA S. Thirumalai, National Director at Indirect taxation with Deloitte Haskins and Sells, CA V.S Sudhir, Practicing C A & Author of Service Tax Updates in the monthly Magazine 'Hyderabad Circuit', Shri Kashyap, Shri. R. Muralidharan, Advocate were among the other eminent dignitaries who graced the occasion. Central council members CMA M. Gopalakrishnan, CMA Aruna Soman, CMA Amit Anand Apte and CMA Manas Kumar Thakur were also present in the seminar.

From March 24 till March 30 2014, the Chapter conducted an Industry oriented training for final year students, a mandatory 7-day programme for the students pursuing final examination. In his inaugural address CMA DLS Sreshti, Central Council Member talked about the importance of training with specifications on the necessity and importance of Industry Oriented Training. The session was very interactive and there was overwhelming response from the students. On March 27, 2014 a discussion was made by the Chapter on Exposure Drafts on Internal Audit in respect of Power Industry, Telecom Industry, and Metallurgical Industry.

# Western India Regional Council

## Pune Chapter of Cost Accountants

The Chapter organized a session of CEP on March 15, 2014 on 'Private Equity – Funding & Documentation'. CMA Dr. P.V.S. Jagan Mohan Rao, Central Council Member was the chief speaker, who deliberated his speech exuberantly and the members were extremely benefitted by interacting with him after the session's end. The session concluded with a vote of thanks by CMA Chaitanya Mohrir, Chairman, Professional Development Committee of the chapter. Another CEP programme was organized by the Chapter on March 16, 2014 in Solapur on Business Valuation, conducted by CMA Vinod Kale. The session ended with a vote of thanks by CMA R.V.Kshirsagar, Chairman of Solapur unit.


## Nagpur Chapter of Cost Accountants


The Chapter organized an annual seminar on 'Cost Management Practices – Catalyst for Sustainable Growth' on March 23, 2014. Prof. Yoganand Kale, Ex Pro-Vice Chancellor of RTM Nagpur University was the Chief Guest of the seminar and CMA M S N Murthy, Director (Finance), MECL, Nagpur and Patron of Nagpur Chapter was the Guest of Honour. CMA N.P. Viswanathan, Chairman of the Chapter during his inaugural address announced the various exceptional events that took place in the profession as well as in the chapter. Eminent speakers like CMA Atul Dharap, GM (F&A), Raymond Ltd., Mumbai, CMA Suresh Saluja, practicing CMA and CA & CMA Nitin Alshi attended and delivered unique presentations on cost management practices in industry as well as Internal Audit avenues of the Cost and Management Accountants.

## Indore Dewas Chapter of Cost Accountants

The Chapter organized a Continuing Education Program on the topic 'Tax Planning through HUF' on March 29, 2014. CMA Vijay P. Joshi, Hon. Secretary, WIRC delivered his welcome address and CMA Dr. Niranjan Shastri, Treasurer & Ex Chairman of the chapter explicated the nuances of tax planning through HUF. The seminar was well attended by members and CMA Sneha Turakhia concluded the session by expressing hearty vote of thanks.

## Kolhapur-Sangli Chapter of Cost Accountants

The Chapter conducted a CEP on IFRS of four credit hours on March 18, 2014. CMA V.P. Wadkar, Chairman and CMA B.N. Mule, Vice –Chairman of the Chapter introduced and welcomed CMA Milind Date of Pune. The programme had been conducted by CMA Date who explained in details the important aspects of IFRS and its implementation in near future.

## Ahmedabad Chapter of Cost Accountants

On March 10, 2014 the Chapter organized Investor Awareness Program as per the guideline of MCA and WIRC of the institute. Faculty CMA Ashish Bhavsar shared his views about Investor's protection and Investment in Mutual Funds. The chapter felicitated the successful students of Foundation, Intermediate and Final examinations on March 11, 2014 by chairman of the chapter, CMA R B Kothari, RCM Prof. S S Shah and other Executive Committee members. On March 15, 2014 the Chapter organized CEP on Strategic Cost Management. CMA PD Modh explained the various techniques of Cost Management to achieve effective cost reduction.

# CMA DOSSIER

A directory of some research papers on Transportation & Logistics Management that appeared in various journals/periodicals/magazines across the world is presented below for the reference of readers. The articles are available at the link provided next to them.

| Name of the topic | Author | Reference With Date | Link |
|---|---|---|---|
| Food traceability as an integral part of logistics management in food and agricultural supply chain | Techane Bosona, Girma Gebresenbet | Food Control Volume 33, Issue 1, September 2013, Pages 32–48 | http://www.sciencedirect.com/science/article/pii/S0956713513000790 |
| Route selection for emergency logistics management: A bio-inspired algorithm | Xiaoge Zhang, Zili Zhang, Yajuan Zhang, Daijun Wei, Yong Deng | Safety Science Volume 54, April 2013, Pages 87–91 | http://www.sciencedirect.com/science/article/pii/S0925753512002858 |
| Impact of a Logistics Management Program on Admitted Patient Boarders Within an Emergency Department | Mary Anne Healy-Rodriguez, Chris Freer, Laura Pontiggia, Rula Wilson, Steve Metraux, Lyndsey Lord | Journal of Emergency Nursing February 2013 | http://www.sciencedirect.com/science/article/pii/S0099176712006332 |
| Green Supply Chain Management Evaluation in Publishing Industry Based on Fuzzy AHP Approach | Ali Asghar Anvary Rostamy, Meysam Shaverdi, Iman Ramezani | Journal of Logistics Management 2013 | http://article.sapub.org/pdf/10.5923.j.logistics.20130201.02.pdf |
| Analysis of third party reverse logistics provider using interpretive structural modeling | Kannan Govindan, Murugesan Palaniappan, Qinghua Zhu, Devika Kannan | International Journal of Production Economics Volume 140, Issue 1, November 2012, Pages 204–211 | http://www.sciencedirect.com/science/article/pii/S0925527312000588 |
| Investigating relationships between road freight transport, facility location, logistics management and urban form | J. Allen, M. Browne, T. Cherrett | Journal of Transport Geography Volume 24, September 2012, Pages 45–57 | http://www.sciencedirect.com/science/article/pii/S0966692312001615 |
| A Natural Resource Scarcity Typology: Theoretical Foundations and Strategic Implications for Supply Chain Management | John E. Bell, Chad W. Autry, Diane A. Mollenkopf, LaDonna M. Thornton | Journal of Business Logistics Volume 33, Issue 2, pages 158–166, June 2012 | http://onlinelibrary.wiley.com/doi/10.1111/j.0000-0000.2012.01048.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |

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| Green logistics management and performance: Some empirical evidence from Chinese manufacturing exporters | Kee-hung Lai Christina W.Y. Wong | Omega Volume 40, Issue 3, June 2012, Pages 267–282 | http://www.sciencedirect.com/science/article/pii/S0305048311001046 |
| Home health care logistics management problems: framework And research perspectives | E. Valentina Gutiérrez, Carlos Julio Vidal | ICIEOM 2012 - Guimarães, Portugal | http://www.abepro.org.br/biblioteca/icieom2012_submission_278.pdf |
| Ecological modernisation of Chinese export manufacturing via green logistics management and its regional implications | Kee-hung Lai, Christina W.Y. Wong, T.C.E. Cheng | Technological Forecasting and Social Change Volume 79, Issue 4, May 2012, Pages 766–770 | http://www.sciencedirect.com/science/article/pii/S0040162511002186 |
| Fuzzy-scorecard based logistics management in robust SCM | Shin-Guang Chen Computers & Industrial Engineering Volume 62, Issue 3, April 2012, Pages 740–745 | Computers & Industrial Engineering Volume 62, Issue 3, April 2012, Pages 740–745 | http://www.sciencedirect.com/science/article/pii/S0360835211003342 |
| Design of a UHF RFID/GPS Fractal Antenna for Logistics Management | F. Viani, M. Salucci, F. Robol, G. Oliveri & A. Massa | Journal of Electromagnetic Waves and Applications Volume 26, Issue 4, 2012 | http://www.tandfonline.com/doi/pdf/10.1163/156939312800030640#.UwHzumKSySo |
| A Review on Quantitative Models for Sustainable Food Logistics Management | M. Soysal, J.M. Bloemhof-Ruwaard, M.P.M. Meuwissen, and J.G.A.J. van der Vorst | Int. J. Food System Dynamics 3 (2), 2012, 136-155 | http://131.220.45.179/ojs/index.php/fsd/article/view/272/258 |
| Identifying risk issues and research advancements in supply chain risk management | Ou Tang, S. Nurmaya Musa | International Journal of Production Economics Volume 133, Issue 1, September 2011, Pages 25–34 | http://www.sciencedirect.com/science/article/pii/S0925527310002215 |
| Identifying risk issues and research advancements in supply chain risk management | Ou Tang, S. Nurmaya Musa | International Journal of Production Economics Volume 133, Issue 1, September 2011, Pages 25–34 | http://www.sciencedirect.com/science/article/pii/S0925527310002215 |
| The development of a natural gas transportation logistics management system | Sidney Pereira dos Santos, José Eugenio Leal, Fabrício Oliveira | Energy Policy Volume 39, Issue 9, September 2011, Pages 4774–4784 | http://www.sciencedirect.com/science/article/pii/S0301421511005039 |
| Selection of logistics center location using Axiomatic Fuzzy Set and TOPSIS methodology in logistics management | Ye Li, Xiaodong Liu, Yan Chen | Expert Systems with Applications Volume 38, Issue 6, June 2011, Pages 7901–7908 | http://www.sciencedirect.com/science/article/pii/S0957417410015241 |
| Reframing supply chain management: a service-dominant logic perspective | Robert F. Lusch | Journal of Supply Chain Management Volume 47, Issue 1, pages 14–18, January 2011 | http://onlinelibrary.wiley.com/doi/10.1111/j.1745-493X.2010.03211.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |
| Logistics cost management models and their usability for purchasing | Daniel Ellström, Jakob Rehme, Maria Björklund, Håkan Aronsson | Dept. of Industrial Management, Linköping University, SE Linköping (Sweden), January 2011 | http://www.diva-portal.org/smash/get/diva2:414294/FULLTEXT01.pdf |
| Evolving a theory of performance-based logistics using insights from service dominant logic | Wesley S. Randall, Terrance L. Pohlen, Joe B. Hanna | Journal of Business Logistics Volume 31, Issue 2, pages 35–61, Autumn 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00142.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |
| Handling nonresponse in logistics research | Stephan M. Wagner, René Kemmerling, RWTH Aachen | Journal of Business Logistics Volume 31, Issue 2, pages 357–381, Autumn 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00156.x/abstract |
| An examination of trends and impact of authorship collaboration in logistics research | David E. Cantor, Yemisi Bolumole, B. Jay Coleman, Robert Frankel | Journal of Business Logistics Volume 31, Issue 1, pages 197–215, Spring 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00135.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |

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| User influence on the relationship between forecast accuracy, application and logistics performance | Carlo D. Smith, John T. Mentzer | Journal of Business Logistics Volume 31, Issue 1, pages 159–177, Spring 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00133.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |
| An analysis of factors affecting cross docking operations | Kum Khiong Yang, Jaydeep Balakrishnan, Chun Hung Cheng | Journal of Business Logistics Volume 31, Issue 1, pages 121–148, Spring 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00131.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |
| Ensuring supply chain resilience: development of a conceptual framework | Timothy J. Pettit, Joseph Fiksel, Keely L. Croxton | Journal of Business Logistics Volume 31, Issue 1, pages 1–21, Spring 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00125.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |
| Exploring a governance theory of supply chain management: barriers and facilitators to integration | R. Glenn Richey Jr., Anthony S. Roath, Dr. Judith M. Whipple, Stanley E. Fawcett | Journal of Business Logistics Volume 31, Issue 1, pages 237–256, Spring 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00137.x/full |
| Logistics performance: efficiency, effectiveness, and differentiation | Brian S. Fugate, John T. Mentzer, Theodore P. Stank | Journal of Business Logistics Volume 31, Issue 1, pages 43–62, Spring 2010 | http://onlinelibrary.wiley.com/doi/10.1002/j.2158-1592.2010.tb00127.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false |
| Analytical Network Process for logistics management: A case study in a small electronic appliances manufacturer | Dilay Çelebi, Demet Bayraktar, Levent Bingöl | Computers & Industrial Engineering Volume 58, Issue 3, April 2010, Pages 432–441 | http://www.sciencedirect.com/science/article/pii/S0360835209002575 |

# List of rank holders of the Institute

## Final examination, Term: December 2012

| RANK | REGN. NO. | NAME |
|---|---|---|
| 1 | 02112041111 | KURICHETI VAMSIKRISHNA |
| 2 | 01112016792 | MAYURESH VINAYAK DHARAP |
| 3 | 02101025916 | DINESH HARIHARAN |
| 4 | 02101031607 | NAGA REVATHI R |
| 5 | 02101020897 | S SURYA MUTHULAXSHMI |
| 6 | 03111011432 | VAIRAGYA JHAWAR |
| 7 | 02091010074 | SYED JANI BASHA |
| 7 | 02101035140 | ATMAKUR SARVANI |
| 8 | 02111027495 | NANDHINI M. |
| 8 | 04111016362 | AKASH GOYAL |
| 9 | 02101013716 | TANGUTURI VENKATESWARLU |
| 10 | 02112035375 | SIDDHARTHA THONDEPU |
| 11 | 02112038881 | UMA P L |
| 12 | 02101031813 | D. NARASIMHA BHARAT VAMSY |
| 13 | 03111011954 | AYUSH GOEL |
| 14 | 02112035424 | SHAIK NANNE BABU |
| 15 | 04112018710 | BHANU SINGHAL |
| 16 | 01112016276 | NIDHI JAGDISH AGRAWAL |
| 16 | 04111017243 | SACHIN GUPTA |
| 17 | 02101031909 | AVINASH PINNAMANENI |
| 18 | 02101031697 | GANAPARTHI GOPI KRISHNA |
| 19 | 02101031844 | DARA LAL MAHESWARA RAO |
| 20 | 02101032576 | SARANYA N |
| 20 | 02072032931 | W V HIMA BHINDU |
| 21 | 04112018765 | MAMTA JAIN |
| 22 | 04101013394 | SUMIT KUMAR JAIN |
| 23 | 02102023397 | SHRUTHI SURENDER SHETTY |
| 23 | 02101022536 | JAISAL K |
| 24 | 02102027841 | P RAGHU RAM |
| 25 | 02101013821 | ANILKUMAR POTTUMUTTI |
| 26 | 01101010601 | DIVYA RAMNANI |
| 26 | 02102023351 | NAGASABARISH N. |
| 27 | 02082014393 | SENTHILGANESH S. |
| 28 | 04102013766 | SANDEEP KANSAL |
| 29 | 01112017735 | PINKESH LAXMAN GHANWANI |
| 29 | 04101015032 | DIWAKAR MITTAL |
| 30 | 03111011952 | RAHUL SARAF |
| 31 | 02072040794 | MANICKAVASAGAM K. |
| 31 | 01101012466 | SEVAK AVANI PANKAJKUMAR |
| 32 | 04102013879 | AMRITA ANAND |
| 32 | 02101022336 | JIJIN K JOHN |
| 32 | 02101032642 | D NANDHA KUMAR |
| 32 | 02112041424 | TRINADH THOTA |
| 33 | 04111016827 | SANDEEP |
| 34 | 04081000223 | MUNESH SHARMA |
| 34 | 01101014770 | JAYDAYAL GAURISHANKER MUNDHARA |
| 34 | 04101015233 | ANKUR GUPTA |
| 35 | 02112034880 | G V D SUMAN |
| 35 | 02081013336 | SASI KUMAR NADAKUDITI |
| 36 | 01082002097 | SHAH RUCHIT KUMARPAL |
| 36 | 02091009972 | NAVEEN KUMAR BONALA |
| 36 | 01101010591 | SRISHTI DEWANGAN |
| 37 | 04101011641 | SANTOSH KUMAR SINGHAL |
| 37 | 01102011497 | KIRAN DILIPKUMAR PUNJABI |
| 37 | 02112041222 | LAKSHMI PRANEETHA BACHU |
| 37 | 02092013524 | SUBRAHMANYAM MURARI |

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|---|---|---|
| 38 | 02101010558 | SATYA SURYA VARUN KUMAR T. |
| 38 | 02101013842 | GURRAM HARI KRISHNA |
| 38 | 02112041162 | P. H. PURNA CHANDRA RAO |
| 39 | 02101010882 | SRI PRASANTH BURAGADDA |
| 40 | 02081003098 | SUDHEER M. S. |
| 40 | 03112012117 | BASUDEV SINGH |
| 41 | 02112034727 | GUNTUPALLI RAVI TEJA |
| 41 | 04111017190 | AMIT JAIN |
| 42 | 02101013619 | PRAVEEN KUMAR SOMISETTI |
| 42 | 03101006649 | ANIL BHUJA |
| 42 | 04091008214 | MAYANK JAIN |
| 42 | 02101014057 | GUTTIKONDA UDAY KUMAR |
| 43 | 01112016496 | RAHUL SUNIL PERIWAL |
| 43 | 04091008219 | RAHUL GUPTA |
| 43 | 04082001661 | VIKAS KUMAR GOYAL |
| 43 | 02092018347 | R NAVIN SARAVANAN |
| 44 | 02071030135 | PRAVEEN KUMAR TALASU |
| 44 | 03102008077 | KUNAL KASHEESH |
| 44 | 02101035282 | KOPPARAPU SRAVANI |
| 44 | 02091003544 | R K VIGNESH |
| 45 | 12012051069 | PESARAPATI VENKATACHARI |
| 45 | 02112035482 | KOTHAGUNDU PRASANTHI |
| 45 | 04112018345 | PRATIBHA BOTHRA |
| 45 | 03111011494 | DHIRESH KOCHAR |
| 46 | 02102022515 | MUHAMMED BASHEER T C |
| 46 | 03111012012 | MONIKA DALANIYA |
| 46 | 02072040383 | G. SANDHYA RANI |
| 46 | 03111011433 | GOPI KISHAN UPADHYAY |
| 47 | 02092004503 | BACKYA LAKSHMI M. |
| 47 | 01092006392 | RATHOD SHAILESHKUMAR HIRALAL |
| 48 | 02111027643 | KEERTHANA R |
| 48 | 02101035058 | PALISETTY KEERTHITEJASWI |
| 48 | 02091013567 | M MALLIKARJUNA REDDY |
| 48 | 02101013714 | SUDHEER KUMAR REDDY DADIREDDY |
| 49 | 04102012596 | PRAKASH CHAND |
| 50 | 02101010323 | MONINGI VAISHNAVI |
| 50 | 01101010512 | DIMPY JAGDISHKUMAR DAVDA |
| 50 | 02101010736 | V N V VISWANADH |
| 50 | 02111027707 | PONGOMATHI M |

## Intermediate examination, Term: December 2012

| RANK | REGN. NO. | NAME |
|---|---|---|
| 1 | 04121009597 | ANITA CHATRANI |
| 2 | 02121008307 | GOTTIKATI SANDESH REDDY |
| 3 | 02121003243 | KURAPATI REETHI |
| 4 | 01121001363 | AYUSHI RAVIPRAKASH CHOKHANI |
| 5 | 02121006676 | MANUDATTA M |
| 6 | 02121017487 | SAI MEGHANA BOGGARAPU |
| 7 | 04121010407 | DEVIKISHAN RATHI |
| 8 | 03121012783 | RAHUL DUGAR |
| 9 | 03121001514 | PANKAJ KUMAR MAHATO |
| 10 | 01121012364 | RUPAL KABRA |
| 11 | 01121014433 | SOHAM ANIL KAWADE |
| 12 | 02121017466 | KURUGANTI ABHIRAM |
| 13 | 02121005450 | YAKKALA UDAYA NAGA VENKATA MANITEJA |
| 14 | 02112040827 | KRISHNA MOORTHY J |
| 14 | 02101014211 | RAJIV BOKKASAM |
| 14 | 01121016553 | DEVSHREE N GANATRA |
| 15 | 04121004679 | GOVIND RATHI |
| 16 | 02111008556 | GUNTI PRAVEEN |
| 16 | 01112022615 | MADALSA NAIDU |
| 16 | 03121008805 | PINKESH KHAITAN |
| 17 | 04121015040 | SUDEEP DHUPAR |
| 18 | 02121011705 | S OMKHAR |
| 18 | 02121016719 | SARAN KUMAR MIRIYALA |
| 19 | 02121007126 | SAI LAKSHMAN PABOLU |
| 19 | 02121005797 | RAGHAVENDRA P |
| 20 | 01121001101 | NARENDRA SANJAY KHARE |
| 20 | 03121006803 | AMIT KUMAR AGARWAL |
| 21 | 02112052642 | JASTI TULAJA BHAVANI |
| 22 | 03112015474 | RAKESH JHUNJHUNWALA |
| 23 | 03121011240 | ROHIT KUMAR AGARWAL |
| 23 | 02121001610 | ABHINAY SOMANI |
| 23 | 04101014615 | ANSHIKA SAXENA |
| 24 | 03112017260 | PANKAJ GARG |
| 25 | 02101010517 | R V N PRASAD |
| 25 | 03121004213 | MUKESH KUMAR AGARWAL |
| 26 | 04111015879 | NARAYAN SARDA |
| 27 | 02121009196 | VINAY KUMAR JAMI |
| 27 | 02121016335 | LOKESH NAIDU KONANKI |
| 27 | 04121004025 | RAJAT JAIN |
| 27 | 03121012775 | ANSHUL JAIN |
| 28 | 02121004071 | DEEPIKA VAIDYANATHAN |
| 28 | 04121011604 | MANSI DHAWAN |
| 28 | 02112052649 | KANCHARLAPALLI NAGARAVITEJA |
| 29 | 04121000415 | ANKITA MAHESHWARY |
| 30 | 03121011338 | VISHAL TULSHYAN |
| 30 | 02121015877 | MANYAM RAMAKRISHNA KISHORE |
| 31 | 02121016951 | KRISHNA CHAITANYA SNS |
| 31 | 02112046274 | VENKATESH SUNDARLAL BAKALE |
| 32 | 02121017583 | MACHAVARAPU SAI KRANTHI |
| 33 | 03121010197 | PRAKASH RANJAN SINGH |
| 33 | 02112043717 | RAMAYANAM SAI SURYA TEJA |
| 33 | 01121017598 | DHIRAJ MANOHARLAL BHATTAR |
| 34 | 02121007773 | ABHISHEK MITTAPALLY |
| 34 | 02121004848 | BHARATH KUMAR NALLAMALLI |
| 34 | 01102013544 | SHROFF SUMITA JAGDISHPRASAD |
| 35 | 01121014901 | KOMAL SHIV KUMAR GARG |
| 35 | 02121003842 | KOMMARAJU JAYA KRISHNA MANOJ |
| 35 | 02121017492 | LAKSHMI POORNA CHANDRIKAGAYATRI |
| 35 | 02121001677 | AVUTAPALLI SAI GIREESH |
| 35 | 04121015173 | ARPIT JAIN |
| 36 | 03121007615 | ANKIT AGARWAL |
| 36 | 02121017484 | KOTHA N VENKATA SATYA SRIKANTH |
| 36 | 02121016860 | VENKATESH PULI |
| 37 | 02121006998 | ERANTI VENKATA SARAN KUMAR |
| 37 | 04121012825 | BHARAT CHANDAK |
| 38 | 01121017398 | KETAN INANI |
| 38 | 01112022728 | ABHISHEK LAHOTI |
| 39 | 02121006937 | KONANKI RAJU |
| 39 | 02121001606 | SAI VIJAYA KRISHNA PARIMI |
| 39 | 03121005927 | SATISH PRASAD |
| 40 | 04112020340 | PIYUSH MITTAL |
| 40 | 02121007616 | SURYADIVYA SASIREKHA BADAM |

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|---|---|---|
| 40 | 02121007106 | SAI RAM PABOLU |
| 41 | 03121001865 | NIKHIL SAHUWALA |
| 41 | 04111016739 | ANSHIKA GUPTA |
| 41 | 01112023165 | MANISH SODANI |
| 42 | 04121014886 | RAVI MITRUKA |
| 42 | 01121014521 | PRAJAPATI JIGAR PANKAJKUMAR |
| 43 | 02121003156 | MOHAMAD M NAZIMULLA BAIG |
| 43 | 02121016743 | MANI TEJA JAKKAMPUDI |
| 43 | 03121012246 | VISHAL BHUWALKA |
| 43 | 01121002943 | APOORVA AJIT MALSHE |
| 43 | 02121003945 | SATHISH T N |
| 44 | 04121001144 | KAJOL GUPTA |
| 44 | 02121015219 | PRAVEEN KUMAR M |
| 44 | 02121009944 | SENDIL KUMAR S. |
| 44 | 02102024117 | JAYAKANTH S |
| 45 | 03121006872 | KESHAV MUNDRA |
| 45 | 02121005241 | MAJETI SAI KRISHNA KIREETI |
| 46 | 03121005614 | NIKHIL BAJAJ |
| 46 | 03112014433 | PRIYOJIT DAS |
| 46 | 02121007168 | MANDAPALLI BABUL REDDY |
| 46 | 03112012381 | AMIT KUMAR AGARWAL |
| 46 | 01121017496 | RINKU SHARMA |
| 47 | 04121015522 | SHUBHAM GUPTA |
| 47 | 02121016341 | BURLE MOHANA KRISHNA |
| 47 | 02121007432 | MADALA SAI MAHITHA |
| 47 | 02121007355 | MANASA SEEMAKURTHY |
| 47 | 02121017318 | MAHESH KUMAR PULIPATI |
| 48 | 04121007560 | JITENDER KUMAR |
| 48 | 01112022036 | VISHAL SATISH GANDHI |
| 48 | 04121002712 | RITU |
| 48 | 04121015474 | VIBHA JAIN |
| 49 | 03121005571 | BISHAL KUMAR SHAW |
| 49 | 02121010201 | SAMMETA PAVAN KUMAR |
| 49 | 02112041098 | SASANAPURI MANI KANTA |
| 49 | 04121015058 | VINIT KUMAR MANTRI |
| 49 | 02121005805 | NAVURU DINESH |
| 49 | 02121007194 | KEDARNADH CHINTHALAPUDI |
| 49 | 01112016968 | MANISH SHARMA |
| 49 | 01121017700 | RUTVI ANUPKUMAR PACHCHIGAR |
| 49 | 03121011287 | VISHAL KUMAR SHARMA |
| 49 | 02121014237 | KANCHARLA VENKATA KIRAN |
| 49 | 03112015680 | CHANDAN KUMAR |
| 50 | 03121005638 | SANKAR DATTA |
| 50 | 03121008368 | NARENDRA KUMAR PANDEY |
| 50 | 02112034742 | D. KRISHNA CHAITHANYA |
| 50 | 02121005986 | UDAYA SREE VEMIREDDY |
| 50 | 02121017860 | LOKIREDDY MADHAVI LATHA |
| 50 | 02112035335 | KRISHNA PRIYA TADIKONDA |
| 50 | 02121007264 | HARISHKUMARVOONA |

## Final examination, Term: June 2013

| RANK | REGN. NO. | NAME |
|---|---|---|
| 1 | 02101014100 | MOTAMARRI VENKATA MANOJ |
| 2 | 04112021327 | CHANDNI |
| 3 | 02112043800 | THOTA RAJANI |
| 4 | 02112041943 | LEELA NAGA KUMAR KOTA |
| 5 | 03112012613 | KARAN MEHTA |
| 6 | 02101014099 | CHUNDURU SUDHEER |
| 7 | 02112008928 | S POOJA SURANA |
| 8 | 02112043756 | ARVAPALLI HARI PRIYA |
| 9 | 04052006791 | VICKEY RAWAL |
| 10 | 04081000042 | SAGAR ARORA |
| 11 | 01101015969 | VADECHA VIPUL NATVARLAL |
| 12 | 02101025542 | BHARATHI K. |
| 13 | 02101031726 | S. V. N. L. SOWMYA PERURI |
| 14 | 02112034820 | SAKA NAGABABU |
| 15 | 04102013186 | ANUPAMA KHUGGAR |
| 16 | 02112037148 | VISHALAXMI V |
| 17 | 02112041227 | CHILAKALA LAKSHMI SRINIVASA REDDY |
| 18 | 03112013673 | RONALI MOHAPATRA |
| 19 | 04082001059 | LALIT KUMAR |
| 20 | 04101015050 | MANOJ KUMAR JAIN |
| 20 | 01112019440 | VADDODARIYA KALPANA MANASUKHBHAI |
| 21 | 02112042902 | KARRI P HANUMAN SURESH REDDY |
| 22 | 02101020176 | MANJUNATHA T. |
| 22 | 04061008011 | MAYANK JAIN |
| 23 | 04072013246 | TARUN KUMAR MAURYA |
| 24 | 02101014060 | AMBATIPUDI GANGADHARA SARMA |
| 25 | 02112041779 | BOMMISETTI VENKATA KIRAN KUMAR |
| 26 | 02091010061 | POTNURU KEDARNATH |
| 26 | 04072013178 | ANKUR SRIVASTAVA |
| 26 | 04101014938 | LOKESH SANKHALA |
| 26 | 01112018172 | MEGHA LUNIA |
| 27 | 01101010597 | DIVYA RATNANI |
| 28 | 02112052157 | KALAVAPALLI NAGA M REDDY |
| 28 | 04072013209 | DEEPAK GOYAL |
| 29 | 02101013827 | MOHD YOUSUF |
| 29 | 02091003599 | AVISHEK CHATTERJEE |
| 30 | 01112017290 | DARSHAN KISHORBHAI SHAH |
| 30 | 04072013258 | JATIN GROVER |
| 31 | 04112021750 | LALIT KUMAR TAYAL |
| 32 | 04081000234 | SANTOSH  KUMAR GUPTA |
| 32 | 04091004319 | NEHA SEMWAL |
| 33 | 04101014663 | PRIYANKA SACHDEVA |
| 34 | 02112034697 | MOHITH THADI |
| 34 | 02102024153 | R G SAI ANJANA |
| 34 | 04061010608 | VISHAL GUPTA |
| 35 | 04111019105 | ASHISH SINGHAL |
| 36 | 02101014034 | BASAVA PRADEEP |
| 36 | 03112015673 | ANNE KHETAN |
| 37 | 01112018174 | ISHWINDER SINGH SALUJA |
| 37 | 01112016406 | HIREN RAJIVKUMAR INDANI |
| 37 | 02101014234 | GUDIVADA PAVANI |
| 38 | 02101014185 | JABBA UDAY CHANDRA |
| 39 | 02112050192 | ALAVELLI VENKATA HARISH RAJA |
| 40 | 02082001407 | NARAYANA HEGDE |
| 40 | 02071030837 | DHANUJA SUNDEEP |
| 40 | 04112019044 | SACHIN LAHOTI |
| 41 | 02112041937 | AKASH RATILAL JAIN |
| 41 | 04111016410 | ALOK JAIN |
| 41 | 02112043779 | DURGA SATISH REDDY SATTI |
| 42 | 14041003086 | YOGESH BAISLA |
| 43 | 04112021117 | AMIT CHAWLA |
| 44 | 02111027596 | DEAN JAMES |

| | | |
|---|---|---|
| 44 | 02101010579 | CHIDELLA NAGAMALLESWARA RAO |
| 44 | 02112042259 | C. SETHUBALA |
| 44 | 04101015072 | JITENDRA |
| 45 | 04111016670 | MANOJ KUMAR JAIN |
| 46 | 02112041962 | PARIMISETTY SRI RAVIKANTH |
| 46 | 03112015049 | KESHAV ANAND |
| 47 | 04101009762 | AKASH GUPTA |
| 47 | 02112037832 | PONMALAR S |
| 47 | 04111015567 | PULKIT KUMAR JAIN |
| 47 | 03112012640 | NEELAM GUPTA |
| 47 | 02112042539 | PALADUGU KIRAN PAUL |
| 48 | 02112050314 | SHAIK SHAREEF |
| 48 | 01112018700 | TEHSINKHAN YUSUFKHAN PATHAN |
| 49 | 04101014877 | VIPIN KUMAR |
| 49 | 02101014004 | SUNIL JAIN |
| 49 | 02082000830 | KALYANA SUNDARAM MUGUNDAN |
| 49 | 02102027869 | SAI KIRAN PATCHA |
| 50 | 01101013468 | RUCHI RAMNATH |
| 50 | 02112041339 | T P SAI SAMHITA |
| 50 | 02112042903 | SATHISH REDDY V. |

## Intermediate examination, Term: June 2013

| RANK | REGN. NO. | NAME |
|---|---|---|
| 1 | 02122011356 | DAGGUPATI GURU PRASAD |
| 2 | 02122008753 | RAJESH MADDI |
| 3 | 04121015439 | ABHISHEK GAGGAR |
| 4 | 03122003714 | RINKY AGRAWALLA |
| 5 | 04112022689 | HITESH KARWA |
| 6 | 02122007165 | SAI VENKATESH |
| 6 | 04122007657 | AYUSH JAIN |
| 6 | 04122009667 | NAVEEN AGARWAL |
| 7 | 01122002788 | MANOJ CHANDERLAL PHULWANI |
| 8 | 02122007230 | LAKSHMI ANUSHA CHITTURI |
| 9 | 04122006547 | PRAKASH MANGHANI |
| 10 | 02122010859 | MULLAPUDI DEEPTHI |
| 11 | 02112043853 | REVADI SHILPA |
| 11 | 02122012256 | SAMI VEECHIKA |
| 12 | 03122009760 | AAYUSH GARG |
| 13 | 04122006386 | VIJAY KUMAR SIRIPURAPU |
| 14 | 02122005266 | SRINIVASA RAO BITRAGUNTA |
| 15 | 01121017668 | RONAK MAHESHWARI |
| 16 | 02122008709 | THATIKONDA RAJASEKHAR NAIDU |
| 17 | 01121012865 | KAPIL SUBHASH AGARWAL |
| 18 | 04122009646 | MOHAK BADAYA |
| 19 | 01121016060 | JOEL EZEKIEL SARALKAR |
| 20 | 03122003523 | VAIBHAV JAIN |
| 20 | 04121014769 | NITESH KUMAR GUPTA |
| 21 | 02121004787 | NAGA MANIKANTA CHINNI |
| 22 | 02122008357 | DARA SAI RAM |
| 23 | 02122008953 | TATIKONDA GAYATRI DEVI |
| 24 | 02121007131 | VASU ANDE |
| 24 | 01122009002 | SOUDAGAR LAXMAN ADKAR |
| 25 | 01122013254 | SITARAM DANGI |
| 26 | 02122010828 | PRADEEP S M |
| 27 | 02122008927 | SURAPANENI NAVYA |
| 27 | 04122009654 | KRISHAN KUMAR BADAYA |
| 28 | 02122003870 | PABBISETTY PAVAN KUMAR |
| 28 | 02122010105 | KONDAPATURU AYYAPPA |
| 28 | 04121010927 | SOURBH MONGA |
| 29 | 02121005378 | SREERAMA MURTHY KANDULA |
| 29 | 03122008139 | PEEYUSH KARWA |
| 29 | 01122000906 | ABHISHEK KUMAR JAIN |
| 30 | 02121004887 | MAMITH V |
| 31 | 02122013974 | C K AISHWARYA IYER |
| 32 | 02122006043 | DUSSA HARISH |
| 32 | 04122009672 | HIMANSHU AGARWAL |
| 33 | 04122009733 | HANSRAJ JANGIR |
| 34 | 01122011720 | ANKIT BARMECHA |
| 34 | 02121006867 | GURRALA MAHESH |
| 34 | 02122009240 | ASWANI MUNGAMURI |
| 34 | 04122014673 | GOPAL SOMANI |
| 34 | 03122000531 | PRASENJIT SINHA |
| 35 | 01122005112 | BHAVESH NARESHKUMAR LALWANI |
| 35 | 02122001389 | PARAMESWARI CHITRA S |
| 36 | 02122008625 | S L D NANDINI KODAVALI |
| 37 | 03121006391 | SUMIT AGARWAL |
| 37 | 04112020711 | ANOOP MODI |
| 38 | 01122014916 | DARSHIL RAMESHKUMAR THAKKAR |
| 38 | 02122001819 | PALLAM REDDY SRUJALA |
| 39 | 04122003641 | ATIKA SINGHAL |
| 39 | 04122002138 | HIMANSHU GULYANI |
| 40 | 03122011118 | ANKIT SULTANIA |
| 41 | 02122010393 | SANJANA PASUPULETI |
| 41 | 04122012901 | AMIT SIKRI |
| 42 | 01122008036 | LOVE CHHAGAN BATRA |
| 42 | 02112050449 | D. RAGHAVENDRA |
| 42 | 02112052019 | VENKATA SANTOSH KUMAR DOREDLA |
| 43 | 02122008785 | RAMANUJAM SAI TEJA |
| 43 | 02122005025 | SUNKARA BHANU PRUDHVI |
| 43 | 02122009113 | A. N. D. SRI TEJA |
| 44 | 02122004468 | DAMACHARLA MANISHA SAI |
| 45 | 04122005306 | ABHISHEK LADDHA |
| 45 | 03102008791 | SESHASAYEESA REDDY ALLURI |
| 45 | 03122008829 | RAJESH KUMAR SHARMA |
| 45 | 02122012095 | SIVA KUMARI GADIPUDI |
| 46 | 01121006672 | PRATIK NITIN DEDHIA |
| 47 | 02122010681 | LAKSHMI ANUSHA PARUCHURI |
| 48 | 03122013608 | MANISH TULSYAN |
| 48 | 02122008620 | KISHORE GARIKAPATI |
| 48 | 03122005874 | HEMAL DIWAN |
| 49 | 02122008968 | KARTHEEK B |
| 49 | 02121015533 | KAVYA K SRINIVASULU |
| 49 | 03122012342 | MAYANK DIDWANIA |
| 50 | 03121006374 | ABHISHEK KUMAR DAN |
| 50 | 02121004770 | VENKATESH DASARI |
| 50 | 04121003148 | JAIDEEP SINGH |
| 50 | 02122010575 | P N SRINIVEDHA |

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