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The Management Accountant

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

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

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CONDOLENCE

We inform with deep sorrow the demise of our beloved past Secretary of ICWAI, Shri S.N.Ghose on December 24th, 2009 at Kolkata. We pray for peace of the departed soul and hope that his family has strength to bear the irreparable loss.

Editorial

Valuable Valuation

Readers will recall that the last issue of The Management Accountant focused on corporate strategy. One of the foremost requirements of formulating a corporate strategy is to estimate the value of one's organization. Business valuation is a process and a set of procedures used to estimate the economic value of an owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of a business. In addition to estimating the selling price of a business, the same valuation tools are often used by business appraisers to resolve disputes related to estate and gift taxation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and many other business and legal purposes.

The most common benefits of an annual business valuation policy include: Accountability and Performance (an annual business valuation enables the shareholders to see the value that is being consistently created or destroyed by the management of the firm), Estate Planning Purposes (many shareholders have on-going estate planning strategies aimed at protecting wealth for heirs), Buy-sell situations (for those firms that do not have buy-sell agreements in place, annual business valuations are a good way of avoiding disputes that may arise when a shareholder seeks to sell his shares to the other shareholders), Facilitate Banking (the ability of a firm to borrow based on the value of the goodwill or the value of the company's shares may expand the universe of value-creating investment options available) and Expands the Investment Options (for closely held firms which suffer from a lack of liquidity).

The most common approaches to valuate a business are: asset approach (establishment of fair market value, replacement value or liquidation value of the assets and liabilities), market approach (future maintainable earnings valuation- capitalisation rate, discount rate and discounted cash flow methods) and market appoach (relative valuation compared to company & comparable transactions).

Understanding how to value a business and give an accurate business appraisal is a difficult and time consuming process. Setting a price for a business that is too high can result in the business not being sold for a long period of time; sometimes not at all. If the business owner eventually adjusts the price to how the market is responding, the deal will often be tainted with the view that something is wrong with the business or that the owner is desperate. Setting a price for a business that is too low can often result in the business owner not realizing the full benefit of their investment, ultimately losing out on the true business value. Determining the cost of valuing a business is dependent on the size and complexity of the business being evaluated, as well as any fundamental factors that may affect the business value: Business Cash Flow, Industry Sector, Competition, Buyer Market, Employee Skill Level, Customer Base, Owner Involvement, Revenue, Age of Business, Availability of Vendor Financing and Profitability Trend.

The articles covered in the current issue are aimed to equip readers with facts and issues on business valuation.

• President's Communique •

Dear Professional friends,

At the outset, let me wish you a **VERY VERY HAPPY AND PROSPEROUS YEAR 2010.**

1. INDIA CORPORATE WEEK:

The month of December was filled with hectic events of ICWAI and I congratulate all my professional friends, especially from the Chapters and Regions, along with my Council colleagues, for having contributed for much more visibility of ICWAI. I may have to mention that the recently concluded INDIA CORPORATE WEEK 2009 held from 14th to 21st December 2009 along with MCA was a tremendous success and brought more laurels to the members of our profession. The reporting of the celebrations was noticed especially by our Minister, Mr. Salman Khurshid and he congratulated our Institute for arranging such programmes. One of the newspapers reported that ICAI and ICSI were following the path of ICWAI. The credit goes to all of you. Apart from the Minister, our Secretary, Shri Bandyopadhayaji and MCA Additional Secretary, Mr. Sudhakar and MCA Joint Secretaries, Mrs. Renuka Kumar and Mr. Srivastava appreciated ICWAI's contribution for the grand success of INDIA CORPORATE WEEK 2009. The programmes included Corporate Awareness Run, Blood Donation, Essay Competition and address by eminent speakers on Corporate Governance and Corporate Social Responsibility. The ICWAI has brought out 6 publications during the occasion to herald ICWAI's participation in the inclusive growth of economy of the country. The publications were released by ROC-Chennai. Compendium of 1 to 10 Standards was also released as we have made it mandatory for all our members to adhere to CAS 1 to 10 from 1st April 2010.

The finale of the INDIA CORPORATE WEEK 2009 was held at New Delhi on 21st December 2009 with address by Her Excellency, Mrs. Prathibha Patil, President of India, along with Hon'ble Minister for Corporate Affairs, Mr. Salman Khurshid and Secretary-MCA, Shri Bandyopadhyaya. It was sponsored by IICA and NFCG, representatives of all industry associations and three Professional Institutions, including ICWAI.

2. AWARD OF EXCELLENCE FOR ICWAI:

During this occasion, we were happy to be awarded with Corporate Excellence Award by the President of India, which was received by me along with my colleagues. This is a great honour given to our profession over the past several years and I cherish the same along with all of you and thank you for enabling us to reach this height. The MCA has also brought out 2 publications during this occasion, titled 'Voluntary Guidelines of Corporate Social Responsibility 2009' and 'Corporate Governance 2009'. I congratulate MCA, IICA and NFCG for giving a thrust for these events to happen for the first time in Corporate India. This will be the annual feature from now onwards.

3. ICWAI'S PARTICIPATION IN THE INDO-UK TASK FORCE:

I am extremely happy to have represented the Indo-UK Task Force of Govt. of India, headed by Shri Bandyopadhyaya, IAS, Secretary-MCA and Shri Jitesh Khosla, IAS, OSD-IICA. The Task Force had fruitful meetings with the Right Hon'ble Mayor of London and his officials. Several meetings with the Ministry Officials of UK and other professional bodies were the hallmark for continuation of our tie-up with professional bodies like CIMA, UK. Shri Kunal Banerjee, CCM-IPP, accompanied me.

4. OUR MINISTER'S CALL FOR INNOVATION BY ICWAI:

The SAFA's International Seminar was inaugurated by our Hon'ble Minister Mr. Salman Khurshid on 26th November 2009 and he gave a call to ICWAI to work with innovative ideas including Corporate Social Responsibility and suggested CSR Credit Rating on the lines of Carbon Credit Rating. He expressed that he would be very happy to see that ICWAI takes the lead along with SAFA so that the other parts of the world follows it. In this direction, I am happy to say that ICWAI has initiated certain programmes, which I will be sharing with you when it materializes and this will be a good contribution of ICWAI to the whole world, if not just for the Corporate Sector.

5. REGIONAL COST CONVENTIONS:

5.1 Regional Cost Convention of SIRC:

The SIRC organized Regional Cost Convention 2009 at Hyderabad on 4th and 5th December 2009. The theme of this Convention was "Business Strategies for Economic Revival - Role of Management Accountants." The Chief Guest of this Convention and also Chairman of the Insurance Regulatory Authority, called for ICWAI to help with quality manpower to service the Insurance Sector. I also mentioned about the necessity for revival of ICWAI to meet the current-day challenges. On this occasion, I congratulated the Hyderabad Chapter of Cost Accountants for effectively conducting the Regional Cost Convention 2009.

5.2 Residential Regional Convention of NIRC:

NIRC organized a Residential Regional Conference at Agra on 18th and 19th of December 2009. The theme of this Convention was "Transformational Journey - An Update on Changes." I was happy to participate in this Convention and the Member-CERC, Mr. Krishna Murthy, was the Chief Guest. His advice to the Cost and Management Accountants to take up many challenges in the emerging sectors including Electricity was well received by the audience. Our members were happy to note the challenges given by Shri Krishna Murthy that the Cost Accountants/Cost Auditors are also included for certifying the cost report on the tariff of Private Power Sectors apart from Chartered Accountants. I appreciated the innovative idea of NIRC for making the Regional Convention as a Residential Regional Convention in a very meaningful atmosphere at Agra and it was a good deliberation of two days and members participated in a big number.

5.3 Regional Cost Convention of EIRC:

I congratulated the Rourkela Chapter of Cost Accountants for having taken the responsibility of holding this Convention at Rourkela. The theme of this Convention also was apt for the current economic scenario.

I was also happy to address a grand 2-day Convention organized by Cochin and Thrissur Chapters on 20th and 21st November 2009 consisting of all the Chapters in Kerala. A good coverage of all the above events has appeared throughout Kerala. The theme of this Convention being "Cost Management - Key to Enterprise Excellence."

While talking to the representatives of Gulf countries at Ooman, there was a lot of enthusiasm from the members who are settled in Muscat and Bahrain to start Overseas Centres as is done in Dubai and other places. I have advised the members in these countries to send the proposals, which will be good for us to serve the cause of Cost and Management Accountants in the Gulf region.

I am extremely happy to note that out of our visibility of ICWAI throughout the country, there is a good number of increase in admission in all the Chapters and Regions. I congratulate all the members and the Chapters for taking up this challenge. I am also happy to note that for over several years, for the first time, the number of people who are taking ICWAI examination has also crossed 43,000 and this adds to our capacity building programme of Cost and Management Accountancy.

With regards and wishing once again **A HAPPY NEW YEAR.**

Yours sincerely

(GN Venkataraman)
President
Date : 1st January, 2010

EVA - MVA: Shareholders' Value Measures

Maximizing shareholders value is becoming the new corporate standard in India. The corporates, which gave the lowest preference to the shareholders' inquisitiveness, are now bestowing the utmost inclination to it. Shareholders' value is measured in terms of the returns they receive on their investment. The returns can either be in the form of dividends or in the form of capital appreciation or both. Capital appreciation in turn depends on the subsequent changes in the market value of shares. This market value of shares is influenced by a number of factors, which can be company specific, industry specific and macro-economic in nature.

To help corporates to generate value for shareholders, value based management systems have been developed. For measuring the corporate financial performance, there are accounting profitability measures and shareholders' value based measures. Accounting profitability measures include ROI, ROE, EPS, ROCE and DPS etc., Shareholders valued based measures include EVA and MVA. Against this background, this article is an attempt to discuss the concepts of EVA and MVA, evolution and growth of EVA, computation of EVA and MVA, EVA and financial performance, EVA in Indian environment and relationship between EVA (Economic Value Added) and MVA (Market Value Added).

N. Sakthivel*

INTRODUCTION

Many companies in India and abroad have adopted the concept of shareholders' value added (SVA) in their annual statement. Value management is a technique of integrating the thinking about shareholder value throughout a company. Two most important phases of value management are: 1) Economic Value Added (EVA) 2) Market Value Added (MVA). The company form of organization's real owners are equity shareholders. They all invest their money in equity shares of a company with the primary motive of achieving good capital appreciation and regular & stable return (i.e., dividends). The investors' objectives are purely based on the profitability and financial performance of the company. So, before taking their investment decisions, the investors consider several factors which influence the corporate performance. For measuring the corporate financial performance, there are accounting profitability measures and shareholders' value based measures. Accounting profitability measures include ROI, ROE, EPS, ROCE and DPS etc., Shareholders valued based measures include EVA, MVA.

Maximizing the shareholder valueis considered as one of the fundamental goals of all businesses. In United States, top management is expected to maximize shareholder value. There are a number of value based management (VBM) frameworks i.e. shareholder value analysis (SVA) Rapport (1986) and Economic Value Analysis (EVA) developed by Stern Stewart (1990) are the two well-known ones.

Maximizing shareholders value is becoming the new corporate standard in India. The Corporates, which gave the lowest preference to the shareholders' inquisitiveness, are now bestowing the utmost inclination to it. Shareholders' wealth is measured in terms of the returns they receive on their investment. The returns can either be in the form of dividends or in the form of capital appreciation or both. Capital appreciation in turn depends on the subsequent changes in the market value of shares. This market value of shares is influenced by a number of factors, which can be company specific, industry specific and macro-economic in nature. To help Corporates to generate value for shareholders, value based management systems have been developed. Indeed, value based management, which seeks to integrate finance hypothesis with strategic economic philosophy, is considered as one of the most significant contribution to corporate financial planning in the last two decades or so. Against this background, this article is an attempt to discuss the concepts of EVA and MVA, evolution and growth of EVA, computation of EVA and MVA, EVA and financial performance, EVA in Indian environment and relationship between EVA and MVA (Market Value Added).

Market Value Added (MVA)

With a view to measure share-holders' value, Stewart invented the term Market Value Added (MVA). Market Value Added (MVA) is defined as "the difference between market value of invested capital and book value of invested capital of a company at a given period of time". Market value of invested capital refers the market value of equity capital and debt capital, but the market value of debt is not easily available as debts are not generally traded. Thus, the definition of MVA can be stated as market capitalization less net worth. Market capitalization is the product of closing share price and number of out standing shares as on that date (i.e., date of balance sheet). Whereas, net worth is the sum of equity capital, reserves and surplus net of

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revaluation reserve less accumulated losses and miscellaneous expenditure.

MVA = Market Capitalisation - Net Worth

Market Capitalisation = Closing Share Price x Number of Outstanding Shares.

Net Worth:

1.	**Equity Share Capital**	-
2.	**Reserve and Surplus (net of revaluation reserve)**	-
	Total	-
Less:		
1.	**Accumulated Losses**	-
2.	**Miscellaneous Expenditure**	-
	Net Worth	-

It is clear from the above definition that MVA simply reflects the price to book value relationship that is depicted by P/B ratio (Market price to book value ratio). The only difference between MVA and P/B ratio is that MVA is an absolute measure whereas P/B ratio is a relative measure. A positive MVA implies that P/B ratio is greater than one (P/B ratio > 1). If MVA is negative it implies that P/B ratio is less than one (P/B ratio < 1). Therefore, it may be concluded that MVA is the change in market value of a company between two different points of time with reference to a fixed quantity of outstanding shares. It may be noted that if the number of shares change between two given points of time, MVA should be calculated with reference to shares outstanding on the latest point of time. This would mean that the market capitalization at the end of current year reflects the market value of outstanding shares at the end of current year. For a meaningful and objective comparison, market capitalization at the previous year should be modified to reflect the number of outstanding shares at the end of the current year.

MVA represents the value added to a particular share over its book value. MVA informs how much value a shareholder has added to this wealth, which he has invested in the share. Accordingly, a company with an objective of enhancing the share-holders' wealth should attempt to capitalize on its MVA. MVA can be estimated by subtracting the book value of shares from the market value of shares. It is silent that EVA helps in pushing up the MVA of an organization. As a result, EVA can be considered as an internal measure and MVA as the external measure of a company's performance.

MVA is considered as a measure of shareholders' wealth. MVA denotes the extent to which the market has added value to the net worth of a company. An increase in MVA infers maximization of shareholders' wealth. This is because shareholders want to see appreciation in stock price. MVA can improve if market capitalization increases for the same level of net worth or if net worth of a company decreases. MVA provides the stock market's assessment of how efficient a company is in using capital. A positive MVA indicates that a company is building value for its shareholders and a negative MVA indicates that a company is destroying shareholders' value.

Economic Value Added (EVA)

The concept of Economic Value Added was introduced by a New York based consulting firm M/s Stern Stewart & Co in early eighties. The corporate sector in India is gradually recognizing the importance of EVA as a result of which some Indian companies viz., Ranbaxy Laboratories, Samuel India Ltd.etc., have started calculating EVA. Infosys Technologies Ltd is the first Indian company to report its EVA in the annual report. EVA attempts to measure true economic profit as it compares actual rate of return as against the required rate of return. EVA explains whether a business unit best utilizes its assets to generate return and maximize shareholders' value. EVA is just a way of measuring an operation's real profitability. EVA effectively measures the productivity of all the factors of production. viz., land, labour, capital, entrepreneur and management.

Economic Value Added (EVA) is a residual income that subtracts the cost of capital from the operating profits generated by a business. EVA is an excess profit of a firm after charging cost of capital. EVA essentially seeks to Measure Company's actual rate of return as against the required rate of return. To put it simply, EVA is the difference between Net Operating Profit After Tax (NOPAT) and the capital charge for both debt and equity (WACC-Weighted Average Cost of Capital). If NOPAT exceeds the capital charge (WACC), EVA is positive and if NOPAT is less than capital charge, EVA is negative. EVA is a corporate surplus, which is shared by the employees, management and the shareholders. Efficiency bonus, profit sharing schemes, managerial remuneration over and above minimum sustenance salary, issue of bonus shares and incentive dividend to equity and preference shareholders respectively can be linked to EVA.

Evolution and Growth of EVA

EVA is not a newer innovation. An accounting performance measure called residual income that is defined as operating profit subtracted with capital charge. EVA is thus, one variation of residual income with adjustments to how one works out income and capital. According to Wallace, one of the earliest to point out the residual income concept was Alfred Marshall in 1890. Marshall described economic profit as total net gains less the interest on invested capital at the current rate. According to Odd and Chen, the idea of residual income appeared first in accounting theory literature early in this century. It was initiated by Church in 1917 and further defined by Scovell in 1924. Later, this concept appeared in management accounting literature in the 1960s.

Knowing this backdrop, several researchers have been wondering about the big media hype and praise that has encircled EVA in the recent days. The EVA concept is recurrently called as

Economic Profit (EP) in order to stay away from problems caused by the trade marking. On the other hand, the name EVA is so popular and well known that often all residual income concepts are called EVA although they do not take account of even the main elements defined by Stern Stewart & company for the purpose. For instance, hardly any of those Finish Companies that have adopted EVA calculate rate of return based on the beginning capital as Stewart has defined it, because average capital is in practice a better estimate of the capital employed. So, they do not actually use EVA but other residual income measures. This immaterial detail is overlooked later on in order to avoid more severe misapprehensions and is found justified to say that the EVA concept, the Finish companies are using corresponds approximately the EVA defined by Stern Stewart & Company. During 1970s, the residual income concept did not get ample publicity and it did not finish up to be the prime performance measure of companies. However EVA, practically, the same concept with a different name, has come to fore in the recent years. Moreover, the propagation of EVA and other residual income measures does not seem to be on an abating trend. On the contrary, the number of companies adopting EVA is increasing rapidly. One can only guess why residual income did never gain recognition of this level. One of the possible reasons is that Economic Value Added was marketed with a concept of Market Value Added (MVA) and it did not offer a hypothetically significant connection to market valuations. In the times when investors insist on shareholders' value, this was high time to sink your teeth into the concept. The clarity that EVA has brought to the pursuit of shareholder value has led more than 400 companies to adopt the discipline since Stern Stewart introduced the new system back in 1982. EVA has long had a base in South Africa, owing primarily to the lectures that Joel Stern gave before academic and business groups. In the last couple of years, EVA has fascinated an increasing number of Corporates together in Europe, Asia, Australia and Latin America.

In mid-1996, Joel Stern was invited to give a full- dress presentation on EVA to top management and later that year, the company signed up and formed an EVA Steering Group to implement EVA. As part of the initial phase of the EVA project, Tate & Lyle decided to pilot EVA in two businesses-UM, UK-based molasses trading company and Redpath, a Canadian sugar refiner. The objective was to determine whether the theory of EVA would be appropriate in practice and to test the EVA ground rules formulated by Steering Group.

First, a retrospective study was conducted to provide a record of past EVA, against which future performance was to be measured. The key value drivers were identified, especially in the capital area, in addition to opportunities for increasing NOPAT through continuation of the existing cost management initiatives.

The pilot schemes were successful and demonstrated the merits of EVA, not just as a measure but also as a valuable management tool. It was then decided to roll out EVA throughout Tate & Lyle beginning with the training of all the finance managers of the various subsidiaries followed by the operating people. For the fiscal year that began in October 1997, some 60 of the top managers had their cash bonus linked to EVA performance. EVA may be realistically in young age in the west, has been going through its babyhood in country like ours. It may be quite emerging concept in the mind of Indian corporate policy makers and managers.

EVA and Financial Performance

According to accounting concept, business profit is measured by deducting expenses from income earned during the period. On the other hand, according to economic concept, business profit is considered to be the maximum amount that the business is capable of distributing to its shareholders while still remaining in the same position at the end of the period as it was at the beginning. Notably, the accounting concept does not take into account opportunity cost and risk adjusted return on capital employed in the business in order to overcome limitations of accounting based measures of financial performance.

EVA as a tool of financial performance measurement enlightens whether the operating profit is enough to cover the cost of capital. Shareholders must earn sufficient returns for the risk they have taken in investing their funds in company's capital. The return generated by the company for shareholders has to be more than the overall cost of capital to justify risk taken by shareholders. The EVA framework is becoming more and more admired tool for measuring the financial performance of Corporates. EVA offers a consistent approach to set goals and measure performance, communicate with investors, evaluate strategies, allocate capital valuing acquisitions and determine incentive bonuses. However, the EVA implementation and improvement process is one of the several ongoing initiatives for a new corporate. A firm can improve its EVA in three ways:

- Earn more profit without using more capital.
- Downsize unprofitable units or divisions.
- Make investment where the return is more than the marginal cost of capital.

Computation of EVA

EVA is the excess of Net Operating Profit After Tax (NOPAT) over the Weighted Average Cost of Capital (WACC). In other words, EVA is a company's net operating profit after tax after deducting the cost of capital employed on total investment in the business. EVA takes into account the total cost of capital employed which makes EVA so revealing. The traditional practice normally considers only a single component of the total cost of capital (i.e., the explicit cost of borrowed capital) to arrive at net profits. EVA recognizes explicit cost of borrowed capital as well as implicit cost of own capital as part of cost to be deducted from the figure of net operating profits.

While computing EVA, capital employed represents capital invested at the beginning of the year. The logic behind taking beginning capital for computing EVA is that a company would take at least one year time to earn a return on investment. It may be mentioned here that calculation of EVA involves some tricky issues. Each element of EVA, therefore, has been discussed individually. EVA requires three different inputs for its computation. They are given below: (A) NOPAT (Net Operating Profit After Tax) B) Invested Capital (C) Weighted Average Cost Of Capital (WACC).

EVA = NOPAT - (WACC x Invested Capital)

(A) Net Operating Profit After Tax (NOPAT)

Stewart (1991) defined NOPAT as the "Profits derived from company's operations after taxes but before financing costs and non-cash book keeping entries. Such non-cash book keeping entries do not include depreciation since depreciation is considered as a true economic expense. In other words, NOPAT is equal to the income available to shareholders plus interest expenses (after tax). However, Stewart considered regular non-operating incomes as part of NOPAT. Stewart (1991) provided the following calculation for computing NOPAT:

1. Profit after tax	-
2. Non-recurring expenses	-
3. R&D expenditures	-
4. Interest Expenses	-
5. Provision for taxes	-
TOTAL	-
LESS:	
1. Non-recurring incomes	-
2. R&D amortization	-
3. Cash operating taxes*	-
NOPAT	-

**Where, Cash Operating Taxes = (Provision for taxes + tax benefit of non-recurring expenses + Tax benefit of interest expenses) - (Tax on non-recurring incomes)*

B) Invested Capital / Capital Employed

Invested capital or capital employed refers to total assets net of non-interest bearing liabilities. From an operating perspective, invested capital can be defined as Net Fixed Assets plus Investments plus Net current assets. Net current assets denote current assets net of non-interest bearing current liabilities. From a financing perspective, the same can be defined as Net Worth plus total borrowings. Total borrowings denote all interest bearing debts

(C) Weighted Average Cost of Capital (WACC)

WACC represents overall cost of capital employed in the business (i.e., cost of debt capital and cost of equity capital). For calculating WACC, cost of each source of capital is calculated separately then weights are assigned to each source on the basis of proportion of a particular source in the total capital employed. Weights can be assigned on market value basis or book value basis. Stewart suggested market value basis. WACC can be calculated as below:

$$WACC = E/CE \times Ke + LTB/CE \times Kd$$

Where,

E	=	Equity Capital
CE	=	Capital Employed
LTB	=	Long Term Borrowings
Ke	=	Cost of Equity Capital
Kd	=	Cost of Debt Capital

WACC includes two specific costs viz., (i) cost of equity (Ke), (ii)cost of debt (Kd).

I) Calculation of Cost of Debt (Kd)

Cost of debt is calculated by multiplying the pre-tax debt cost by (1-t), Where't' refers the effective tax rate. This will furnish the post tax cost of debt. The post tax cost of debt is calculated because debt cost enjoys tax shield. In other words, tax reduces the effective cost of debt. Cost of debt can be calculated by applying the following formula:

Cost of Debt = (Total Interest Expense / Beginning Total Borrowings)

$$(1-t) \times 100$$

$$Kd = (TIE / BTB) \times (1-t) \times 100$$

II) Calculation of Cost of Equity (Ke)

Cost of equity (Ke) is the opportunity cost that is equal to the total return that investor could expect to earn from alternative investments of comparable risk. It is not an explicit cost as the cost of debt. The dividend based or earning based approach for finding cost of equity is not considered a proper way of computing the return expected by equity shareholders. These approaches measure the explicit cost of servicing equity whereas the true measure of cost of equity is not what a company offers but what investors reasonably expect. Conceptually, the cost of equity may be stated as "the minimum rate of return that a company must earn on the equity-financial position of an investment project in order to leave unchanged the market price of the shares". The cost of equity can be calculated by the Capital Asset Pricing Model (CAPM). The CAPM is normally used to determine minimum required rates of return from investment in risky assets. Stewart also used CAPM consistently as a measure for cost of equity in his methodology for computing EVA. The expected return on equity can be calculated under CAPM by applying the formula given below:

$$Rj = Rf + b\,(Rm - Rf)$$

Where,

Rj = Expected Return on Scrip j

Rf = Risk free rate of return

β = Beta representing the volatility of scrip j against market volatility.

Rm = Expected stock market return.

From the above formula, it can be concluded that the required rate of return on equity is equal to the sum of the risk-free rate of return and an increment that compensates the investors for accepting the assets risk.

EVA in Indian Environment

Bennett Stewart, along with Joel Stern founded the New York-based global financial consultancy firm under the name "Stern Stewart & Company" in 1990. An EVA company has believed that EVA is such financial performance tool that comes closer than any other tools to capture the true economic profit of an organization. The EVA analysis has attracted much attention in the Western countries both as a management innovation as well as stock market analysis. The acceptance of such a technique in Indian context, however, shows somewhat diverse trends. Some corporate houses like Infosys, BPL, Hindustan Lever Limited, Balarpur Chinni Mills, NIIT, Tata Consultancy Services, Godrej Soaps have started publishing EVA in their financial statements. Majority of companies are still not willing to install the EVA technique for evaluating their financial performance because of certain inherent difficulties associated with the computation. Again, it is observed by some scholars that in Indian context, it may be very difficult task to establish the existence of any relationship between stock price and economic value added (EVA).

In developing economy like India, depending on EVA could be an obstacle in making new investment decisions. Moreover, when talking about shareholders' value, the profile of the shareholders also needs to be taken care. In India, for a particular business or company there is no one particular set of shareholders. In fact, there is always more than one set. Then situations may arise when the company ends up satisfying one set of shareholders at the cost of another set. In India, we have large business houses, which started off with one business but diversified during the course of time. In the entire process, they ended up creating many sets of shareholders thus making the spread of value creation all the more complicated. Considering all these situations what becomes important is reporting and transparency & consistency in reporting which can assure the success of EVA to some extent.

EVA, MVA and Share Prices

The EVA theory defines market value of a company as its book value plus the current value of future EVA. Through this relationship, EVA influences market value of shares but this relationship is again debated and different studies have revealed different results. Stewart studied the relationship between EVA and MVA by taking market data of 618 US firms and Stewart found that the relationship between EVA and MVA is quite high in US firms. But in situation, where both EVA and MVA are negative and the relationship does not hold good. The reason behind this behaviour is that the market value reflects the asset base of companies and the companies, which have high asset base will also, have high market values irrespective of their returns. In case of low or negative EVA, the market start valuing the companies on the potential of liquidation, recovery, recapitalization or takeover, but if the EVA is positive, then the valuation is on the basis of expected return and growth potential and not on the basis of liquidation or recovery value.

While establishing a correlation between EVA and MVA, it is best to consider the change rather than the absolute figures. Considering changes in the value is safer because they are not affected much by accounting distortions and inflation than the absolute values. There is one fundamental question in correlating EVA with share prices i.e. the main base for market value is the expectation of future cash flows. The change in the current share price is a reflection of the change in the future cash flows and future EVA expectations. Hence, the current EVA cannot explain the current share price. When the current EVA changes, it infers that the future EVA is also likely to change. Therefore, like other measures, EVA also has the power to explain, may be a little more strongly. EVA is more appropriate in case of corporate control and the use of EVA as discounted cash flow to estimate current valuations with future EVA estimate is really informative. More than the share price, EVA has more correlation with MVA. Share prices can also rise when more money is pumped up into the business, but EVA and MVA rise only when the returns generated with the additional money is more than the incremental cost of capital. One of the reasons of poor correlation between EVA and share price is distorted. EVA is no better than any other accounting measure like ROI or EPS. Also, these distortions could be responsible for the fact that more than absolute value changes in EVA correlates with share prices.

EVA reflects the true economic profit of an organization. It is an internal measure of performance of organisations. In order to make EVA more popular in Indian environment, it is essential to remove many practical difficulties in implementing EVA in business houses. It can be concluded that maximizing shareholders' value is the primary objective of any business organization and it should be kept in mind that change is the only way, which

Contd. on Page 18

Business Valuation: A Critical Analysis

Dr. Arindam Ghosh*
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Introduction:

Business valuation is a measurement process. In order for any measurement process to be useful, the results must be consistent, precise, and accurate. Unlike ordinary physical measurements, the business valuation process involves multiple qualitative judgements, as well as quantitative procedures. To achieve greater precision and consistency, valuation professionals have attempted to make the valuation process more dependent on quantitative procedures and less dependent on qualitative judgements. Qualitative judgements often are thought to be inherently more subjective and prone to bias than quantitative procedures. Despite the fact that qualitative judgements are not necessarily biased in principle, in practice such judgements are often the source of biased and inconsistent appraisal results. Many users of business valuations have noted this problem. Business valuation is a process or a set of procedures that is used to estimate the economic value of the owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of a business. Business valuation results can vary considerably depending upon the choice of both the standard and premise of value. In an actual business sale, it would be expected that the buyer and seller, each with an incentive to achieve an optimal outcome, would determine the fair market value of a business asset that would compete in the market for such an acquisition. Valuing a company is hardly a precise science and can vary depending on the type of business and the reason for coming up with a valuation. There are a wide range of factors that go into the process -- from the book value to a host of tangible and intangible elements. In general, the value of the business will rely on an analysis of the company's cash flow. In other words, its ability to generate consistent profits will ultimately determine its worth in the marketplace. Business valuation should be considered a starting point for buyers and sellers. It is rare that buyers and sellers come up with a similar figure, if, for no other reason, than the seller is looking for a higher price. The goal of the valuation should be to determine a approximate figure from which the buyer and the seller can negotiate a price that they can both live with.

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The Need for Valuation:

The need for valuing a business or a firm can well be identified by answering the question-"What purpose does a valuation serve?". To answer that question we have to consider the benefits that are gained by different parties, directly or indirectly engaged their interests in the business concerned. To judge that we need to calculate the view points of all the parties who are directly or indirectly connected with the business. The purposes that a valuation serves are manifold. A valuation may be used for a wide range of purposes. These are listed as follows:

- From the buyer's point of view, the valuation tells him the price he should pay;
- From the seller's point of view, the valuation will tell him the lowest price at which he should be prepared to sell;
- In case of listed companies:
  - valuation is useful to compare the value obtained with the share's price on the stock market and to decide whether to sell, buy or hold the shares;
  - valuation of several companies may be used to make portfolio decision;
- When share are offered to public, the valuation is used to justify the price at which the shares are offered to the public;
- The valuation is used to compare the shares' value with that of the other assets;
- Valuation of a company provides a fundamental benchmark to identify and stratify the main value drives;
- The valuation of a company or business unit is a prior step in making strategic decisions, such as, the decision to continue in the business, sell, merge, grow or buy other companies;
- In case of strategic planning, the valuation of the company and the different business units are fundamental for deciding what products/business lines/countries/ customers to maintain, grow or abandon. It also provides means for measuring the impact of the company's possible policies and strategies on value creation and destruction;

Different Approaches or Methods to Business Valuation:

A Business Valuator (or anyone valuating your business) will use a variety of business valuation methods to determine a fair price for your business, such as:

(1) Asset-Based Approach:

It is used when a company is asset-intensive. The most common asset valuation techniques are:

Book Value Method:

The book value is simply the business valuation based upon the accounting books of the business. Assets less liabilities equal the owner's equity, which is the "Book Value" of the business. The problem with book value business valuation is that the accounting records may not accurately reflect the true value of the assets in the business valuation.

Adjusted Book Value:

Two types of adjusted book value business valuations are Tangible Book Value and Economic Book Value (also known as book value at market).

- Tangible Book Value is based on comprising the value of tangible assets only. Assets, such, goodwill, patents, capitalized preliminary expenses and deferred revenue expenses etc are not considered.
- Economic Book Value is the value of the business that allows a book value analysis that adjusts the assets to their market value. This includes valuation of goodwill, real estate, inventories and other assets at their market value.

Replacement Value Method:

It is quite closely similar to an adjusted book value analysis. Liabilities are deducted from the replacement value of the assets to determine the replacement value of the business. Replacement value of an asset is usually higher than its book value.

Liquidation Value Method:

It is lso similar to an adjusted book value analysis. Liabilities are deducted from the liquidation value of the assets to determine the liquidation value of the business. A liquidation asset-based approach determines the net cash that would be received if all assets were sold and liabilities paid off.

(2) Income/Earning-Based Approaches:

These valuation methods are best used for non-asset intensive businesses like service companies. These business valuation methods are predicated on the idea that a business's true value lies in its ability to produce wealth in the future. The most common earning value approach is Capitalizing Past Earning.

Income Capitalizing Valuation Method:

Earnings are divided by a capitalization rate (a rate of return required to take on the risk of operating the business). The earnings figure to be capitalized should be one that reflects the true nature of the business. When determining a capitalization rate one should compare with rates available to similarly risky investments.

Discounted Earnings Valuation Method:

It determines the value of a business based upon the present value of projected future expected earnings, discounted by the required rate of return i.e. the capitalization rate. But the question is how well earnings are projected.

Discounted Cash Flow Valuation Method:

When an entity is set up to accomplish a specific project, this technique is proved to be the most useful in valuing such an affair or business and when a certain time frame is set where an investor wishes to see his investment returned over a specific period of time. In discounted cash flow, the present value of liabilities is subtracted from the combined present value of cash flow and tangible assets, which determines the value of the business.

Discount Rate:

In order to compute net present value, it is necessary to discount future benefits and costs. This discounting reflects the time value of money. Benefits and costs are worth more if they are experienced sooner. All future benefits and costs, including non-monetized benefits and costs, should be discounted. The higher the discount rate, the lower is the present value of future cash flows. For typical investments, with costs concentrated in early periods and benefits following in later periods, raising the discount rate tends to reduce the net present value.

Estimating the Discount Rate

Use of a discount rate to quantify systematic and unsystematic risk is part of the Capital Asset Pricing Model (CAPM). CAPM is firmly grounded in economic theory, and many texts contain summaries. However, it is also based on publicly-traded markets, which are not applicable to privately-held firms. Alternatively, some practitioners may use a "build-up" method. Although the use of this term is not consistent, some "build up" methods do not include a "beta." This approach is not founded in economic theory and is instead based heavily on professional judgement. Damadoran (2002) recommends the CAPM approach, noting the failure of more contemporary models to significantly improve upon CAPM. Different methods for estimating a discount rate exist.

(3) Market Valuation Approaches:

Market value approaches to business valuation attempt to establish the value of the business by comparing it to similar businesses that have recently sold. Obviously, this method is only going to work well if there are a sufficient number of similar businesses to compare. This approach compares similar companies on a set of variables. For instance the value of a business could be determined by using an "industry average" figure, such as sales, times a multiplier. This industry average number is based on what comparable businesses have sold for recently. As a result, an industry-specific formula is devised, usually based on a multiple of gross sales.

Price Earnings Multiple Valuation Methods:

The price-earnings ration (P/E) is simply the price of a company's share of common stock in the public market divided by its earnings per share. Multiply this multiple by the net income and you will have a value for the business. If the business has no income, there is no business valuation.

Dividend Capitalization Valuation Method:

Dividend paying capacity based on average net income and on average cash flow is used.

To determine dividend-paying capacity, near term capital needs, expansion plans, debt repayment, operation cushion, contractual requirements, past dividend paying history of a business and dividends of a comparable company should be investigated. After analyzing these factors, percent of average net income and of average cash flow that can be used for the payment of dividends can be estimated.

Sales Multiple Valuation Method:

This method is easy to understand and use. The sales multiple is often used as the business valuation benchmark. The information required is annual sales and an industry multiplier, which is usually a range of .25 to 1 or higher. The industry multiplier can be found in various financial publications, as well as analyzing sales of similar concerns.

Profit Multiple Valuation Method:

Profit and sales multiples are the most widely used business valuation benchmarks used in valuing a business. The information needed is pretax profits and a market multiplier, which may be 1, 2, 3, or 4 and usually a ceiling of 5. The market multiplier can be found in various financial publications, as well as analyzing the sale of comparable businesses.

The above mentioned three main approaches are recognized by the Internal Revenue Service, accounting and appraisal authorities, and business valuation authorities. However, much recent research in the underlying economics of business valuation, as well as the trend in professional practice, has undermined this easy classification. In particular, there has been severe criticism of the improper use of accounting-based historical cost figures to estimate market value, the reliance on accounting income statements as the fundamental basis for forecasting future revenue, and the naive application of CAPM models to the discount rates for private firms.

What is Market Value or Fair Value?

The value of an asset if it were to be sold on the open market at its current market price. When land is involved it may be necessary to distinguish between the market value in its present use and that in some alternative use; for example, a factory site may have a market value as a factory site, and be so valued in the company's accounts, which may be less than its market value as building land. Market value is often different from book value because the market takes into account future growth potential. Most investors who use fundamental analysis to pick stocks look at a company's market value and then determine whether or not the market value is adequate or if it's undervalued in comparison to its book value, net assets or some other measure. The value of a company obtained by multiplying the number of its issued ordinary shares by their market price. This may differ widely from the book value of the company. Fair value is the amount of money for which it is assumed an asset or liability could be exchanged in an arm's length transaction between informed and willing parties. The concept is essential in acquisition accounting.

Conclusion:

Business valuation methodology continues to evolve over time. For example, a century ago, the most common business valuation methods related to asset values and dividend yields. These business valuation methods are given far less weight today. A half-century ago, the price/earnings multiple and the multiple of price to cash flow per share were important business valuation components. While the price/earnings multiple continues to be an important valuation component, the price/cash flow multiple is no longer generally accepted. The DCF (Discounted Cash Flow) method has become a widely used business valuation method. The DCF method is conceptually useful, but it has significant application limitations. The method is based on the premise that the value of a business is the present value of its future net cash flow. Projected net cash flow is discounted to present value using a cost of capital that is intended to reflect the risks of the business. Because cash flow projections are made for only a limited period, the value of a business at the end of the discrete projection period is calculated. The theory of a DCF analysis assumes the validity of the financial projections, but financial projection accuracy is a simplifying assumption that does not often comport with the real world. Moreover, a DCF analysis is also highly dependent on the selected discount rate, as well as the methodology used for estimating the terminal value. Often, the terminal value is based on the projected financial results for the year after the discrete projection period. Terminal value is based on the final year of a projection, which is necessarily far less predictable than projections for earlier years. Valuation is an important consideration, but the decision makers should also consider the structural fairness of the transaction and other factors. A fairness conclusion rendered to the board of directors should weigh the overall impact of a transaction on shareholders. An analyst rendering a fairness opinion should recognize that shareholders are the ultimate beneficiaries of the fairness conclusion and that the shareholders will be considering the fairness opinion in arriving at their transaction decisions. The CAPM is widely accepted for financial analysis, portfolio management, corporate planning, and other applications. However, its reliability in calculating the appropriate discount rate for an individual company is subject to question. Many of the factors used in estimating the discount rate, such as beta, the company-specific risk premium, and the small company/ size adjustment risk premium, are subject to the judgment of the analyst. Under the CAPM, a company's cost of equity is determined by adding the risk-free rate of return to a measure of the equity risk premium. A company's equity risk premium is calculated by multiplying the equity risk premium for the market as a whole by a factor called beta. Beta is a measure of the volatility of an individual security's return relative to the total market return. Ideally, valuation analysts should use a forward-looking beta. In practice, though, historical betas are commonly used because projected betas are not readily available. An analyst should test the reasonableness of the calculated cost of capital, based on the analyst's professional judgement and experience as to the rates of return required in the marketplace.

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Contd. from Page 14

is constant in nature. Obliteration should be welcomed if it is for better and the managers of public organisations should take decisions. As if it is a private organization that the capital is optimally utilized and result in maximizing the shareholders' value.

Conclusion

Shareholders' value based measures like Economic Value Added (EVA), Market Value Added (MVA) are being introduced and greater attention is being paid to getting the accountants and the finance executives involved in planning, decision making and performance evaluation in recent times as these metrics explicitly discloses the value of the firms. These value based metrics are widely used by the management of a business in order to look for a way to link earnings and related investment, not just for the company as a whole, but for the individual parts of the business as MVA and EVA are an effective measure of the quality of managerial decisions as well as a reliable indicator of an enterprise's value growth in future. So, management of business has now started investigating ways to link its own interest to the interest of the shareholders. Due to the above developments, economic value added (EVA) and market value added (MVA) are given the most attention and most of the companies in India, either MNC or Indian have now adopted use of above first class metrics in recent times.

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Tools and Techniques of Business Valuation

Business valuation is a process and a set of procedures used to estimate the economic value of an owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of a business. In addition to estimating the selling price of a business, the same valuation tools are often used by business appraisers to resolve disputes related to estate and gift taxation, divorce litigation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and many other business and legal purposes. An attempt has been made in this article to provide knowledge regarding the various tools and techniques that are used in the valuation of a business, starting with simple financial statements and the use of ratios, and going on to discounted free cash flow and option-based methods.

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Pooja Sareen**

Introduction

Business Valuation has become an intrinsic part of the corporate landscape. The corporate landscape has witnessed dynamic changes in the recent years as mergers and acquisitions, corporate restructurings, and share repurchases are happening in record numbers. At the core of the dynamics of all these activities stands some notion of valuation. The valuation methods are not only necessary for accounting purposes but they also serve as roadmaps for the investors, venture capitalists and corporate acquirers in order to know the true value of a company's assets. How a business is valued depends on the purpose, so the most interesting part of implementing various methods will be to see how they work in different contexts -- such as valuing a private company, valuing an acquisition target, and valuing a company in distress. Although there are numerous individual valuation techniques, we will discuss the following prominent techniques of business valuation :

(1) Cash to Market Value Method

It is one of the premier screens for ferreting out companies with more cash on hand than their current market value. Firstly look at a company's cash and equivalents and short-term investments. Dividing this number by the number of shares outstanding gives a quick measure that tells us how much of the current share price consists of just the cash that the company has on hand. Buying a company with a lot of cash can yield a lot of benefits -- cash can fund product development and strategic acquisitions and can pay high-caliber executives. Even a company that might seem to have limited future prospects can offer tremendous promise if it has enough cash on hand.

(2) Working Capital to Market Capitalization

Another measure of value is a company's current working capital relative to its market capitalization. Working capital is what is left after company's current liabilities are subtracted from its current assets . Working capital represents the funds that a company has ready access to for use in conducting its everyday business. If we buy a company for close to its working capital, we have essentially bought a Re of assets for a Re of stock price -- not a bad deal, either. Just as cash funds all sorts of good things, so does working capital.

(3) Price to Book Value Method

Book value is literally the value of a company that can be found on the accounting ledger. To calculate book value per share, take a company's shareholder's equity and divide it by the current number of shares outstanding. If you then take the stock's current price and divide by the current book value, you have the price-to-book ratio.

$$\text{Price to Book Value} = \frac{\text{Stock's current price}}{\text{Current book value}}$$

Book value is a relatively straightforward concept. The closer to book value we can buy something at, the better it is. Book value is actually somewhat skeptically viewed in this day and age, since most companies have latitude in valuing their inventory, as well as inflation or deflation of real estate depending on what tax consequences the company is trying to avoid. However, with financial companies like banks, consumer loan concerns, brokerages and credit card companies, the book value is extremely relevant. For instance, in the banking industry, takeovers are often priced based on book value, with banks or savings & loans being taken over at multiples of between 1.7 to 2.0 times book value. Another use of shareholder's equity is to determine return on equity .

(4) Return on Equity (ROE)

Return on equity is a measure of how much earnings a company generates in four quarters compared to its shareholder's equity. It is measured as a percentage. For instance, if XYZ Corp. made a return of Rs one million in the past year and has a shareholder's equity of ten million, then the ROE is 10%. Some use ROE as a screen to find companies that can generate large profits with little in the way of capital

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investment. Coca Cola, for instance, does not require constant spending to upgrade equipment -- the syrup-making process does not regularly move ahead by technological leaps and bounds. High ROE companies are very attractive to investors .

(5) Earnings Per Share (EPS)

Earnings per share measures the profit available to equity shareholders on a per share basis, i.e., the amount that they can get on every share held. EPS is calculated by simply dividing the total amount of the earnings a company reports by the number of shares it currently has outstanding. Thus, if XYZ Corp. has 1million shares outstanding and has earned Rs.1million in the past 12 months, it has EPS of Rs1.00.

$$EPS = \frac{Rs1{,}000{,}000}{1{,}000{,}000 \text{ shares}} = Re.1.00$$

The earnings per share alone means absolutely nothing, though. To look at a company's earnings relative to its price, we can employ the price /earning ratio.

(6) Price/Earnings (P/E) Ratio.

The P/E ratio takes the stock price and divides it by the last four quarters' worth of earnings. For instance, if, in our example above, XYZ Corp. was currently trading at Rs15 a share, it would have a P/E of 15.

$$P/E = \frac{Rs.15 \text{ Share price}}{Rs.1.00 \text{ EPS}} = Rs.15$$

It represents the price currently being paid by the market for each Re of currently reported EPS. It measures investors expectations and market appraisal of the performance of the firm.

(7) The Price-to-Sales Ratio

Every time a company sells a customer something, it is generating revenues. Revenues are the sales generated by a company for peddling goods or services. Whether or not a company has made money in the last year, there are always revenues. Even companies that may be temporarily losing money, have earnings depressed due to short-term circumstances (like product development or higher taxes), or are relatively new in a high-growth industry are often valued off of their revenues and not their earnings. Revenue-based valuations are achieved using the price/sales ratio,PSR.The price/sales ratio takes into consideration the current market capitalization of a company and divides it by the last 12 months trailing revenues. The market capitalization is the current market value of a company, arrived at by multiplying the current share price times the shares outstanding. This is the current price at which the market is valuing the company. For instance, if in our example, company XYZ Corp. has ten million shares outstanding, priced at Rs10 a share, then the market capitalization is Rs100 million.Some investors are even more conservative and add the current long-term debt of the company to the total current market value of its stock to get the market capitalization. The logic here is that if we were to acquire the company, we would acquire its debt as well. This avoids comparing PSRs between two companies where one has taken out enormous debt that it has used to boast sales and one that has lower sales but has not added any nasty debt either.

Market Capitalization = (Shares Outstanding * Current Share Price) + Current Long-term Debt

The next step in calculating the PSR is to add up the revenues from the last four quarters and divide this number into the market capitalization. Say XYZ Corp. had Rs200 million in sales over the last four quarters and currently has no long-term debt. The PSR would be:

$$PSR = \frac{(10\text{mnshares}*10/\text{share})+0\text{debt}}{Rs200 \text{ million revenues}} = 0.5$$

The PSR is a measurement that companies often consider when making an acquisition. The PSR is often used when a company has not made money in the last year. PSR measures how much we are paying for a Re of sales instead of a Re of earnings. We can use the PSR in conjunction with the P/E in order to confirm value. If a company has a low P/E but a high PSR, it can warn an investor that there are potentially some one-time gains in the last four quarters that are pumping up earnings per share.

(8) Discounted Cash Flows Method

It is the most common measurement for valuing public and private companies used by investment bankers. Cash flow is literally the cash that flows through a company during the course of a quarter or the year after taking out all fixed expenses. Cash flow is normally defined as earnings before interest, taxes, depreciation and amortization (EBITDA).In a private or public market acquisition, the price-to-cash flow multiple is normally in the 6.0 to 7.0 range. When this multiple reaches the 8.0 to 9.0 range, the acquisition is normally considered to be expensive. In a leveraged buyout (LBO), the buyer normally tries not to pay more than 5.0 times cash flow because so much of the acquisition is funded by debt.

Free Cash Flow goes one step further. A company cannot drain all its cash flow, to survive and grow it must invest in capital and hold enough inventory and receivables to support its customers. So after adding back in the non-cash items, we subtract out new capital expenditures and additions to working capital.

The premise of the discounted free cash flow method is that company value can be estimated by forecasting future performance of the business and measuring the surplus cash flow generated by the company. The surplus cash flows and cash flow shortfalls are discounted back to a present value and added together to arrive at a valuation. The discount factor used is adjusted for the financial risk of investing in the company. The mechanics of the method focus investors on the internal operations of the company and its future.

The discounted cash flow method can be applied in six distinct steps. Since the method is based on forecasts, a good understanding of the business, its market and its past operations is a must. The steps in the discounted cash flow method are as follows:

- Develop debt free projections of the company's future operations. This is clearly the critical element in the valuation.
- Quantify positive and negative cash flow in each year of the projections. The cash flow being measured is the surplus cash generated by the business each year. In years when the company does not generate surplus cash, the cash shortfall is measured.
- Estimate a terminal value for the last year of the projections. Estimate how much value will be contributed to the company by the cash flows generated after the last year in the projections.
- Determine the discount factor to be applied to the cash flows. This discount factor should reflect the business and investment risk involved.
- Apply the discount factor to the cash flow surplus and shortfall of each year and to the terminal value. The amount generated by each of these calculations will estimate the present value contribution of each year's future cash flow. Adding these values together estimates the company's present value assuming it is debt free.
- Subtract present long term and short term borrowings from the present value of future cash flows to estimate the company's present value.

(9) Option-Based Methods

Executives continue to grapple with issues of risk and uncertainty in evaluating investments and acquisitions. Despite the use of net present value (NPV) and other valuation techniques, executives are often forced to rely on instinct when finalizing risky investment decisions. Given the shortcomings of NPV, real options analysis has been suggested as an alternative approach, one that considers the risks associated with an investment while recognizing the ability of corporations to defer an investment until a later period or to make a partial investment instead. In short, investment decisions are often made in a way that leaves some options open. The simple NPV rule does not give the correct conclusion if uncertainty can be "managed." In acquisitions and other business decisions, flexibility is essential -- more so the more volatile the environment -- and the value of flexibility can be taken into account explicitly, by using the real-options approach.

Financial options are extensively used for risk management in banks and firms. Real or embedded options are analogs of these financial options and can be used for evaluating investment decisions made under significant uncertainty. Real options can be identified in the form of opportunity to invest in a currently available innovative project with an additional consideration of the strategic value associated with the possibility of future and follow-up investments due to emergence of another related innovation in future, or the possibility of abandoning the project.

The option is worth something because the future value of the asset is uncertain. Uncertainty increases the value of the option, because if the uncertainty is interpreted as the variance, there are possibilities to higher profits. The loss on the option is equal to the cost of acquiring it. If the project turns out to be non-profitable we always have the choice of non-exercising. More and more, the real options approach is finding its place in corporate valuation.

Conclusion

The firms that face an important investment, acquisition, or growth decisions, particularly in a rapidly changing competitive environment, effective management requires an understanding of value creation and a command over valuation analysis. While valuing a business we should not rely on any one method rather we should select combination of methods that can help us to take better decisionWe all know very well that one wrong decision can destroy the value created over the years. Financial experts believe that business valuations using any method should not be too high or too low because that could be costly, resulting in either overpayment or lost opportunities. It is the need of the hour that the executives belonging to finance or non finance background must possess thorough understanding of all the available valuation techniques because they play an important role in the various strategic decisions taken by the corporates.

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Benchmarking and Cost Reduction

Yashan Jokhi*

In a situation where market driven forces restricts the volume sand selling price, many organizations adopt benchmarking process to understand the cost behaviour at a more micro level. We at All Metals Industries did the same.

Benchmarking, a process of comparing the business processes and performance metrics it provides a snapshot of our business and helps understand where we are in relati to a particular standard or other similarunit. The result is often a business case and "Burning Platform" for making changes in order to make improvements.

Traditionally the formula for arriving at profit Profit = Sales - Cost.

Owner's Expectation	Market Driven	Element largely under organizational control
Profit	Sales	Cost

Where the 'PRICE' is dominated by the market and the 'PROFIT' is expected by the owners, the one element we can control is 'COST'.

Having said that, it should be realised that not all costs are equal and controllable. There are some which bleed the organization and need to be addressed immediately, while others need attention on a longer perspective.

One might argue that any cost reduction would directly contribute towards the bottomline. There are dangers in such an approach. One, it is not sustainable and second, it could affect the customers adversely, which may lead to sub optimal service levels. Effectively it would lead to pressure on revenue and render the initiative counter productive. E.g are staff retrenchment, travelling costs, advertising costs, perks, etc.

A better approach would be to first attack the operational costs, which are directly related to products and processes.

The key cost element comparis on of our two plants in the attached sheet was an eye opener, which helped in focussing the drivers which affected these costs.

Observations:

a) Plant II was comparatively a newer plant and had advantage due to better layout and space.

b) Plant-I bottom line could zoom up at a faster and consistent pace by adopting Plant-II consumption standards.

c) Plant-II could also benefit by looking at certain parameters like Hydrocloric acid, Fume Suppresant, Diesel & others wherever they are exceeding Plant-I.

Comparative Table showing Key Operational Cost Elements

Table-I : Benefits to Plant-I by adopting Plant-II practices

Sr	Particulars	Unit	Average consumption per month		Yearly impact AED '000
			Plant I	Plant II	
A	RAW MATERIALS				
1	Zinc Consumption	%	6.89%	4.57%	XXX
B	CHEMICALS				
1	Hydrochloric Acid	kg	50,000	70,000	
2	Fume Suppressant	kg	15,000	30,000	
3	Galva Flux	kg	20,000	30,000	
4	Flux Additive	kg	18,000	10,000	XXX
5	Degreasant	kg	11,000	5,000	XXX
6	Gold Flux	kg	2,000	-	XXX
7	Gal Flow	kg	4,500	-	XXX
C	CONSUMABLES				
1	Diesel Oil	Gal	20,000	25,000	
2	GI Wires	kg	21,000	21,500	
3	Garnet	kg	35,000	15,000	XXX
4	Abrasive Steel Shots S330	kg	18,000	10,000	XXX
5	Zinc Spray Cans	Cans	25,000	15,000	XXX
6	Sanding Disc 4" x 36 grade	No.	8,000	7,000	XXX
D)	UTILITIES				
1	Electricity	KWH	225,000	117,000	XXX
2	Water	Gallon	165,000	185,000	
E)	MANPOWER				
1	Manhours utilized per month	Hrs	85,000	65,000	XXX
	Benefit to Plant-I by adopting Plant-II practices per annum—>>				XXXX

Say AED 15 Mln

Figures in the above table are changed to maintain confidentiality of data

*Group Financial Controller, All Metals Industries LLC, Dubai, United Arab Emirates

Initiatives Taken:

a) Presented the above two tables with their implication on bottom lines to both the divisional managers of respective plants.

b) Nominated two representatives from each division as a joint task force with the following objectives:

i} Identify the main cost driver (aspect of process) which affects the increase/decrease of each cost element.

ii} Identify the differences in production processes/methods adopted by each division, which leads to differiantial absorption of cost drivers.

iii} Exchange the better processes and experiment in each division, to work out the impact on cost, quality & safety.

iv} Institutionalise the new processes by revision of existing procedures and impart of necessary training to concerned employees of each division.

Challenges Faced:

a) Time constraint to go into deeper details.

b) Resistance to change at down the level due to habits formed.

Conclusion:

By exchanging process knowhow and practices, the organizationas whole gained immensely. The bottom line of the group zoomed by XXXX + YYYY amount as both the divisions benefited. We could achieve substantial savings (not 100%) of our targets as indicated in the tables.

Moreover this helped in setting new standards for this industry, wherein other similar units worldwide could benchmark their performances and we all could benefit globally.❑

Table-II : Benefits to Plant-II by adopting Plant-I practices

Sr	Particulars	Unit	Average consumption per month		Yearly impact AED '000
			Plant I	Plant II	
A	RAW MATERIALS				
1	Zinc Consumption	%	6.89%	4.57%	
B	CHEMICALS				
1	Hydrochloric Acid	kg	50,000	70,000	YYY
2	Fume Suppressant	kg	15,000	30,000	YYY
3	Galva Flux	kg	20,000	30,000	YYY
4	Flux Additive	kg	18,000	10,000	
5	Degreasant	kg	11,000	5,000	
6	Gold Flux	kg	2,000	-	
7	Gal Flow	kg	4,500	-	
C	CONSUMABLES				
1	Diesel Oil	Gal	20,000	25,000	YYY
2	CI Wires	kg	21,000	21,500	YYY
3	Garnet	kg	35,000	15,000	
4	Abrasive Steel Shots S330	kg	18,000	10,000	
5	Zinc Spray Cans	Cans	25,000	15,000	
6	Sanding Disc 4" x 36 grade	No.	8,000	7,000	
D)	UTILITIES				
1	Electricity	KWH	225,000	117,000	
2	Water	Gallon	165,000	185,000	YYY
E)	MANPOWER				
1	Manhours utilized per month	Hrs	85,000	65,000	
	Benefit to Plant-I by adopting Plant-II practices per annum--->>				YYYY

Say AED 8 Mln

Figures in the above table are changed to maintain confidentiality of data

Cost accounting Standard on Climate Change & Pollutants

Ashok K Agarwal*

Introduction

Climate change: Climate change caused by human activities that emit greenhouse gases into the air has started showing its affect in the frequency of extreme weather events such as drought, extreme temperatures, flooding, high winds, and severe storms. Global surface temperature has also increased between the start and the end of the 20th century, caused by increasing concentrations of green-house gases resulting from Fossil fuels burning and deforestation.

With the increasing attention given to the link between greenhouse gases and climate change, many companies are quantifying their greenhouse gases emissions for internal management purposes, and an increasing number are also preparing a greenhouse gas statement:

(a) As part of a regulatory disclosure regime;

(b) As part of an emissions trading scheme; or

(c) To inform investors and others on a voluntary basis, included as part of annual report;

Pollutants: Negative externalities such as pollution is more than merely an ethical problem. The problem is one of the disjuncture between marginal private and social costs that is not solved by the free market. It is a problem of societal communication and coordination to balance costs and benefits. This also implies that pollution is not something solved by competitive markets. Some collective solution is needed, such as a court system to allow parties affected by the pollution to be compensated, government intervention banning or discouraging pollution, or economic incentives such as green taxes.

M.Sc.; FICWA; Ph.D, Practising Cost Accountant (Delhi)

Objective

The objectives of the Cost accounting Standard on Climate Change & Pollutants are:

(a) To obtain reasonable assurance about whether the greenhouse gas & Pollutants statement is free from material misstatement, whether due to fraud or error, thereby enabling the practitioner to express an opinion on whether the greenhouse gas & Pollutants statement is prepared, in all material respects, in accordance with the applicable criteria; and

(b) To report on the company's greenhouse gas & Pollutants statement, and communicate, in accordance with the practitioner's findings.

Scope /Issues due to Climate Change & Pollutants

In economic terms, pollution from fossil fuels is regarded as a negative externality.

Taxation is considered one way to make societal costs explicit, in order to 'internalize' the cost of pollution. This aims to make fossil fuels more expensive, thereby reducing their use and the amount of pollution associated with them, along with raising the funds necessary to counteract these factors.

Many negative externalities (also called "external costs" or "external diseconomies") are related to the environmental consequences of production and use.

- Anthropogenic climate change is attributed to greenhouse gas emissions from burning oil, gas, and coal. Global warming has been ranked as the No.1 externality of all economic activity, in the magnitude of potential harms and yet remains unmitigated.
- Water pollution by industries that adds poisons to the water, which harm plants, animals, and humans.
- Industrial farm animal production, on the rise in the 20th century, resulted in farms that were easier to run, with fewer and often less-highly-skilled employees, and a greater output of uniform animal products. However, the externalities with these farms include air quality problems; the contamination of rivers, streams, and coastal waters with concentrated animal waste; animal welfare problems.

In these situations the marginal social benefit of consumption is less than the marginal private benefit of consumption. This leads to the good or service being over-consumed relative to the social optimum. Without intervention the good or service will be under-priced and the negative externalities will not be taken into account.

Cost Benefit Determinations

Debates weigh the benefits of limiting industrial emissions of greenhouse gases & Pollutants against the costs that such changes would entail. Using economic incentives, alternative and renewable energy have been promoted to reduce emissions while building infrastructure.

Air pollution is the introduction of

chemicals, particulate matter, or biological materials that cause harm or discomfort to humans or other living organisms, or damages the natural environment, into the atmosphere.

Definitions

Emissions - The greenhouse gases & Pollutants that, during the relevant period, have been emitted to the atmosphere or would have been emitted to the atmosphere had they not been captured and channeled to a sink.

Greenhouse gases: - Carbon dioxide (CO2) and any other gases, such as: methane; nitrous oxide; sulfur hexafluoride; hydrofluorocarbons; perfluorocarbons; and chlorofluoro-carbons. These other gases are often expressed in terms of carbon dioxide equivalents (CO2-e).

Organizational boundary: Determining which organizations or facilities to include in the company's greenhouse gas & Pollutants statement is known as determining the company's organizational boundary. In some cases, the applicable criteria may allow a choice between different methods for determining the company's organizational boundary. Determining the company's organizational boundary may require the analysis of complex organizational structures such as joint ventures, partnerships, and trusts, and complex or unusual contractual relationships. For example, a facility may be owned by one party, operated by another, and process materials solely for another party.

Pollutants: A pollutant is a waste material that pollutes air, water or soil.

Removal: Removal of greenhouse gases & Pollutants the company would have otherwise emitted to the atmosphere are ordinarily accounted for on a gross basis, that is, both the source and the sink are disclosed in the greenhouse gas & Pollutants statement.

Pollutants:

Three factors determine the severity of a pollutant: its chemical nature, the concentration and the persistence. Some pollutants are biodegradable and therefore will not persist in the environment in the long term.

Types of pollutants

Stock pollutants: Pollutants that the environment has little or no absorptive capacity are called stock pollutants (eg. persistent synthetic chemicals, non-biodegradable plastics, and heavy metals). Stock pollutants accumulate in the environment over time. Biodegradable matter is generally organic material such as plant and animal matter and other substances originating from living organisms, or artificial materials that are similar enough to plant and animal matter. Heavy metal pollution can arise from many sources but most commonly arises from the purification of metals. The damage they cause increases as more pollutant is emitted, and persists as the pollutant accumulates. Stock pollutants can create a burdon for future generations by passing on damage that persists well after the benefits received from incurring that damage have been forgotten.

Fund pollutants: Fund pollutants are those for which the environment has some absorptive capacity. Fund pollutants do not cause damage to the environment unless the emission rate exceeds the receiving environment's absorptive capacity (eg. carbon dioxide, which is absorbed by plants and oceans). Fund pollutants are not destroyed, but rather converted into less harmful substances, or diluted/ dispersed to non-harmful concentrations.

Notable pollutants: Notable pollutants include the following groups:

Heavy metals: Iron, cobalt, copper, manganese, molybdenum, and zinc are required by humans. Excessive levels can be damaging to the organism. Other heavy metals such as mercury, plutonium, and lead are toxic metals that have no known vital or beneficial effect on organisms, and their accumulation over time in the bodies of animals can cause serious illness. Some of them are dangerous to health or to the environment (e.g. Hg, Cd, As, Pb, Cr), some may cause corrosion (e.g. Zn, Pb), some are harmful in other ways (e.g. Arsenic may pollute catalysts).

Persistent organic pollutants: Persistent organic pollutants (POPs) are organic compounds that are resistant to environmental degradation through chemical, biological, and photolytic processes. Because of this, they have been observed to persist in the environment, to be capable of long-range transport, bioaccumulate in human and animal tissue, biomagnify in food chains, and to have potential significant impacts on human health and the environment.

Polycyclic aromatic hydrocarbons: Polycyclic aromatic hydrocarbons (PAHs) are chemical compounds that consist of fused aromatic rings and do not contain heteroatoms or carry substituents. PAHs occur in oil, coal, and tar deposits, and are produced as byproducts of fuel burning (whether fossil fuel or biomass). As a pollutant, they are of concern because some compounds have been identified as carcinogenic, mutagenic, and teratogenic. PAHs are also found in foods. Studies have shown that most food intake of PAHs comes from cereals, oils and fats. Smaller intakes come from vegetables and cooked meats.

Volatile organic compounds: Volatile organic compounds (VOCs) are organic chemical compounds that have high enough vapor pressures under normal conditions to significantly vaporize and enter the atmosphere. Volatile organic compounds are numerous and varied. VOCs may be natural or synthetic. Like organic chemicals in general, there are millions of different compounds which may be classified as VOCs.

Environmental xenobiotics: Environmental xenobiotic are xenobiotic substances with a biological activity that are found as pollutants in the natural environment. Pharmaceutical drug is a chemical used for the alteration, diagnosis, prevention and treatment of disease, health conditions or structure/ function of the human body.

Principles of Measurement

Emissions can be categorized as:

- Direct emissions (also known as Scope 1 emissions), which are emissions from sources that are owned or controlled by the company.
- Indirect emissions, which are emissions that are a consequence of the activities of the company, but which occur at sources that are owned or controlled by another company/entity. Indirect emissions can be further categorized as:

a) Scope 2 emissions, which are emissions associated with energy, including electricity, heating/ cooling, and steam, that is transferred to and consumed by the other company/entity.

b) Scope 3 emissions, which are all other indirect emissions.

Where some Scope 1 or Scope 2 emissions sources have been excluded, it is important that the explanatory notes disclose the basis for determining which sources are included and which are excluded, particularly if the sources that are included are not likely to be the largest sources for which the company is responsible. Inclusion of Scope 3 emissions is optional because the full extent of indirect emissions for nearly any company would be impossible to quantify. Where some Scope 3 emissions sources have been included, it is important that the basis for selecting which sources to include is reasonable, particularly if those included are not likely to be the largest sources for which the company is responsible. In some cases, the source data used to quantify Scope 3 emissions may be maintained by the company. For example, the company may keep detailed records as the basis for quantifying emissions associated with employee air travel. In some other cases, the source data used to quantify Scope 3 emissions may be maintained in a well-controlled and accessible source outside the company.

Qualitative factors may include:

- The sources of emissions.
- The types of gases & Pollutants involved.
- The uncertainties associated with quantification.

Nearly all quantifications of greenhouse gases & Pollutants emissions involve some degree of uncertainty because it is virtually impossible in any circumstances to precisely count each molecule of greenhouse gases & Pollutants emitted by a company. To the extent the uncertainty relates to existing gaps in available scientific knowledge, it is unavoidable and permeates all quantifications of greenhouse gases & Pollutants emissions. However, all quantifications are made within the context of the applicable criteria, and criteria differ in how they treat estimation or measurement uncertainty. Some criteria stipulate rigid models, methods, emissions factors, etc., that must be applied in all circumstances when calculating emissions from a particular source. For example, the applicable criteria may require Scope 2 emissions from electricity to be calculated by multiplying kilowatt hours recorded on suppliers' invoices by a prescribed emission factor. Quantification in accordance with such criteria effectively eliminates estimation uncertainty for the purpose of reporting in accordance with those criteria.

Disclosures

Disclosure of:

- The categorization of emissions attributable to each material type of emission included in the greenhouse gas & Pollutants statement;
- Which organizations or facilities are included in the company's organizational boundary, and the method used for determining that boundary if the applicable criteria allow a choice between different methods;
- The method used to determine which Scope 1 and Scope 2 emissions have been included in the greenhouse gas & Pollutants statement;
- The nature of Scope 3 emissions, including that it is not practicable for the company to include all Scope 3 emissions in its greenhouse gas & Pollutants statement; The basis for selecting those Scope 3 emissions sources that have been included;❑

OBITUARY

ICWAI deeply regrets the sad demise of Mr. S. P. Sarma, Vice Chairman of Hyderabad Chapter of Cost Accountants on 10th November, 2009. Mr. Sarma was the founder Member of Godavari Chapter of Cost Accountants, Rajahmundry.

Critical Appraisal of Microfinance in India (Special Reference to Uttar Pradesh)

Dr.R.K Maheshwari*

Dr. Ekta Rastogi**

Introduction

The paper deals in the study of 'Critical Appraisal of Micro-finance in India'. Every study aims in arriving at certain conclusions. It includes the study of the Microfinance sector, its history, evolution, theoretical concepts, various models of project report. It provides the essentials of Microfinance sector as a whole.

It includes the study of banking industry in relation to the Microfinance Division. This chapter aims in giving us a clear scenario of the two major private sector banks, HDFC bank Ltd., and ICICI bank Ltd, in relation to their microfinance division. This chapter includes the market research of these two banks. Research is a necessity since "TO LEARN, DO IT" is the most important concept in every research work done till now. The most crucial aspect of this paper is It carries the Research work undertaken to analyze the Consumer's Views on Microfinance, its awareness, availability, need etc. and comparing the two banks.

All efforts and activities were directed and focused to achieve the following purpose: -

- To study the whole Microfinance segment in India.
- To study the theoretical concepts of Microfinance.
- To study the Banks Microfinance division and a comparison.
- To study the consumer's views on microfinance in Uttar Pradesh.

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**Assistant Professor, IILM, Lucknow.

Rationale of the Study

Poverty is striking India at a great speed. It is estimated that the country will have more than 40% of its population in urban by the year 2030. Despite the large number of urban poor, most of them have little or no access to formal financial services, there is relatively little outreach of microfinance in major urban areas today.

One in three of the World's poorest people are Indians. India is a huge country of 1.1 billion people and poverty remains on a staggering scale - over 400 million people in India live below the internationally agreed poverty line (living on less than US $1 per day) and 855 million on less than $2 per day.2 Each year over one million women and children die due to lack of health care. Only 10% of the whole Indian Population does enjoy some level of social protection, while 950 million are still excluded. In India, merely 5.1 million persons are covered under micro-health insurance schemes mainly of employees in the organized sector or their families.

The research aims in answering:

1. What is the microfinance situation in a poor country like India?
2. What is the role of private banks in the Microfinance sector?
3. What is the awareness level of Microfinance within masses?

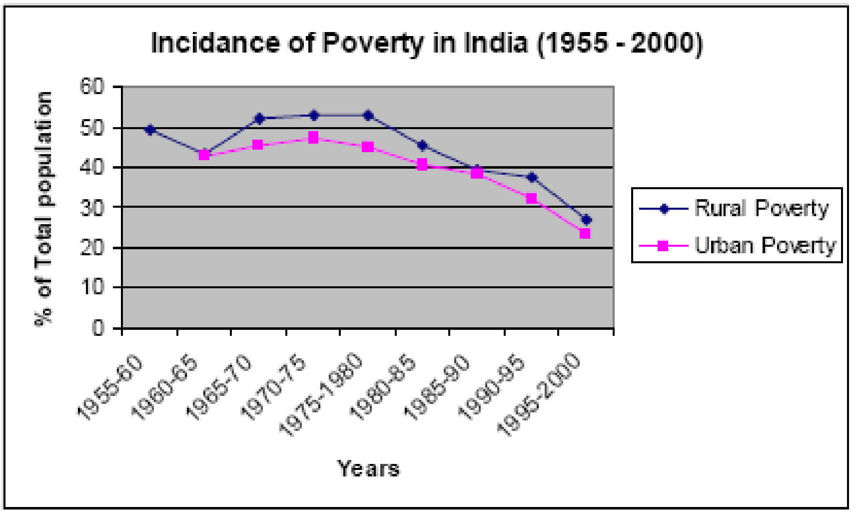
Research Objectives

The first objective of research was to do an in-depth analysis of the Microfinance sector in India. The main objective was to get an in-depth knowledge of the same.

The second objective of research was to do a cross Banking survey in order to get an overall view of the Microfinance structure in relation to the private banking industry. It also tried to find out the awareness level of Microfinance among the masses through a survey.

Research Methodology

Taking into consideration the objective of the project, a draft of how



to go about to accomplish it was decided.

Firstly, it was decided to divide the research into two broad categories, namely:

1. Comparative study of cross banking Microfinance facility comparing HDFC Bank Ltd. And ICICI Bank Ltd.
2. Study of awareness of microfinance among masses.

After dividing the project into two parts, the source of data was decided. The data collected was primary as well as secondary.

A, Cross Banking Microfinance Facility Analysis:

Sampling Design

- Place: For collecting details of Microfinance of the two banks, visit was being made to these banks in Lucknow.
- Sampling Frame: Personal visit
- Sampling Size: 2 private banks in Lucknow, which deal in Microfinance.
- Sample Characteristics: The data was collected from the banks (private) which provide Microfinance facility.
- Method of Data Collection: Sample survey method
- Tool of Data Collection: A structured questionnaire

B) Consumer Survey of Microfinance Facility..

Sampling Design

Place: The places where rural people or urban poor people were being tapped.:

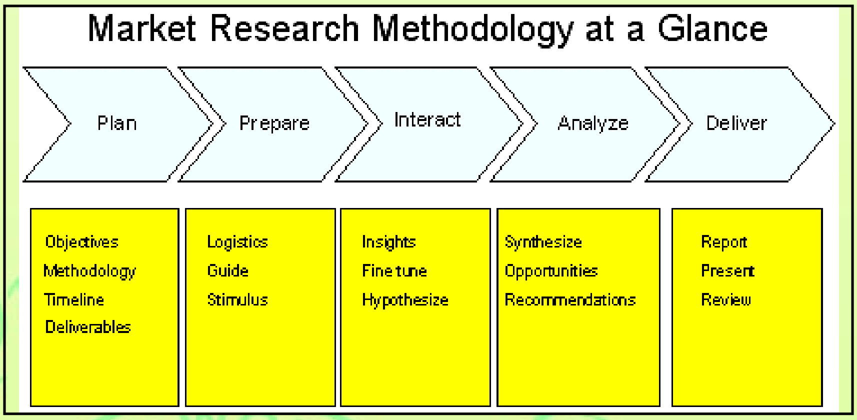
Sampling Frame: Personal visit

Sampling Size: 50 rural people

Sample Characteristics: The data was collected from the poor people living in the capital city of Uttar Pradesh, Lucknow.

Method Of Data Collection: Sample survey method

Tool of Data



COLLECTION: A structured questionnaire

Research Limitations

It was not easy to complete the research work. It took a lot of time to gather the data needed for the research. The following were the limitations faced by me;

- Bank authorities were reluctant to reveal their banks data and information.
- Banks were not providing crisp data needed for the research.
- On asking to meet personally, they handed over the brochures to get the information we needed.
- Full information was not given.
- While making banks visits, no co-operation was there on the parts of the managers.
- It was quite tricky to get the banking arrangement information.
- No one clearly revealed their annual turnover.
- When asked certain facts, they did not remember them.
- The poor people were unable to understand the questions properly.
- They gave vague answers.

Theoretical Presentation of the Topic

Microfinance services are financial services that poor people desire and are willing to pay for. The term also refers to the practice of sustainably delivering those services. More broadly, it refers to a movement that envisions "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers."

Traditionally banks and Lending Institutions do not lend money to low-income

Individuals .The reasons being:

- Lack of Information about Individuals.
- Collateral.
- High Transaction cost of processing Microfinance provides a solution for the above problem.

Microfinance

Definition: The means by which poor people convert small sums of Money into large lump sums (Rutherford 1999)

The goals are

- Eradicate Extreme Poverty & Hunger.
- Achieve Universal Education.
- Promote Gender Equality & Women's Empowerment.
- Reduce Child Mortality
- Combat Diseases
- Developing Entrepreneurial Spirit.

Boundaries of microfinance

Theoretically microfinance encompasses any financial service used by poor people, including those they access in the informal economy, such as loans from a village moneylender. In practice however, the term is usually only used to refer to institutions and enterprises whose goals include both profitability and reducing the poverty of their clients. Microfinance services are needed everywhere, including the developed world. However, in developed economies intense competition within the financial sector, combined with a diverse mix of different types of financial institutions with different missions, ensures that most people have access to some financial services. Efforts to transfer microfinance innovations such as solidarity lending from developing countries to developed ones have met with little success. Microfinance can also be distinguished from charity. It is better to provide grants to families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan. This situation can occur for example, in war zone or after a natural disaster.

Key principles of microfinance

Key principles of microfinance were developed in 2004 by Consultative Group to Assist the Poor (CGAP) and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004. Among the key principles, summarizing a century and a half of development practice, are the following:

- Poor people need a variety of financial services, not just loans.
- Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.
- Microfinance is about building permanent local financial institutions.
- The job of government is to enable financial services, not to provide them.
- The key bottleneck is the shortage of strong institutions and managers.

More generally, the Principles assert that "Microfinance means building financial systems that serve the poor." Financial systems include strong financial institutions but also much more: more competitive financial markets, better government regulatory services and better complementary services.

Financial needs and financial services.

In developing economies and particularly in the rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. Almost by definition, poor people have very little money. But circumstances often arise in their lives in which they need money or the things money can buy.

In Stuart Rutherford's recent book The Poor and Their Money, he cites several types of needs:

- Lifecycle Needs: such as weddings, funerals, childbirth, education, home-building, widowhood, and old age.
- Personal Emergencies: such as sickness, injury, unemployment, theft, harassment or death.
- Disasters: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.
- Investment Opportunities: expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

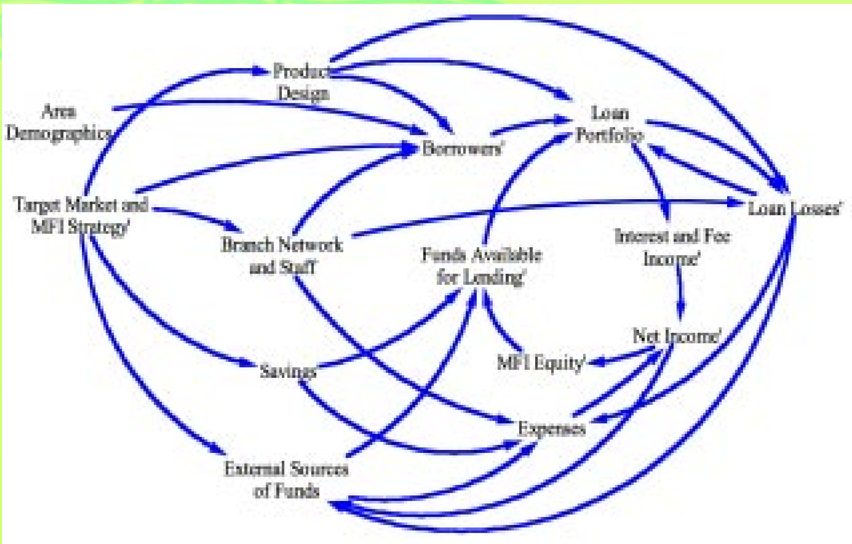
Poor people find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewellery and precious metals.

Microfinance in India

An understanding of India's poverty, economy, and growth helps in making informed statements about the commercialization of microfinance. This sets the stage for defining microfinance and analyzing the costs and benefits of a more commercial model of micro-finance delivery. A more in-depth look at the country's financial sector and its regulation provides the context within which microfinance has evolved and outlines its constraints.

INDIA: It's Economy

Home to 1.1 billion people as of 2004, India constitutes approximately one sixth of the world's total population. It is the world's largest democracy and a key emerging market alongside China and Brazil. India is the world's tenth largest economy with a gross domestic



product in 2007 of US$1 trillion as reported by the World Bank. This picture presented shows an environment where wealth is increasing for the nation but it is not accruing to all citizens. Microfinance is one development approach that can contribute to achieving the national and international goal of improving the livelihoods of those Indians that are not yet seeing the benefits of growth.

Poverty

India has over a quarter of its population below the poverty line. The World Bank reports that India is still home to some 260 to 290 million poor, numbers that rise to 390 million if poverty is measured by the international standard of those living on less than US$1 dollar a day. Almost half of India's poor, approximately 133 million, are concentrated in three states: Uttar Pradesh, Bihar, and Madhya Pradesh. Rural areas in India are home to three quarters of India's poor which is strengthened by the increasing urban/ rural disparities. There are substantial disparities within the country as the gulf between the rich and poor widens. The Indian government's poverty reduction strategy focuses on infrastructure, social development (especially education and health), and rural livelihoods.

Microfinance Defined in INDIAN context:

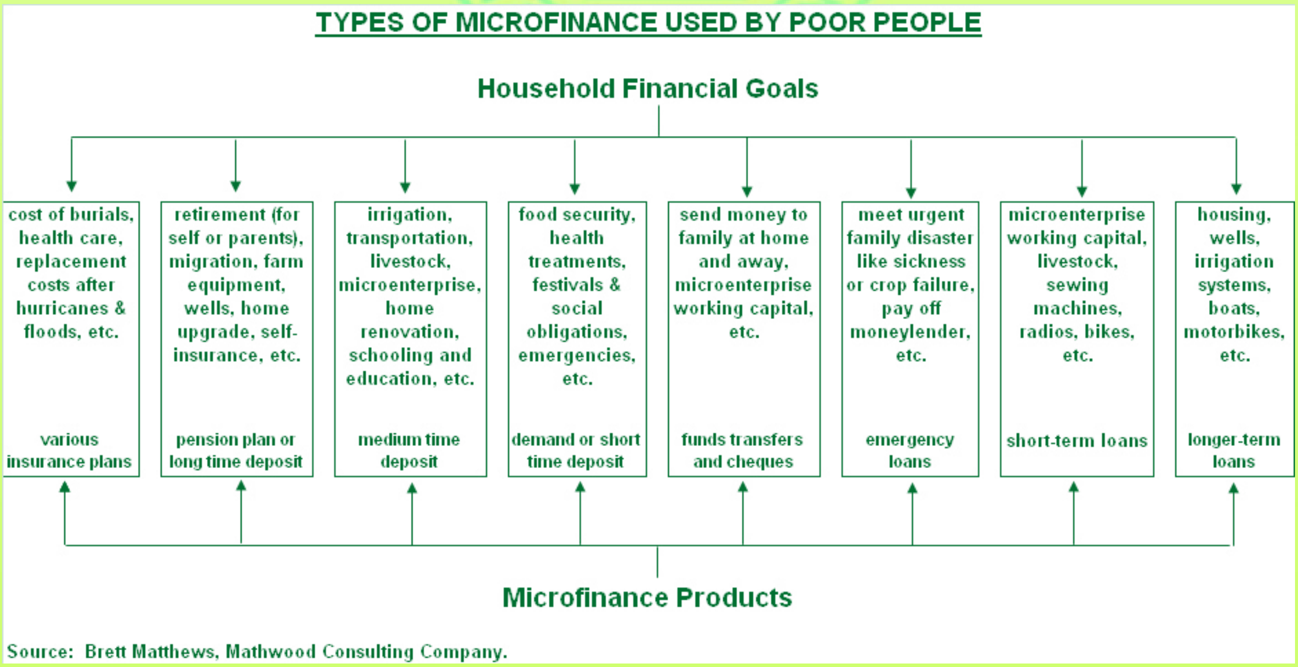
Microfinance can be defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and Insurance and savings for risk mitigation and consumption smoothing.

A large variety of actors provide microfinance in India, using a range of Microfinance delivery methods. Since the founding of the Grameen Bank in Bangladesh, various actors have endeavored to provide access to financial services to the poor in creative ways. Governments have piloted national programs, NGOs have undertaken the activity of raising donor funds for on-lending, and some banks have partnered with public organizations or made small inroads themselves in providing such services. This has resulted in a rather broad definition of microfinance as any activity that targets poor and low-income individuals for the provision of financial services. The range of activities undertaken in microfinance include group lending, individual lending, the provision of savings and insurance, capacity building, and agricultural business development services. Whatever the form of activity however, the overarching goal that unifies all actors in the provision of microfinance is the creation of social value. Microfinance is therefore defined as much by form as by intent of the lender or financial service provider.

The Evolution and Regulation of Microfinance in India:

A complete understanding of the evolution and nature of a country's financial System, regulation, and

Financial needs of poor people



government attitude toward the sector is integral to understanding the nature of microfinance in any particular country. Such knowledge allows one to understand what forces shape its growth and what factors constrain it. The World Bank has called South Asia the "cradle of microfinance." Statistics indicate that some 45% of all the people in the world who use microfinance services are living in South Asia. However, the overall percentage of the poor and vulnerable people with access to financial services remains small, amounting to less than 20 % of poor households in India. The World Bank estimates that more than 87% of India's poor cannot access credit from a formal source and therefore they are not borrowing at all or have to depend on money-lenders who charge them interest rates ranging from 48% to 120% per annum and sometimes much higher. This demonstrates that there are potential clients for microfinance in India, depending on the level of demand for financial services, from those poor without access to it. The provision of such services, if done correctly, could have a significant impact on the poor. This fact alone is very compelling and is reason enough to occupy oneself with the careful questioning of how microfinance can be\ provided to as many of the poor with a demand for it as possible.

Year of Micro-credit Conference: Microfinance can be the biggest instrument in the fight against poverty, says Bank Vice President. The World Bank Group, Dec. 5 2005 (Accessed 02/16/2006.

India still ranks among the poorest countries in the World. Historically, credit to the poor in India was viewed as a government program that required large amounts of subsidy. This has changed somewhat in that the trend has been a move towards more commercial forms of financing. This trend has been the product of a long evolution of the financial sector, which can be characterized by Three major events.

The first of these pivotal events was Indira Gandhi's bank nationalization drive launched in 1969 which required commercial banks to open rural branches resulting in a 15.2% increase in rural bank branches in India between 1973 and 1985. Today, India has over 32,000 rural branches of commercial banks and regional rural banks, 14,000 cooperative bank branches, 98,000 primary agricultural credit societies (PACs), and 154,000 postal outlets that are required to focus on deposit mobilization and money transfers. India's deep financial system is attributable to its vast network of financial

The second national policy that has had a significant impact on the evolution of India's banking and financial system is the Integrated Rural Development Program (IRDP) introduced in 1978 and designed to be 'a direct instrument for attacking India's rural poverty.' This program is interesting to this study because it was a large program whose main thrust was to alleviate poverty through the provision of loans and it was considered a failure. It therefore provides a comparison of what has failed in the past and how this affects the provision of microfinance through private means today. The IRDP was reputed as one of the largest poverty alleviation programs in the world with the number of loans advanced since its inception having reached approximately 45 million.

The last major event which impacted the financial and banking system in India was the liberalization of India's financial system in the 1990s characterized by a series of structural adjustments and financial policy reforms initiated by the Reserve Bank of India (RBI). The result was a partial deregulation of interest rates, increased competition in the banking sector, and new microfinance approaches of which the most notable was a movement to link informal local groups called self-help groups (or SHGs) created by NGOs to commercial banks like the National Bank for Agriculture and Rural Development (NABARD). These financial policy reforms in the 1990s were very significant to microfinance because they involved scrapping the interest rate controls for credit to the poor and other types of credit. These financial liberalization measures then made it possible for NABARD to transform what was then a small research project into a full blown microfinance program for the whole country.

This program was better known as the 'SHG Bank Linkage' model which has come to be one of the most well known and widespread microfinance models in India. Since many consider the SHG Bank Linkage model of microfinance to be one of the major successes of microfinance delivery in the country it will provide the most important direct contrast to the delivery of microfinance services by individual MFIs.

The Indian Microfinance Experience - Accomplishments and Challenges

Home to the largest population of poor in the world, India has been a natural candidate for experimenting with microfinance as a tool for poverty alleviation. With a nationalized formal banking sector that has emphasized rural and developmental banking for several decades now, India's involvement with small credit targeted primarily at the rural poor is hardly new. However, recent years have generated unprecedented interest in microcredit and microfinance in the form of group-lending without collateral; thanks in part to the remarkable success of institutions like the Grameen Bank in neighboring Bangladesh and BRI, BancoSol and others in more distant lands. The performance of organizations like SEWA in Western India and SHARE and BASIX in Southern India have convinced many a skeptic that microfinance can indeed make a difference in India as well. Over the past decade, NABARD's "SHG-Bank Linkage Program" aimed at connecting self-help groups of poor people with banks, has, in fact, created the largest microfinance network in the world. The self-help group approach has won enthusiastic supporters among influential policymakers like the Andhra Pradesh CM, Chandrababu Naidu. Even the central government has recognized the advantages of group lending and has adopted the approach in its battle against poverty.

Microcredit, in the sense of small loans to the poor, is of ancient origins in India. Traders and moneylenders have traditionally provided credit to the rural poor, usually at exorbitant rates of interest leading to considerable hardship and impoverishment of borrowers, including undesirable and illegal practices like bonded labor. What we refer to as microfinance today does not include such exploitative practices, but rather lending to the poor at reasonable but sustainable rates.

Within India the microfinance movements in Western and Southern India have received most attention, both in the media as well as in academic research . The poster boys among the Indian microfinance NGOs - SHARE, BASIX, SEWA, MYRADA and PRADAN, for instance - have deservingly received attention from academicians, media-persons as well as the government. Andhra Pradesh, in particular, has witnessed a remarkable growth in microfinance activities and its success stories have been widely reported as well.

India is perhaps the largest emerging market for microfinance. Over the past decade, the microfinance sector has been growing in India at a fairly steady pace. The self-help group (SHG)-bank linkage programme of the National Bank for Agriculture and Rural Development (NABARD) accelerated the growth of the microfinance movement in India in the latter half of the Nineties. Now the SHG-bank linkage programme is one of the largest microfinance programmes in the world with 16 lakh SHGs covering nearly 242 lakh poor families till March 31, 2005. Apart from this, there are almost 800 microfinance institutions delivering microfinance services to over 1.5 million across India.

In India, MFIs are predominantly NGOs in the legal form of Society / Trust (80%) and remaining 10% are in company structure either Section 25 companies or NBFC or Cooperatives. 65% of MFIs follow SHG model of Microfinance, 20 % Grameen bank methodology and remaining 10 % operates on Individual lending methodology.

In India, microfinance has enabled the poor to have a greater access to financial services, particularly credit. It has achieved several social development objectives like gender sensitization, empowerment and poverty alleviation by diversifying their livelihoods and especially contributed largely towards raising their incomes. It has also allowed the poor to accumulate assets and has contributed towards their security. Further, microfinance has also had a very significant social impact. In areas with sound microfinance programmes, the quality of life of the poor has improved significantly.

In recent tines many banks and financial institution are viewing this as a profitable business and aggressively lending to these institutions. Many venture capitalists are also started operating and exploring possibilities of investing in to equity of MFIs. This encouraged many MFIs to convert themselves to suitable legal form (NBFC).

More than subsidies poor need access to credit. Absence of formal employment make them non `bankable'. This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage.

Micro-finance and Poverty Alleviation

Most poor people manage to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself.

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition bankers tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation.

Over the last ten years, however, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

To the extent that microfinance institutions become financially viable, self sustaining, and integral to the communities in which they operate, they have the potential to attract more resources and expand services to clients. Despite the success of microfinance institutions, only about 2% of world's roughly 500 million small entrepreneurs are estimated to have access to financial services .Although there is demand for credit by poor and women at market interest rates, the volume of financial transaction of microfinance institution must reach a certain level before their financial operation becomes self sustaining. In other words, although microfinance offers a promising institutional structure to provide access to credit to the poor, the scale problem needs to be resolved so that it can reach the vast majority of potential customers who demand access to credit at market rates. The question then is how micro enterprise lending geared to providing short term capital to small businesses in the informal sector can be sustained as an integral part of the financial sector and how their financial services can be further expanded using the principles, standards and modalities that have proven to be effective.

To be successful, financial intermediaries that provide services and generate domestic resources must have the capacity to meet high performance standards. They must achieve excellent repayments and provide access to clients. And they must build toward operating and financial self-sufficiency and expanding client reach. In order to do so, microfinance institutions need to find ways to cut down on their administrative costs and also to broaden their resource base. Cost reductions can be achieved through simplified and decentralized loan application, approval and collection processes, for instance, through group loans which give borrowers responsibilities for much of the loan application process, allow the loan officers to handle many more clients and hence reduce costs.

Microfinance institutions can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. A logical way to tap capital market is securitization through a corporation that purchases loans made by micro enterprise institutions with the funds raised through the bonds issuance on the capital market. Savings facilities make large scale lending operations possible. On the other hand, studies also show that the poor operating in the informal sector do save, although not in financial assets, and hence value access to client-friendly savings service at least as much access to credit. Savings mobilization also makes financial institutions accountable to local shareholders. Therefore, adequate savings facilities both serve the demand for financial services by the customers and fulfill an important requirement of financial sustainability to the lenders. Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide savings facilities to tap small savings in a flexible manner

Convenience of location, positive real rate of return, liquidity, and security of savings are essential ingredients of successful savings mobilization.

Once microfinance institutions are engaged in deposit taking in order to mobilize household savings, they become financial intermediaries. Consequently, prudential financial regulations become necessary to ensure the solvency and financial soundness of the institution and to protect the depositors. However, excessive regulations that do not consider the nature of microfinance institution and their operation can hamper their viability. In view of small loan size, microfinance institutions should be subjected to a minimum capital requirement which is lower than that applicable to commercial banks. On the other hand, a more stringent capital adequacy rate (the ratio between capital and risk assets) should be maintained because microfinance institutions provide uncollateralized loans.

Governments should provide an enabling legal and regulatory framework which encourages the development of a range of institutions and allows them to operate as recognized financial intermediaries subject to simple supervisory and reporting requirements

In this context, following strategic, institutional and connectivity issues related to micro-finance arise.

Strategic Issues

- Is there a prevailing paradigm for micro-finance?
- Are there clearly visible pattern across the country?
- Is there a clearly defined foundation building blocks such as organizing principles, gender preferences and

operational imperatives?

- What are methodological issues?

Institutional Issues

- Is there a need for a new institution?
- Should it operate all India or in a state?
- Where should it be located?
- Who can lead an institution of this sort?
- What will its contextual interconnections be?
- Who will be its beneficiaries?

Connectivity Issues

- How should the Corporate Financial Sector be involved?
- What is the role of donor agencies?
- How should communities be involved?
- Are there political issues that should be explicitly considered?

Cross Banking Study of Microfinance: ICICI Bank Ltd. & Hdfc Bank

Indian banking system, which is among the largest banking networks in the world, did not reach most of the rural poor in India. About 70% of the Indian population from rural areas accounted for only 30% of bank deposits. The banks did not meet the credit requirements of the poor and they were forced to fall back on moneylenders for credit. Though the banks were nationalized, they perceived rural credit to be a high risk and high cost proposition. The central bank in India, RBI, on its part, tried to cater to the needs of the rural poor by establishing regional rural banks and cooperative banks, but did not meet with success. In the early 1990s, to provide credit and savings services to the poor, microfinance was envisaged.

These efforts led to formation of Self Help Groups (SHGs), where poor from homogenous background formed into groups of around 20 each and pooled money that was lent to the needy in the group. By the mid 1990s, several mainstream banks began providing credit and savings facilities to SHGs that built credible financial discipline. The program was called SHG - Bank linkage program. There were for profit MFIs, mutual benefit MFIs and not for profit MFIs that participated actively in spreading microfinance initiatives across India. By 2004, there were around 1,000 MFIs in the country. Realizing underlying potential of microfinance, several commercial banks entered into partnership with MFIs. Both banks and MFIs stood to benefit from this association as banks could reach the interior part of the country and MFIs could access more funds.

The report discusses some of the leading microfinance providers in India: National Bank for Agriculture & Rural Development, Small Industries Development Bank of India, Rashtriya Mahila Kosh, and Friends of Women's.

With the huge potential and low NPAs, several private and foreign banks, unveiled their plans to enter the Indian microfinance sector. The government and the RBI announced several measures to boost microfinance activities in the country. RBI allowed the NGOs involved in microfinance activities to raise External Commercial Borrowings upto US$ 5 million a year.

Still there are several poor, who were not under the purview of microfinance, the number of SHGs and microfinance programs did not have any major impact on poverty alleviation in the country. Only in some of the well-developed states in the country, SHGs and microfinance gained popularity. Lot of groundwork was required to spread microfinance activities in North and North East regions of the country.

The formal banking sector has played an important role in microfinance in India. Much of the microfinance initiative in India has involved Self-Help Groups (SHGs), predominantly of poor women. NABARD's Bank Linkage Program, pilot-tested in 1991-92 and launched in full vigor in 1996, has been a major effort to connect thousands of such SHGs across the country with the formal banking system. By late 2002, it connected about half a million SHGs to the banking system with total loan disbursement of about Rs. 1026 crores. Efforts of other organizations supplement that of NABARD. By March 2001, SIDBI, for instance, had disbursed over Rs 30 crore to SHGs through 142 MFI-NGOs.

The emphasis on linking the self-help groups of rural poor to the formal banking system was made in the mid-80s in the Asia and Pacific Regional Agricultural Credit Association and the SHG-Bank Linkage emerged as a result of that. RBI included the program in its "priority sector lending" and in 1999, the Government of India recognized in its Budget.

The Indian state put stress on providing financial services to the poor and underprivileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan able funds, at a concessional rate, to the priority sector. The priority sector included agriculture and other rural activities and the weaker strata of society in general. The aim was to provide resources to help the poor to attain self sufficiency. They had neither resources nor employment opportunities to be financially independent, let alone meet the minimal consumption needs. To supplement these efforts, the credit scheme Integrated Rural Development Programme (IRDP) was launched in 1980. But these supply side programs (ignoring the demand side of the economy) aided by corruption and leakages, achieved little. Further, 'The share of the formal financial sector in total rural credit was 56.6%, compared to informal finance at 39.6% and unspecified sources at 3.8%. [RBI 1992]. Not only had formal credit flow been less but also uneven. The collateral and paperwork based system shied away from the poor. The vacuum continued to be filled by the village moneylender who charged interest rates of 2 to 30% per month. 70% of landless/marginal farmers did not have a bank account and 87% had no access to credit from a formal source.

It was in this cheerless background that the Microfinance Revolution occurred Worldwide. In India it began in the 1980s with the formation of pockets of informal Self Help Groups (SHG) engaging in micro activities financed by Microfinance. But India's first Microfinance Institution 'Shri Mahila SEWA Sahkari Bank was set up as an urban co-operative bank, by the Self Employed Women's Association (SEWA).

MFIs, Self Help Groups, Income Generation and Women Empowerment

Under the microfinance programme, loans are extended to the 'Self Help Groups (SHG)' who pool a part of their income into a common fund from which they can borrow. The members of the group decide on the minimum amount of deposit which ranges from Rs 20 to Rs 100 per month depending upon the size of the group. The group funds are deposited with a Micro Finance Institution (MFI) against which they usually lend (The deposits are usually placed with a bank by the MFI) at a credit deposit ratio of 4:1 but the ratio improves with account performance record i.e. prompt repayment of loans. The group funds is the way 'micro savings' are enforced ,though it may seem like a collateral .The loan ticket sizes are usually Rs 2000/- to Rs 15,000.

The MFIs stress on asset creation by the SHGs and extend loans for production and provides training for the same. If any member needs credit beyond the stipulated limits they are allowed to draw from group funds and the amount is settled in the periodic (monthly) group meetings. SHGs consisting of poor members with identical socioeconomic backgrounds are usually more sensitive to the credit needs of the poor. Though loan repayment is a joint liability of the group but, in reality, individual liability is stressed upon. Maintaining group reputation leads to the application of tremendous peer pressure.

In India and other Asian countries the majority of SHGs consist of women because, in these countries, Self Employment through Microfinance was perceived as a powerful tool for emancipation of women. It has been observed that gender equality is a necessary condition for economic development. The World Bank reports that societies that discriminate on the basis of gender are in greater poverty, have slower economic growth, weaker governance, and lower living standards.

Indicators of empowerment through microfinance

- Ability to save and access loans
- Opportunity to undertake an economic activity
- Mobility-Opportunity to visit nearby towns
- Awareness- local issues, MFI procedures, banking transactions
- Skills for income generation
- Decision making within the household
- Group mobilization in support of individual clients- action on social issues
- Role in community development activities

In spite of such an impressive coverage, the formal banking sector has had a limited impact on microfinance or lending to the poor. The RRBs were set up in the mid-70's with a clear mandate for lending to the poor as it was felt that the cooperative banks were being dominated by the rural wealthy an that the commercial banks had an urban bias. For the first two decades of their existence, political pressure and focus on outreach at the expense of prudent lending practices led to very high default rates with accumulated losses exceeding Rs. 3,000 crores in 1999. The reforms in the mid-90's, following the recommendations of the Narsimhan Committee Report, removed some of the constraints on the functioning of RRBs, easing their interest ceiling and allowing them to invest in the money market. The financial situation of the RRBs has improved since then with declining losses and over 80% of the RRBs are now profitable. However, much of this turnaround has resulted from a shift to investment in government bonds (that have gained with falling interest rates) and loans to the non-poor in rural areas.

The focus on financial sustainability has cost outreach dearly. Recent years have witnessed - perhaps predictably - a sharp decline in the share of rural and small loans in the portfolio of the banks. The locational distribution of bank branches has also undergone a considerable shift away from the rural areas .

Microfinance in HDFC Bank Ltd:

HDFC Bank Ltd. Is one of the most serious lenders in the sphere of Microfinance. It forayed into this sector since the year 2003-2004. Its business in microfinance has grown more than 4 to 5 folds in the last 3 to 4 years. Its business is in proportion of 75:25. It implies 75% through MFI's and 25% through BC's and SP's. It is consistently partnering with all the MFI's and Business Correspondents.

HDFC Bank Ltd. has its Microfinance division in the corporate banking. Its been headed by Mr. N.S kishore Kumar, country head, Microfinance.

It has two models of lending:

1. Wholesale lending, in which it provides term loans, working capital to MFI's, who are its target clients. It has also started supporting the

upcoming MFI's, provided they fulfill the entry criterions, like promoters baground. Share capital etc.

2. Direct lending, started in September 2006, is lending to self help groups through business correspondents and service providers. It works according to RBI circular on BC model, May 2006.

Efforts taken by HDFC bank to enter the rural market:

- Bank was not very keen on rural market in 2002.But it started rural lending since 2004.
- It identified good locations where it can enter,
- Got the license to open rural branches
- Wherever the bank cannot go, it found good NGO's and Co-operative societies on its behalf.
- In 2006, it started direct lending through appointing service providers. (BC's act on behalf of bank, where bank cannot reach.)
- Keeping this in mind, HDFC Bank Ltd. Started its SHG bank linkage program in September 2006.

At present HDFC bank ltd. Is working with more than 200 BC's in different parts of the country and more than 75% BC's are based in south India, Tamil Nadu, Andhra Pradesh and Orissa (east).

Challenges of Financial Inclusion

- Illiteracy
- Remote Locations
- Cost of servicing small sized transactions
- Telecommunication
- Reach of Technology

Micro Finance & Self Help Groups

- Reach remote unbanked areas/non branch locations through SHG Lending Programme
- SHG Clients being serviced with Loan & Savings Products
- Door step banking (disbursement of loans and collection of installments) to all the SHGs using Service Providers (SP) as our Business Correspondents.

Major Sectors:

With special reference to Uttar Pradesh, HDFC bank ltd targets places like Varanasi, Allahabad, Mirzapur, Moradabad, and Lucknow.

Purpose Of Loan:

It provides loan for any income generation activity specially. However it also grants loans for agriculture and allied activities , and small loans as well.

Repayment Mode:

In retail lending, its on a monthly basis, and in wholesale lending, its on a quarterly basis.

Mode of Disbursement:

It is done either through NGO or MFI. Mostly group approach is there, no individual approach.

Demographics Of Clent:

People below poverty line are targeted, age ranging between 30 to 45 years, and mostly women are being focused.

Competitors:

Wholesale lending: ABN AMRO, ICICI Bank, FWWB.etc

Retail lending: major public sector banks.

Credit Mechanisms Adopted by HDFC (India) for Funding the Low Income Group Beneficiaries

HDFC has been making continuous and sustained efforts to reach the lower income groups of society, especially the economically weaker sections, thus enabling them to realise their dreams of possessing a house of their own. HDFCs' response to the need for better housing and living environment for the poor, both, in the urban and rural sectors materialized in its collaboration with Kreditanstalt fur Wiederaufbau (KfW), a German Development bank. KfW sanctioned DM 55 million to HDFC for low cost housing projects in India. HDFCs' approach to low-income lending has been extremely professional and developmental in nature. Negating the concept of dependence, HDFCs' low cost housing schemes are marked by the emphasis on peoples participation and usage of self-help approach wherein the beneficiaries contribute both in terms of cash and labour for construction of their houses. HDFC also ensures that the newly constructed houses are within the affordability of the beneficiaries, and thus promotes the usage of innovative low cost technologies and locally available materials for construction of the houses.

For the purpose of actual implementation of the low cost housing projects, HDFC collaborates with organizations, both, Governmental and Non-Governmental. Such organizations act as co-ordination agencies for the projects involving a collective of individuals belonging to the Economically Weaker Sections. The projects could be either in urban or rural areas. The security for the loan is generally the mortgage of the property being financed. The construction work is regularly monitored by the co-coordinating agencies and HDFC. The loans from HDFC are disbursed depending upon the stages of construction. To date, HDFC has experienced 100% recovery for the loans disbursed to various projects.

Microfinance in ICICI Bank Ltd:

Banking at the Bottom of the Pyramid

ICICI Bank: An overview

ICICI Bank is one bank that has developed a very clear strategy to expand the provision of financial products and services to the poor in India as a profitable activity.

- Haruhiko Kuroda, President, Asian Development Bank.

- India's 2nd largest bank; assets of US$ 62 bn
- Rated higher than sovereign by Moody's
- Over 12 million retail customers (+3 million)
- Technology leader among Indian banks
- Present across the spectrum of financial services
- Use of Technology and Multiple Channels
- Establishing international footprint

ICICI Bank, India's second largest banking institution, has discovered a large under-served market of potential customers-the 700 million mostly poor inhabitants of rural India. Furthermore, ICICI considers business strategies for accessing this market as critical to the future of the company. The bank also sees its efforts to develop viable commercial models and distribution systems as having an important social mission-that of enabling the poorest of the poor to become active and informed participants in socio-economic processes. In a relatively short period, the company has established a significant presence in rural India as a direct provider of financial services, helping to organize village self-help groups to whose members ICICI provides micro-loans. To extend its reach, the company has also established indirect distribution channels, becoming a lender to, and sometimes an investor in, some of the largest microfinance organizations in India and partnering with several ventures to offer financial services over their rapidly-growing networks of Internet kiosks.

By developing profitable approaches to serving poor rural communities, ICICI is expanding its potential market and developing what it sees as its engine of growth for the future. But to do it successfully, it is also catalyzing self-help groups that create powerful social advantages and partnering with both microfinance institutions and business enterprises that are providing financial and other services to rural communities. By combining an explicit social commitment, a focus on innovation, and an insistence on profitable business practices, ICICI is well positioned for a leadership role in India's financial market.

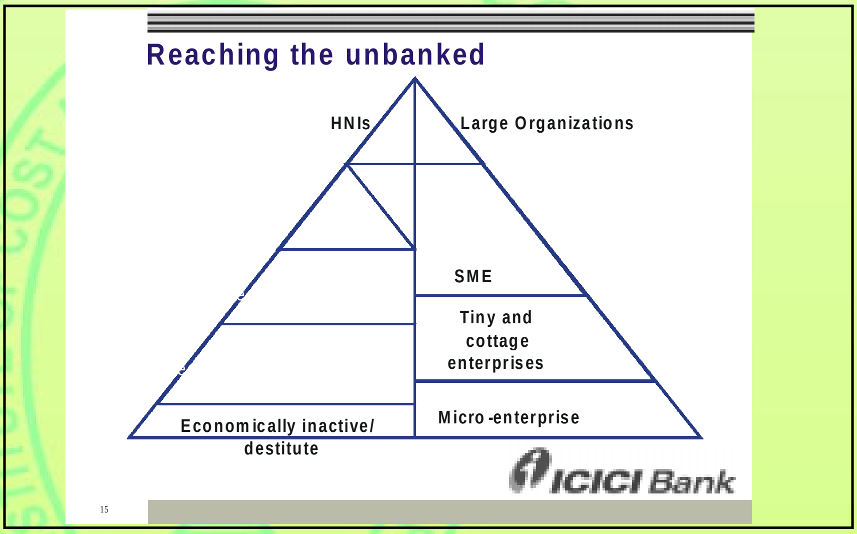
Major Sectors:

In Uttar Pradesh, it mainly targets areas like Varanasi, Allahabad, and Agra.

Purpose Of Loan:

It provides loan for any income generation activity specially. However it also grants loans for agriculture and allied activities, and small loans as well.

DIFFERENT ASPECTS OF ICICI Bank's MICROFINANCE:

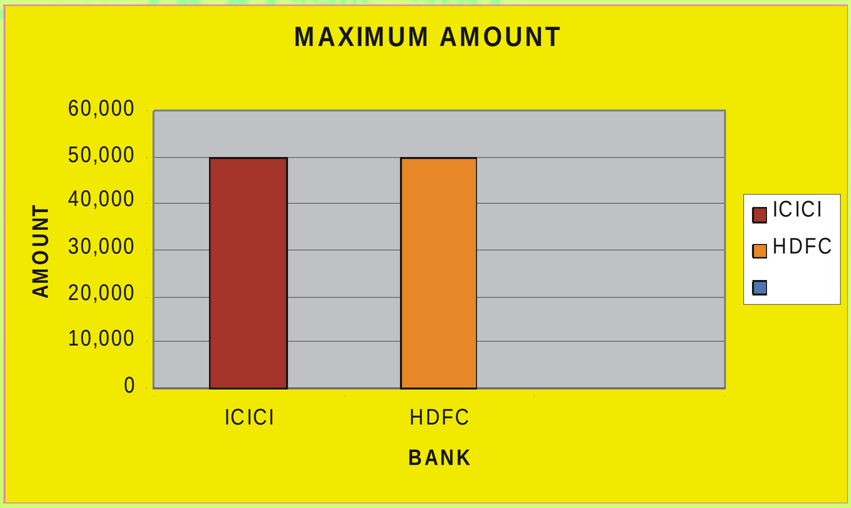


COMPARISON BETWEEN BANKS & CONSUMER AWARENESS OF MICROFINANCE

GRAPHICAL REPRESENTATION OF MARKET RESEARCH

BANKS SURVEY ANALYSIS:

1. MAXIMUM AMOUNT



Repayment Mode:

It depends upon MFI, example Cashppor and Sonata, its weekly, for term loan, its monthly.

Mode of Disbursement:

No direct lending exists. It is done either through NGO or MFI. Mostly group approach is there, no individual approach.

Demographics of Clent:

People below poverty line are targeted, age ranging between 30 to 45 years, and should be less than 60 years of age, and mostly women are being focused. Rest specifications depend upon MFI.

Competitors:

No Competition, it has its own share, and everyone can increase theirs.

Analysis:

The figure clearly depicts that as far as maximum amount of disbursement is concerned, both the banks are having the same figure, i.e. Rs. 50,000 per member.

They disburse not more than 50,000 to a single client.

2. Minimum Amount

Analysis:

As regards the minimum amount, ICICI bank can give a very low amount; it ranges from 0 to 100. But HDFC bank has fixed a nominal amount, Rs 500 as its minimum amount.

3. Penalty

Analysis:

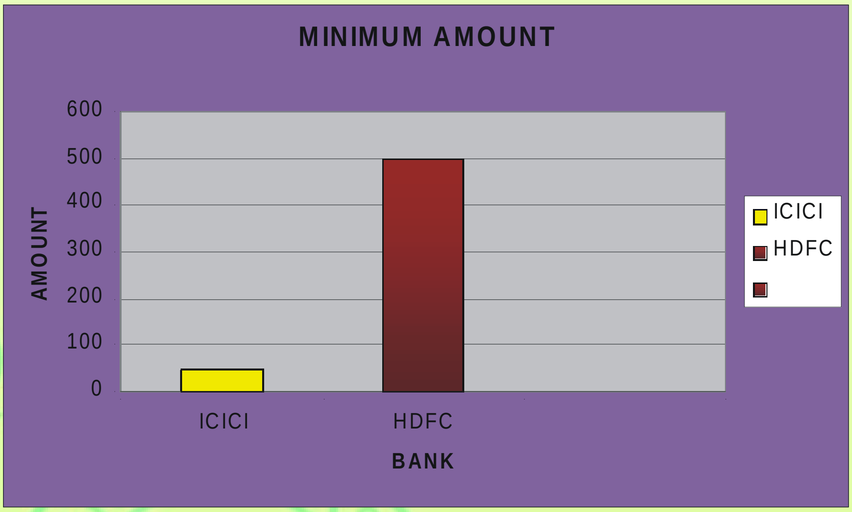
ICICI bank charges a penalty of 8% above its CURRENT BPLR,

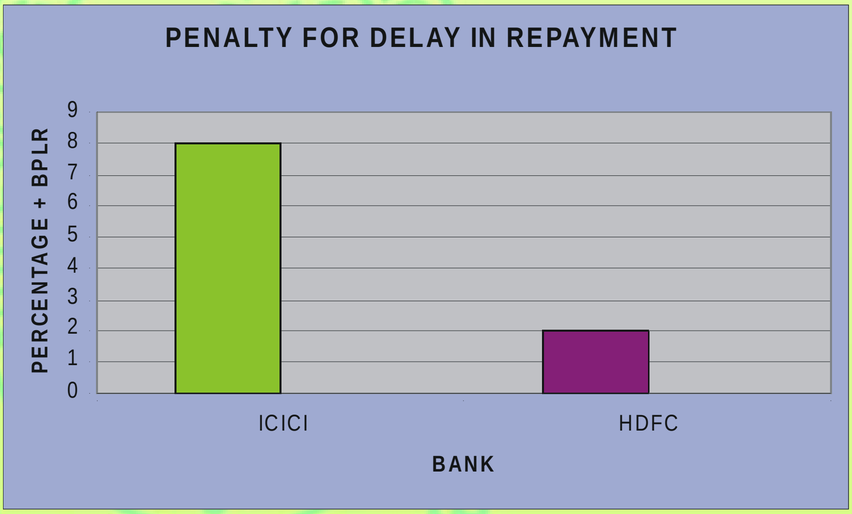
Which is quite high, whereas, HDFC bank charges only 2% above its BPLR, as a penalty for delay in repayment.

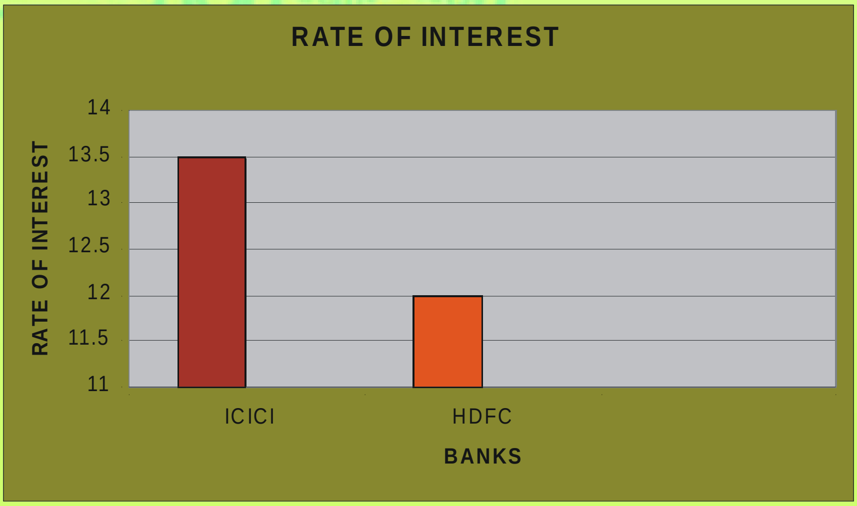
4. Rate of Interest

Analysis :

If we look into the graph, ICICI bank charges a high rate when compared to HDFC bank in micro credit area,







It charges 13.5%, whereas HDFC bank charges 12% only.

Consumer Survey Analysis:

1. Awareness:

Analysis :

Out of 50 people surveyed, 74% people were aware of the microfinance facility, they knew a brief about this aspect of financing, but were not very clear about it.

Only 26% people were ignorant about this facility.

Thus, we see that awareness level is quite high.

2. Need Level:

Analysis:

The need of funds was very high among the masses. People wanted funds for various reasons. Only 4% people said that they don't need funds, rest all were in need.

3. Preffered Bank:

Analysis:

People who were aware of microfinance, when asked that whether they would like to tie up with ICICI or HDFC bank, most people preferred ICICI bank. However, 48% voted for HDFC bank as well.

4. Purpose:

Analysis:

Those who had need of microfinance facility, needed funds mostly for unproductive purposes. Only 30% needed funds for some productive, income generating activities.

5. Repayment Mode:

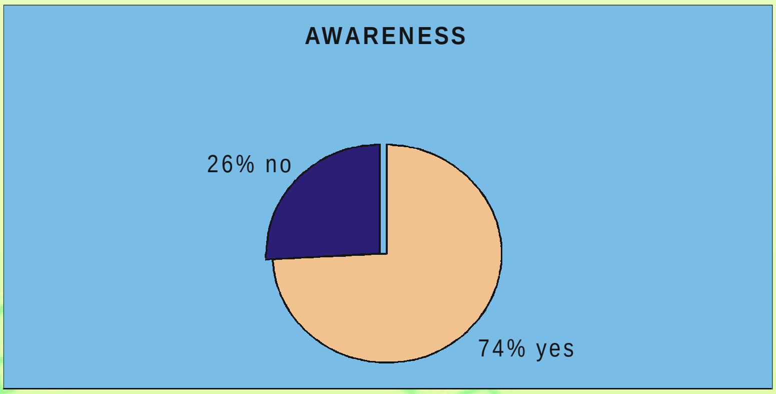
Analysis:

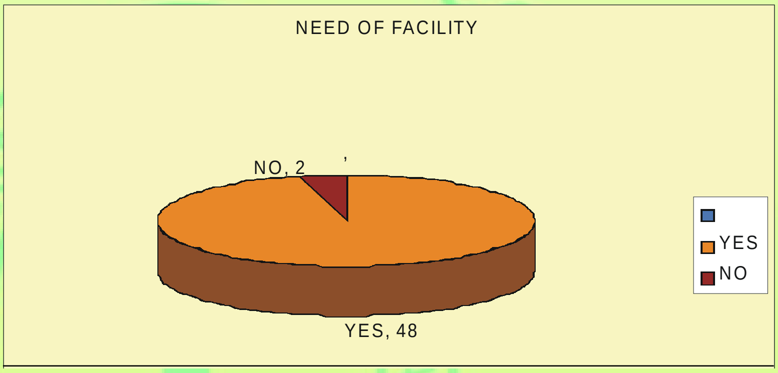
People who wished to take this facility, preferred quarterly payment over weekly or monthly payments.

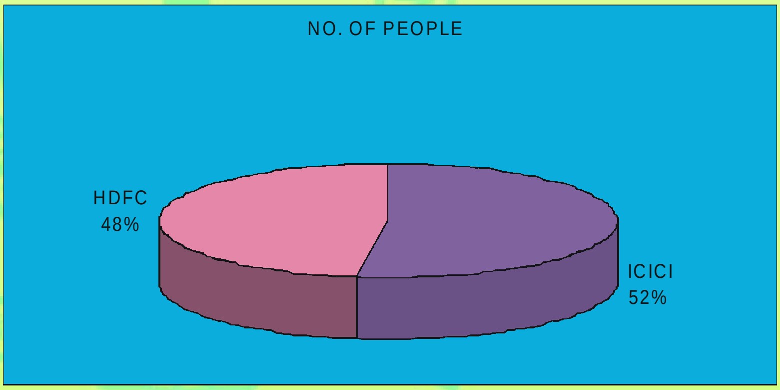
28 % people wanted quarterly repayment facility and only 55 wanted weekly mode.

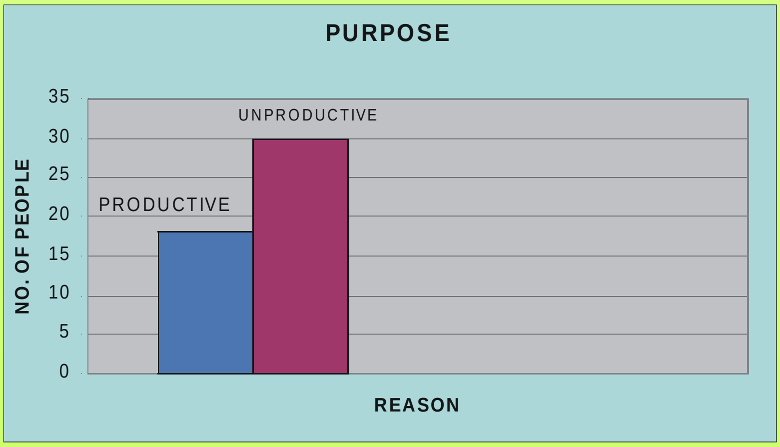
Findings

1. Microfinance institutions should achieve strong outreach along all





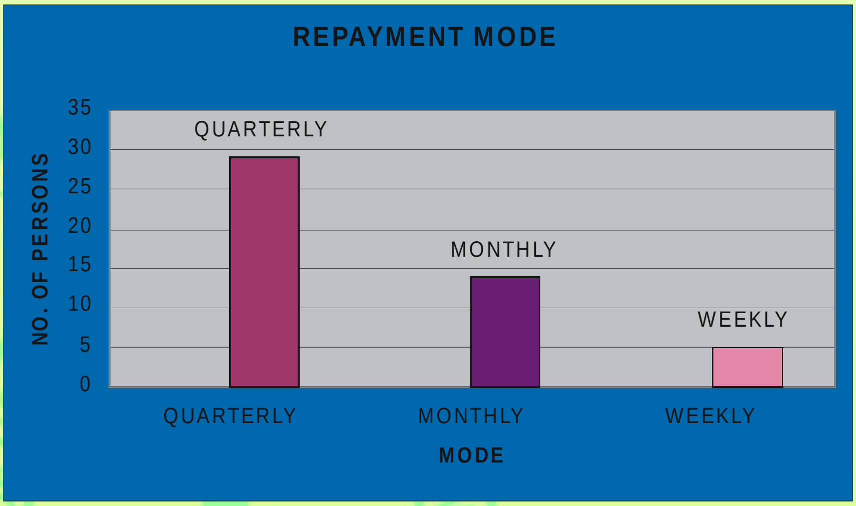




a	Making microfinance services available to the poorest, particularly poorest women.
b	Making information technology available to the poorest so that they can find answers to their own problems, they can design their own lives based on all the available opportunities in the world, their children can become world citizens, rather than live in isolation and ignorance through of the lack of information.

three basic dimensions: depth (reaching the very poor), extent (significant scale), and service quality.

2. People were mostly aware of microfinance, but 100% awareness among masses id still due.
3. People have sufficient high level of need for funds, but their proper allocation is needed
4. People mostly prefer public sector banks; however they were aware of private sector providing this facility.
5. People wanted to repay the loan in quarterly installments.
6. They were all in need of money mostly for unproductive purposes.
7. The banks aimed towards fulfilling the twin objective of social service plus profitability.
8. There is still a huge scope of the microfinance sector in India.



Suggestions

Microfinance should be used as a tool for reducing poverty first and then as a profit earning proposition.

1. The rate of interest charged must be very nominal. The government should try to fix some uniform rate.
2. Microfinance credit should be targeted to poor people who are also talented entrepreneurs.
3. A sustained development of this sector should be made by wider penetration and more specialized services.
4. Institutions with large existing infrastructures could scale up financial services for the poor, like:
   State-owned banks
   Credit union networks
   Financial cooperatives
   Retail chains.
6. More access to capital, Better protection of poor people's savings, Increased legitimacy.
7. Open markets to more poor and remote clients.
8. Secure and convenient deposit services with flexible terms and Variety of loan products, Insurance, Transfer payments, Remittance services.
9. Create an environment that encourages a diversity of institutions and financial products to serve the poor.
10. Combine expertise and funding instruments to promote a wide range of financial services for the poor.
11. Appropriate loan products for different segments.
12. Demonstrate that banking with the poor is viable

Conclusion

Without microfinance, the financial sector remains half-done, because more than half the population of the world remains ineligible to access to the services of the financial institutions.

We must get into serious actions to achieve the 2015 goals. Two actions will remain very vital:

The aim of micro-finance is to develop habits and financial vision among the rural poor, such that they are able to save, seek credit and know several finance related aspects and thus improve their financial position and living standards. The focus of micro-finance is to facilitate the shift from induced development from the above to initiated development from below. Banks are already doing their bit towards this end but a lot is yet to be done. The vast potential and opportunities of Micro-finance in India are yet to be fully tapped.

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IAS 24, Related Party Disclosures - A Closer Look

K.S.Muthupandian*

International Accounting Standard (IAS) 24, Related Party Disclosures, prescribes the disclosures of related party transactions. In March 1983, the International Accounting Standards Committee (IASC) issued the Exposure Draft E25, Disclosure of Related Party Transactions. In July 1984, the IASC issued IAS 24, Related Party Disclosures, effective from January 1, 1986. In 1994, the IASC reformatted IAS 24. In April 2001, the International Accounting Standards Board (IASB) resolved that all Standards and Interpretation issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn. On December 18, 2003, the IASB issued the revised version of IAS 24. The effective date of IAS 24 (2003) was fixed as January 1, 2005. In February 2007, the IASB issued the Exposure Draft of Proposed Amendments to IAS 24. On December 11, 2008, the IASB issued the Revised Exposure Draft of Proposed Amendments to IAS 24. On November 4, 2009, the IASB issued revised IAS 24, Related Party Disclosures. The effective date of IAS 24 (2009) was fixed as January 1, 2011.

Objective

IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party. The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

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Application

IAS 24 shall be applied in:

- identifying related party relationships and transactions
- identifying outstanding balances between an entity and its related parties
- identifying circumstances in which disclosure of the relevant items is required
- determining the disclosures to be made about those items

Key Definitions

Close members of the family of an individual are family members, who may be expected to influence, or be influenced by, that individual in their dealings with the entity, including:

a. the individual's domestic partner and children
b. children of the individual's domestic partner
c. dependants of the individual or the individual's domestic partner

Compensation includes all employee benefits (as defined in IAS 19, Employee Benefits) including employee benefits to which IFRS 2 applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees
(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care
(c) other long-term employee benefits, including long service leave or sabbatical leave, jubilee or other long service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation
(d) termination benefits
(e) share-based payment

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Related party - a party is related to an entity if:

a. directly or indirectly through one or more intermediaries, the party
i. controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries)
ii. has an interest in the entity that gives it significantly influence over the entity
iii. has joint control over the entity
iv. the party is an associate of the entity
b. the party is a joint venture in which the entity is a venturer (see IAS 31, Interests in Joint Ventures)
c. the party is a member of the key management personnel of the entity or its parent 24

d. the party is a close member of the family of an individual referred to in (a) or (c)

e. the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d)

f. the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Who are Related Parties?

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The following are deemed not to be related:

- two entities simply because they have a director or key manager in common
- two venturers who share joint control over a joint venture
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process)
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence

Prescribed Disclosures

Disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venturer or investor shall be presented in accordance with IAS 27, Consolidated and Separate Financial Statements.

Specific disclosure requirements include:

- Parent / Subsidiary relationships: Relationships between parents and subsidiaries shall be disclosed regardless of transactions between those related parties. The entity shall disclose the name of the parent entity, and if different the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent shall be disclosed.
- Management Compensation: An entity shall disclose key management personnel's compensation as defined in total and for each of the following categories:
  - short-term employee benefits
  - post-employment benefits
  - other long-term benefits
  - termination benefits
  - share-based payment benefits
- Related party transactions: Where there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

– the amount of the transactions

– the amount of outstanding balances, terms and conditions (including whether they are secured), and the nature of the consideration to be provided in settlement and details of any guarantees given or received

– provisions for doubtful debts related to outstanding balances

– the expense recognised during the period in respect of bad or doubtful debts due from related parties

- Categories: The required disclosures shall be made separately for each of the following categories:
  - the parent
  - entities with joint control or significant influence over the entity
  - subsidiaries
  - associates
  - joint ventures in which the entity is a venturer
  - key management personnel of the entity or its parent
  - other related parties
- Aggregation: Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity

A statement that related party transactions were made on terms equivalent to those that prevail in arm's length transactions should be made only if such terms can be substantiated.

Examples of the kinds of Transactions that are disclosed if they are with a Related Party

- purchases or sales of goods
- purchases or sales of property and other assets
- rendering or receiving of services
- leases
- transfers of research and development
- transfers under licence agreements
- transfers under finance arrangements (including loans and equity contributions in cash or in kind)
- provision of guarantees or collateral
- commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised)
- settlement of liabilities on behalf of the entity or by the entity on behalf of another party

February 2007 Exposure Draft

On February 22, 2007, the IASB published for public comment, by May 25, 2007, an exposure draft of proposed amendments to IAS 24 (State-controlled Entities and the Definition of a Related Party). The proposals are to amend the requirements for entities to disclose in their financial statements information about related parties.

The main change proposed is to eliminate the disclosure requirements in paragraph 17 of IAS 24 for some entities that are controlled or significantly influenced by a state in relation to transactions with other entities controlled or significantly influenced by that state. The IASB has used an indicator approach to establish when an entity can apply the exemption. The changes respond to concerns expressed by interested parties about the difficulties that these entities have in obtaining the information required by IAS 24. In many cases, the entities affected may not even know that they are related to others controlled or influenced by the state. The IASB concluded that for those entities affected the cost of complying with IAS 24 is likely to outweigh the benefits of the disclosures to users of their financial statements. The exemption proposed is limited to those circumstances in which it is clear that the related entities are not influencing each other.

The proposed indicators of circumstances in which the relationship should not be exempt include:

- the presence of common members of the board
- the existence of direction or compulsion by a state
- related parties transacting business at non-market rates
- related parties sharing of resources
- related parties undertaking economically significant transactions.

The Exposure Draft also proposes to amend and clarify the definition of a related party to remove inconsistencies and improve readability. The main amendments to the definition are:

- the inclusion, in the definition of a related party, of the relationship between a subsidiary and an associate of the same entity, in the individual or separate financial statements of both the subsidiary and the associate.
- the removal, from the definition of a related party, of situations in which two entities are related to each other because a person has significant influence over one entity and a close member of the family of that person has significant influence over the other entity. The IASB concluded that the definition of IAS 24 does not include two associates of the same entity as related to each other. Therefore, when the investor is a person and a close member of the family of that person, the same conclusion should apply.
- the inclusion, within the definition of a related party, of two entities where one is an investee of a member of key management personnel (KMP) and the other is the entity managed by the person that is a member of KMP. At present, investees of KMP are related to the entity that the KMP managed but IAS 24 does not include the reciprocal of this.

Introducing the Exposure Draft, Sir David Tweedie, IASB Chairman, said: "The proposals aim to remove a significant burden of disclosure from some entities, particularly in jurisdictions with extensive state control of, and significant influence over, businesses. The IASB believes that eliminating requirements that, in those circumstances, produce information that is often of little or no value will enable preparers and users of financial statements to focus on the substance of those related party relationships that are likely to affect the financial statements. We are also taking the opportunity to respond to some valid requests to clarify the definition of a related party."

December 2008 Revised Exposure Draft

On December 11, 2008, the IASB published for public comment, by March 13, 2009, an exposure draft of proposed amendments to IAS 24 (Relationships with the State). The revised proposal was published to eliminate the unnecessary disclosure requirements that apply to state-controlled entities. The February 2007 proposal was issued to exempt state-controlled entities from providing disclosures about transactions with other state-controlled entities if specified conditions were met. Respondents generally agreed that the IASB should provide an exemption for these entities. However, they had concerns about the complexity of the proposals, caused in particular by a proposed requirement to assess whether state influence actually existed. They were also asked for numerous clarifications.

In the light of respondents' concerns, the IASB decided to revise and simplify its proposed exemption for state-controlled entities. Unlike the original proposal, the revised exemption would not require state-controlled entities to assess the extent of state influence. It would exempt such entities from providing full details about transactions with other state-controlled entities and the state. Instead, (unlike the 2007 exposure draft) it would require general disclosures about the types and extent of significant transactions.

The IASB would particularly like to hear from respondents whether the proposals would give investors and analysts the information they need without imposing unnecessary burdens on preparers of financial statements.

The 2007 exposure draft also proposed to amend the definition of a related party to clarify the intended meaning and remove inconsistencies. Respondents were largely in agreement with the revised definition of a related party. The IASB intended to finalise the definitions of a related party and of a related party transaction without further exposure (apart from one minor matter raised in the 2008 exposure draft) and decided to issue them when it issues the amendments resulting from the 2008 exposure draft.

Revised Standard

On November 4, 2009, the IASB issued a revised version of IAS 24 that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

The IASB has revised IAS 24 in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by:

Providing a partial exemption for government-related entities - Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. These requirements were onerous in territories where government control is pervasive. Government-related entities are now defined as entities that are controlled, jointly-controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant. For example, a government-controlled railway was theoretically required to disclose details of the transactions with the postal department. This information is not necessarily useful to users of the financial statements but is costly and time-consuming to collect.

The revised standard introduces an exemption from all of the disclosure requirements of IAS 24 for transactions between government-related entities and the government, and all other government-related entities. Those disclosures are replaced with a requirement to disclose:

(a) The name of the government and the nature of their relationship; and

(b) (i) The nature and amount of any individually-significant transactions; and

(ii) The extent of any collectively-significant transactions qualitatively and quantitatively.

This is a significant relaxation of the disclosure requirements and should be of substantial benefit to government-related entities. The complexity and volume of the disclosures in the financial statements and the costs of record-keeping will be reduced. The new disclosures will provide more meaningful information about the nature of an entity's relationship with the government and material transactions.

Providing a revised definition of a related party - The previous definition was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related party disclosures. The definition has been amended to remove the inconsistencies and to make it simpler and easier to apply. The amended definition means that some entities will have more related parties and will be required to make additional disclosures. For example, a subsidiary is now required to disclose transactions with an associate of its parent. An entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second party. The entities that are most likely affected are those that are part of a

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Creating Competitive Advantage with Life Cycle Costing

Barnali Chaklader*
Rajat Gera**

Introduction

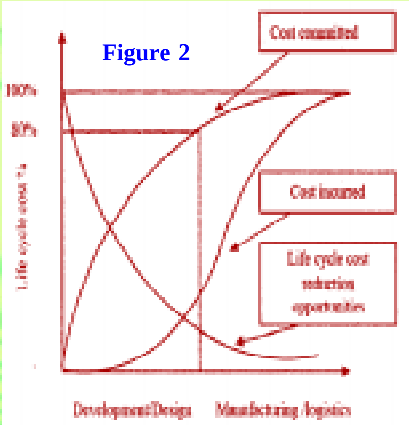
Every product has a life cycle that starts from development stage and ends with the declining stage. Different products have different life cycles. Due to technological development and high competition, life cycles of products have shortened. However, industry may have longer life cycle than the product. For example, automobile industry has a long life cycle but a particular model of car may have a shorter life cycle. A product passes through different stages. Introduction stage is when the product is introduced in the market. The products are introduced at introductory stage. At this stage there are many trial and impulse purchases in the market. The market share starts growing at the growth stage. There are many repeat purchases in the growth stage. At maturity stage, strong growth in sales diminishes and competition may appear with similar products. The primary objective is to defend market share. At the decline stage the company rejuvenates the product or proceeds to the withdrawal stage.

Life cycle costing provides a long term perspective to product or service cost. It considers the entire life cycle of the product or service. It provides a more complete perspective of product cost or profitability. Adamany and Gonsalves (1994) divide the life cycle into seven stages:

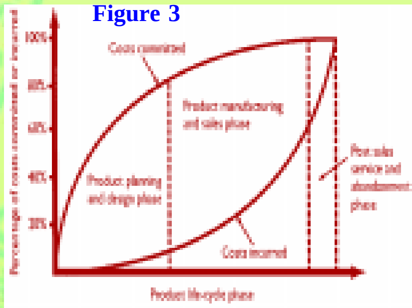
1. Analysis: Assessment of the idea and effects of the investment
2. Startup: Prototyping, dedication of the manufacturing facilities, and practical assessment of the effects of the investment
3. Entry: Market entry of the new product or services
4. Growth: Return on investment is received as sales revenues
5. Maturity: Profit harvesting
6. Decline: Sales begin to decrease. Alternatively proceed to the next stage or revitalize the product
7. Withdrawal: The Company withdraws from the market.

Life cycle costs - producer's perspective and cost reduction opportunities

A company should manage and evaluate life cycle costs, understand all relationships of the product life cycle, and implement actions that take advantage of revenue enhancement and cost reduction opportunities (Hansen and Mo wen 2000). 80 percent of the cost is committed at the designing phase and there is a cost reduction opportunity at the manufacturing/ logistics phase. (Fig 2)

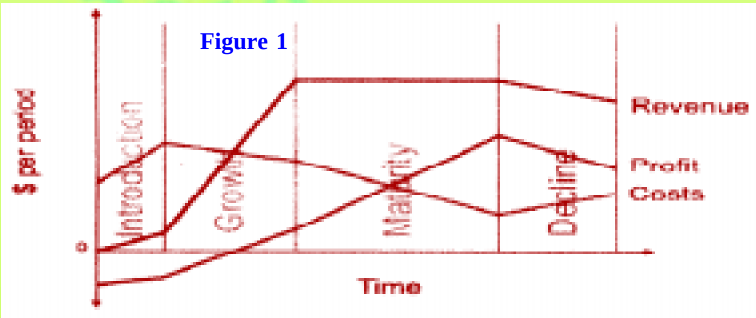


LCC (ref: figure3) enables the decision makers to analyze and understand the comprehensive view of



Source: Management and Cost Accounting (2004), Colin Drury, Chapter on Cost Management

Figure 1:: A Typical Product Lifecycle



Source: Management and Cost Accounting (2004), Colin Drury, Chapter 22, Cost Management

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the product life cycle costs from R&D and planning to disposal (Shields and Young 1991 and Sakurai 1996). Strategic cost management emphasizes the importance of an external focus and the need to recognize and exploit both internal and external linkages Hansen and Mowen 2000). LCC is a related approach that builds a conceptual framework that facilities management's ability to exploit internal and external linkages. LCC is a way of thinking where the attention is paid to the total costs that occur during a product's entire life cycle.

A myopic approach of product cost starts from its manufacturing phase. Product life cycle costing starts it from the moment the product is conceived, say the designing phase and the life cycle ends with the disposition of the product, (ref: figure 4) Upstream and down stream cost can account for a significant portion of the product cost. Cost incurred before manufacturing are upstream cost. i.e. research and development and designing cost. Examples of industries with upstream cost are computer software and medical equipments. Downstream costs are incurred after manufacturing phase, examples of downstream costs are marketing and distribution and customer services costs. Some examples of industries with high downstream costs are perfumes and cosmetics. If a proper cost management has to be done and the cost of product is to be brought down, then a manager has to understand the proportion of cost that is incurred in each portion of the value chain. In present competitive era, product life cycle has shortened and due to better version of the product, the older model becomes obsolete, e.g. electronic products. Therefore designing phase becomes extremely important. Designing phase can reduce the manufacturing cost as well as speed production, reduce the time to market and reduce service costs. Product life cycle is an important concept as it touches facets of marketing, finance, strategy and production. Literature review emphasizes that rapid technological changes and shortened life cycles have made product life cycle cost analysis critical to organisations. Life cycle cost is particularly more important when there are large planning and developmental cost, for example in a jet liner. It may be important when there is large product abandonment cost, for example decommissioning a nuclear generating facility. In general, life cycle costing provides a comprehensive accounting of a product's cost, both manufacturing and environmental, from cradle to grave to help decision makers understand the cost consequences of making the product and to identify areas in which cost reduction efforts are both desirable and effective (Kaplan and Atkinson, 1998).

- It is important to distinguish between product life cycles and industry life cycles. Industry life cycle may be very long whereas product life cycle may be short. E.g in case of television industry, Television is there for many decades but models keep on changing.
- It is important to understand for whom product life cycles are managed: Producers, consumers or the society. Producers are interested in profits, consumers are interested in product performance in a given price range and society is interested in health, safety and environment issues.

The following is a small case let which will explain that the concept of life cycle costing is far more superior to the traditional costing system in knowing about the profitability of the product. In exhibit I traditional product line income statement indicates that Product A is more profitable , whereas the life cycle cost analysis clearly indicates that Product 'B' is more profitable of the two products because Product 'A' incurred bulk of the R & D cost. Similarly if disposal and distribution cost when attributed to each product can indicate the ranking of products on account of profitability.

Exhibit I

	Product A	Product B	Total
Sales (Rs.)	4500000	2500000	7000000
Cost of Sales	1240000	1005000	2245000
Gross Margin	3260000	1495000	4755000
Research and Development			4000000
			755000

Figure 4

Value Chain Analysis

Source: Management and Cost Accounting (2004), Colin Drury, Chapter 22, Cost Management Susman (1989) has presented a framework for estimating life cycle revenue and costs

Exhibit II

	Product A	Product B	Total
Sales (Rs.)	4500000	2500000	7000000
Cost of Sales	1240000	1005000	2245000
Gross Margin	3260000	1495000	4755000
Research and Development	3000000 (75%)	1 000000 (25%)	4000000
	260000	495000	755000

Pricing and marketing strategy

Pricing is a complex and strategic decision which tends to capture the value of a product thus leading to profitability, survival and long term sustainable growth of a firm. There have been various approaches developed over a period of time while drawing from the discipline of economics, psychology and sociology. There have been thus various efforts to prescribe normative models of pricing approaches based on demand, competition, cost and environmental conditions. The dominant approaches currently are labeled as cost, demand and competition oriented pricing approaches while product line and new product pricing approaches have also been prescribed. The current widely accepted framework considers pricing as a strategic variable leading to competitive advantage. Thus price is set somewhere between the cost of the product to the seller and the value of the product to the buyer while taking into consideration the competition and the environment. Value may be considered as perceived value as is prevalent in consumer marketing or economic value also known as life cycle cost as is prevalent in industrial marketing. The approach adopted also takes into consideration the cost structure of the seller and the competitor and the objectives of the competitors and the seller. Thus a generic linear textbook model of pricing decisions would follow the following steps:

Step one would be to determine the objectives of the company in terms of what philosophy the company uses to determine prices which could be profit maximization, sales volume, market share, target return on investment level, status quo, and survival. In the second step the pricing policy is determined which is a plan or course of action for achieving pricing objectives. Common policies include price skimming, penetration pricing, life-cycle pricing, cost plus pricing, above/at/below competitors, and customer value. The pricing policy is a strategic decision based on analysis of company costs including cost structure and how costs behave with volume; customer perceptions of value which determine the maximum price the customer is willing to pay and customer price sensitivity also measured as price elasticity of demand; competitor objectives, costs and perceived/ economic value of competitor's product. This information helps seller understand how to achieve competitive advantage and determines pricing level and tactics to be adopted. Thus pricing decisions are based on a three dimensional analysis of costs, customer and competition to determine the best positioning and approach which will culminate in a long term competitive advantage for the firm. This is followed by determination of the price level and the discounting tactics to be followed. Finally pricing is a dynamic decision which needs constant fine tuning to achieve the objectives of the company/ seller by adapting to the changing environmental conditions.

Pricing which is part of the overall marketing strategy plays a very critical role in the success of a company as it is able to increase the profitability and or increase the market share. Pricing is one of the most difficult decisions faced by organisations. As well as a detailed knowledge of the costs involved in producing a product or delivering a service, the decision maker must also factor in the organization's strategic objectives and a range of environmental factors, such as market demand, the expected life cycle and competitors' actions. One of the key issues to be considered is whether the organisation is able to influence the price level (is it a price setter?) or must it accept the price level as determined by the market (is it a price taker?). Economists refer to this as the price elasticity of demand - a measure of how demand responds to changes in price.

Demand is elastic if it is affected by the selling price. This will be the case for many products and services - particularly those which may be provided by a number of competitors. In order to discourage the entry of competitors, an organisation may choose a low initial price level (the low profit per unit will discourage the initial entry of competitors). This will allow a large market share to be built up, which in turn will further discourage potential competitors from entering the market.

Demand is inelastic if it is likely to be relatively unaffected by the selling price. This means that if the initial selling price of the product or service is set at a high level, there will be little impact on sales volumes.

The elasticity of demand will be one of the influences on the selection of a pricing strategy.

Market skimming is the term used to describe a strategy in which the initial selling price is set at a high level. The intention is to 'skim' off the profit which can be earned due to the fact that the selling price is significantly greater than cost. This will be more appropriate for products or services for which demand is relatively inelastic.

Market penetration is the term used to describe a policy in which the initial price is set at a lower level to build a strong market share, and is more likely to be successful when demand is elastic.

As well as elasticity, the pricing strategy will be influenced by the product life cycle and the organization's strategic objectives, particularly with regard to profitability and return on investment.

Of course whether the organisation is a price setter or price taker, reliable information about costs is required by the decision maker. If the organisation is a price setter, the selling price must be set at a level which will cover all costs, and allow a reasonable profit to be earned. If the organisation is a price taker, the level of profit which can be earned by charging the market price which must be carefully assessed, as there will be little value in achieving high sales volume, but little or no profit

LCC and competitive advantage

Exploiting customer linkages is the key idea behind the concept of life cycle costing which deals explicitly with the relationship between what a customer pays for the product and the total costs the customer incurs over the life cycle of using the product. (Shank and Govindrajan, 1993). Forbis and Mehta, 1981 as cited in Shank and Govindrajan, 1993 describe how a life cycle costing perspective on a customer linkage in a value chain can lead to increased profitability. Explicit attention to post purchase costs by the customer can lead to more effective market segmentation and product positioning. Designing a product to reduce post purchase cost of the customer can be a major weapon in capturing competitive advantage. For example while designing an electronic product a proper research and development is done to design an electronic product which is slim, handy, light weight and requires less servicing can reduce upstream costs. Product life cycle cost analysis for pricing decision depends on how a firm is choosing to compete in the market. According to Porter (1980) a firm may choose to compete either by having lower costs or by offering superior products. The former is known as cost leadership and the later is known as product differentiation. These two approaches demand a separate mindset of management accountants for analysis costs from the product life cycle cost. Target costing will be important for a cost leadership firm and it will be a challenge for the firm to reduce manufacturing cost. In the present competitive era, target pricing is critical at every stage except for the withdrawal stage. Target pricing is a pricing method that involves (1) identifying the price at which a product will be competitive in the marketplace, (2) defining the desired profit to be made on the product, and (3) computing the target cost for the product by subtracting the desired profit from the competitive market price. The formula for target pricing is

Target Price - Desired Profit = Target Cost

Target cost is then given to the engineers and product designers, who use it as the maximum cost to be incurred for the materials and other resources needed to design and manufacture the product. It is their responsibility to create the product at or below its target cost. In case of a differentiation firm, more emphasis will be given to design cost and less emphasis on engineered manufacturing costs. Firms that operate on differentiation strategy have more discretion in setting prices. The differentiation strategy set a high price for the customers willing to pay. Firms that compete on cost leadership strategy use cost information to improve operating efficiency to reduce cost and price. A firm may consider the following profit optimization strategies: (i) the myopic strategy of maximizing the current-period profit and (ii) the far-sighted strategy of maximizing the life-cycle profit. If a firm wants to maximize life cycle profit, then it must consider the phases in the life cycle and decide the total cost of the product right from the designing till the disposal phase. This cost has to be recovered at different phases of the life cycle.

Pricing, LCC and PLC

Developing pricing strategy and managing costs over the life cycle of the product requires understanding of the factors affecting pricing and the sources of variability and incorporation of the knowledge of the same in cost management.

For instance the method of costing can have undesirable consequences during the manufacturing stage of the product. LCC is a way of thinking rather than a costing tool as in addition to the management of costs, it focuses on the long-term performance of products by employing a variety of management accounting methods. A basic assumption behind the LCC approach is that it is possible to affect the future costs of a product beforehand, either by planning its use or by improving the product or asset itself. The supplier while using Life cycle cost analysis has to forecast the future and thus different cost estimation methods are applied i.e. estimating by engineering procedures; estimating by analogy; and parametric estimating methods. To explain with an example if a portion of LCC is too high, then some modification ca be done to reduce the cost. There may be some feature or attribute in the product which may not be important and thus can be removed. Activity based management can be used to identify the non value added activities and thus removed. Business Process Reengineering (BPR) can be used. BPR involves examining business processes and making substantial changes to how organisation focuses on cost reduction, simplification and improved quality and thus enhance customer satisfaction. Dunk (2004), points out that the use of management control systems such as life cycle costing may be contingent on the characteristics of the firm: organizations with products at an early stage of their life cycle are likely to use LCC as a planning device rather than as a control tool, whereas in firms with more mature products the focus may shift more toward control. Thus cost consciousness referred to as cost image especially in the life cycle costing context, requires understanding of a product's cost history and its current cost behavior together with an estimate of its future costs. Thus, to comprehensively grasp the costs associated with a certain cost object, one could combine these three factors into a "cost image".

During the life cycle the emphasis of LCC shifts essentially from cost estimation to cost control. At the beginning of the life cycle, LCC corresponds mainly to the estimation of future costs. Over time, the focus gradually shifts to monitoring the incurred costs, and the estimation of future costs is increasingly based on the analysis of past cost. At the end, cost estimation has little value for the decision maker, whereas properly collected cost data would allow making an overall LCC statement that illustrates the total impact of the product on the organization. As up to 80-90 percent of the product cost that will eventually be incurred is already determined (committed) during product and production development though in many industries, - including electronics, communication, machine construction, and the car industry - the after sales period is a substantial contributor both in terms of total product revenues and, in particular, generated profits

Advantages and Disadvantages of Life Cycle Costing

Some of the benefits of LCC as cost management approach are summarized as follows:

- LCC enables decisions makers to analyze and understand the comprehensive view of the product life cycle costs from R&D and planning to disposal (Shields and Young 1991 andSakurai 1996).
- LCC emphasizes the importance of an external focus (customer) and exploits both internal and external linkages in the value chain (Hansen and Mowen 2000).
- LCC supports the profitability analysis of the product life cycle (Berliner and Brimson 1988) and helps managers to manage costs more effectively because it focuses on cost behavior during each phase of the product life cycle (Hansen and Mowen 2000).
- Successful application of LCC provides a company with competitive advantage (Shields and Young 1991 and Sakurai 1996).

Although LCC declares a lot of benefits and advantages as an approach of cost management, there are also some drawbacks and difficulties for implementation and application of the LCC approach to organizations.

Dhillon (1989) stated that the drawbacks of LCC are: costly, time consuming, accuracy of data is doubtful, and obtaining data for analysis are a trying task.

Sakurai (1996:) argued that application of the approach of LCC has two major areas of problems. First, problem is with the companies themselves; the managers and employees are very little interest in it, or understanding LCC. Secondly it is difficult to compute user costs such as operating, maintenance, and disposal costs. In addition to these difficulties, implementing LCC takes much time and effort and evaluating the results also takes time.

However, Dhillon (1989) and Shields and Young (1991.) argued that there are a number of important points associated with LCC that help a company to develop and implement LCC as an approach of cost management successfully. Some of those are given below:

- Invest more in pre-manufacturing assets and in people skills to increase the probability of low cost, higher quality and innovation.
- Use more resources in the early phases of a product life cycle.
- Target costing is the key to establishing cost goals for a product.
- Emphasize on cost reduction, not cost control.
- Performance evaluation and compensation systems should reinforce a whole life cycle cost perspective.
- All sources of organizational resistance to product life cycle cost management must be dealt with in implementing a culture of cost consciousness and continuous improvement.
- Continuous education.
- A cost analyst with excellent knowledge and experience may compensate for various data base difficulties.
- The management plays an important role in making the LCC effort worthwhile.
- The risk management is the essence of LCC.

LCC : Developing an approach

A model is suggested to develop an approach to LCC which integrates pricing strategy and PLC.. For example, in pricing for new products, LCC would require defining the target customer through segmentation as LCC would depend on user behaviour. For exp, calculating the LCC by an automobile company planning to introduce a new model which is CNG based would need to incorporate the usage behaviour variables such as no of kms traveled / day; average distance traveled/ servicing; city vs highway usage. Thus LCC would need to be based on a understanding of the customer segment and its usage characteristics. Further the LCC approach would need to be based on the pricing strategy/approach of the company. For a company whose competitive advantage stems from its high market share, LCC would require estimation of the fixed and variable costs over the life cycle of the product so that the cost behaviour can be predicted and opportunities for cost reduction can be identified and tackled at design stage itself. The LCC

LCC approach based on PLC and Pricing approach

	Cost Based	Competition based	Value based
New Product	Simulation and cost forecasting for product design at low cost	Estimation of LCC of product and comparison with competitor products LCC	Estimation of LCC of customer based on value parameters defined by customer ie for luxury customer, fuel efficiency may not be an important parameter
Introduction	Estimate LCC based on product positioning of new product and customer behaviour	Estimate LCC of competitor product and track the same	Tracking of perceived value of product and estimation of LCC based on the same
Growth	Effect of capital investment on LCC	Estimation of LCC for customers product based on scaling up of manufacturing, marketing infrastructure.	Identification of new customer segments based on value and estimation of LCC for the same.
Maturity	LCC for cost control	LCC for cost reduction	LCC for cost management nased on identified trade offs between cost and value parameters

approach would also be dictated by the type of Industry as for Industries with high upstream costs, LCC would need to simulate the costs behaviour over the lifecycle of the product and how design variable affect these costs whereas form industries with high downstream costs, LCC would require forecasting skills.

Thus the approach to LCC would be dependent on the customer segment being targeted, the pricing approach of the firm (based on its source of competitive advantage), type of Industry and stage of Product in Product Life cycle. These can be illustrated with the following framework:.

Thus, there is no standard approach to LCC and the purpose (objectives), estimation techniques and usage needs to be adapted to specific circumstances. LCC is an effective tool for new product design, cost reduction and management and pricing but its usage would depend on the specific circumstances.❑

Contd. from Page 44

group that includes both subsidiaries and associates and entities with shareholders that are involved with other entities.

Comparative Indian Standard

The Accounting Standard issued by the Institute of Chartered Accountants of India (ICAI) comparative to IAS 24 is AS 18, Related Party Disclosures. AS 18 is based on IAS 24 (reformatted 1994). The major differences between these two standards are Conceptual differences:

1. According to AS 18, as notified by the Government, a non-executive director of a company should not be considered as a key management person by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. However, IAS 24 provides for including non-executive director in key management personnel.
2. In AS 18 the term 'relative' is defined as "the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise" whereas the comparable concept in IAS 36, Impairment of Assets, is that of 'close members of the family of an individual' who are "those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:
   (a) the individual's domestic partner and children;
   (b) children of the individual's domestic partner; and
   (c) dependants of the individual or the individual's domestic partner."

Conclusion

The global financial crisis widened the range of entities subject to the related party disclosure requirements. The revised standard will affect the disclosures required in the financial statements of all government-related entities. The disclosure burden will be significantly reduced and replaced with more useful summarized information and details of significant transactions.❑

First Time Adoption of International Financial Reporting Standards

Fair value Measurement issues : Application of Optimised Depreciated Replacement Cost Method

Dr.T.P.Ghosh*

In the context of First Time Adoption of IFRSs , fair value measurement is a critical issue. Although in the post-IFRSs adoption era an entity has the option to adopt cost model in the case of Property, Plant and Equipment (IAS 16) , Intangible Assets (IAS 38) and Investment Property (IAS 40) , for the first time adoption cost as per the local GAAP is required to be adjusted for factors that are not recognised in the IFRSs. It has been perceived the industry parlance that recreation of cost records is a costly and time consuming exercise if not impossible1. Presented below in Table 1 the reasons for cost adjustment for first time adoption.

Reconstruction of cost records in accordance with IAS 38 Intangible Assets and IAS 40 Investment Property might not be so difficult (if an entity wishes to follow cost model) as they are for Property , Plant and Equipment because of wide veracity of items having acquisitions or self-construction date back to decades. Therefore an entity may adopt fair value as deemed cost of property, plant and equipment in accordance with IFRS1.D5 . An entity has the option to use one of the following amounts as the deemed cost of an item of property, plant and equipment:

(a) fair value at the date of transition to IFRSs [IFRS 1.D5]

(b) a revaluation in accordance with previous GAAP that meets the criteria in IFRS 1.D6 ; or

(c) fair value at the date of an event such as a privatisation or initial public offering (in accordance with IFRS 1.D8.

It is intended to demonstrate the application of optimised depreciated replacement cost method for determination of fair value of specialised assets. This method is based on Level 3 inputs and therefore, it should be filtered through cash flow sufficiency test (which is termed as profitability test in valuation standards).

Fair Value Measurement Guidance in IAS 16

IAS 16 Property , Plant and Equipment provides the following guidance :

i. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal. IAS 16.32.

ii. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach. IAS 16.33.

A major portion of the property , plant and equipment of a first time adopter is specialised asset by nature for which income based valuation or depreciated replacement cost method may be applied.

IASB's Fair Value Measurement Standard

The IASB has issued an Exposure Draft for the proposed Fair Value Measurement standard in the light of SFAS 157 in the US which it intends to make a single source fair value measurement principles.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is an exit price. On the other hand , specialised asset do not have an exit price.

A fair value measurement is based on -

(a) appropriate valuation premise consistent with the highest and best use of the particular asset2 ;

(b) the most advantageous market for the particular asset ; and

(c) the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use in pricing the asset and the level of the fair value hierarchy within which the inputs are categorised.

Market participants will buy a specialised asset for its highest and best use. Therefore, fair value of the asset is determined with reference to cash flows

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Table 1 : Cost Adjustments in First Time Adoption of IFRSs	
Asset Items	Reasons of cost adjustments
Property, Plant and Equipment (IAS 16)	i. Depreciation charge may not be based on the estimated useful life and residual value of the concerned asset. An entity might have charged depreciation applying the regulatory rate(s). ii. Depreciation might not have been charged based on componentization of asset in accordance with IAS 16. iii. Capitalised borrowing costs are different from amortised cost based borrowing cost determined in accordance with IAS 39 *Financial Instruments : Recognition and Measurement* (or IFRS 9 *Financial Instruments*) . iv. Capitalisation of exchange fluctuation loss is allowed to a limited extent in accordance with IAS 23 *Borrowing Costs*. It is restricted to the exchange fluctuation loss which can be recognised as interest. v. Capitalisation of certain administrative expenses under local GAAP may not be allowed.
Intangible Assets (IAS 38)	i. Amortisation charge might have been worked out based on tax allowance not on the basis of the useful life of the asset. ii. Normally, residual value of an intangible asset is taken as nil. However, it is possible to demonstrate the presence of residual value in certain cases and thereby such residual value is required to be considered for deciding amortisation policy. iii. Capitalised borrowing costs for internally developed intangible assets are different from amortised cost based borrowing cost determined in accordance with IAS 39 *Financial Instruments : Recognition and Measurement* (or IFRS 9 *Financial Instruments*) . iv. Capitalisation of exchange fluctuation loss is allowed to a limited extent in accordance with IAS 23 *Borrowing Costs*. It is restricted to the exchange fluctuation loss which can be recognised as interest. v. Capitalisation of administrative expenses under local GAAP. vi. Intangible asset may have indefinite life. In that case , intangible asset is not required to be amortised. Once the conditions change and the asset turns into having finite life, amortisation charge commences. Local GAAP may have different principle. vii. Impairment principle for goodwill might not have been followed in accordance with IFRS 36 *Impairment of Assets.*
IAS 40 Investment Property	i. This class of asset might not have been segregated as per local GAAP from other items of fixed assets. ii. Let out building might have been depreciated applying regulatory rate. ii. They are of specialised nature and therefore, market quotation based exit price is not readily available.
Remedial Action : The entity is required recreating cost records as if IFRSs were applied since the asset is recognised. This will put a first time adopter into a costly , time consuming and difficult process. Alternatively, an entity may use fair value as deemed cost.	

(profit) determined with reference to highest and best use. For specialised asset having unique use , 'highest and best use' criteria is not applicable. ' Most advantageous market' criteria is also not applicable to specialised asset. However, it is possible to apply alternative valuation approaches depending upon the inputs.

Paragraphs IE 11 of the proposed standard has demonstrated the example of valuation of machine held and used applying lower of the replacement cost model and market value approach.

The proposed standard has also set out three levels of fair hierarchy :

Level 1 Inputs : They quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs : They are quotes prices of similar assets -

i. quoted prices for similar assets or liabilities in active markets ;

ii. quoted prices for identical or similar assets or liabilities in markets that are not active;

iii. inputs other than quoted prices that are observable for the asset or liability (eg interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates) ;

iv. inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 Inputs : They are inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, e.g. when market activity for the asset or liability at the measurement date is little or nil.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Optimised Depreciated Replace Cost

Depreciated replacement cost is an application of the cost approach used in assessing the value of specialised assets for financial reporting purposes, where direct market evidence is limited. International Valuation Guidance Note No. 8 The Cost Approach for Financial Reporting (issued by the International Valuation Standards Committee)3 defines the tern depreciated replacement cost as the current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

While applying depreciated replacement cost, it becomes necessary to ensure that the key elements of a market transaction have been considered. These include:

i. an understanding of the asset, its function, and its environment;

ii. research and analysis to determine the remaining physical life (to estimate physical deterioration) and economic life of the asset;

iii. knowledge of the business requirements (to estimate functional/technical obsolescence);

iv. an assessment of future industry requirements (to estimate economic/ external obsolescence);

v. familiarity with the class of property through access to available market data;

vi. knowledge of construction techniques and materials (to estimate the cost of a modern equivalent asset); and

vii. sufficient knowledge to determine the impact of economic/external obsolescence on the value of the improvements.

Determination of the replacement cost is based on the modern equivalent asset (MEA). Adjustment is necessary for :

a. Physical deterioration - In assessing the physical deterioration of the improvements resulting from wear and tear over time and any lack of maintenance, different valuation methods may be used for estimating the amount required to rectify the physical condition of the improvements.

Estimates of specific elements of depreciation and contractors' charges can be used or direct unit value comparisons between properties in similar condition.

b. Functional or technical obsolescence - Functional and technical obsolescence can be caused by advances in technology that create new assets capable of more efficient delivery of goods and services. Modern production methods may render previously existing assets fully or partially obsolete in terms of current cost equivalency. Obsolescence and optimisation are allowed for by adopting the replacement cost of a Modern Equivalent Asset as distinct from a reproduction of the asset.

c. Economic or external obsolescence - Economic obsolescence resulting from external influences may affect the value of the asset. External factors may include changed economic conditions which affect the demand for goods and services and the profitability of business entities.

Case Example : Historical cost of specialized Plant & Equipment Rs. 1000 crores ; Net Rs. 300 crores - 70% of the asset have already been depreciated.

Replacement cost of Modern Equivalent Asset Rs. 1700 crores.

Machines	Rs. 1100 crores
Labour	Rs. 400 crores
Overhead	Rs. 200 crores

The company has self-constructed similar asset 3 years back. Cost : Machines Rs. 900 crores, Labour Rs. 300 crores , Overhead Rs. 150 crores, Total Rs. 1350 crores

Appropriate capital index : T_{-3} 314 T_0 381

Minimum Wages : T_{-3} 52.69 T_0 56.71 (Lower range) T_{-3} 97.12 T_0 104.89 (Lower range)

Others : T_{-3} 127 T_0 180

The entity compares the costs determined through price quotations and / or contractors' quotations applying general price index. The entity uses average of wage range. The indexation process is explained in the Table 2 below.

Application of general index is just to testify the rationality of the current estimates in the light of the most recent experience. Any high variance should be analysed in details to eliminate any error of estimation. Often general index may not reflect the correct specific price.

Having estimated current replacement cost of the asset , the entity shall carry out optimisation. It is a process by which a least cost replacement option is determined for the remaining service potential of an asset. It is a process of adjustments reducing the replacement cost to reflect that an asset may be technically obsolescent or over-engineered, or the asset may have a greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining the depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity.

Table 2: Filtering Cost Estimates applying Indices

	Rs. in crores				
	T_0 Actual	Indexation	T_3 Indexed	T_3 Estimated	Variance
Material	900.00	192.04	1092.04	1100	0.73%
Labour	300.00	23.61	323.61	400	23.61%
Overhead	150.00	62.60	212.60	200	-5.93%
	1350.00		1628.25	1700.00	4.41%

Suppose the MEA is having 100000 units capacity whereas the old asset is having 75,000 capacity. The current replacement cost is derived based on the MEA as similar capacity asset is not currently available.

Optimisation Adjustment : Rs. 1700 crores × 75000/100000 = Rs. 1275 crore.

Adjustment for physical deterioration : The existing asset have estimated remaining useful life of 10 years and expired life of 20 years.

Rs. 1275 crores × 10/30 = Rs. 425 crores.

Profitability Test : For commercial entity with specialised assets, a valuation assessed by depreciated replacement cost must be subject to the test of adequate profitability in relation to the whole of the assets held by the entity or the cash generating unit. It is a reverse impairment analysis process. In case of impairment , the recoverable amount is higher of the 'fair value less costs to sell' and 'value in use'. In case of determination of fair value which is exit price of the asset , the seller should place himself in the buyer's shoe.

Profitability test can be carried out in terms of value in use of the asset , i.e. PV of future cash flows of the cash generating unit net of separately identifiable fair value of other assets. While determining the cash flows , an entity shall consider cash outflows required for major overhauls to keep the asset in the working conditions apart from routine maintenance. Effect of changed economic conditions on the products are also reviewed. Discount factor should be industry average cost of capital.

Assume that Value in Use of the Cash Generating Unit to which the specialised asset belong : Rs. 500 crores. Fair value of other assets belonging to the cash generating unit is Rs. 100 crores. Thus value in use of the specialised asset is Rs. 400 crores.

Optimised depreciated replacement cost is moderated by the cash flow test because no rational buyer will pay more than the PV of cash flows. In case optimised depreciated replacement cost is lower than the value in use, then it stands as a fair value of the specialised asset.

Concluding Remarks

Optimised depreciated replacement cost is based on Level 3 inputs. Filtering the most recent observed cost through appropriate index and comparing the cost estimates bring objectivity to the valuation. In the second state, profitability test converts the entry value into exit value through linking the investment to return.

Notes

1. In a letter to the Chairman , IASB Canadian Electricity Association , Canadian gas Association and Canadian Energy Pipeline Association on 30 April , 2008 raised a viewpoint that " Conversion to IFRS, as currently published, would cause the Canadian electricity, gas and pipeline industries to enter into a very costly and, in many cases, virtually insurmountable process of recreating detailed historic records as at the transition date to remove from PPE those amounts that would not be permitted to be capitalized under IFRS. As historical cost has been traditionally used by the regulators of these industries for rate-setting purposes, as well as by investors, creditors and rating

agencies, a costly retrospective conversion process would have little or no economic benefit to stakeholders…… In accordance with IFRS 1, an entity may elect to measure an item of PPE at the date of transition to IFRS at its fair value, and use that fair value as its deemed cost at that date. However, the nature of our PPE is such that it is often unique and of use only within our industry. Fair value information is not readily available. It is our position that determining fair value would be time-consuming given our many long-lived items of PPE. Given the lack of qualified independent valuators, and the potential for verification issues, electing to use the fair value as deemed cost feature of IFRS 1 may not be practicable for all rate-regulated entities." And thereby pleaded that carrying amount of the asset be treated as deemed cost. This view does not find merit in the IFRSs amendment process.

2. The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with a purpose of advancing Australia's financial competitiveness. In letter to the Chairman, IASB, the G100 disagrees with the proposal to identify the different components of the fair value of an asset where it is used in a way that differs from the highest and best use. The provision of this information in effect requires the use of two valuations on different bases which would increase compliance costs unnecessarily for little information benefit.

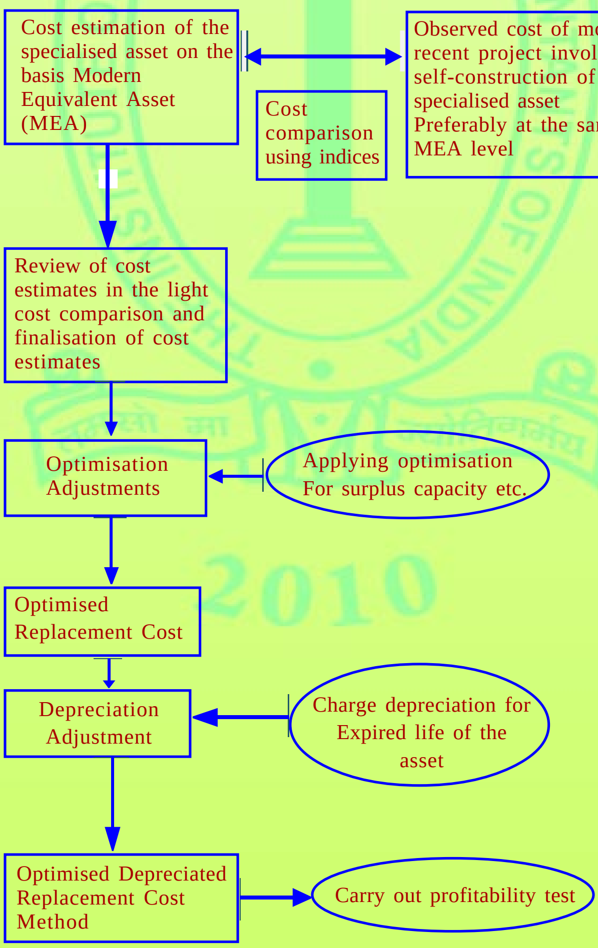
3. www.ivsc.org

International Valuation Standards Committee (IVSC) has issued :

- International Valuation Standards (IVS 1-3)
- International Valuation Applications (IVA 1-3) and
- Guidance Notes (GN 1-15)

In the context of fair value measurement , these standards have relevance. IVSC states that its valuation standards are adopted as national standards, in Australia, New Zealand, Romania, Turkey, South Africa and are used by many other bodies.

Diagram showing Steps of Optimised Depreciated Replacement Cost Method



SME - Emerging Sector for Bank Finance: Special Initiatives & Measures for its Growth

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Introduction

The Micro, Small and Medium Enterprises (MSMEs) play an important role in the growth and development of Indian economy. Looking their potential to generate employment, foster technical innovation and entrepreneurship, contribution to country's manufacturing output and exports; MSMEs have now assumed Center stage in India's Trade Policy. The MSME sector accounts for about 90% of the total industrial units, contributing about 45% of total manufactured output and nearly 40% of exports. As regards employment it offers jobs to over 42 million people.

Special Initiatives for MSMEs

The Indian SME market is placed at around $ 5 billion. Majority of SMEs in our country are still in the unorganized sector that is facing internal and external challenges in borderless economy. In the present era of globalization, MSMEs necessarily to develop capacities and also need regulatory support for enabling them to be internationally competitive. In this backdrop, MSME has been considered the privileged sector of economy and the policymakers have taken a number of initiaties and policy measures. A few of them have direct bearing on the banking and financial aspects are discussed in the article as under -

Definition of MSMEs

Recognizing the significant contribution of this sector in economic growth and also in employment generation in our country, the policymakers revised the erstwhile definition of 'Small Scale Industries' and it is expanded with inclusion of services & trading activities in the ambit of MSME by enactment of Micro, Small & Medium Enterprises Development (MSMED) Act from 2nd October 2006 Also the Act recognizes the term 'Entriprises' instead of 'Industry' to include service in SME segment. The Micro, Small & Medium enterprises engaged in manufacturing or producing and providing or rendering of services has been defined under the Act on basis of original investment in plant & machinery and equipment as under -

Enterprises	Manufacturing	Service
Micro Enterprises	Up to Rs.25.00 lacs	Up to Rs. l0.00 lacs
Small Enterprises	Above Rs.25.00 lacs to Rs. 500.00 lacs	Above Rs 500.00 lacs to Rs.200.00 lacs
Medium Enterprises	Above Rs. 500 lacs to Rs. 1000.00 lacs	Above Rs. 200.00 lacs to Rs. 500.00 lacs

The advances to Micro & Small enterprises are reckoned as ***priority sector lending*** target of 40% for domestic commercial banks. Though the loan to medium enterprises do not form part of priority sector advances, these enterprises have also given treatment at par with micro and small enterprises by banking industry.

Credit flow to MSME

Under policy package announced by Government of India to step up credit to MSME sector, banks were advised to fix self target for growth in SME sector in order to achieve minimum 20% year on year growth in credit to MSMEs with the objective to double the credit flow to MSME sector within a period of 5 years i.e. from 2005-06 to 2009-10.

Further to have adequate credit flow to the small enterprises, banks are lending minimum 60% of small enterprises advance to the micro enterprises comprising at least 40% of total small enterprises advances to micro enterprises having investment in plant and machinery up to Rs.5 lacs (manufacturing unit) / investment in equipment up to 2 lacs (service) and 20% to micro enterprises with investments in plant & machinery above Rs.5 lacs & up to Rs.25 lacs (manufacturing) / investment in equipments above Rs.2 lacs & up to Rs.10 lacs.

The domestic commercial banks have not given sub-target of lending to MSME under priority sector advances but for foreign banks the advance to MSME sector should not be less than 10% of adjusted net bank credit (ANBC) / credit equivalent amount of off balance sheet (OBS) exposure whichever is higher under that overall target of 32% under priority sector advances.

Registration and timely payment

Registration is optional for MSMEs engaged in providing or rendering of services, however, for a medium enterprises engaged in manufacture or production of good registration is compulsory under section 8 of MSMED Act with such authority as specified by the State Government or Central Government.

The existing provisions of delayed payment to MSEs, have been further strengthened under MSMED Act as under -

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- The buyer to make payment on or before the date agreed on between him and MSE supplier in writing or, in case of no agreement before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- If the buyer fails to make payment of the amount to the MSE supplier, he shall be under obligation to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed upon, at three times of Bank Rate notified by RBI as per provisions of section 15 of the Act
- Besides amendment has been made in the Companies Act, 1956 for disclosure of particulars of dues to MSEs. It has been mandatory to disclose the details of dues to micro and small enterprises and also particulars of interest if any, payable/paid to suppliers as per MSMED Act in the balance sheet.
- Banks have already been advised to fix sub limit within overall working capital limit to the large borrowers (i.e. borrowers enjoying working capital limits of Rs 10 crores and above from the banking system), specifically for meeting the payment obligation in respect of purchase from MSEs.

Collateral security & composite loan

The loan limit up to Rs 5 lacs to MSE borrowers is exempted in general and banks with approval of competent authority may on the basis of good track records and financials position of the MSME units, increase the limit of dispensation of collateral requirement for loans up to Rs. 25 lacs. Loan application of SMEs otherwise viable should not be turned down merely for want of collateral security or 3rd party guarantees.

SME beneficiaries may be sanctioned a composite loan limit of Rs one cores to avail of their working capital and term loan requirement through single window.

Cluster approach and specialized SME branch

To implement recommendation of Gaguly Committee on flow of credit to SSI sector, the concept of MSE cluster has been introduced by adopting 4Cs approach (Customer focus, Cost control, Cross sell & Contain risk) with a view to cater to the diverse needs of the MSE sector through extending banking services to the cluster. Cluster based approach to lending may be more useful in dealing with well defined and recognized groups, availability of appropriate information for risk assessment and monitoring by the lending banks/ FIs. At present 388 clusters have been identified by United Nations Industrial Development Organization (UNIDO) spread over 21 states across the country.

Besides public sector banks have opened specialized SME branches at least one such branch in each district. Further banks have been permitted to categorize their general banking branches having 60% or more of their advances to SME sector as SME branch for providing better services to the SME sector as a whole.

Code of Bank's Commitment

The Banking Codes & Standards Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro & Small Enterprises (MSEs). It is a voluntary code, sets minimum standards of banking practices for banks to follow when they are dealing with MSEs has been adopted almost by all public sector banks. The code provides protection to MSE and explains how the bankers are expected to deal with the sector for day to day operations and to cater to financial requirements of the MSEs.

Credit Insurance for MSEs

A separate and dedicated organization known as 'Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) has been set up by Government of India & SIDBI to insure the collateral free lending to MSE sector by way of credit guarantee. The salient features and conditions to cover the MSE credit under guarantee scheme are as under -

Category	Maximum extent of guarantee cover		
Limit/Loan	Up to Rs.5 lacs	Above Rs.5 lacs up to Rs.50 lacs	Above Rs.50 lacs Up to Rs.100 lacs
Micro Enterprises	85% of the amount in default (maximum of Rs.4.25 lacs)	75% of “the” amount in default (maximum of Rs.37.50 lacs)	Rs. 37.50 lacs plus 50% If amount in default above Rs. 50 lacs subject to overall ceiling of Rs. 62.50 lacs
Women Entrepreneurs /units located in North East Region (incl. Sikkim)	85% of the amount in default (maximum of Rs.4.25 lacs)	80% of the amount in default subject to a Maximum of Rs.40 lacs	Rs. 40 lacs plus 50% of amount in default above Rs. 50 lacs subject to overall ceiling of Rs. 65 lacs.
All other category of Borrowers	75% of the amount in default subject to a maximum of Rs.37.50 lacs		Rs37.50 lacs plus 50% of amount in default above Rs.50 lacs subject to overall ceiling of Rs.62 50 lacs.

- Credit facilities to the MSE beneficiary should be from single lending institution.
- Loan limit up to Rs. One crore both fund based and non-fund based.
- Credit should have been given without collateral and / or third party guarantee
- Lock in period is 18 months
- Rate of interest on such advance should not exceed 3% over BPLR to the borrower
- Minimum period of guarantee cover shall be the agreed tenure of term loan and five years for working capital facilities.
- Amount of premium and guarantee coverage available under the scheme are as under -

Policy Measures - to Face Global Slowdown

The global and consequent domestic economic meltdown has no doubt posed a major challenge to MSMEs to maintain their growth momentum due to steep fall in exports and domestic orders, delayed payment etc. Our policymakers have taken a good numbers of measures that have helped the economy in general and MSMEs in particular to a large extent. Some of the important measures announced and implemented are discussed as under-

- ✓ Adhoc increase in working capital- Banks provided 20% of sanctioned fund based limit to MSME by way of working capital demand loan (subject to maximum of Rs. 2.00 crores) for a period of 12 months with a moratorium of 6 months.
- ✓ Reduced margin in respect of inventory and receivables by 5% including export receivables from the existing margin norms
- ✓ Extended existing holding norms of inventory by another 15 days.
- ✓ Extended moratorium period where project implementation has been delayed.
- ✓ Allowed drawings against domestic receivables up to the age of 180 days against the usual norms of 90 days.
- ✓ Reduced lending rates for MSMEs by 50 to 100 basis points (bps) {1% for Micro & 0.50% for Small & Medium Enterprises}
- ✓ Extended period of export credit at concessional rates i.e. from 180 days to 270 days for pre-shipment and from 90 days to 180 days for post-shipment.
- ✓ Set up regional MSME care centre giving different nomenclature by the banks to facilitate MSMEs for quick redressal of their grievances.
- ✓ Launched two stimulus packages which included, interalia, reduction in duties (across the board cut in Cenvat by 4%), greater thrust on infrastructure, additional export incentives of around Rs. 350 crores, enhancing ECGC guarantee, extension of 2% export subvention to specified sectors etc
- ✓ Provided special refinance fund / limit of Rs. 7000 crores to SIDBI for enlarging the resources base of banks, SFCs, NBFCs, Micro Finance Institution (MIFs)
- ✓ Set up MSME credit monitoring cell by the Ministry of Micro, Small & Medium Enterprises, GOI to oversee the resolution of credit issues of MSMEs by banks.

Basel-II Incentives for Growth of SME Sector

Basel-II recommendation has triggered a fundamental change in the attitude of banks towards borrowers especially SME borrowers. Credit managers have not always good insights into SMEs economics to accurately rate these firms objectively based on the Basel-ll criteria. Particularly, soft facts such as market/ industry position, competence of SME management, operating leverage, character and reliability of firms' owner, history of relationship with its suppliers and business prospects in the local neighborhood in which firm operates. This problem is because of inability of the borrower to present relevant soft facts about the market and business dynamics. Hard facts such as financial statements are traditionally easy to deal with; however, in absence of statistically valid industry benchmarks, it will be difficult for a bank to judge the quality of SME earning and cash flow. In light of informationally opaque with respect to soft facts, SMEs apprehends that even a proactive move to obtain rating may prompt the banks to withdraw the credit line, because the rating turn out worse than what SMEs had expected with a bad rating, the SME will hardly get financing from banks and firms will have to seek alternative financing for which they are ill-prepared, therefore, many SMEs are expected to fail

However, in real life situation it is estimated through some of the studies that application of advanced internal rating based (AIRB) approach under Basel-ll will reduce capital requirement on SME loans from 100% risk weight category of Basel-l provided banks equipped themselves to implement AIRB approaches of risk management in our country. Besides that RBI has allocated lower provisions 0.25% instead 0.40% on standards advances to SME segment that reduces capital requirement to encourage finance to the sector and also lower rate of interest on MSE loan across the board. Thus credit to SME under Basel-ll regime would be enjoying win-win position for banks and entrepreneurs against apprehension of poor credit worthiness of borrowers.

Tasks Ahead

Tasks at National & State Level

Sub-target for MSME, in Priority Sector Lending by Banks -

For strengthening the credit delivery to MSEs, the government announced a policy package for stepping up credit to SME in August 2005 for doubling the credit flow to this sector within a period of 5 years. In this context RBI directed the banks to increase their advance at least 20% per year to SME sector. This has resulted in to a significant increase in the credit flow by Public Sector Banks to SME sector with outstanding from Rs. 67,600 crores as at 31.03.05 to Rs. 190,958 crores at the end of March 2009 and yet the flow of credit to SME sector has not been adequate. Therefore, there is need of setting sub-target for MSMEs say at

15-18% within the overall Priority Sector Lending target of 40% of adjusted net bank credit (ANBC) in case of Public Sector Banks and Private Sector Banks. At present MSME credit comes around 9-10% of the net bank credit. The issue of allocation separate share for MSME within overall target of priority sector for domestic commercial banks is probably under discussion at various forums, which should be made effective within regulatory framework at, earliest to consider MSME finance as preferred sector for finance for it due share in banks total credit.

Streamline credit delivery to MSE sector-

A good number of recommendations have been made by a working group constituted by RBI in its report submitted in April 2008 in recognition of problem faced by MSEs. Government of India, State governments and banking industry needs to consider those recommendations to make smooth and easy access of the credit to MSE sector Some of the important issues addressed by the working group are given below for the information of readers-

- ✓ Creation of an independent rehabilitation fund by Government of India for rehabilitation of SMEs
- ✓ To adapt cost effective and customer centric technology developed in other countries by Department of Science & Technology (GOI) for Indian MSME sector.
- ✓ Set up more ITIs, Tool room training centers etc for training of workforce on latest technology.
- ✓ Creation of Central Registry by State Governments for creation of charges of all banks / financial institutions on all movable & immovable properties of borrowers.
- ✓ State Governments to provide land at 50% of normal rate to set up Industrial Estate exclusively for MSMEs and further 50% capital subsidy on capital cost of common facilities like effluent treatment plant, power plant, etc.
- ✓ Scoring model may be adopted for all advances up to Rs, 2.00 crores and information required for scoring should be incorporated in application form itself. No individual risk rating is required in such cases.
- ✓ Banks may start central Registration of loan application. It may be used for online submission of application as also for online tracking of loan application.
- ✓ Introduce centralized processing cells that may be utilized for single point of appraisal, sanction, documentation, renewal & enhancement. Central Processing Centre should act as the back office of the bank. Bank of Baroda has already implemented this concept by setting up SME Loan Factories at 35 business centers across the country.
- ✓ Consider combined level of stocks & receivables and no separate limit for debtors may be fixed. Banks may allow cash credit / over draft against stock & receivables under one facility.

Tasks at Regional Level

Various forums of industrial associations, district industrial centers and many more have been playing a pivotal role in the growth & development of MSME. To establish a strong linkage and coordination among various government bodies and departments, it is suggested that Lead Bank at district level should shoulder following additional responsibilities under its normal developmental activities for the growth of this sector.

- ✓ Enhance participation of Banks officials in its regular meetings / seminars in order to have business dialogue with them on regular interval.
- ✓ Set up S/WE Club as a voluntary and dedicated group of bankers to oversee the credit flow and banking related issues of MSMEs. The Zonal and Regional Managers, Heads of MSMEs care centers and Central Processing Cells of active player banks in the district may be invited for participation in the club meetings.
- ✓ Undertake a structured study on credit flow to MSME sector in the district to examine reasons for poor credit access to the sector and offer viable recommendation for accelerating credit flow to the sector. Its report may be submitted to District Level Coordination Committee (DLCC) and State Level Bankers Committee (SLBC) conveners for corrective measures proposed to be taken by bankers.

Sum-up

MSME is considered as a growth engine of our economy. The policy makers- i.e. GOI, RBI and barking system are paying their special and focused attention to the sector. The various industrial associations are taking up the problems of IvlSMEs with concerned authorities including banking industry to get them resolved for the growth of the sector in present borderless world. Though the efforts of government to develop mutual understanding of the business between credit givers and users deserve appreciation, there is need to instil certain simple rules of the life by both bankers and borrowers. The bankers to liberalize their systems and procedures of taking decisions today instead tomorrow, change in the mind set from desisting attitude to helping approach and to value the credit business like clinical treatment for healthy growth of clients which should be given at right time with right diagnosis and right doses. While on the credit users front, the money must be taken as invaluable and very precious unit of the blood for their business which should be used for the purpose it is given and to be repaid in time enabling the bankers to offer novel lifeline to the business activities as well as to help the banks to build money bank (like blood bank) very strong and accessible to each needy persons of the society. What is needed is to understand business of each other's and to be partner in the prosperity of the nation for delivering welfare to the society.

"...Together We Win..."

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M/24155
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District,Palakkad 679303

M/24190
Shri Gautam Kumar Saha,
BCOM(HONS), FCA,
FICWA
Dy. Manager (F & A)
O N G C Ltd., Finance &
Accounts Section Room No.
97, Ground Floor, R O
Building, Makarpura
Road,Vadodara 390009

Admission To Associateship on the basis of MOU with IMA, USA
Date Of Admission :
14th September 2009

C/28046
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U.A.E. 50177

C/28047
Mr. Sohail Siddique,
BA(ECON), CMA(USA),
AICWA
Smith International Inc.,
Al-Khobar 31952,
Saudi Arabia 1940

C/28048
Mr. Parag Bhagat,
BCOM(HONS), ACA, CMA
(USA), AICWA
Apt. 26, 450,
Kimberly Dr., Waukesha,
Wisconsin - 53188, U.S.A.

C/28049
Mr. Sunil Appukuttan
Kuttiparambil,
BCOM, CMA(USA), AICWA
Olaya, P.O. 366103,
Riyadh - 11393, Saudi Arabia

C/28050
Mr. Sarkare Faisal Ahmed,
BCOM, CMA(USA), AICWA
P.O. Box 81457,
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C/28051
Mr. Nirmal Kumar C. Kottieth,
BA(ECON), CMA(USA),
CFM, AICWA
Finance Manager, Aerogulf
Services Co. LLC, P.O.
Box 10566, Dubai, U.A.E.

Admission To Associateship
Date Of Admission :
1st October 2009

M/28052
Ms. R. Manjula Devi,
BCOM, AICWA
1/204, Avarappalayam Pirivu,
P.O. Veerapandi,
Tirupur 641605

M/28053
Shri Paresh Vishalal Darji,
BCOM, AICWA
205, Vinay Tower Bldg.
No. 2, Opp. Pleasant Park,
Mira-Bhayandar Road,
Mira Road,Thane 401107

M/28054
Shri Sumedh C. Deshpande,
BCOM, CFA, AICWA
52, Ramsai Symphony
Dwellings, Anand Nagar
Colony, Khairatabad,
Hyderabad 500004

M/28055
Shri Pankaj Garg,
BCOM, AICWA424, Guru
Appartment, Plot No. 2,
Sector-6, Dwarka,
New Delhi 110075

M/28056
Shri Dudala Venkata Ramana,
BCOM, AICWA
C/o. Transpaper (T) Ltd,. Plot
159, Saza Road, Changombe,
P.O. Box 45648, Daressalaam,
Tanzania, East Africa
Dar-Es-Salaam

M/28057
Shri Jyoti Ranjan Ray,
MCOM, LLB, AICWA
C/o. B. S. Pattnaik Sikharpur
(Uppersahi), Cuttack 753003

M/28058
Shri Ram Shashikant Chavan,
MCOM, AICWA
"SHUBHANGAN" Plot No.
2, Pascalwadi, Madh-Via-
Versova, Mumbai 400061

M/28059
Shri Ganesh Babu Jagtap,
MCOM, AICWA
Indira Nagar No. 1, S. V. Road,
Vile Parle (West),
Mumbai 400056

M/28060
Shri Laxmish Hegde,
MCOM, AICWA203,
Millenium Park, A-Wing,
Opp. Kajal Apartments,
Dombivili (W)
Mumbai 402122

M/28061
Shri Rounak Dhirajlal Shah,
BCOM, AICWA
501, 2D Palm Spring, Palm Court
Complex, Malad Link Road,
Mumbai 400064

M/28062
Shri Sachin Balkrishna Shinde,
BCOM, AICWA
11/823, 2nd Floor, Tata Power
House, Borivali (E),
Mumbai 400066

M/28063
Ms Karuna Rajesh Sakharkar,
BCOM, AICWA
403, Vallabh Height, Next to
Vallabh Tower, Purnima Talkies
Area, Murbad Road,
Kalyan (West) 421301

M/28064
Shri Shah Manojkumar Shantilal,
BE, AICWA
B-301, Tirupati Apartments,
Opp. MIG Flats, Karelibaug,
Vadodara 390018

M/28065
Shri Neeraj Somani,
BCOM, AICWAFlat - FA-1,
Tesa Maria Apartments,
Church Road, Perungudi
Chennai 600096

M/28066
Shri Hemal Hasmukhlal Vora,
BE, AICWA
C-709, Veena Sarang CHS. Ltd.,
Near Anandibaikale College,
Sai Baba Nagar Extn., Borivli
(West),Mumbai 400092

M/28067
Shri Amit Prasad,
BCOM(HONS), AICWA
5/11, Buro Shib Tala Main Road,
P.O. Sahapur P.S. Behala,
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M/28068
Shri Bal Kishan Gupta,
BSC, BCOM, AICWA
357, Kucha Ghasi Ram,
Chandni Chowk,
Delhi 110006

M/28069
Shri Dipak Barua,
MCOM, AICWA
31/B, Moore Avenue, P.O.
Regent Park, Tollygunge,
Kolkata 700040

M/28070
Ms Sonali Makode,
MCOM, AICWA
D-4/8, Popular Nagar, Warje-
Malwadi, Bangalore-Mumbai
Highway, Pune 411058

M/28071
Shri Biswaranjan Panda,
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Adipitha, Kazibazar,
Buxibazar, Cuttack 753001

M/28072
Ms Jayalakshmi Sundharesan,
BCOM, AICWA
1215, (New No.10), 3rd Main,
Dr. Ambedkar Layout,
Kavalbyrasandra R T
Nagar,Bangalore 560032

M/28073
Shri V. Krishna Gopal,
BCOM, ICWAI
P.O. Box 52194, Arabian Anti
Piracy Allianie, SH. Zayed
Road, 401, City Tower II,
Dubai, U A EDubai

M/28074
Ms Purnima Gulyani,
BCOM, MBA, AICWA
66, Priyadarshini Vihar, Near
New Gupta Colony,
Delhi 110009

M/28075
Shri Surendra Kumar
Addepalli, MCOM, AICWA
203, Ganesh Residency,
Ganesh Nagar, Behind
Kakatiya Bank,
ChintalHyderabad 500054

M/28076
Shri P. Satish Babu,
BBM, AICWA
Plot No. 375, Netaji Housing
Colony, Near Radio Station,
SAP Camp, P.O.
Kurnool,Kurnool 518003

M/28077
Shri Satish Kumar G.,
BCOM, MBA, AICWA
78/8, 1st Cross, 16th Main,
HMT Layout, Mathikare,
Bangalore 560054

M/28078
Mrs. Nitendra Saxena,
BCOM, AICWA
B-401, Sansar Vihar
Apartments, Plot No. 2,
Sector-3. Dwarka,
Delhi 110076

M/28079
Shri Deepesh Das,
BCOM(HONS), AICWA
C.I.T. Buildings, Flat No. 2,
Block-D, 15, Bechulal Road,
Kolkata 700014

M/28080
Miss Mugdha Ravindra Joshi,
MCOM, AICWA
1451, Sadashiv Peth,
Kashinath Smruti Apts.,
Pune 411030

M/28081
Ms Kekane Meghana Keshav,
MCOM, AICWA
4, Parth Sadan, 89/90
Lokmanya Colony, Kothrud,
Pune 411029

M/28082
Mrs Kinjal Maitrik Diwan,
MCOM, AICWA
A/5, Satellite Plaza Row
House, Nr. Mansi Tower,
Premchandnagar Road,
Satellite, Ahmedabad 380015

M/28083
Shri Parag P Shah,
BCOM, AICWA
D-9, Pragati Nagar, 51,
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M/28084
Shri Sanjeev Kumar Rastogi,
BCOM, AICWA
31/503, HP Nagar (East),
Vasi Naka, Chembur,
Mumbai 400074

M/28085
Shri Biren Kumar Barik,
MCOM, AICWA
Flat No. 7, Girnar Niwas
Co-op Society, Bijlee Nagar,
Chinchwad,Pune 411033

M/28086
Shri Anil Kumar Dosapati,
BA, AICWA
F. No. 204, Surya Towers,
Nr. Venkateswara Temple,
Sainagar, Balanagar,
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M/28087
Miss Anupama Ramani,
BCOM, AICWA
No. 534, 2nd Main, 10th
Cross, MICO Layout,
(N.S. Palya) Bangalore 560076

M/28088
Shri Shaik Farook Musthafa,
MBA, AICWA
Flat No. 103, Teja Sunshine
Apartments, 16 D Cross, 1st
Main, Pai Layout, Old Madras
Road, Nr. TIN Factory
Bangalore 560016

M/28089
Mrs Anita Kuntal Dave,
MCOM, AICWA
11, Bhavin Park Society,
Nr. Vastrapur Railway
Crossing, Vejalpur,
Ahmedabad 380051

M/28090
Miss K. Valliammai,
MSC, MPHIL, AICWA
5/79, MSP Nagar, "Sabari
Illam", Dharapuram 638656

M/28091
Shri Srinath Narayan,
BCOM, AICWA
427, 1st Floor, Padmanabha
Nagar, 9th Main,
Bangalore 560070

M/28092
Shri Alokesh Roy,
BSC, AICWA
Flat - 3, Block - 10,
Building - 3, Salmiya, Kuwait

M/28093
Shri Sandeep Kumar,
BCOM(HONS), AICWA
Bhushan Power & Steel Ltd.,
Flat No. 1A, NH-2, Delhi Road,
Bangihatti, P.O. Mallickpara,
Serampore 712203

M/28094
Shri Harendra Pandey,
BCOM(HONS), AICWA
M-315, RNA Court, Opp.
Phase-III, Behind Poonam
Complex, Mira Road (E),
Thane 401107

M/28095
Shri Sanjay Pukhraj Jain,
BCOM, ACA, AICWA202,
Navkar Darshan, B-Wing, 3rd
Floor, Alster Road, Near Nagina
Hotel, Byculla,Mumbai 400027

M/28096
Shri Prashant Sureshchandra
Sharma, BCOM, AICWA
A Wing / 203, Manodaya
Building, Dattapada Road,
Borivali East, Mumbai 400066

M/28097
Shri Prasanna Kumar Mishra,
BSC, AICWA
At- Arakhapal, PO. Khurusia,
VIA Marthapur DIST.
DhenkanalKhurusia 759023

M/28098
Shri Mishra Pramod Kumar
Harishankar,
BCOM(HONS), AICWA
7/B, Shyama Charan Mukherjee
Byelane, Hathikul,
Konnagar 712235

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Miss R. Vimala,
MCOM, AICWA
No. 29, Dr. Srinivasan Street
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Vellore 635601

M/28100
Shri Rajeev Pushkarna,
BCOM, AICWA
Flat No. 551, Air Force &
Naval Officers Enclave, Plot
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Dwarka New Delhi 110075

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Aminjikarai, Chennai 600029

M/28102
Shri Pradipta Kumar Das,
BSC, AICWA
1031, Vijaya Heritage
(Amarnath), Uliyan, Kadma,
Jamshedpur 831009

M/28103
Shri Dhulipalla Venkata
Rangarao,
MCOM, AICWA
C/o. L I C Sri Hari, A S N
Temple Street, Venkatagiri,
Dist- NelloreNellore 524132

M/28104
Shri K. R. Rakesh,
BCOM, AICWA
Kochuveedu,
P.O. Kothamangalam,
Dist- Ernakulam,
Kothamangalam 686691

M/28105
Shri Harjit Singh,
BCOM(HONS), AICWA
Qtr. No. Villa-A3/42, DSB
Colony, NHPC Ltd., Chenab
Nagar, Kishtwar 182206

M/28106
Shri T. Bhanu Pradeep,
BA, MBA, AICWA
C/o. K V Narayana Rao,
D. No. 11-44-56, II Floor,
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Vijayawada 520001

M/28107
Shri Binoy R.K.,
BCOM, AICWA
"REVATHY", Vivekananda
Nagar, Balaramapuram,
Trivandrum 695501

M/28108
Shri Sunil Yadav,
BCOM, AICWA
341, Yadav Tyre Works, Auto
Market Hisar, Hissar 125001

M/28109
Mrs Bindu Ravi Iyer,
BCOM, AICWA
B-701, Akruti-Vega, Sai Wadi,
Andheri (East),
Mumbai 400069

M/28110
Shri Rasuri Sudhakar,
BCOM, AICWA
S/o. Pitchaiah, 3rd Mile,
Navalok Garden,
Nellore 524002

M/28111
Shri Ramu Lingareddy,
BSC, AICWA
Pidatha Polur (V & P)
Muthukur (M.D.) Nellore
Dist Nellore 524346

M/28112
Shri Srihari Pinamurty,
BCOM, AICWA
C/o. P. Srinivas Rao Hanuman
Nagar, Bissam Cuttack,
Rayagada 765019

M/28113
Shri Deepak Chitrapu,
MCOM, AICWA
122, Ashok Nandavanam,
Iyyapanthangal,
Chennai 600077

M/28114
Ms. Amitha Chandrashekar,
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(FACM)-408, 10th Block,
2nd Cross, Central Township,
HAL Colony, Marathahalli
Post,Bangalore 560037

M/28115
Shri Prashant Tripathi,
BSC, MBL, LLB, AICWA
House No. 61, Sector-7,
Gurgaon 122001

M/28116
Shri Sourabh Gupta,
BCOM, AICWA
C/o. Suniti Sarkar Plot No.
465, Sahid Nagar,
Bhubaneswar 751007

M/28117
Shri Ajay Kumar Agarwal,
BCOM(HONS), ACS,
ACA, AICWA
Flat No. 3B, 3rd Floor,
"Heritage Srijan Tower", Near
ICICI Bank, 188 B,
Manicktala Main Road,
KankurgachiKolkata 700054

M/28118
Shri Hemnath Soundarrajan,
MFM, AICWA
16, Ashton Court, Victoria
Way, Woking, Surrey, United
Kingdom - GU216AL

M/28119
Shri S. Vijay Anand,
BSC, AICWA
9/49, Arunagiri Nathar Street,
T.M.P. Nagar, Padi,
Chennai 600050

M/28120
Shri Satish Sharma,
BCOM, AICWA
C-10, House No. 100,
Yamuna Vihar,
New Delhi 110053

M/28121
Shri Shambhu Kumar Thakur,
BSC, LLB, AICWA
E-120, Delta - I, Greater
Noida, Noida 201308

M/28122
Shri Sukhpreet Singh Bimbra,
BCOM, AICWA
H. No. T-235/11, Hill Marg,
Baljeet Nagar, West Patel Nagar,
New Delhi 110008

M/28123
Shri Sachin Jain,
BCOM(HONS), AICWA
C/o. Shri Baba General Store,
Near State Bank, Subji Mandi
Kosikalan (Mathura)
Karakulam 281403

M/28124
Shri Naga Swathi S.,
BCOM, AICWA
C/o. K V Narayana Rao,
D No.- 11-44-56, II Floor,
Kummari Street,
Vijayawada 520001

M/28125
Mrs Neelima Sunkara,
BCOM, AICWA
D/o. S Papa Rao,
D No.- 40-1/1-14H, Labbipet,
Vijayawada 520010

M/28126
Shri Bhushan Prasad,
BCOM(HONS), AICWA
E-17, Gali No. 12, Mandawali,
Fazalpur, New Delhi 110092

M/28127
Shri Pankaj Bhadula,
BCOM, AICWA
House No. 51, Sector-07, R.K.
Puram, New Delhi 110022

M/28128
Shri Mukesh Kumar Jha,
MCOM, AICWA
D-162, Karam Pura, Shivaji
Marg, New Delhi 110015

M/28129
Ms Annu Sharma,
BCOM, AICWA
V.P.O. Chulkana, House No. 682,
Teh : Samalkha, Dist- Panipat
Panipath 132101

M/28130
Shri Sunil Kumar,
MCOM, AICWA
H. No. 394, Sector - 21 D,
Faridabad 121001

M/28131
Shri B.V.S.R.M.S.N. Murty,
MCOM, AICWA
H. No. 12-11-204, Hanuman
Residency, Brahmin Basti,
Warasiguda,
Secunderabad 500061

M/28132
Shri N V D S A Phanindranath,
MBA, AICWA
Flat No. G1, Venkateswara
Residency, Plot No. 234,
Chandragiri Colony, Safalguda,
Secunderabad 500056

M/28133
Shri G V S Sai Aravind,
BCOM, MBA, AICWA
D-1, Vasant Vihar Apartments,
Behind Moghul Function Hall
Mogalrajpuram
Vijayawada 520010

M/28134
Shri Talapaneni Mahesh,
MCOM, AICWA
25-1-1330, Netaji Nagar,
Nellore - 4, Nellore 524004

M/28135
Shri Sunil Kumar Mohanta,
BSC, AICWA
No. 2, 4th Cross Street,
Thangaraj Nagar, New
Perungallathur, West
Tambaram,Chennai 600063

M/28136
Shri A. Inbasagaran,
MCOM, AICWA
No. 52, First Floor, Second
Cross Street, Anandha Renga
Pillai Nagar,
Pondicherry 605013

M/28137
Ms Revathi G.V.,
BCOM, AICWA
94, 5th Cross, 29th Main,
BTM II Stage,
Bangalore 560076

M/28138
Shri U Jambukumar,
BCOM, AICWA
Old No. 15, New No. 2(1)
Sundaram Nagar II Street
Thirupathi Nagar 4th Main
Road Kolathur
Chennai 600099

M/28139
Shri Chintapalli Subba Rao,
BSC, AICWA
D. No. 9-7-56/1, Md. Ali
Street Gandhi Nagar,
Kakinada 533004

M/28140
Shri Sourav Kumar Manna,
BCOM(HONS), AICWA
C/o. AL Faraa Gen. Cont. Co.
LLC P.O. BOX - 15915
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MCOM, AICWAShantinagar,
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M/28143
Shri Ashish Kumar,
BCOM(HONS),
AICWABlock No. 12,
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M/28144
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MCOM, FCS, AICWA
10-03-20, East Marredpally,
Secunderabad 500026

M/28145
Shri Alex John,
AICWA
Padinjattedahu House,
Malamekkara, Adoor (P.O.)
Dist. Pathanamthitta,
Adoor 691523

M/28146
Shri Rajendrakumar P Kaimal,
AICWA
Flat No. 1202, Sector-R-3,
"C" Wing, Orchid Enclave,
Nihars Amrit Shakti,
Chandivali, Andheri
(East),Mumbai 400072

M/28147
Shri A Gnanasekaran,
MCOM, AICWA
New No. 3 (Old No. 1/2),
Ganapathy Street, West
Mambalam, Chennai 600033

M/28148
Ms. B. Vijayalakshmi,
BCOM, AICWA
No. 57/1, C.G.N.G Street,
Varadharajapuram, Ambattur,
Chennai 600053

M/28149
Shri M Chandra Sekhara Sastry,
BCOM, AICWA
Flat 3 G4, Bhargav Residency,
Plot-18, 19, 20, Sai Narayan
Reddy Colony, Nizampet
Village,Hyderabad 500072

M/28150
Shri Venkata Naveen Lalam,
BCOM, AICWA
301, H. No. 20, Electron
Building, 8th Main, 1st Cross,
Vinayakanagar,
Bangalore 560017

M/28151
Ms Shilpa Girish Peswani,
MCOM, AICWA
202, Jal Darshan CHS Ltd.,
Gorai - 2, Plot No. 67, Borivali
(West), Mumbai 400091

M/28152
Shri Prasanna Kumar Sahu,
BCOM(HONS), AICWA
Qrs. No. 1836, Type-IV, Nehru
Nagar, Nr. Old Central School,
Jail Road, Nashik Road,Nasik
422101

M/28153
Shri Avinash Shridhar Khare,
BCOM, AICWA
B-22, "Samruddhi", Rajarshi
Shahu Society, Pune-Satara Road,
Pune 411037

M/28154
Shri Vijay Rameshchandra
Mandaliya, MCOM, AICWA
B/9, Takshashila Apartment,
Opp. Jethabhai Park, Narayan
Nagar Road, Paldi,
Ahmedabad 380007

M/28155
Ms Rabeka Sinha,
BSC, AICWA
C/o. Dilip Kumar Dutta,
58/107, R. K. Road, Chatra,
Mannapara, Serampore,
Dist- Hooghly
Serampore 712204

M/28156
Shri Prakash Kumar Puhan,
BCOM, AICWA
C/o. Bhabani Shankar Pattnaik,
At. Sikharpur, Upper Sahi, Near
New Mal Godown Road, P.O.
College Square,Cuttack 753003

M/28157
Shri Rajesh Kumar Das,
BCOM(HONS), AICWA
R - 210/6, Cotton Mill Lane,
P.O. Badartala, Kolkata 700044

M/28158
Shri Gyanaranjan Dalai,
BCOM(HONS), AICWA
S/o. Chandramani Dalai, Plot No.
1014, Near Mangala Temple,
Jharupara Village,
Bhubaneswar 751006

M/28159
Shri Amit Kumar Sanki,
MCOM, AICWA44,
Panchabati, PO-Natagarh,
Dist-24 Parganas(N), Sodepur
Kolkata 700113

M/28160
Shri Harinder Kaur,
MCOM, AICWA
B-II, 704/2, Satnam Nagar,
Near New Grain Market,
Jalandhar City 144008

M/28161
Mrs M.S. Sudha,
MCOM, AICWA
Flat No. 3, PRR Homes, Plot
No. 1, Ganesh Nagar Main
Road, Adambakkam,
Chennai 600088

M/28162
Shri Prashant Balaji Narnaware,
MCOM, AICWA
H. No. 48/15, Ground Floor,
1st Cross, Cambridge Layout,
Halasuru, Bangalore 560008

M/28163
Shri S. Krishna,
BCOM, AICWA
No. 25, New Corporation
Quarters, Jakkarayanakere,
Sheshadripuram,
Bangalore 460030

M/28164
Shri Sathish Borker S,
MCOM, AICWA
C/o. Triveni Silks Sarees,
Prabhu Complex, Near Bus
Stand, Moodbidri
Moodbidri 574227

M/28165
Shri Sidhartha Das,
BCOM, MBA, AICWA
Plot No. 220, Unit-3,
Khanavela Nagar,
Bhubaneswar 751001

M/28166
Shri Vijay Bhagwanrao Shrotre,
ME, AICWA
`Mahur`, Plot No. 24,
Sahkarnagar,
Aurangabad 431005

M/28167
Shri Satyajit Mohanty,
MCOM, AICWA
N H P C Ltd., Salt Lake,
Sector-V, Block - DP, Plot No.
3, Kolkata 700091

M/28168
Shri A.R. Rajesh,
BBM, AICWA
Sampengi Nilayam, 235,
Mayor Nagar, 10th Street,
Peramanur East,Salem 636007

M/28169
Shri Parag Somani,
BCOM, AICWA
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M/28170
Mrs Padma Sopan Shinde,
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M/28171
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BCOM, AICWA
No. 1, Ist Floor, VI Cross
Extn., Kumaran Nagar
Lawspet, Pondicherry 605008

M/28172
Shri Gostha Behari Jana,
MCOM, AICWA
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Avenue South),
Santoshpur,Kolkata 700075

M/28173
Shri Ajaya Kumar Das,
MCOM, AICWA
C/o. Jatindra Singh, Thoriasahi,
Mangalobag, Cuttack 753001

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Date of Admission : 30th October 2009

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PEOPLE AT THE HELM

Shri M. K. Mittal, Member of ICWAI has been appointed as Director (Finance) in Hindustan Organic Chemicals Limited, Mumbai by Government of India, Ministry of Chemicals & Fertilizers. Prior to this assignment, Shri Mittal was Zonal Manager (North Zone) in Rural Electrification Corporation Limited, Chandigarh. We wish Mr. Mittal the very best in all his future endeavours.

HEARTY FELICITATIONS

Shri Sanjoy Bhattacherjee, member of our Institute (M-9706), B.Com, LLB has been promoted as DGM (Finance) in Power Grid Corp of India Ltd. He was working as Chief Finance Manager (CFM) as well as Head of Finance. He is Patron of Patna Chapter of Cost Accountants. We wish him all the best in all his future endeavours.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament in the year 1944-founder member of IFAC, CAPA & SAFA)

WESTERN INDIA REGIONAL COST CONFERENCE 2010

Dear Sir/ Madam,

We have the pleasure to inform you that the Western India Regional Cost Conference is being hosted by the Aurangabad Chapter of Cost Accountant of the 1C WAI on 11th Feb and 12th Feb 2010 in the Historical City of Aurangabad in Marathwada.

The theme is "Challenges of Change - IFRS, GST & Direct Tax Code"

The Institute of Cost and Works Accountant of India (ICWAI) has been set up under an Act of Parliament. Since 65 years, ICWAI is the apex and only statutory body in India engaged mainly in promoting and developing cost and management accounting profession. With a mission of producing world class Management Accountants, to take up the cost leadership challenge in the emerging economy.

The Institute operates with more than 180,000 students and 40,000 overall members spread all over the country and abroad. The institute operates through its four regional councils, 104 chapters including 6 overseas centers.

Aurangabad chapter of cost accountants has come a long way in the last 20 years. It started with 2 students in 1989. The small dream of the fastest growing Asian city then has now resulted in student strength of 800 per year. The success of this chapter has grown further with addition of more than 60 cost accountants in the last two years.

With the signs of the recovery in global economy and stable political situation in the country makes a cohesive situation to take up the pending reforms. The Union government in its agenda has already announced series of Accounting and Tax Reforms. The theme of the two days regional cost conference is appropriately chosen based on current topics of importance like I FRS, GST , Valuation and Cost Management.

I FRS is a common base that should lead to create greater transparency, comprehensibility, usefulness for users and comparability on a global scale. With business turning global, it is important that investors are able to compare companies under similar standards. Likewise, it is important for businesses operating in multiple countries to be able to create financial statements that are understandable in all of the countries they operate in.

Goods and Services Tax, the second biggest tax reform of the country is under wide discussions and debate. The success of VAT implemented by the States has led to the next major step of the reform to look for the unified tax system of indirect taxes. World wide our country depicts a true picture of "Unity in Diversity", the same is expected through this tax reform.

“CHANGE AND PAIN ARE SYNONYMOUS
&
SUCCESS DEMANDS WE DEAL WITH BOTH”

Our effort through this seminar is to make each stakeholder of this reform to know the correct implications of the same. It shall help to understand better and to overcome the CHALLENGES of CHANGE under IFRS and GST.

Eminent resource persons from renowned institutes, business schools, industry, service sector, and government department will present their views on the technical sessions. We are confident that the deliberations in the Technical sessions will be of very high quality which will enrich the delegates and will also facilitate the industry, Business Houses, Practitioners, and Students to enhance and sustain competencies under changing reforms.

This convention will benefit the CEOs, CFOs, Managers, Management Accountants, Professionals and Management team members of all enterprises. This will also benefit to the students of the professional courses in the field of Accounting, Taxation, and Management.

Your kind support is solicited for the following:

Providing entries for delegates
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While appreciating your continued support to this profession, we expect all co-operation and guidance from you for making this conference a great success.

Aurangabad chapter is looking forward to host you in the wonderful tourist city of Aurangabad. Wishing you a very happy and prosperous New Year 2010!!!

With Warm Regards

Sanjay Mundade	A R Joshi	M R Pandit	R P Gore	R G Modani
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Contact us at : Aurangabad Chapter of Cost Accountants, Ph no 0240-235 1848, Telefax 0240-232 1828, Mobile 094231 47312 (Shirish) Email : rcc2010@rediffmail.com, aurangabad@icwai.org, wircc2010@Qmail.com

Western India Regional Cost Conference 2010
Challenges of Change – IFRS, GST and Direct Tax Code
Day 1 : 11th February 2010, Thursday

9.00-9.30	Registration
9.30-10.00	Interaction of delegates with members
10.00-11.00	Inaugural Session
11.00-11.30	Tea Break
11.30-13.00	Technical Session 1 IFRS
13.00-14.00	Lunch Break
14.00-15.00	Challenges of Change: Industry perspective
15.00-15.15	Tea Break
15.15-17.45	Valuation management and Risk Management
17.45 onwards	President address to WIRC Chapters Meet, Cultural evening

Western India Regional Cost Conference 2010
Challenges of Change – IFRS, GST and Direct Tax Code
Day 2 : 12th February 2010, Friday

10.00-11.00	Inaugural Speech
11.00-11.30	Interaction with Guests by Members, Delegates (Tea Break)
11.30-13.00	Technical Session 1 Goods and Services Tax
13.00-14.00	Lunch Break
14.00-15.30	New Direct Tax Code
15.30-15.45	Tea Break
15.45-16.45	Valedictory: Challenges of Change– How to Steer? *Remarks from ICWAI – President and Key members, CCMs*
16.45 onwards	Vote of thanks and National Anthem

Western India Regional Cost Conference 2010

Challenges of Change

-IFRS, GST, and Direct Tax Code

Dates : 11th & 12th February 2010

Venue : Tapadiya Natya Mandir
Nirala Bazar, Aurangabad
Maharashtra, India

Western India Regional Cost Conference 2010
Challenges of Change – IFRS, GST and Direct Tax Code

CATEGORY	FEES
COMPANY DELEGATE	3000/-
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Fees includes Souvenir, Technical Literature, Lunch and high teas for both the days

Our travel help desk shall provide assistance for outstation delegates to suitable accomodation at Aurangabad and to sight seeing tours at reasonable costs.

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Aurangabad Chapter of Cost Accountants
(*Efforts of last 20 years)*

Ministry of Finance, Government of India
Circular No. 31/2009-Cus

F.No.: DGEP/G&J/490/2006
Govt. of India
Ministry of Finance
Department of Revenue
Central Board of Excise & Customs
Directorate General of Export Promotion

New Delhi, the 24th November, 2009

Sub: Setting up Private/Public bonded warehouse for diamonds and gemstones for import and re-export therefrom-reg.

Attention is invited to erstwhile scheme for setting up private/public bonded warehouse in SEZ/DTA for import and re-exports of cut & polished diamonds, cut & polished colored gems stones, uncut & unset precious & semi precious gemstones, subject to achievement of minimum value addition of 5% under paragraph 4A.18 of the Foreign Trade Policy 2004-09. This scheme has now been deleted from the Foreign Trade Policy 2009-14 announced on 27.08.2009 by DGFT.

2. The erstwhile scheme (para 4A.18 of FTP 2004-09) was in operation vide Board's circular No. 28/98-Cus dated 24.04.1998 and clarification issued vide circular No. 47/99-Cus dated 27.07.1999.

3. In view of withdrawal of the scheme for setting up private/public bonded warehouse for diamonds and gemstones from Foreign Trade Policy 2009-14, no new private/public bonded warehouse license can be allowed for bonding of diamonds and gemstones for import and export thereform. Further, such a facility can also not be allowed for non-dutiable goods in term of section 57 of the Customs Act, 1962.

4. Accordingly, the circular No. 28/98-Cus dated 24.04.1998 stands withdrawn to the above extent.

5. As a transitory arrangement for the existing warehouses to surrender the bonding license, a period of three months is granted from the date of issue of this circular. For this three months period, diamonds and gemstones may be deemed as dutiable goods for the purpose of regulatory control and the procedure of ex-bonding of dutiable goods shall be followed. However, bonding of these goods shall not be allowed in the existing warehouses.

6. Wide publicity may please be given to these instructions by way of issuance of Public/Trade Notice. Suitable Standing orders/instruction may be issued for guidance of the field officers. Difficulties, if any, in implementation of these instructions, may be brought to the notice of the Directorate General of Export Promotion.

7. This issues with the approval of Central Board of Excise & Customs.

8. Receipt of this circular may kindly be acknowledged.

Yours faithfully
(Praveen Mahajan)
Director

Circular No. 32/2009-Cus.

F.NO.605/61/2007-DBK
Government of India
Ministry of Finance
Department of Revenue

New Delhi, the 25th November 2009.

Sub: Revised norms for execution of Bank Guarantee under specified Export Promotion Schemes - Modifications in Circular No.17/09-Cus dt.25.05.09 - reg.

I am directed to invite your attention to Circular No.17/2009-Cus. dated 25.05.2009 (herein after referred to as 'the said circular') vide which revised norms for execution of Bond / Bank Guarantee (BG) in respect of imports made under the Advance Authorization / Export Promotion Capital Goods/Duty Free Import Authorization Schemes were notified and to say that, representations have been received to clarify, whether the status holders other than 'Star Export House' are entitled for 'nil' BG in terms of sl.No.(c) of the Table appended to para 2.1 of the said circular.

2. The issue has been examined by the Board. The circular no 17/09-Cus. had amende circular No.58/2004-Cus which was issued in the light of the provisions of the 2004-05 edition of the Foreign Trade Policy (FTP).The FTP-2004 recognized five categories of Status Holders viz. One star /two star / three star /four star and five star Export Houses. The circular No. 58/2004-Cus extended the benefit of 'nil' BG to all the five categories through a common phrase 'Star Export House' under sl.No.

(c) of the Table. The intention of the circular no 58/2004-Cus was therefore to extend the benefit of 'nil' BGto all the status holders.The sl no. (c) of the table remained unchanged in circular No. 17/09-Cus.

3. As the above categories are now known as Export House, Star Export House, Trading House, Star Trading House and Premier Trading House respectively in terms of para 3.10.2 of the current FTP, the benefit of 'nil' BG should also be extended to all categories of status holders.The words 'Star Export House' appearing under sl. No. (c) of the Table may therefore be read to mean 'Status Holders recognized under the provisions of the Foreign Trade Policy'

4. These instructions may be brought to the notice of the trade / exporters by issuing suitable Trade / Public Notices. Suitable Standing orders/instructions may be issued for the guidance of the assessing officers. Difficulties faced, if any, in implementation of the Circular may please be brought to the notice of the Board at an early date.

Receipt of this Circular may kindly be acknowledged.

Yours faithfully,
(P.V.K. Rajasekhar)
OSD (Drawback)

CIRCULAR NO.33/2009-CUSTOMS

F.No.609/67/2009-DBK
Government of india
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
CENTRAL BOARD OF EXCISE & CUSTOMS

New Delhi, the 27th of November, 2009

To
All Chief Commissioners of Customs
All Chief Commissioners of Customs & Central Excise/Central Excise
All Director Generals under CBEC/ DG, CEIB/ CDR, CESTAT
All Commissioners of Customs, Customs (Preventive)
All Commissioners of Customs & Central Excise/Central Excise

Sir/Madam,

Subject: Introduction of new entries in the Drawback Schedule and clarification on certain issues-reg.

The Ministry has issued notification No. 175/2009 Customs (NT) dated 27th November, 2009 introducing the following new entries in the present Drawback Schedule:-

a) Gold and silver jewellery (711301 & 711302);
b) Rounder's bat, wooden (sports goods) (95069963);
c) Bells, gongs, statuettes, ornaments, picture frames etc of Aluminium and Iron & steel (830603 & 830604);
d) Leather Safety Footwear with protective metal toe (640311);
e) Jars, perfume bottles, candle plate/ coasters, votive, lotion bottle/soap dish, ornamental spheres/ stars/ bells made of glass (70139991);
f) Lanterns/ lamps predominantly of glass (940506).

2. The notification is available at CBEC website www.cbec.gov.in and may please be perused for details. The drawback rates and caps on other items remain unchanged. Thus, the drawback schedule which was announced vide notification NO. 103/ 2008-Cus (NT) dated 29th August, 2008 as amended shall continue to be in operation until a revised schedule is notified.

3. The drawback ates provided for gold & silver jewellery will only be applicable for exports made through the ports / custom houses as specified in para 4A.12 of the Hand Book of Procedures (vol.1), 2004-2009 after examination by the jewellery expert appraisers/superintendents to ascertain the quality of gold/silver and the quantum of gold/silver in the exported items. It may be noted that the drawback rate provided for gold & silver jewellery is a specific rate in terms of rupees per unit weight of net content of gold/silver in the jewellery. The drawback rates for gold & silver jewellery are equal to the prevalent import duty on gold/silver.

4. The drawback rates provided for gold & silver jewellery and parts thereof shall not be applicable to goods manufactured or exported in discharge of export obligation against any scheme of the relevant Export and Import Policy or the Foreign Trade Policy of the Government of India which provides for duty free import/replenishment/procurement from local sources of gold/silver.

5. It is requested that the export of gold and silver jewellery and parts thereof, which are high value items and for which a drawback entry is being introduced for the first time, may be closely monitored. A monthly report indicating the quantum of such exports and drawback availed may be sent to the board for the next six months beginning December 2009 and upto May 2010.

6. The drawback rates provided for bells, gongs, statuettes, ornaments, picture frames etc of Aluminium and Iron & steel; Jars, perfume bottles, candle plate/ coasters, votive, lotion bottle/soap dish, ornamental spheres/ stars/ bells made of glass; and Lanterns/ lamps made predominantly of glass are the same as the drawback rates presently applicable to artware/ handicraft items made of the respective constituent material. The new entries have been created with a view to minimise disputes in classification of artware/handicraft items.

7. It may be seen that lamps made of brass, copper, iron and aluminium are already covered under tariff items 940502, 940503, 940504 & 940505 respectively of the drawback schedule. These tariff items may also be taken to include lanterns made of the respective constituent material and the criteria of predominance of constituent material which has been incorporated in the tariff item 940506 (Lanterns/ lamps made predominantly of glass) may be adopted for classification of items in these tariff items also.

8. Representations have been received from FIEO, the Indian Silk Export Promotion Council and others that embroidered silk fabric should be extended the same drawback rate as plain silk fabric. Silk fabric with embroidery is being classified under heading 5810 of the drawback schedule at some ports. The drawback rate applicable on embroidery under heading 5810 of the drawback schedule is at 5.7% with cap of Rs. 25.2/kg. On the other hand, the drawback rate for silk fabric falling under heading 500701 of the drawback schedule is 9.8% with cap of Rs. 295/kg. The issue has been examined by the Board. The drawback rates for heading 5007 were based on the understanding that silk fabrics, whether plain or embroidered, would be classified under this heading. It is therefore clarified that till a new drawback schedule is notified, silk fabrics with/without embroidery may be extended the same rate as prescribed against the applicable sub headings under heading 5007 of the drawback schedule. Past cases, if any, pending on this score may be settled accordingly.

9. A suitable Public Notice and Standing Order may be issued for the guidance of the trade and staff.Difficulties faced, if any, in implementation of the Circular may be brought to the notice of the Board at an early date.

Receipt of the Circular may kindly be acknowledged.

Yours faithfully,
(PRAMOD KUMAR)
TECHNICAL OFFICER (DBK)

F. No. 401 /148/2008-Cus-III

Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise & Customs

New Delhi dated the 3rd December, 2009

All Commissioners of Customs / Customs (Prev.).
All Commissioners of Customs & Central Excise.

Subject: Implementation of the decisions taken by MoEF in respect of Hazardous Waste (Management, Handling and Transboundary) Rules, 2008.

Sir/Madam,

Please refer to the Board's instructions of even number dated 24.8.2009 and 15.10.2009 and the Notifications No. S.O. 2447 (E) dated 23rd September, 2009 and S.O. (E) 1799 dated 21st July, 2009 issued by the Ministry of Environment and Forests (MoEF) on the above mentioned subject.

2. In this regard, it is stated that the Ministry of Environment and Forests (MoEF) held a meeting on 17.11.2009 with the State Pollution Control Boards (SPCBs), Central Pollution Control Board and CBEC to ascertain the status of registration process taken up by the SPCBs concerned and the difficulties faced by the trade in complying with the provisions of the aforesaid Rules.

3. After deliberations, the MoEF has clarified vide its 0.M.F.No.22-27/2006-HSMD dated 24.11.2009 on the following points:

(i) The SPCBs will register the traders at the earliest as per Form - I of the Hazardous Waste (Management, Handling and Transboundary) Rules, 2008. The Form - I, is the form for obtaining authorisation for collection / reception / treatment / storage / disposal of hazardous waste. Hence, certain columns of the forms such as SI.No.4 to 7 in Part A, SI.No.8(a) to 8(c) and 9 in Part B, and SI.No.1 0 in Part C, are not applicable for the importers who are not actual users in respect of ** (double asterisk) category of waste listed in Schedule III of Part B to the aforesaid Rules. However, the importers should intimate the Import Export Code (IEC) No. to the SPCBs. Further, it has been clarified that the traders need to register for import on behalf of actual users with only one SPCB.

(ii) The time given for traders to get themselves registered with SPCBs has been extended by MoEF for another two months i.e. from 30.11.2009 to 31.1.2010. In the meantime, imported shipments of ** (double asterisk) category of waste listed in Schedule III of Part B would, be cleared by Customs authorities subject to all other conditions being met i.e. they must accompany by Movement Document in Form 9 and Pre-shipment Inspection Certificate and random inspections by Customs authorities.

(iii) The MoEF has explained that prior to the issue of Notification dated 21.7.2009, import of metal scrap was being allowed without any restriction (i.e. there was no distinction between actual user and trader). The difficulty experienced as a result of 21.7.2009 notification has been addressed by the subsequent amendment Notification dated 23.9.2009. The purport of the Rules is to ensure that metal scrap which is otherwise allowed to be imported without MoEF permission and DGFT licence is not mixed with other illegal waste.

Therefore, MoEF had clarified that the Customs authorities shall be instructed to clear the consignments imported by traders during the interim period from 21.7.2009 to 23.9.2009 subject to the fulfilment of other essential conditions namely Form 9 (Movement Document), Pre-shipment Inspection certificate and random inspection by Customs authorities to ensure that the consignment contain only permitted metal scrap as per declaration.

4. In view of the above, Board hereby instructs that the above clarifications communicated by MoEF may be implemented by all the Customs field formations. The designated nodal officers in each of the Commissionerates may be requested to liaise with the respective State Pollution Control Board for effective implementation of the above clarifications / decisions of the MoEF.

Yours sincerely,
(Navraj Goyal)
Under Secretary (Customs Policy)
Tel. 2309 4182

Circular No 906/26/2009-CX

F.No. 208/1/2005-CX 6
Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise & Customs

New Delhi, dated 3rd December, 2009

To,
All Chief Commissioners of Customs and Central Excise (including LTU),
All Director Generals,
All Commissioners of Customs and Central Excise (including LTU)
Madam/Sir,

Subject : - Circular No. 824/1/2006-CX-Clarification regarding prospective implementation of orders - regarding.

Attention is invited to Board's Circular No. 824 /1 /2006-CX dated 16th January, 2006 on the aforesaid subject. It has been reported that some of the Commissionerates have taken a view that once an order has been passed on issues like classification/ valuation etc., in that case, all subsequent removals must follow the said order even though appeal of the assessee against the said order is pending. It has further been reported that in case of removal without conforming to the said order, the goods have been seized on the ground that these have been cleared in violation of the order passed by the Adjudicating Authority.

2. The issue has been examined. It is clarified that the said circular nowhere provided for seizure of goods, which are cleared not in conformity with the adjudication order when the appeal against the said order is pending. Therefore, in such cases protective show cause notices should be issued to safeguard the revenue, and seizure of goods only for the aforesaid reason should not be effected.

3. Trade & Industry as well as field formations may be suitably informed.

4. Receipt of this circular may kindly be acknowledged.

5. Hindi version will follow.

(Madan Mohan)
Under Secretary to the Government of India

Circular No. 907/27/2009-CX
F.No.267/141/2009-CX8

Government of India
Ministry of Finance
Department of Revenue
(Central Board of Excise & Customs)

New Delhi, dated the 7th December, 2009.

All Chief Commissioners of Central Excise (including LTU),
All Commissioners of Central Excise (including LTU),
All Director Generals.
Sir/ Madam,

Subject: Clarification on issues related to reversal of cenvat credit on WIP/ finished goods written off in the books of accounts -reg.

References have been received from field formations stating that as per Rule 3(5B) of CENVAT Credit Rules, 2004, if the value of inputs is fully written off, then the manufacture is required to pay an amount equal to cenvat credit taken. However, there is no provision to demand reversal of credit taken on inputs which have gone into manufacture of work in progress (WIP), semi finished goods and finished goods which have also been written off fully in the books of accounts.

2. The matter has been examined. Rule 3(5B) of the CENVAT Credit Rules, 2004, provides that if the value of any input on which cenvat credit has been taken is written off fully in the books of accounts, then the manufacturer is required to reverse the credit taken on the said input. As far as finished goods in concerned, it is stated that excise duty is chargeable on the activity of manufacture or production. Even though liability for payment of tax has been postponed to the time of removal of goods for the factory, but still the legal liability to pay the excise duty has been fastened on the goods, when it has been manufactured or produced. Therefore, normally all goods manufactured suffer excise duty at the time of removal, but if the manufactured goods are destroyed due to natural causes etc., Rule 21 of Central Excise Rules, 2002, provides for remission of duty. Further, Rule 3(5C) of CENVAT Credit Rules, 2004, also requires reversal of credit on the inputs when the duty is ordered to be remitted under the said Rule 21. Therefore, if the goods have been manufactured, in that case, a manufacturer is liable to pay excise duty unless duty is remitted under Rule 21. Therefore, if the value of finished goods is written off, the manufacturer would be liable to pay excise duty or he would be required to reverse the credit on the inputs used, if duty has been remitted on finished goods.

3. As regard writing off work in progress (WIP), it is stated that if the WIP has reached the stage, when it can be considered as manufactured goods, in that case, the same treatment as applicable to finished goods, discussed in para2 above would apply. However, if the activity carried out on the WIP goods cannot be considered as amounting to manufacture, in that case, the said goods should be considered as input and the treatment for reversal of credit applicable to input would be applicable.

4. Trade & Industry as well as field formations may be suitably informed.

5. Receipt of this circular may kindly be acknowledged.

6. Hindi version will follow.

Yours faithfully,
(Amish Kumar Gupta)
OSD (CX-8)

Circular No. 909/29/09-CX
F.No. 6/4/2009-DS (CX.1 & 4)

Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise and Custom

New Delhi, the 11 December 2009

Director General (All)
Chief Commissioners of Central Excise including LTU (All)
Commissioners of Central Excise (All)
Sir/Madam,

Subject: Inclusion of After Sale Service and Pre-delivery Inspection Charges in the assessable value.

Please refer to the Minutes of the Conference of Chief Commissioners at Shillong on 30th and 31st October 2009 with regard to the issue mentioned above at point No 2.9.

2. On this issue, the Board has vide point No 7 in circular No. 643/34/2002-CX dated 1-7-2002 clarified as follows:

What about the cost of after sales service charges and pre delivery inspection (PDI) charges, incurred by the dealer during the warranty period?	Since these services are provided free by the dealer on behalf of the assessee, the cost towards this is included in the dealer's margin (or reimbursed to him). This is one of the considerations for sale of the goods (motor vehicles, consumer items etc.) to the dealer and will therefore be governed by Rule 6 of the Valuation Rules on the same grounds as indicated in respect of Advertisement and Publicity charges. That is, in such cases the after sales service charges and PDI charges will be included in the assessable value.

3. The tribunal in the case of Maruti Udyog Limited [2004 (170) E.L.T. 245 (Tri. - Del.)] held that these charges are not includible in the assessable value as these do not accrue to the manufacturer. But recently, the Tribunal has in the case of Maruti Udyog Ltd, [2009 (238) ELT 186 (T-Del)] doubted the correctness of its earlier decision referred to above, and referred the following question for consideration by a Larger Bench.

"Whether the charges towards pre-delivery inspection and after-sale-services received by dealers from buyers of the cars are to be included in the assessable value of cars in the light of the definition of 'transaction value' given in Section 4(3)(d) of the Central Excise Act."

4. Further, the Supreme Court has in the case of Grasim Industries (C.A. No.3159/2004), referred the question as to whether the concept of transaction value under new Section 4 has made any material departure from deemed normal price concept of erstwhile Section 4(1)(a) of the Act for consideration of the Larger Bench.

5. In view of the above decisions referring the matter to larger bench, the conference was of the view that in this matter show cause notices should be issued demanding duty on the value of these activities, and transferred to Call Book pending the decision of Larger Bench on the issue.

6. The view expressed in the Chief Commissioners Conference has been accepted by the Board and accordingly you may direct the officers in your jurisdiction to continue issuing show cause notice and transfer them to call book, pending the decision of larger bench on the issue.

7. Receipt of this circular may be acknowledged

8. Hindi version would follow.

Yours faithfully
Madan Mohan
Under Secretary (CX.1)
F.No. 6/44/2000-CX1

Circular No. 910/30/2009 - CX
F No 6/3/2009-DS (CX 1 & 4)

Government of India
Ministry of Finance
Department of Revenue
Central Board of Central Excise &Customs

New Delhi, the 16 December 2009

To
All the Chief Commissioners of Custom and Central Excise
Director General (CEI), Director General (Audit), Director General (Inspection)
Sir

Subject : Clarification regarding labelling and repacking etc. amounting to manufacture.

It has been brought to the notice of Board that certain dealers are receiving liquid chemicals in bulk in containers and offloading the same at the dealers' premises or godown into drums of 200ltrs for subsequent marketing of these materials to customers. Doubts have been raised as to whether such activity would amount to manufacture in terms of Chapter Note 10 to Chapter 29. As the said Chapter Note has been amended in 2008 budget, it has been contested that the said activity is covered by the present wordings of the Chapter note. The relevant portions of the chapter note reads as under:

Before Amendment (1.03.2008)

10. In relation to products of this Chapter, labelling or relabelling of containers and repacking from bulk packs to retail packs or the adoption of any other treatment to render the product marketable to the consumer, shall amount to 'manufacture'.

After amendment (1.03.2008)

10. In relation to products of this Chapter, labelling or relabelling of containers or repacking from bulk packs to retail packs or the adoption of any other treatment to render the product marketable to the consumer, shall amount to 'manufacture'.
2. Whether an operation amounts to repacking from bulk packs to retail packs or not, is a question to be decided on facts. However before examining the implication of the substitution of word 'and' by 'or', it is necessary to examine whether the activity itself is covered by term repacking from bulk packs to retail packs. Hence the first issue which needs to be decided is whether the "container/ lorry tanker" can be considered as bulk pack.
3. Tribunal has in the case of Ammonia Supply Co. [2001 (131) ELT 626 (T)], held that "As per Note quoted above, labelling or re-labelling of the container should take place at a time when the goods are packed from bulk packs to retail packs. The assessee was not getting Ammonia in bulk packs. They were getting it in tankers. Ammonia gas brought in tankers can never be termed as brought in bulk packs. So the assessee was not repacking the goods from bulk packs to retail packs. Accordingly the activity undertaken by the assessee in filling the smaller container from bulk container namely tankers can never fall within the fiction of manufacture as envisaged by Note 10 quoted above."
4. Therefore the tankers cannot be termed as bulk packs and therefore the activity of transferring the goods from tankers into smaller drums cannot be said to be covered by the said chapter note 10.
5. Pending cases may be disposed of accordingly.
6. Hindi version will follow.

Yours faithfully
Madan Mohan
Under Secretary (CX 1)

F.No.267144/2009-CX 8

Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise and Customs

New Delhi dated 25.11.2009

To,
The Chief Commissioner of Central Excise,
Bangalore Zone,
Madam,

Subject:- Credit of duty under Rule 16 of Central Excise Rules, 2002 on goods brought into the factory-reg.

Please refer to your reference dated 02.04.09 issued from C.No.IV/16/267/2008 C.C.C.Ex(Bz) on the above referred subject matter.
2. The matter has been examined. The Rule 8(2) of the Central Excise Rules, 2002, provides that "the duty of excise shall be deemed to have been paid for the purposes of these rules on the excisable goods removed in the manner provided under sub rule(1) and the credit of such duty is allowed, as provided by or under any rule". This provision explains that the invoice of the returned goods, would be a valid document for availing credit and duty is deemed to have been discharged. Regarding availing credit on its own invoice, Rule 16(1) of the Central Excise Rules, 2002, allows the assessee to do so. In any case, the whole procedure is revenue neutral, in the sense as the duty has to be discharged by the 5th of next month.
3. In view of above, it is clarified that credit on rejected/ returned goods, received in the factory before prescribed date for duty payment, can be allowed to be taken under Rule 16(1) of the Central Excise Rules, 2002.

Yours faithfully,
(Amish Kumar Gupta)
OSD (CX-8)

Copy to:- The Chief Commissioners of Central Excise(All) (including LTU) for information please.

F.No.267141/2009-CX8

Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise and Customs

New Delhi dated 07.12.2009

To,
The Chief Commissioner of Central Excise,
Coimbatore Zone.

Subject:- Leviability of duty on capital goods cleared after being put into use for over 10 years-reg.

Please refer to your letter dated 22.11.08 issued from C.No. IV/16/203/2008-Tech (CCO) on the above referred subject matter.
2. The matter has been examined. It is clarified that in view of specific provisions under Rule 3(5A) of the CENVAT Credit Rules, 2004, if the capital goods, on which cenvat credit has been taken, are cleared as waste and scrap, even after a period of 10 years, an amount equal to the duty leviable on the transaction value for such capital goods cleared as waste and scrap, would be payable.

Yours faithfully,
(Amish Kumar Gupta)
OSD (CX-8)

Copy to:- The Chief Commissioners of Central Excise(All) (including LTU) for information please.

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART II, SECTION 3, SUB-SECTION (i)]

Government of India
Ministry of Finance
(Department of Revenue)

New Delhi, the 2nd December, 2009

Notification No. 43/2009-Service Tax

G. S. R. (E).- Whereas the Central Government is satisfied that a practice was generally prevalent regarding levy of service tax (including non-levy thereof), under section 66 of the Finance Act, 1994 (32 of 1994) (hereinafter referred to as the Finance Act), on taxable service namely 'business auxiliary services' specified in sub-clause (zzb) of clause 105 of section 65 of the Finance Act provided by a person (hereinafter called the 'service provider') to any other person (hereinafter called the 'service receiver') during the course of manufacture or processing of alcoholic beverages by the service provider, for or on behalf of the service receiver, and that such services being a taxable service were liable to service tax under the said sub-clause (zzb) of clause 105 of section 65 of the Finance Act with effect from 1 st day of September 2009, which was not being levied according to the said practice during the period commencing from the 1 st day of September, 2009 and ending with the 22nd day of September, 2009;
Now, therefore, in exercise of the powers conferred by section 11 C of the Central Excise Act, 1944 (1 of 1944), read with section 83 of the Finance Act, the Central government hereby directs that the service tax payable on the said taxable service, namely 'business auxiliary service' provided by the service provider to the service receiver, during the course of manufacture or processing of alcoholic beverages by the service provider, for or on behalf of the service receiver, which was not being levied in accordance with the said practice, shall not be required to be paid in respect of such business auxiliary service provided during the aforesaid period.

(F. No. 332/17/2009 - TRU)
(Prashant Kumar)
Under Secretary

Circular No.-8 /2009
F.No.385/08/2009-IT(B)

Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

New Delhi, dated the 24th November, 2009

Sub: Applicability of provisions under Section 194J of Income Tax Act'61 in the case of transactions by the Third Party Administrators (TPAs) with Hospitals etc.

A number of representations have been received from various stakeholders regarding applicability of provisions under Section 194J of Income Tax Act'61 on payments made by Third Party Administrators (TPAs) to hospitals on behalf of insurance companies for settling medical/insurance claims etc with the hospitals.
2. The matter was examined by the Board. As per provisions of section 194J (1) 'Any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any sum by way of-
(a) fees for professional services, or
(b) fees for technical services, [or]
[(c)royalty, or
(d) any sum referred to in clause (va) of section 28,]
shall, at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to ten per cent of such sum as income-

tax on income comprised therein…". Further as per Explanation (a) to 194J "professional services" means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession etc..'.

3. The services rendered by hospitals to various patients are primarily medical services and, therefore, provisions of 194J are applicable on payments made by TPAs to hospitals etc. Further for invoking provisions of 194J, there is no stipulation that the professional services have to be necessarily rendered to the person who makes payment to hospital. Therefore TPAs who are making payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc under various schemes including Cashless schemes are liable to deduct tax at source under section 194J on all such payments to hospitals etc.

3.1 In view of above, all such past transactions between TPAs and hospitals fall within provisions of Section 194J and consequence of failure to deduct tax or after deducting tax failure to pay on all such transactions would make the deductor (TPAs) deemed to be an assessee in default in respect of such tax and also liable for charging of interest under Section 201 (1A) and penalty under Section 271C.

4. Considering the facts and circumstances of the class of cases of TPAs and insurance companies, the Board has decided that no proceedings u/s 201 may be initiated after the expiry of six years from the end of financial year in which such payment have been made without deducting tax at source etc by the TPAs. The Board is also of the view that tax demand arising out of Section 201 (1) in situations arising above, may not be enforced if the deductor(TPA) satisfies the officer in charge of TDS that the relevant taxes have been paid by the deductee
assessee (hospitals etc.). A certificate from the auditor of the deductee assessee stating that the tax and interest due from deductee assessee has been paid for the assessment year concerned would be sufficient compliance for the above purpose. However, this will not alter the liability to charge interest under Section 201 (1A) of the Income Tax Act till payment of taxes by the deductee assessee or liability for penalty under Section 271C of the Income Tax Act as the case may be.

5. The contents of the circular may be brought to the notice of officers and officials working under you for strict compliance. Hindi version will follow

(Ansuman Pattnaik)
Director (Budget)

Circular No. 9 /2009
F.No.142/19/2007-TPL

Government of India
Ministry of Finance
Department of Revenue
(Central Board of Direct Taxes)

New Delhi, the 30th November, 2009

Subject:- Remittances to non-residents under section 195 of the Income-tax Act -- remittances of Consular receipts - clarification reg:-

Reference is drawn to Circular No. 4/2009 dated 29th June, 2009 prescribing the revised procedure for furnishing information regarding remittances being made to non-residents w.e.f. 1st July, 2009.

2. As per Article 28 of schedule to section 2 of the Diplomatic Relations (Vienna Convention) Act, 1972, the fees and charges levied by a diplomatic mission in the course of its official duties shall be exempt from all dues and taxes.

3. In view of the above, while remitting consular receipts abroad, diplomatic missions in India will be required to submit only a self certified undertaking in Form No 15CA to the remitter bank. They are not required to obtain a certificate from an accountant/ certificate of Assessing officer (Form 15CB). The procedure for furnishing information regarding remittances of consular receipts by diplomatic missions in India will be as follows:-

(i) The diplomatic mission will access the website to electronically upload the remittance details to the Income-tax Department in Form 15CA (undertaking).

(ii) (The diplomatic mission will then take a print out of this filled up Form 15CA (which will bear an acknowledgement number generated by the system) and sign it. Form 15CA (undertaking) can be signed by the Head of the mission or by an officer of the mission so authorized by the Head of the mission.

(iii) The duly certified Form 15CA (undertaking) will be submitted in duplicate to the Reserve Bank of India / authorized dealer. The Reserve Bank of India / authorized dealer will in turn forward a copy of the undertaking to the Assessing Officer concerned.

(Munesh Kumar)
Secretary,

Central Board of Direct Taxes.

Reserve Bank of India

All these notifications are available on the rbi website "www.rbi.org"

RBI/2009-10/231 DPSS.CO.PD.No.1102 /02.14.08/ 2009-10 November 24, 2009

All Banks, Payment System Providers and System Participants

Directions for opening and operation of Accounts and settlement of payments for electronic payment transactions involving intermediaries

RBI/2009-10/242 IDMD.PDRD.No. 2424 / 03.64.00 / 2009-10 December 1, 2009

All Standalone Primary Dealers

Waiver of trade confirmation in Government Securities transactions in OTC market

RBI/2009-10/239 DNBS.PD/ CC.No.165/03.05.002/2009-10 December 1, 2009

All NBFCs

Capital Adequacy - Risk weightage on Lending through Collateralized Borrowing and Lending Obligation (CBLO)

RBI/2009-10/240

RPCD.CO.RF.BC.No.44/07.40.06/2009-10 December 1, 2009

All State and Central Co-operative Banks

Credit Information Companies (Regulation) Act, 2005

RBI/2009-10/243 DBOD.No.BL.BC. 65 /22.01.001/2009-10 December 1, 2009

All Scheduled Commercial Banks

(excluding RRBs)

Section 23 of the Banking Regulation Act, 1949 - Relaxations in Branch Authorisation Policy

SEBI

Chief General Manager

Office of Investor Assistance and Education

OIAE/Cir-1/2009 November 25, 2009

All Companies whose securities are listed on Stock Exchanges (through Stock Exchanges)

All recognized Stock Exchanges

All registered Merchant Bankers

Dear Sir / Madam,

Sub: Issue of No Objection Certificate for release of 1% of issue amount

As per the Listing Agreement with the Stock Exchanges, the issuer company deposits 1% of the issue amount of the securities offered to the public and/or to the holders of the existing securities of the company, as the case may be, with the designated stock exchange. This amount was being released to issuer companies after obtaining a No Objection Certificate (NOC) from SEBI in accordance with the SEBI (Disclosure and Investor Protection) Guidelines, 2000. Since these Guidelines have now been rescinded, the NOC will be issued henceforth in accordance with this Circular.

2. For the purpose of obtaining the NOC, the issuer company shall submit an application on its letter head addressed to SEBI in the format specified in Annexure - A, after lapse of 4 months from listing on the Exchange which was the last to permit listing. The application shall be filed by the post issue lead merchant banker with the concerned designated office of SEBI under which the registered office of the issuer company falls, as specified in Annexure - B. On the date of application, the bank guarantees, if any, included in 1% deposit must have a residual validity of at least 2 months.

3. SEBI shall issue the NOC after satisfying itself that the complaints arising from the issue received by SEBI against the Company have been resolved to its satisfaction, the Company has been submitting monthly Action Taken Reports on the complaints forwarded by SEBI to the company as per the proforma specified in Annexure - C, and the fees due to intermediaries associated with the issue process including ASBA Banks have been paid.

4. All companies whose securities are listed on stock exchanges and all registered merchant bankers are advised to comply with the aforesaid terms and conditions.

5. The Stock Exchanges are accordingly advised to:

a. bring the provisions of this circular to the notice of all the companies whose securities are listed in the exchange and also to disseminate the same on the website.

b. make amendments to the relevant Listing Agreement, bye-laws, rules and regulations for the implementation of the terms of this circular, if necessary.

6. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India

Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,
G. P. Garg
Encl: a/a

DEPUTY GENERAL MANAGER
MARKET REGULATION DEPARTMENT
MRD/DSA/SE/CIR-18/2009 December 2, 2009
The Managing Directors / Chief Executive Officers / Executive Directors of All Stock Exchanges
Sub: Limitation period for filing of Arbitration reference

Deputy General Manager
Market Intermediary Regulation and Supervision Department
E-mail: biranchins@sebi.gov.in
MIRSD/ SE /Cir-19/2009 December 3, 2009
The Managing Directors of all Recognized Stock Exchanges
Subject: Dealings between a client and a stock broker (trading members included)

DEPUTY GENERAL MANAGER
Market Regulation Department - Division of Policy
E-mail: harinib@sebi.gov.in
MRD/DoP/SE/Cir- 21 /2009
December 9, 2009
All Stock Exchanges
Dear Sir,
Sub: Preservation of records

1. This circular is issued in supersession of SEBI circular no. SEBI/MRD/SE/Cir- 15/2005 dated August 4, 2005 and SEBI/MRD/SE/Cir-23/05 dated December 22, 2005.
2. In terms of Rules 14 and 15 of Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as SCRR, 1957), every recognized stock exchange and its members are required to maintain and preserve the specified books of account and documents for a period ranging from two years to five years. Further, as per regulation 18 of SEBI (Stock Brokers & Sub-brokers) Regulations, 1992 (hereinafter referred to as Stock Broker Regulations), every stock broker shall preserve the specified books of account and other records for a minimum period of five years. In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000n in this regard shall be complied with.
3. Further, it has been noticed that enforcement agencies like CBI, Police, Crime Branch etc. have been collecting copies of the various records/documents during the course of their investigation. The originals of such documents maintained either in physical or in electronic form or in both would be required by such enforcement agencies during trial of the case also.
4. In view of the above, it is clarified that if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.
5. All the Stock Exchanges are advised to:-
a) make necessary amendments to the bye-laws and Listing Agreement, as applicable ;
b) bring the provisions of this circular to the notice of their members and also to put up the same on the website; and
c) communicate to SEBI the status of the implementation of the provisions of this circular in the Monthly Development Report.
6. This circular is being issued in exercise of the powers conferred by Section 11(1) of Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market.

Yours faithfully,
HARINI BALAJI

DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT
SEBI/IMD/CIR No.12 /186868 /2009 December 11, 2009
All Mutual Funds/Asset Management Companies (AMCs)
Association of Mutual Funds (AMFI)
Sub: Transactions through some mutual fund distributors and compliance with the SEBI circular on AML