

# The Management Accountant

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

**Volume 47** ■ **No. 2** ■ **February 2012**

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### IDEALS THE INSTITUTE STANDS FOR

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

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

**VISION STATEMENT**

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

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**The Management Accountant Technical Data**

Periodicity                      Monthly  
 Language                         English

Overall size — 26.5 cm. x 19.5 cm.

Printed Area — 24 cm. x 17 cm.

Screens — up to 130

**Subscription**

Rs. 300/- (Inland) p.a.

Single Copy: Rs. 30/-

**Overseas**

US \$150 for Airmail

US \$ 100 for Surface Mail

**Concessional Subscription Rates for Registered Students & Grad CWAs of the Institute**

Rs. 150/- p.a.

Single Copy: Rs. 15/- (for ICWAI Students & Grad CWAs)

**Revised Rates for Advertisement  
The Management Accountant**

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

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*These financial instruments include swaps, most types of options, caps, floors, collars – collectively known as financial derivatives. Today these financial derivatives are core part of the global capital market. They help the borrowers to achieve lower cost funding, investors to achieve greater rates of returns in a proper mix of risk/reward trade-offs; they help financial and non-financial firms to better manage risks linked to interest rates, currencies, commodities and equities, among others*

That the twentieth century, more particularly the last half, has been a remarkable period in innovation is no surprise at all. Indeed, Joseph Schumpeter, the prophet of capitalism, envisioned that capitalism would survive through a continuous process of creative destruction: new products would replace old products, new theory would take over old theories and new process would supplant old processes. Creative destruction occurs when backed by the power of knowledge, technology and entrepreneurship innovations make long-standing arrangements obsolete leading to greater economic efficiency. A common myth associated with 'innovation' is that it relates only to 'technological innovation'. While this may be marginally true, the fact remains that development (and not invention) of products/services/instruments/markets in the field of finance in the last forty years have left students, teachers, practitioners and researchers with lot of food for thought in this area.

Since 1950s and throughout 1990s, the field of finance has been enriched by the theoretical contributions from eminent scholars like Harry Markowitz, Merton Miller, Franco Modigliani, William Sharpe, Myron Scholes, Fischer Black, and Robert Merton, among many others. Compared to those who dominated the traditional world of accounting and finance, these new entrants in the field of finance had quite unusual backgrounds – various types of engineers, physicists, statisticians and even astrophysicists, who infused quantitative rigour at its new height.

This new intellectual discipline was so useful to the society and the community of businessmen and investors that in 1997 when Nobel Prize in Economic Science was conferred on Robert C. Merton and Myron S. Scholes, The Royal Swedish Academy of Sciences in its citation mentioned: "Robert C. Merton and Myron S. Scholes have, in collaboration with the late Fischer Black, developed a pioneering formula for the valuation of stock options. Their methodology has paved the way for economic valuations in many areas. It has also generated new types of financial instruments and facilitated more efficient risk management in society". These financial instruments include swaps, most types of options, caps, floors, collars – collectively known as financial derivatives. Today these financial derivatives are core part of the global capital market. They help the borrowers to achieve lower cost funding, investors to achieve greater rates of returns in a proper mix of risk/reward trade-offs; they help financial and non-financial firms to better manage risks linked to interest rates, currencies, commodities and equities, among others. With globalization and advancement in the field of information technology, financial innovation has now become a permanent and irreversible phenomenon.

The innovations in finance have its share of demerits too. In fact, the global financial meltdown in 2008, which ultimately led to the eventual bankruptcy of some of the leading banks, insurance companies and financial intermediaries around the world sending the banking system into a topsy-turvy, was largely due to these innovative financial instruments. In the light of this experience, financial innovation begs answers to several critical questions such as: how financial innovations can contribute to enhancing the efficiency of the financial system? What is the implication of financial innovation for financial stability? How financial innovation is changing the underlying economies of the banking system?

While the foregoing paragraphs dwell on developments that have primarily taken place in the international arena, there has also been proliferation of innovative financial products in our country in recent times. The Banking industry in India, for instance, has witnessed the evolution of financial innovation with the introduction of the ECS/RTGS/NEFT/ATM which was hitherto unknown, say twenty five years before. 'E-Banking' and 'Core Banking' have now become the buzz words in the Banking Industry. Indian Capital market too has displayed great signs of innovations with some of the companies launching Deep Discount Bonds, Zero Coupon Bonds, secured Premium Notes etc.

In this issue of the magazine, the contributors have left an ineffaceable mark as they present their views on the theme 'Innovations in Finance' which, I am sanguine, our dear readers would find extremely interesting and enriching.



M. Gopalakrishnan, President

ॐ असतोमा सदगमय ।

तमसोमा ज्योतिर्गमय ।

मृत्योर्मा मृतं गमय ॥

ॐ शान्ति शान्ति शान्तिः ॥ – बृहदारण्यक उपनिषद् 1.3.28.

om asato mā sad gamaya

tamaso mā jyotir gamaya

mṛtyor mā amṛtaṁ gamaya

om śānti śānti śāntiḥ – *Bṛhadāraṇyaka upaniṣad 1.3.28*

(Lead us from darkness to enlightenment, to reality from non-reality, and from mortality to immortality, Let there be Peace (in thought) Peace (in words) and Peace (in action).

Dear Professional Colleagues,

### **Tamaso mā jyotir gamaya**

All of us are familiar with these words, especially the second line is embedded in our minds through our Institute emblem, right from the moment we entered into the CMA profession. The entire stanza from the ancient Upanishad, correctly reflect the DNA of our profession for what it stands for. If we faced our tryst with destiny in the previous month, from this month onwards we have to put the past behind us and march towards the new dawn which is emerging before us. The name of the Institute and the designated letters provided to us in the amended Act, encompass a vast arena to add value to any enterprise involved in consumption of finite resources, much beyond the realms of focus of the past which was on manufacturing. As a CMA brand, we have to go beyond the numbers to provide enlightenment through segmented analysis, sift the grain of reality in value addition, work for an immortal and sustainable future, letting the enterprise live in harmony with the environment and society.

If we really understand the words of wisdom of our ancients, we are struck with the thoughtfulness of the words, which are now being paraded across the world, as a move towards an inclusive growth trying to retrieve the globe from the consumerism of a market driven economy, consuming the finite resources of the planet to enrich a few. The new name and letters should enable us to focus on the core competence of a Cost and Management Accountant as the enabler of resource optimisation and waste elimination, through best CMA practices. The Govt. of India and the Ministry of Corporate Affairs is also working on enabling the corporate world to refocus their attention on their social responsibility which in the past has remained more on paper than in reality, through voluntary and/or mandatory measures. The Corporate Social Responsibility which is now just a murmur is capable of becoming a driving force for the survival of enterprises in future.

### **New Government Nominees to the Council**

I extend a hearty welcome to the new Government Nominees to the Council Shri. A.K.Srivastava, IAS, Joint Secretary, Ministry of Corporate Affairs; Smt. Nandana Munshi, IA & AS Principal Director of Commercial Audit CAG, Shri Asish Kumar, IRS, Director-TPI, Ministry of Finance; Shri.G. Sreekumar, General Manager, RBI and Shri. K. Govindaraj, Associate Vice President, IOA.



I thank the Honourable Union Minister of Corporate Affairs, Dr. M. Veerappa Moily and the Ministry of Corporate Affairs for nominating experts with rich experience in diverse fields to the Council of the Institute. I am very sure, that the Council will take full advantage of their wisdom and expertise in various initiatives relating to the progress of the profession.

### **Government Accounting Standards Advisory Board**

I am happy to inform the members that ICWAI has been admitted as a member of the prestigious Government Accounting Standards Advisory Board (GASAB), a body having representation from important Central Government departments, State governments, Reserve Bank of India and accounting bodies. The main objective of GASAB is to develop Accounting Standards applicable to Government Accounting and Reporting, in line with the international best practices. Members may recall that the International Federation of Accountants frame guidelines in Government Accounting in the form of International Public Sector Accounting Standards (IPSAS). Apart from IPSAS, the GASAB considers various other prevailing practices in Government Accounting and distil them into a framework which is deliberated by the Board and issued as Standards. Since the reporting as per GAS are in the initial stages of formulation and adoption, the Institute will also provide inputs on the emerging practice of Integrated Reporting, which can be considered for adoption by the GASAB at the appropriate time.

### **New Cost Audit Notification**

In the latest series of notifications, the Ministry of Corporate Affairs, Cost Audit Branch, came out with a notification dated 24th January 2012, replacing the company wise order issued under earlier with the industry wide notification, covering further eight broad based industry sectors. This is in line with the recommendation of the Expert Group Report for realigning the cost accounting records rules to a principle based approach, and for providing cost audit mechanism for companies falling within the specified criteria. This has created a major opportunity for members in practice and those working in the industry to extend full co-operation to the Ministry in their drive to improve cost consciousness among the industries in a structured way. It is very important that the members who are involved in the process have to understand that these initiatives go much beyond the compliance orientation generally associated with any statutory mechanism, and concentrate on developing a CMA process which optimises resource and enables waste

elimination. The Institute will also accelerate the orientation programmes it is holding through its various arms such as Regional Councils and Chapters on these key develop-ments.

### **Important Events**

The annual Ganapathy Subramanian Memorial Lecture was delivered at Cochin on 6th January, 2012, by Shri. A N Raman, Past President SAFA and Member PAIB Committee of IFAC on the topic "Cost Management—A building block of the current and emerging governance framework". I along with Shri.A.Om Prakash, Council Member attended the meeting which was followed by a members meet by the Cochin Chapter.

The First Assembly meeting of the South Asian Federation of Accountants (SAFA) Assembly meeting was held on 7th January, 2012 at Chennai, under the chairmanship of New President of SAFA Mr. Muhammad Rafi of ICMA Pakistan. I attended the meeting along my colleagues in the Council Shri TCA Srinivasa Prasad, Shri A. Om Prakash and Shri Sanjay Gupta. Wide ranging discussions were held, in which the road map and future agenda were chalked out by the assembly.

Regional Conference organised by Lucknow Chapter of NIRC at Lucknow for three days 7th -9th January, 2012 with the central theme "Managing Cost Serving to the Nation" was addressed by me in the presence of Shri Rakesh Singh, Vice President; Shri Hari Krishan Goel and Shri Sanjay Gupta, my fellow members of Council of ICWAI.

Southern India Regional Council (SIRC) had its annual Cost Convention-2011 with Central theme 'Dynamics of Indian Economy- CMA as a Catalyst' at Bangalore on 19th-20th January, 2012. Dr. M. Veerappa Moily, Hon'ble Union Minister of Corporate Affairs was the Chief Guest for the programme having representation from five states in the region.

### **Knowledge partnering with other institutions**

It is heartening to see continued recognition for ICWAI in the "Integrated Reporting" initiative, on which the Institute has been working for the past one year. The ICWAI was knowledge partner in the one day workshop on "Integrated Reporting" organised by Confederation of Indian Industry (CII) on 12th January, 2012 at New Delhi. ICWAI is also facilitating the identification and participation of Indian Companies in the Pilot Project of International Integrated Reporting Council. The Council has also cleared the formation of a National Steering Group on Integrated Reporting with the participation of IICA, CII,

GRI and other key corporates for providing a further thrust in this key initiative.

Institute is providing support to the Indian Institute of Corporate Affairs (IICA), think tank arm of Ministry of Corporate Affairs. A delegation of Council members and officers of the Institute led by Shri Rakesh Singh, Vice President of the Institute participated in the one day conference at New Delhi on "Private Sector practices on CSR" on 18th January, 2012. The Hon'ble Union Minister of Corporate Affairs, Dr. M. Veerappa Moily led the initiative on behalf of Ministry having representation from its Senior Officers.

The Institute was a knowledge partner in the 3rd International Conference on Institutional and Technology Environment for Micro Finance, which was organised by the Burgundy School of Business from 5th to 7th January 2012 at New Delhi. I addressed the participants in the inaugural session on 5th January, 2012. The International Conference was preceded by a workshop on 4th January on the theme "Cost Management and Social Performance in Micro Finance", wherein Shri A.S. Durga Prasad, member of the Council was one of the speakers.

The Institute is establishing its international image also by making its presence felt through meaningful contribution. The institute is in the process of nominating its representatives to Confederation of Asian and Pacific Accountants (CAPA) and Committees/Boards of International Federation of Accountants (IFAC). In a vindication of our global forays, I am happy to inform you that the IFAC PAIB will be holding its first ever meeting in India at Delhi from 13th and 14th March 2012. Our Institute will be hosting the event which will witness participation of IFAC delegates from about 12 countries. I am sure these efforts will firmly etch the name of the institute on International arena paving way for new horizons for our members and students at a global level.

#### **Value addition through Centres of Excellence**

The newly established "Centre of Excellence" at Hyderabad was formally inaugurated on 22nd January, 2012. I compliment the team led by Shri. A.S. Durga Prasad, ably supported by senior members of Hyderabad Chapter, in making a dream project come true. Being situated in the knowledge city, the Centre is a masterpiece showcasing the smart class room facilities where the Advanced Studies Courses will be conducted. I also had interactions with Prof. Sanjay Kalapur, Associate Dean of Indian School of Business, who agreed to work for a joint with ICWAI and ISB on areas of mutual interest.

I am also happy to inform you that an independent Board of Advanced Studies has been constituted by the Institute, under the Chairmanship of Prof. (Dr.) Ashish Bhattacharya, former Professor of Indian Institute of Management, Kolkata. The Board has representations from eminent business schools, industry, Government and other international experts. The Board will help the Directorate of Advanced Studies, which is to be located in Hyderabad Centre of Excellence in developing curriculum, course evaluation methodology to enable members and industry professionals to acquire practical skills on Cost & Management Accounting, Business Strategy, Risk management and allied topics.

During my visits to Nagpur, Ahmedabad, Bhopal, Asansol, Thrissur, Cochin and Vijayawada chapters, I found that the good infrastructure that has been created by them can be converted into Centres of Excellence, focussing on tapping local expertise available in the respective cities, to bring out approach papers on key cost management areas. In other cities, the chapters can start Special Interest Groups which can give inputs to the Institute on professional development areas, useful to the industry, government and society at large. This will enable the chapters to emerge as intellectual store house of wisdom useful for the profession, instead of concentrating only on coaching activities. The sustainability and popularity of the profession in future will depend largely on how we address the key concerns of the business to remain cost competitive and help the Government with inputs on how the prices of essential commodities and services can be kept at a reasonable level for the public, through effective resource utilisation.

I am also happy to inform you that due to intensive follow up efforts by Smt. Aruna Soman, Council Member from Western Region, the Maharashtra Government has given permission for the Institute to complete the long pending Navi Mumbai Centre of Excellence project by end 2013. The Council has already given the green signal to go ahead with the construction of the Centre, which was awaiting clearance by the Government. I am sure that with the co-operation of the members, the Navi Mumbai centre will be in operation by end 2013.

#### **Technical Directorate initiatives**

The Council of the Institute in its last meeting has cleared the Revised Guidance Note on CAS 4 and Revised CAS - 3 on Overheads, which are now available in the institute website.

In order to assist and co-ordinate the activities of the Technical Directorate in various regions; the Institute is establishing Extension Centres of Technical

Directorate at other regions in the country. The first of these are being established at Chennai followed by Mumbai. With these, all the four regions will have Technical Directorate presence which will provide the much needed push for region focussed feedback on various technical matters to the Directorate.

I am happy to note that the various Ministries have started seeking the expert opinion of the Institute on various key matters relating to the Cost Accounting. The Technical Directorate of the Institute provided opinion sought by Central Excise and Service Tax department with regard to Cost of Production for Captive Consumption and to Department of Commerce and Industry (Directorate General of Anti-Dumping and Allied Duties) with regard to treatment of subsidy for computation of working capital.

#### **Professional Development Directorate initiatives**

As all of you are aware that the Ministry of Corporate Affairs, Cost Audit Branch have notified uniform Companies (Cost Accounting Records) Rules 2011 and revised Companies (Cost Audit Report) Rules 2011 on 3rd June 2011 and later on Cost Accounting Records Rules 2011 for six regulated industries on 7th December, 2011. All these rules have introduced the concept of "Product Group" and have mandated reporting according to this concept. While a definition of "product group" has been given in all these Rules, the application of this new concept across companies and industries requires further clarification to enable the concept to be used uniformly across industries.

The Institute has already issued an Exposure Draft of Guidance Note on Classification of Product Group and hosted the same at the Institute website on 30.12.2011 for comments/suggestions from general public. The proposed Guidance Note will be modified in light of comments/suggestions received before its publication. For more details members may refer to Institute website.

I request the members to give a feedback on the XBRL Taxonomy on Cost Accounting Records and Cost Audit Report, which has been hosted in the website. The consultations with the Ministry of Corporate Affairs are going on and once it is finalised, it will become mandatory for the members to file the report in XBRL format. Since this will enable various stakeholders from the Government analyse the data across the companies, the members should be involved right from the development stage itself so that the process becomes smooth when the Government notifies the date from which it will become effective.

#### **Placement Directorate initiatives**

I am happy to inform that the integrated initiatives for Campus Placement of Dec 2011 final pass outs have been finalised. Your Institute will be approaching as many as 8000 Companies/Organisations to visit our Campus Placement Programs being scheduled in the month of April 2012 at 4 locations - Kolkata, Delhi, Mumbai and Chennai. To co-ordinate the efforts, a meeting was held at Kolkata by the Chairman of Members In Industry Committee Shri T.C.A. Srinivasa Prasad and the Chairmen of the four regions. I am sure this Campus Placement Program will be as successful as the earlier one. The qualified students of December 2011 can file their CV on line which will be open alongside the results of December 2011 final Examinations."

#### **CEP-1 Directorate initiatives**

I am happy that the wide spectrum in which CEP Directorate operates is reflecting in its continued efforts to update the knowledge and to upgrade the skills of the finance professionals. Towards this, it organized Residential programmes on 'Internal Auditing for Effective Management Control' and 'Recent Trends in Financial Management' during 3-6 January, 2012 at Mahabaleshwar. Programmes on 'Strategic Financial Management' and 'Advance tax, TDS and Tax Planning' were also organized during 17-20 January, 2012 at Agra.

I am also pleased CEP of ICWAI is becoming the preferred source of company focussed programmes. The seventh exclusive tailor made in-House programme organized for National Highways Authority of India (NHAI) on Finance and Accounts during 9-13 January, 2012 at Pune and the exclusive training programme on Management of Taxation for the officers of Power Transmission Corporation of Uttarakhand Ltd. during 23-25 January, 2012 at Dehradun, showcase this aspect.

Since the Govt can declare the date of implementation of IFRS anytime now, The CEP Directorate is continuing its IFRS initiative by organising its 14th Batch of IFRS Certificate Course at Delhi during 18-22 January, 2012.

The Directorate made efforts to organise exclusive International programmes for the senior officers of Delhi Jal Board, a public utility of Delhi Government.

#### **CEP -2 Directorate initiatives**

I am happy to share during the month of January 2012, CEP-2 directorate developed a standardized Presentation and a Training Material on Cost Accounting Records Rules, 2011 and Cost Audit Report Rules 2011 and presented before the National Task Force

on CARR & CAR in its 3rd Meeting held on 9th January 2012.

1st Meeting of Committee for Members in Industry was held on 16th January 2012 at Kolkata where Terms of Reference of the Committee were discussed with independent views from the members present in the meeting.

After the series of notifications issued by the Cost Audit Branch of the Ministry of Corporate Affairs, it is important for the chapters to come forward to conduct chain seminars on the new notifications. I am sure that the chapters will give equal importance to professional development areas in addition to imparting coaching to students. The chapters can also bring the industries in their respective cities to discuss the modalities of implementation of the notifications and provide feedback to the Institute. This series of programmes will enable the local industries to understand the aim of the Government to inculcate cost competitiveness to enable them to face business uncertainties, which is the main aim of the new notifications.

The CEP-2 is organising a Training for Trainers on Cost Accounting Records Rules, 2011 and Cost Audit Report Rules, 2011 in first week of February 2012. This is mainly to expand the base of Expert Speakers who can conduct workshops on practical implementation of the notifications.

I am also happy to note that the proposal for organizing programmes on Risk Based Internal Audit for Concurrent Auditors of Banks all over India is also being planned. I am sure that this will pave way for better connect between the participating banks and the

profession to have a useful role in banking industry.

#### **Directorate of Journal**

The meeting of the Journal Committee was held at Kolkata on 16th January 2012 and I complement the committee for their suggestion for constitution of an Editorial Board consisting of eminent persons which will go a long way in improving the intellectual quality of the journal.

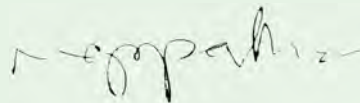
#### **General matters**

The Members' Facilities & Services Committee recommended increase of the Annual Membership and Entrance Fees of the members, which was approved by the Council. The details are already uploaded in the website. The details are also printed elsewhere in this journal.

I am also happy to announce that for the first time in the history of the Institute, we are holding a convocation and award function to honour the newly final passed students and Prize Winners, on 1st March, 2012, at Science City Auditorium, Kolkata.

Best wishes for Milad-u-Nabi, Mahashivratri and other festivals,

With warm regards,



(M.Gopalakrishnan)  
President, ICWAI  
31st January, 2012





**Sanjay Gupta**  
Chairman  
WTO & International  
Affairs Committee

Dear Professional Colleagues,

It's a matter of great Honour to serve as the Chairman of WTO & International Affairs Committee of ICWAI and communicate with my fellow Professionals through this medium.

At the outset, I am thankful to the President and other Council Colleagues for placing on this responsibility of serving as the Chairman and broadening our horizons internationally.

"Knowledge shared is knowledge doubled" is what we look upto. We believe in building associations with the institutes of the other nations worldwide to share our knowledge with them and to learn what they have to offer. We have signed various Memorandum of Associations with the institutes, which offer our students and members, the courses to enhance their knowledge in the financial field. ICWAI has been increasing its visibility through such memorandums with CIMA (UK), IMA (USA), ICMA of Sri Lanka, IPAR (Russia) and has also supported the promotion of a cost and management accounting body in Sultanate of Oman.

Following are the broad activities of the WTO & International Affairs Committee-ICWAI —

- Responding to the queries raised by various Ministries like Ministry of Commerce and Ministry of Corporate Affairs on WTO and related Events
- Activities related to International Bodies (IFAC, CAPA, SAFA, EFAA, etc.)—Technical and Administrative matters.
- Outside CAPA/SAFA activities like PAIB Committee/s of IFAC, SAFA, etc. -like Prince of Vales (A4S initiative, etc.)
- MRAs/ MoUs with different organisations all across the World

Let me apprise you of the various recent developments on this front :

#### **CAPA Conference 2011**

Held once every four years, the 18th Conference of the Confederation of Asian and Pacific Accountants (CAPA) was proudly hosted by CPA Australia and the Institute of Chartered Accountants in Australia (ICAA) at Brisbane, Australia from 6<sup>th</sup> to 9<sup>th</sup> September, 2011. The event is designed specifically for finance, accounting and business professionals and is an opportunity to engage with your peers and like-minded professionals from across the Asia-Pacific. Various dignitaries from various Accounting Professional Bodies all across the Asia-Pacific participated in the same.

CAPA provides a forum for building relationships and sharing

knowledge as a means of assisting the formation and development of strong and sustainable professional accounting organisations.

The conference was attended by myself, Mr. Rakesh Singh, Vice President, Mr. B.M.Sharma, Past President and Mr. A.N. Raman, President-SAFA

#### **MoAs signed**

In 2011, ICWAI signed Memorandum of Associations with **NIA, Australia** and **CISI, UK**.

National Institute of Accountants, Melbourne, Australia and The Institute of Cost and Works Accountants of India (ICWAI), have signed a Memorandum of Understanding (MoU) on 9th March 2011. It has created a harmonious relation between the Institutes to move forward globally, in order to enable, achieve optimum potential, for the member of the profession in the International arena.

In a path-breaking event, the Institute of Cost and Works Accountants of India (ICWAI) and Chartered Institute for Securities and Investment (CISI), UK signed a memorandum of understanding on awarding the membership of CISI to ICWAI members and concessional fee for ICWAI students. The Chartered Institute for Securities & Investment is the largest professional body for those who work in the securities and investment industry in the UK and in a growing number of major financial centres round the world. Evolved from the London Stock Exchange, they now have more than 40,000 members in 89 countries. They have agreed to share developments in the areas of common interest at international level.

#### **EFAA - SAFA Conference- 2<sup>nd</sup> and 3<sup>rd</sup> November 2011 at New Delhi**

"A Two Day Joint Seminar on SAFA-EFAA Alliance"

EFAA (European Federation of Accountants and Auditors for SMEs) and SAFA (South Asian Federation of Accountants) held a conference meeting in Delhi on November 2 and 3 aiming to discuss ongoing items regarding accounting and auditing for SMPs for SMEs as well as opportunities for networking between practitioners of the two Regions in order to promote the growth of international businesses.

#### **Opening up of Bahrain Chapter of Cost Accountants**

ICWAI got affiliation with the Bahrain Accountants Association which enabled it to commence The Bahrain Chapter of Cost Accountants in December, 2011.

In Bahrain, there are about 200 members of ICWAI at various key positions contributing to the Local Economy.

I would urge all the members to put forward your views or suggestions on the WTO or International Affairs front which would be very much appreciated and would seek your continued support as before.

We fully realize that without your active participation and encouragement we cannot achieve the objective of taking our profession and our institute to loftier perches.

Thanks & Regards,

1<sup>st</sup> February, 2012  
(Sanjay Gupta)

# Innovation



**V. Arunagiri**

B.Com., AICWA, MBIM  
Retired GM—Finance



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*Never before in history has innovation offered promise of so much to so many in so short a time.*

—Bill Gates

## Importance of Innovation

Peter Drucker has said that “Because its purpose is to create a customer, the business has two—and only two—functions : marketing and innovation. Marketing and innovation create value, all the rest are costs.” Unless a company creates a product better than competitors or renders a superior service than competitors it cannot hope to survive in the ‘red ocean world’. Innovation is thus critical to the competitive success of virtually all companies. and it is only, innovation that can confer a sustainable competitive advantage.

### Misconceptions of the term Innovation

“Creativity is *thinking* up new things. Innovation is *doing* new things” clarified Professor Theodore Levitt.

The key is to understand that even the best ideas are meaningless unless they are actually implemented. Thus, innovation is the ability to create and capture economic value from invention.

Take the classic story of Palo Alto Research Centre (PARC). — a research and co-development company with a reputation for its contributions to information technology and hardware systems. Founded in 1970 as a division of Xerox Corporation, PARC has been responsible for such important developments as laser printing, Ethernet, the personal computer, graphical user interface(GUI), ubiquitous computing, amor-phous silicon (a-Si) applications, and advancing very-large-scale-integration (VLSI) for semiconductors. Yet it failed to profitably exploit any of its creative products.

Take the case of its Alto computer which had too many features built in resulting in slow response times and eventual rejection by the consumer. Had the development been done in coordination with other functional groups, the results would have been better. Also the costs were too prohibitive to gain acceptance. Seven years later, IBM came out with the Personal Computer which was a marketing success.

It is another misconception to think that innovation is a hi-tech affair. In fact it is anything that confers a superior value to the customer in terms of cost, quality or time. The low cost airline shorn of all frills, a Rolex

watch or a pizza maker guaranteeing delivery in a maximum time of 38 minutes else giving it away free, are all examples of innovations.

### Types of Innovation

Innovation can be classified under three major heads :

A. Business Model Innovation : Innovation in the structure and/or financial model of the business

B. Operational Innovation : Innovation that improves the effectiveness and efficiency of core processes and functions

C. Products/Services/Markets Innovation : Innovation applied to products or services or “go-to-market” activities

#### A. Business Model Innovation

“A Business Model describes the rationale of how an organization creates, delivers and captures value” as defined by Alexander Osterwalder & Yves Pigneur in “Business Model Generation: A Handbook For Visionaries, Game Changers, And Challengers”. developed with the aid of another 470 co-creators from 45 countries. The different patterns of business models outlined by them are :

1. Unbundling model
2. Multi-sided platform model
3. Customer insight driven model
4. Freemium model
5. Open source model.

#### 1. Unbundling Model

The concept of the “unbundled” corporation holds that in telecom business there are three fundamentally different types of businesses :

- customer relationship business
- product innovation business, and
- infrastructure business.

The three types may co-exist within a single corporation but ideally they are unbundled to avoid conflict or undesirable trade-offs. The relationship between unbundled businesses should be such that no one is able to dominate the others.

Bharti Airtel concentrated on market development and building distribution network and customer

relationships; it outsourced network operations to Ericsson and Nokia Siemens Network and IT infrastructure to IBM. By outsourcing them, the company not only saved costs but also was in a better position to offer latest technologies through their vendors. Further, it could focus on new trends in customer service as well as focus on customer needs in order to set it apart from key competitors.

### **Muti-sided Platforms**

It is a pattern of business model that brings together two or more distinct but interdependent customers. The platform creates value by facilitating interactions between different groups. The platform grows in value through network effect.

ITC conceived e-Choupal to be a channel for procurement directly from farmers for saving costs, eliminating the middlemen. Over time, it has evolved into an innovative ICT application platform that facilitates flow of information and knowledge, and supports market transactions on line, built in conjunction with farmers for mutual benefit of rural consumers and producers. The farmers benefit by getting higher prices, prompt payment and lower transaction costs apart from getting advice on inputs, market price trends and weather forecasts. For ITC, the channel ensures regular supply of farm inputs and reduced procurement cost.

e-Choupal has now become a rural market e-hub. It is an interlocking network of partnerships (ITC + Met Dept + Universities + Input COs + Sanyojaks, the erstwhile Commission Agents) bringing the best-in class information, knowledge and inputs.

### **Customer insight driven busi-ness models**

In this model an entire business is created by identifying and meeting the needs of a customer segment.

This is borne out by the story of Nano car developed by Tata Motors. "I observed families riding on two-wheelers — the father driving the scooter, his young kid standing in front of him, his wife seated behind him holding a little baby. It led me to wonder whether one could conceive of a safe, affordable, all-weather form of transport for such a family."—Ratan Tata.

"Nano encapsulates the dream of millions of Indians groping for a shot at urban prosperity" said The Financial Times.

### **Freemium Model**

Freemium is a business model that works by offering a basic product or service free of charge (such as software, web services or other) while charging a premium for advanced features, functionality, or related products and services. The word "freemium" is derived by combining the two aspects of the business model : "free" and "premium".

The model is based on the following principles

- Offer a service free, initially
- acquire a lot of customers; and
- then offer premium priced value added services or an enhanced version of service to the customer base.

In this model at least one sub-stancial customer segment is able to continuously benefit from free-of-charge offer. Non-paying customers are financed by another customer segment.

The example of this is the Zapak which offers free online games and then sells other games at a discount.

### **Open Source Model**

Open Innovation means that valuable ideas can come from inside or outside the company and can go to market from inside or outside the company as well. This approach places external ideas and external paths to market on the same level of importance as that reserved for internal ideas and paths to market during the closed innovation era.

'Open Innovation : — Henry Chesbrough —The New Imperative for Creating and Profiting from Technology' p (Harvard Business School Press, 2003)

This model is discussed separately later.

### **Operational Innovation**

Operational innovation means "coming up with new ways of filling orders, developing products, providing customer service, or doing any other activity that a company performs."—Michael Hammer.

Most common operations innovations are

- Improved operations responsiveness to customers
- Applied new science or technology to core processes
- Applied new IT to automate processes
- Optimized a core process
- Reduced cycle time/complexity
- Integrated functional business processes.

Examples of operational innovation are :

#### **1. ATM**

The introduction of ATMs in banks has transformed banking by providing banking services ANY TIME & ANYWHERE, ANYBANK to the customer. The customer is saved the risk or bother of carrying hard cash or travelers' cheque while travelling. It has also given cost savings to banks.

#### **2. Aravind Eye Hospital**

This hospital was set up on the assembly-line model and on the concept of economies of scale as a system for sight-saving cataract surgeries, primarily for the poor.

Each surgeon works on two tables, one for the patient having surgery, the other for a patient being prepared. In the operation room, doctors use state-of-the-art equipment such as operating microscopes

that can swivel between tables. Surgeons typically work 12-hour days, and the fastest can perform up to 100 surgeries in a day. The average is 2,000 surgeries annually per surgeon — nearly 10 times the Indian national average. Despite the crowding and speed, complication rates are very low.

Only one third of Arvind's patients can afford to pay market rates for their care. But that's enough to generate profits that underwrite care for the rest.

### 3. Corex technology

This technology is a smelting-reduction process developed by Siemens for the cost-efficient and environmentally friendly production of hot metal from iron ore and coal. It differs from the conventional blast furnace route in that non-coking coal can be directly used for ore reduction and melting work, eliminating the need for coking plants. The use of lump ore or pellets also dispenses with the need for sinter plants.

The operational cost of a Corex plant is 20% less than Blast Furnace plant.

Further, it allows for environmental friendly production of hot metal since it emits 15% less CO<sub>2</sub>, as compared to the B F route.

### Innovations in Products, Services and Marketing

#### Product Innovation

"A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics."—OECD.

#### The Climate-proof jacket

"Using ClimaCon (climate control) technology that can be incorporated into any kind of apparel/ accessory to provide both heating and cooling on demand, Kranthi Kiran Vistakula, CEO of Dhama Apparel Innovations has launched jackets, helmets, neck scarves, gloves which help users to choose the temperature between 4 to 45 degree Celsius, providing comfort (warmth or cold)".

Clima Con is a patent protected technology. It is a combination of thermoelectric, heat sink and efficient heat transport mechanisms.

This application enables the wearer to remain in any harsh environment without stress, discomfort, health problems, or lowering productivity.

#### Service Innovation

"Service innovation is a new or significantly improved service concept that is taken into practice. Service innovations can, for instance, be new solutions in the customer interface, new distribution methods, and novel application of technology in the service process, new forms of operation with the supply chain

or new ways to organize and manage services."—Finland's research agency, TEKES.

#### E-Seva Service of Andhra Pradesh Government

The eSeva project aimed at integrating and offering a wide range of government to citizen (G2C) services at a single location. Presently, the e-Seva centres provide around 46 services such as payment of water and sewerage bills, property taxes etc. The services are provided within 60 seconds to 120 seconds. Citizens are not charged for any utility payments.

The implementation of the eSeva project benefited both the Govt of A P as well as the citizens of the twin cities. The project enabled the Govt of A P to provide services quickly at a low cost.

#### Market Innovation

"A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing"—OECD, 2006.

The most common innovations under this are :

- Greater penetration of current market
- Improvements to current products or services
- Direct sales force
- Electronic channels
- New geographic markets.

#### Sachet marketing

This is an Innovative micro-selling method, aimed at new consumers in emerging markets like China, India, The Philippines, Mexico and Brazil. It's all about serving up your products, services and loans in affordable portions, sachets, or sizes so that consumers get to know and like your brand.

Meanwhile, the manufacturer or service provider can still make a good profit from sheer overall volume (smaller sizes, but more buyers).

Cavinkare's Chik Shampoo is a standing example of how the sachet revolutionized marketing in India.

#### Impact of different types of Innovation

The IBM Global Study referred above states that "companies that have grown their operating margins faster than their competitors were putting TWICE as much emphasis on Business Model Innovations (BMI) as under-performers". Cost reduction and strategic flexibility were considered top benefits of BMI. It allows companies to specialize and move more quickly to seize emerging growth opportunities. It also is helping the organizations to become more nimble and respon-sive, while at the same time lowering costs.

Operational Innovation ranked next in importance and was viewed by many CEOs "as a matter of survival." It was used to drive efficiency which in turn laid the foundation for growth.

Products/Services/Marketing innovations are



regarded as fundamental to keep business abreast of times and to sustain their current margins.

### **Open verses Closed Innovation**

A From Know-how to Know-who Companies built their inventive competence by strengthening their internal R&D infrastructure. But accelerating technological changes, globalization of markets and increasingly sophisticated customers posed a severe challenge to maintain the competitive edge. Companies were thus forced to change their focus from internal specialization to learning through relationships. Innovation process is no longer *limited to "Know-how" but 'know-who'* says Sigvald Harryson in his book *Japanese Technology & Innovation Management*. Japanese companies have excelled in exploiting in a holistic manner external sources of technology — be it an individual scientist, or a scientific or academic institution—and commercialise the knowledge so acquired through a synergistic combination of internal and external networking. This process has resulted in a reduction of product development lead time and cost and customer-oriented product innovation. The success stories of Sony, Canon and Toyota validate the concept of 'know-who'.

**Proctor & Gamble's 'Connect + Develop'** concept is a paradigm shift from R & D to C & D.

Bruce Brown, CTO of P & G explains: "It's our version of open innovation: the practice of accessing externally developed intellectual property in your own business and allowing your internally developed assets and know-how to be used by others.

"Historically, P&G relied on internal capabilities and those of a network of trusted suppliers to invent, develop and deliver new products and services to the market. We did not actively seek to connect with potential external partners. Similarly, the P&G products, technologies and know-how we developed were used almost solely for the manufacture and sale of P&G's core products. Beyond this, we seldom licensed them to other companies. Times have changed, and the world is more connected. In the areas in which we do business, there are millions of scientists, engineers and other companies globally. Why not collaborate with them? We now embrace open innovation, and we call our approach *Connect + Develop*.

"On the inbound side, we are aggressively looking for solutions for our needs, but we also will consider any innovation — packaging, design, marketing models, research methods, engineering, technology, etc. — that

would improve our products and services and the lives of the world's consumers. We have a lot to offer you as a business partner, and believe that together, we can create more value than we ever could alone.

"On the outbound side, we have a number of assets available for license: trademarks, technologies, engineering solutions, business services, market research methods and models, and more.

"P&G's Connect + Develop strategy already has resulted in more than 1,000 active agreements. Types of innovations vary widely, as do the sources and business models. Inbound or out, know-how or new products, examples of our success are as diverse as our product categories. We are interested in all types of high-quality, on-strategy business partners, from individual inventors or entrepreneurs to smaller companies and those listed in the FORTUNE 500 — even competitors."

### **Co-creation with customer**

This is a trend wherein the customer plays a dynamic role in deciding the attributes of a product, such as choosing a flavour in a drink or the fragrance of a perfume, thus jointly creating a product rather than buying the product offered by the firm. Customers define their choices in a manner to reflect their value and participate in the design & development of the product—leading to superior value creation.

*Asian Paints* involved the customers in deciding the exact shade of the paint she would like to buy. The 'merawala cream' ad of late 80s represented such co-creation.

### **Crowd Sourcing**

This is an extension of the above concept soliciting views from the public at large, in deciding upon a product. The book 'Business Model Generation' referred above, co-authored with 470 others from 45 countries, is an example.

It may be noted that the classification given above is only to facilitate understanding of the different types and there is no rigid demarcation. In fact, some may overlap. It is vital to combine different types of innovation to meet the company's particular objectives and help establish sustainable differentiation. The innovation horizon of the company must be expanded from the present state to encompass business model innovation, realizing its potential impact. □

## **Late News**

**This is for the information of all concerned that effective from 1st February 2012, the name of the Institute has been changed to Institute of Cost Accountants of India (ICAI). The members of our institute can use the designated letters ACMA for Associate and FCMA for Fellow, after their names.**

## Innovations in Finance : Management and the role of the new age CFO



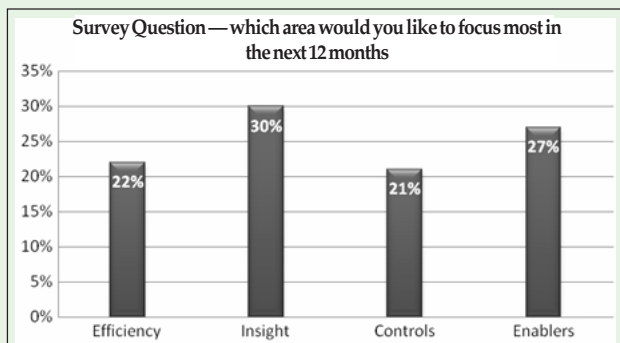
**Soumen Mukerjee**

AICWA, FCA.  
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The role of the Chief Finance Officer (CFO) has undergone immeasurable changes in the last decade. The Enron episode and the introduction of the Sarbanes Oxley Act redefined the norms of corporate governance and cast onerous responsibilities on the management and the finance teams in particular. With the ongoing global economic meltdown and uncertain recovery outlook, the management is looking at the finance teams to bring in more insights and analytics than ever before. The demands on the CFO and his team are to innovate their ways of working and chart out a operating framework that rests on the three pillars of “ICE”—Insights, Compliance and Effectiveness.

In a recent study by PwC on the “State of Finance function in India—2010”, several CFOs across India were asked to rate their priorities of focus for the next 12 months. The Chart 1 depicts the survey results :

**Chart—1**



### Need for insights

Quite evidently, there is a significant mindshare from the CFOs to gain business insights and be better equipped to harness the power of information. No longer is the finance function expected to provide only a historical true and fair view of transactions—there is an increasing demand to step up to the role of a trusted business advisor and a true partner—and that role cannot be accomplished without the framework for identifying and sharing key business insights. This realisation is leading to the strategic innovations in information management and adoption of technology as a driver of change.

### Challenges in getting business insights

Historically most finance organisations have been the custodians of corporate information. Finance teams have been accustomed to spend a large percentage of their time in data gathering and reporting to the internal management and external regulators. Very often this job has been monotonous and focused merely on recorded transactions with a historical focus. With the advent of ERP and other software platforms, some amount of data churn has been automated—yet the quantum of time spent on “massaging” the data and make it available to the end users in the right format and visualisation continues to be enormous.

Some of the key challenges that beset this process are :

- Focus is on reporting numbers and not on trends and analytics. Thus the usability of the reports is often limited.
- The tools of reporting often start and end with MS Excel—with some levels of automated downloads from ERPs. Absence of business intelligence tools makes the process of extraction of relevant data and transformation into usable reports, a tedious and time consuming affair.
- Amount of time that it takes to generate information (which is often historical) is not commensurate with the value of the information.
- There is inadequate focus on predictability and the attempt usually is to have a refined view of the past.
- There is not enough appreciation of the connectedness of information across different functions and departments. Thus any attempt to analysis is often a silo view and not an enterprise view.

Necessity is said to be the mother of all inventions. The demand for information and insights for enterprise performance management is leading to significant innovations in processes and technology. It is likely that the second decade of the 21<sup>st</sup> century will be remembered for these innovations and how together they reshaped the effectiveness of the finance function.

### Process innovations

The demand for insights has led to the creation of a new discipline in the form of Corporate Performance Management (CPM). In the past, reporting and analysis used to be housed within the sub functions within Finance—eg. Treasury, Accounting, Tax etc. The current trend is to centralise the reporting functions in a central

“Shared service” and leverage the benefits of scale. The central function is now taking charge of annual planning and forecasting, management information systems, statutory reporting and is evolving as a key support function for the CFO and the CEO. By adopting this consolidated cross-functional model, many organisations have been able to overcome disparate data silos and establish clear accountability for enterprise level data.

The other trend that is becoming discernible is the new approach towards standards of reporting and definitions. Most organisations have a common complaint on reporting systems that runs on the following threads :

1. We have too many reports and the underlying data is not reliable as it comes from multiple sources.
2. The definitions are not standard and, hence, very often the targets and actual do not synch up. Even a comparison between the functions and departments is often invalid for the lack of standard definitions
3. The master data is corrupt or incomplete—and thus any reports that draws its information from the masters is likely to be unreliable.

To address these concerns, finance functions are adopting an aggressive plan to drive data integrity and process hygiene such as :

- a. Functional analysis of reporting needs and actual reporting regime. This would identify the existing gaps and overlaps and help arrive at the ideal set of KPIs and reports that would optimise business insights.
- b. Drive standard definitions for the metrics that are simple to understand, common across all functions and applicable globally.
- c. Undertake a project to clean up the master data and remove duplicates, inconsistencies and other discrepancies that creep in due to lack of strong stewardship. While this could be a one time project, it is essential to set up sound processes to ensure that all future changes are filtered through a rigorous scrutiny and there is a periodic data audit.

### Technology innovations

A key development in the finance functions in the last 2 decades has been the encouraging adoption of technology as a lever for process effectiveness. While the first generation of adoption was restricted to office automation tools and ERP, the Business intelligence (BI) and Analytics tools have evolved as the essential investments in recent times. Advancement of technology has resulted in a proliferation of tools and appliances covering virtually entire spectrum of information management—from basic data warehouses to advanced analytics solutions.

Some of the common solutions are in the areas of :

1. Data Quality (DQ)
2. Enterprise performance management (EPM)
3. Planning & Budgeting (P&B)
4. Consolidation

5. Statutory reporting
6. Assurance and controllership
7. Advanced analytics.

Each of these solutions offer a unique value proposition for the Finance function and the entire spectrum needs to be well understood by the CFO to obtain maximum leverage from investments.

**1. Data quality (DQ)** — DQ solutions focus upon identifying data deficiencies using a complex set of rules and algorithms. Some of the deficiencies are capable of correction after scrutiny — eg. Duplicate customers, while some may need more research and additional data capture — eg. missing fields in the vendor master. DQ solutions automate the process of extraction and identification of deficient data and fields from large databases that would otherwise require humungous manual efforts to scan.

**2. Enterprise performance management (EPM)** — EPM solutions form the bedrock of business intelligence. While most ERPs have in-built transactional reports, when it comes to insights and visual representations, the need for EPM tools is appreciated. A state of art EPM solution works on the principles of data model for the industry and should be able to provide a wide range of metrics in multiple combination of dimensions (eg. sales by geography/time/agent/customer/scheme/stores etc.). These solutions are loaded with pre-built analysis (eg. trends) and graphical displays and very often also provide an array of options for the users to design customised reports. Depending upon the mass of data to be worked upon for reporting, many organisations also decide to implement a data warehouse solution as the stepping stone for reporting excellence.

**3. Planning & Budgeting (P&B)** — Finance teams spend an inordinate amount of time in planning and budgeting. While there are annual plans drafted at the beginning of the year, there are periodic rolling forecasts that calibrate the full year outlook based on actual YTD performance. This entire process is iterative and requires a large volume of inputs from different functions—often in different geographies. A planning and budgeting solution automates this process with pre-designed templates that can be rolled out, consolidated automatically and presented in visually appealing formats. The system can be set up to compare inputs against past performance and identify trends — all to help better rationalisation of plans.

**4. Consolidation** — Consolidation of financials for statutory or management reporting is a key requirement for the finance function. While the process of aggregation may appear simple, complexities arise when :

- a. There are heterogeneous chart of accounts between different businesses and a simple consolidation will lead to erroneous results.
- b. There are intercompany holdings that would need require application of accounting standards logic to identify the needs of financial consolidation verses mere disclosure needs.
- c. Intercompany transactions take place and the period end Intercompany balances need elimination.



d. There are several dimensions of analysis and there is a need to rationalise the lowest levels of granularity to view the consolidated reports. Very often, it is discovered that not all the consolidating units capture data at the desired lowest levels thus disabling benchmarking without doing a process change first.

Consolidation tools provide an automation platform with desired reporting templates and solutions for these common challenges. Adoption of a good solution eliminates time and effort to a large extent, particularly during the crunch time of period close.

**5. Statutory reporting** — Every country has a framework of regulatory reporting and India is particularly notorious for the extensive reporting requirements. With the advancement of reporting innovations globally, India is also waking up to the enormous potentials of statutory reporting automation solutions. XBRL has been made mandatory for certain sets of corporate in this fiscal year and this change requires the companies to adopt a XBRL reporting solution. As the finance teams are most often entrusted with the task of all statutory reporting, there is an immense benefit in exploring technology solutions in this field. Examples of common innovations include (a) regulatory reporting for banks, (b) Schedule VI consolidation and reporting for corporates, (c) XBRL, (d) Tax reporting solutions.

**6. Assurance and Controllershship** — Controllershship demands advance insights and risk prediction. Technology innovations are changing the rules of the game in this exclusive preserve of the finance function. Some of the emerging solutions in this area are :

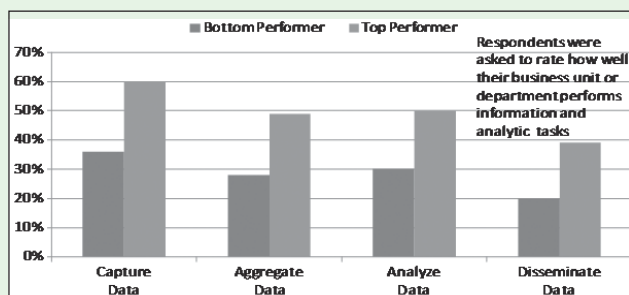
a. Revenue assurance models through advanced analytics on billing data — focus being on prevention of fraud and billing losses.

b. Expense leakage through continuous audits and exception alerts — eg. in travel expenses.

c. Computer aided audit technology (CAAT) where transactional data is mined to identify exceptions and deviations.

**7. Advanced Analytics** — In a recent survey on the effective use of analytics, several organisations were asked to rate their usage of analysis in daily operations. The results of the survey were then mapped with the organisational financial performance and a strong correlation was immediately evident between the use of analytics and enterprise performance. The diagram in Chart 2 brings out the results :

**Chart 2**



Analytics has now emerged as an independent discipline within organisations. The advancement of technology in Analytics domain has made it imperative for the CFOs to consider a solution suite for their industries—some examples being :

(a) Telecom industry specific analytics such as predictability of customer churn and planning of marketing campaigns by customer segments has helped organisations to protect their revenue base.

(b) Retail industry analytics such as efficacy of customer loyalty programs and inventory optimisation models have helped better plan the procurement schedules to support the right stocking levels based on prediction of SKU demands.

Technology solutions in business analytics are often based on complex statistical models aggregated into algorithms to identify patterns and provide a robust forecasting technique. The core of these solutions function on the concept of mining large mass of data — structured and unstructured—and build models to support specific business insight demands. The CFOs are increasingly adopting these investments as tools for “what if” analysis and market guidance, particularly in the volatile economic times such as these.

### Conclusion

It is an inevitable reality that the finance functions world over are getting stretched by the demands of both gathering and leveraging management information. Despite significant amount of time being invested, there is still a considerable level of dissatisfaction in the corporate echelons on the quality of reporting and insights being obtained. The reasons for this is manifold—including lack of clear definition of expectations from the businesses, unstructured and discontinuous databases and lack of skills, tools and processes to manage the activities effectively.

The Finance function of the 21<sup>st</sup> century needs to rise up to these challenges and evolve into its desired role of a true business partner and value collaborator. Gone are the days when the CFO was looked upon as the chief custodian of assets and the signatory to the true and fair financial statements. Today’s world demands him to be a “comrade in arms” with the CEO and there are umpteen examples of CFOs taking over as the chief executives and/or joining the board of directors. Managing the information lifecycle and harnessing the power of data is a proven enabler in this progression and one that would align the CFO to this “new normal” of the corporate value system. □

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## Innovations in Finance : Financial Engineering



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### Introduction

**G**enerating ideas with commercial potential, concept proofing and prototyping, product development, execution and commercialization, evaluation and continuous improvement are the most common steps involved in innovation process.

In business, innovation can come from a variety of different sources. Sometimes it is the result of specifically focusing on creating new ideas, whereas other times it can be unexpected and the result of a spontaneous reaction to a particular need. Some of the common sources of innovation are employees, customers, business competitors, R&D departments (in some specific businesses and industry sectors).

There are a number of factors that can prevent innovation from occurring i.e. owners or managers are not open to new ideas, lack of time and resources, expensive for small businesses, lack of direction by organizations in terms of innovation, lack of freedom to be creative, lack of ability to implement and commercialize new ideas. Being able to recognize and work through these sources and barriers to innovation will help one create an innovative culture in one's organization and assist one in successfully growing one's business.

The success or failure of innovation process in one's business will be influenced by one's team. Choosing the right people for the job, managing the team effectively and being able to lead, motivate and direct one's employees will help to achieve results for one's organization.

One of the innovations of finance is business process reengineering. Cementing of products, systems, people, brands and technology has to be done with financial structuring, financial control system, financial benchmarking and financial quantification of every qualitative business variable. Such cementing could be referred to as 'financial engineering'.

### Financial Engineering

Financial engineering requires a great amount of algebraic algorithms, common sense and strategic understanding of benchmarking. The pre-requisites essential for innovative financial engineering include :

- Creative (or parallel) thinking;
- Courage to challenge traditional (or classical) thinking;
- Analyze and balance individual interests of different stakeholders;
- Ability to use both business arithmetic and economic thinking ;
- Ability to relate strategies, normal parameters and financial benchmarks in a holistic manner;
- Employ a strategic approach for combining intellectual and emotional quotient;
- Entrepreneurial understanding of financial implications;
- Understanding shortcuts wherever possible, without applying complex and time consuming mathematical algorithms;
- Ability to work at both levels of analysis i.e. macro and micro;
- Quick grasp of end result or output.

### Approach to Innovative Financial Engineering

CMAs should apply innovations to financial products and processes, keeping in mind the design of an entire business process. The connection between the two phases has to be perceived in the light of all phases of the process, along with the external variable.

The approach may be summarized as follows :



### Approach : Innovative Financial Engineering

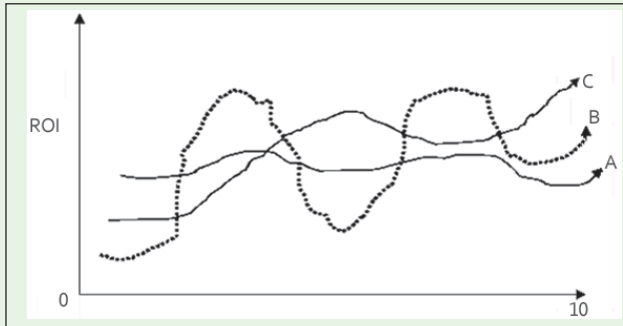
#### Benchmarking Practices

The most crucial benchmarking practice is on deciding minimum and maximum permissible Return

on Investment (ROI). The factors to be considered are new products, markets, technologies and employees who always create confusion in deciding an optimal ROI.

Keeping in mind the different stages of growth of an organization, with different generations of entrepreneurs, a lot of creativity is required in deciding an ROI.

**Benchmarking of Earning Expectations**



*Years of existence, Generations, Size, Technological advancement Competition, Customer awareness, Variations in product mix*

Curve 'A' shows the ROI of an average enterprise, which maintains its earnings ratio by moving directly with market variables. Curve 'B' indicates the impact of generation gaps, entry of competitors and depression related slackness. The fall in the ROI during the second period of recession is less than that of the first year, as the organization gets ready to face recession again. Curve 'C', should apply to a great organization which keeps on increasing its rate of multi-faced growth. Its ROI may flatten occasionally in strategic response to adverse conditions.

Fixation of strategic ROI also depends on operating and financial leverages, liquidity and investment turnover. If one plots financial leverage and operating leverages in X axis and liquidity and investment turnover on the Y axis the above matrix would offer nine different combinations of these four segmented performances.

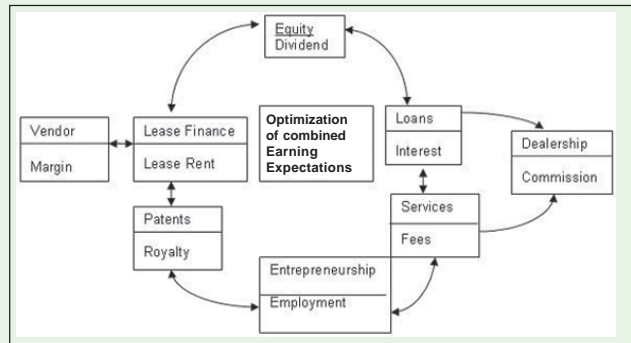
Combination 1 should perhaps be the best combination, as it offers highest operating efficiency, lowest debt related risk, highest investment usage efficiency and very high liquidity. The worst should be Combination 9. Combination 2 indicates an aggressive approach to business, where both the leverages are high. Under this combination, the enterprise aims more for volume and liquidity to compensate for possible damage caused by two leverages. Combination 3 exhibits a conservative approach to business with low operational and financial leverages. Even in a perfect market, there are pockets of imperfect conditions which support an enterprise to manipulate its capital structure and maximize its advantage. The matrix below explores grey areas with various combinations. One can enlarge the matrix with a few more variables and conditions.

**Fixation of Strategic ROI with reference to different factors**

	← Low	Operating leverage	High →	
High ↑	1	5	2	High ↑
Investment ↓	BEST 6	4	8	↓
Turnover ↓	3	7	9	Liquidity ↓
	← Low	Financial Leverage	High →	

The problem of deciding the optimality of combinations arises when the promotee shareholders decide to enlarge their interest in the corporation through various exposures. Optimality cannot be perfectly rationalized as individual shareholders may have varied expectations and perceptions. It cannot also be rationalized because of the impact of different exposures on each other as exhibited in the figure below :

**Position reflecting investor entering multiple relations with an enterprise**



An investor enjoying multiple relations with an enterprise will have to trade-off between his various inflows (incomes) from the enterprise. The maximization of his combined inflows from such enterprise would also depend on sustainability of earnings, tax planning, scope for growth of returns from one segment of total investment in the enterprise. For e.g. lease rental or fees income, the enterprise's strategic growth plans and other investor's expectations.

An intelligent investor may develop an algorithm to analyze the connectivity between two inflows, with a micro-eye on other inflows.

**Product and Process Choices**

Financial aspects of product and process choices may be summarized as :

- Product & process wise ROI;
- Cost of new knowledge and skills required for change expected;
- Allocation of common overheads to products and processes;
- Cost-benefit analysis of product-extension versus process-extension;
- Valuation of 'product-brand' and 'process-brand';
- Multiplicity of a processed structure versus productled structure;
- Assessment of product choice and process choice at different levels of results i.e. identifiable operating income, net operating income, financial income & net

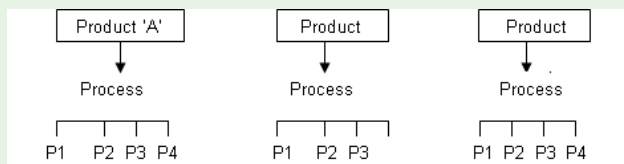
post tax income; ● Products and processes are also to be assessed for external advantage like tariff-concessions, governmental support and sub-sidies, upcoming market availability input-wise occasional advantage; ● Product and process related.

**Strategic Combinations of Products and Processes**

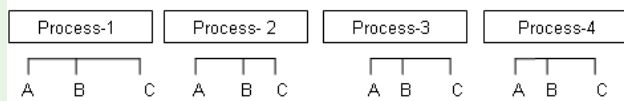
A strategist should look at the 'marginal utility' of product and process extensions. The flexibility in such extension may be costly but the cost is always less than the cost of not having such flexibility. Products and processes may require cyclical or sudden changes, which can only be managed if there is flexibility.

Some of the combinations of strategic business units are :

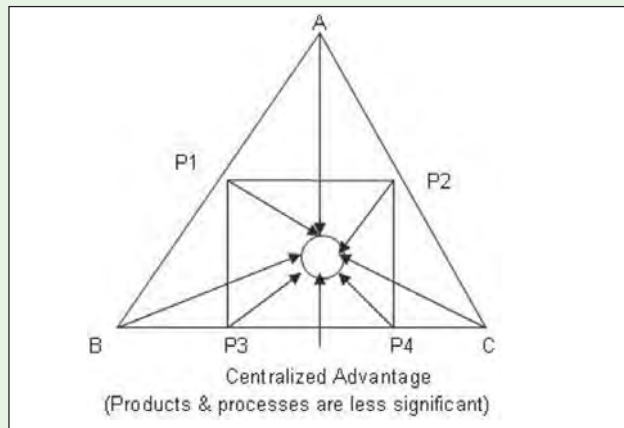
**Structure 1**



**Structure 2**



**Structure 3: Strategic Combination of Products & Process**



Structure 1 is based on Product Group, Structure 2 on process based and products are placed under each process and, in Structure 3, the products and processes are less significant and the centralized advantage plays a dominant role.

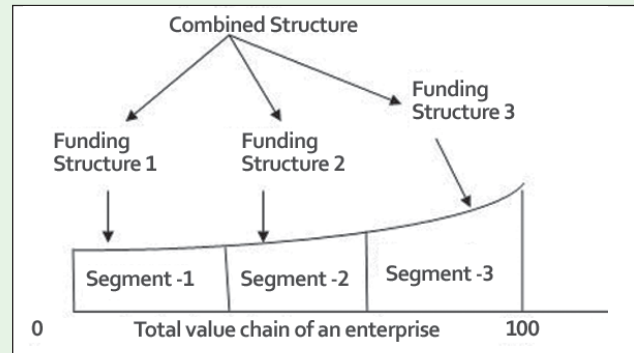
**Funding Structure**

In future one has to think of 'a strategic structure for funding business and its growth'. There should be flexibility in funding structure such that long term alterations and additions to the structure are possible with least cost.

In the next few decades 'networking corporations' and 'networking of funding' will also be inevitable.

'Networking of funding' means independent funding for each segment of the value chain of an enterprise, but with an organizational or combined advantage. This can be explained with the Figure below :

*Networking of Funding*

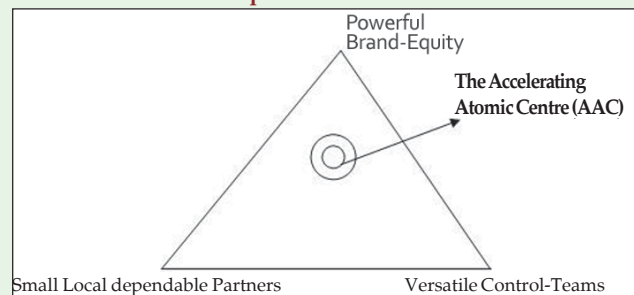


The investor should be free to invest in an appropriate financial instrument for just one segment of the total value chain of the enterprise depending on the risk perception. For e.g. He will be able to invest in 'Flexi-bonds' issued by the purchase department, which may be called Segment 1 of the value chain. Another investor may be willing to invest in Segment 2 (which may be called the production department of an enterprise). Being in the production department, it may be exposed to technological obsolescence. Therefore, the investor should expect a much comfortable instrument issued by this segment. A third investor may like to invest in the enterprise and not in a single segment. He would like to have exposure in all segments. The enterprise may either offer him one single instrument (with different options and features) or a basket of different instruments representing different segments. The revolution in information technology should make this possible.

A multi-layer and multi-element capital structure is going to be of strategic importance to every organization in the days to come. Such structure should offer three fundamental facilities to the organization i.e. acceleration effect, conversion hedging facilitation, investor friendly packaging or bundling of various components of total fund deployed/deployable

1. Acceleration Effect : The 'atomic acceleration' of wealth, market presence and asset base is possible, if a networked group of different entities is created, using a 'Power-Triangle Base' as shown in the figure below :

**Networked Group of Different Entries**

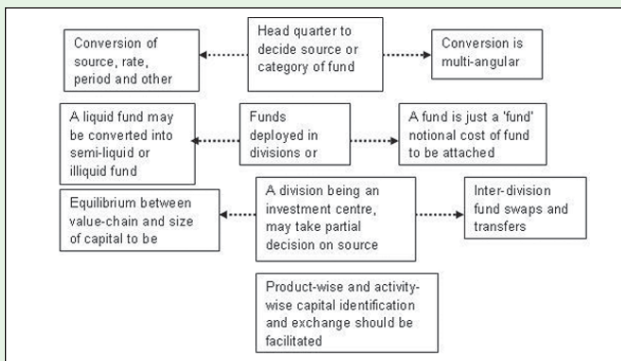


The Accelerating Atomic Centre (AAC) would comprise 'owner professional' with clear vision for growth, diversification and strategic approach for treating barriers. The AAC could be a holding company or an association with limited liability. It may have a small capital base but a huge capability for raising varieties of funds through small, local dependable partners (SLDPs). These SLDPs are essentially geographical, product-wise extension of the AAC.

**2. Conversion, Hedging Facilitation**

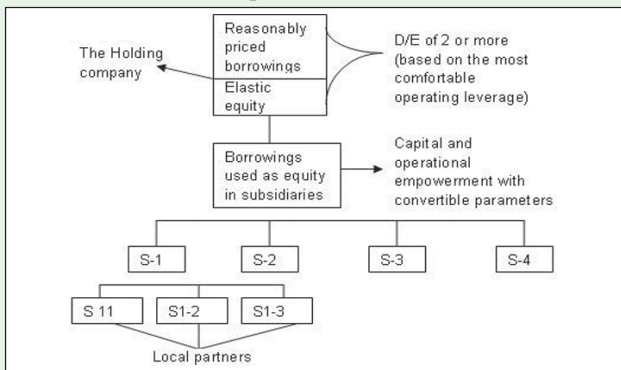
The functioning structure should be such that its partial or total conversion (based on strategic requirements) should be optimally possible. Such conversion may be multi-level and multi-angular as shown below :

**Conversion, Hedging Facilitation**



The acceleration effect requires capital convertibility to a great extent. The following capital network should be the most risk-free but advantageous approach to achieve net-worth appreciation.

**Risk Free and Advantageous Approach to Capital Network**



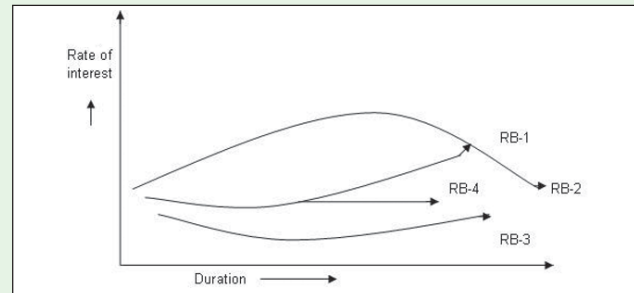
**Note :** S1, S2, S3, S4 are subsidiaries, extensions or divisions of any suitable legal and logical structure. The sum total of the 'base net worth in the holding company' and extended net worth in the subsidiaries and further subsidiaries will give a huge appreciation to the initial net worth contributed by the entrepreneurs.

**3. Investor, friendly packaging or bundling of various components of total fund deployed/deployable**

It is necessary for CMAs to understand the

'economics of interest rate behaviour' and not follow blindly some of the theories set by leading financial institutions since theories propagated by financial institutions may not be appropriate for the borrowing companies.

The figure below shows the dilemma of interest rate behavior :



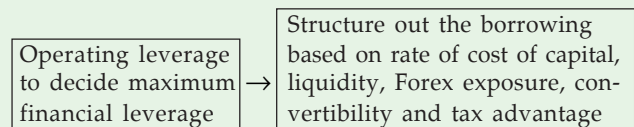
Under RB 1, the rate of interest increases with increase in duration, as the lender feels that a longer duration exposes him to bigger credit risk, rate risk, exchange risk and uncertainty too. Contrary to this, RB 4 offers a reducing cost of funds to the borrower, as the duration increases. This happens because the lender is more happy (or relaxed) with a long-term instrument, as the cost of administering his portfolio is less or he gets a contracted (or committed) rate of return for a longer term, although such rates may be lesser. RB 2 and RB 3 are the types of behaviour mostly found either in an imperfect market or in a market with either side monopoly. Under RB 2, one may find that short-term funds are cheaper, medium term is costlier and again long term is cheaper. An opposite behaviour is seen under RB3. An enterprise raising funds is required to understand different markets based on such types of behaviour.

**Fund-deployment Strategies, monitoring and assessment**

The fund-deployment strategy process consists of 4 Steps :

Step 1: Decide minimum achievable ROE for owners and look at the benchmarked amount of share capital required.

Step 2: Decide the borrowing to be made in the light of the following framework :



Step 3: Look at the value chain of the business and deploy funds based on the following strategies :

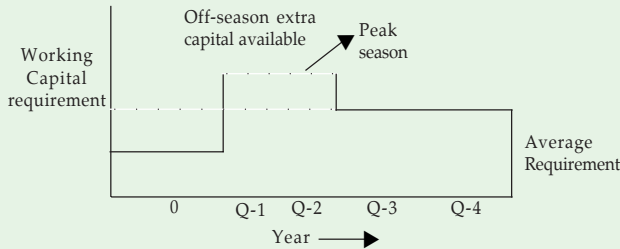
- i) The most indispensable and major value drive operations should get maximum funds.
- ii) The most sensitive or phase involving technological obsolescence, may be based on "eased equipments".
- iii) The process involving non-core strength and manual work should be outsourced.
- iv) The most dispensable operations (which also



contribute minimum value to the organization) should be contracted out to subcontractors and ancillaries.

- v) The operations exposed to short-term cyclical fluctuations, should be managed with short-term funds (especially for the incremental requirements). This is explained in the following figure :

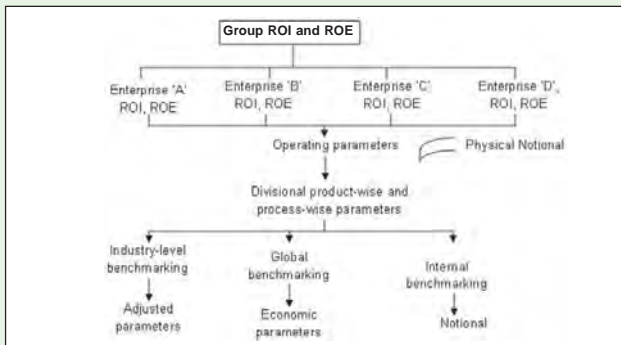
**Fund-Deployment Strategies**



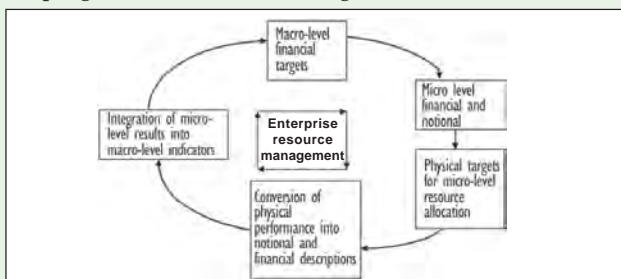
The average requirement of working capital may be funded with a suitable mix of long-term borrowing and equity. The peak season requirement may be funded by short-term borrowing with a close eye on the short-term capital market. The interest behaviour should be the dominant factor in deciding short-term finance.

Step 4 : The fund deployment in each activity will have to be further in line with 'segmental ROI'. The 'segmental ROI' may be further weighed by 'segmental risk' and 'segmental time consumption' (the 'time consumption' is referred to the entrepreneurial and managerial time). The sum total of all the 'segmented ROIs' should reflect in the ultimate 'Economic Value Added' (EVA).

**Monitoring and Assessment Systems  
Monitoring System of Financial Engineering**



Monitoring system would be much more effective with strategic use of information system. 'Enterprise Resource Management' system has to be developed, keeping in mind the following broad structure :



ERM would depend on carefully decided benchmarks. These benchmarks should be appropriated with proper alterations in the following variables :

- Inflation; ● Foreign Exchange Ratio; ● Accounting treatment; ● Economy-level Input costs; ● Government Tariffs, Regulations, subsidies etc.; ● Size, Technology Variations; ● Major Value-chain Variations.

It would be very useful and interesting if the benchmarks and variances are analyzed for each 'variable-adjustment' separately and compared further. The inter-divisional and intra-divisional comparisons would require in-depth adjustments for the 'value chain participation'. For e.g. one cannot compare resource-consumption and value-addition by the personnel department and purchase department directly. These departments have different roles in the enterprise's overall value-chain.

The difference of roles require adjustments pertaining to :

- Volume and nature of operations; ● Subjectivity in the projection of end-effectiveness; ● Role of intangible assets; ● Cause-consequence relationship between two operations or divisions or employees; ● Exposure to external or market- related variables, benchmarks.

**Programmes and Policies to Reward Various Shareholders**

The value driven by a stakeholder would depend on varying circumstances and interdependence of stakeholders themselves. A little disequilibrium in rewarding them may prove to be very costly for the organization. Therefore, the 'engineering' to be done for achieving a perpetual equilibrium is more 'strategic' than 'financial'. Such equilibrium could be bilateral or multilateral.

A simple bilateral relationship between two stakeholders may be explained as :

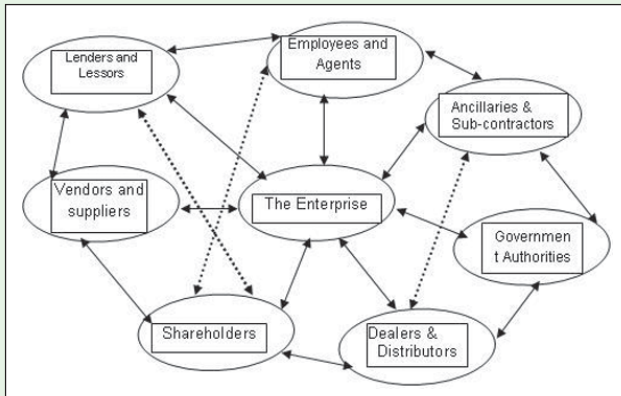
Vendors & Suppliers	Result	Shareholders
Normal price,	Normal Cash operating profit	Normal cash dividend
Payment and delivery conditions		
Price hike	Operating profit	Reduction in rate of dividend
Reduction in credit	Cash profit reduces	Lesser cash dividend (clubbed with bonus shares)
Unlike hike in price and no credit facility	Cash loss	Perhaps dividend is deferred or can celled

Between the vendors and the shareholders, there are other influential value drivers who offer good scope for 'leveraging'. Therefore, the negative impact of the

vendors at the extreme left of a firm's value chain may be nullified by 'strategic leveraging' so that the reward to the shareholders is not much affected.

The overall process and plan of 'reward equilibrium' may look like a solar system

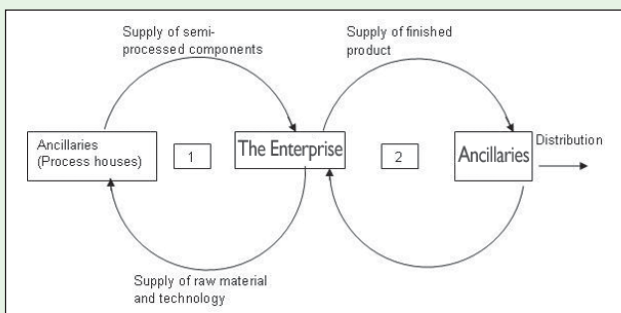
**Reward Equilibrium**



An enterprise may leverage a lot by clubbing/ converting the relationships between two stakeholders. For e.g. if all employees are made shareholders, the strategies for rewarding such employees would become much simpler. Similarly, a very comfortable bargain can be created, if the ancillaries are also functioning as distributors and dealers.

The relationship may be expressed as given below :

**The Enterprise-Ancillary Relationship**



The enterprise-ancillary relationship goes through two cycles at different phases of the value chain. The rewarding of the ancillary could be facilitated with the combination of effective logistics, cash flow matching, tax adjustment, competence adjustments and adjustment of fluctuating prices.

The following important factors decide the overall expectations of shareholders i.e. innovative ways for rewarding shareholders:

- Opportunity cost of funds invested;
- Average benchmarked earning ratio available in the market;
- Personal tax-bracket, hence tax-planning;
- Liquidity

- requirement;
- Deferred expenses;
- Portfolio mix and risk-return equilibrium;
- Expectations for bonus shares and other non-cash benefits;
- Control on investment (convertibility, securitization);
- Long-term expectations from the enterprise.

Some of the innovative ways of rewarding shareholders may be summarized as :

- The enterprise may guide the shareholders by publishing key data about the companies involved in its value-chain, as vital value-drivers. These companies can be good investment targets.
- Shareholders holding shares for longer period can be offered extra dividend, long-end convertible instruments, extra preferential treatment in dividend distribution and issue of new shares.
- Employee shareholders may be offered 'post-retirement cash flow instrument' as 'deferred dividend', at attractive options.
- Middle-aged investors may be paid 'advance dividend' for meeting their middle age requirements of growing children's education or housing.
- The enterprise may provide information and services relating to products which compliment its own product. These services may be offered at concessional price to the shareholders.
- Shareholders may be given preference when the enterprise comes out with new scheme relating to its products and services.

● With the advancement of information technology, it would be possible to issue 'need based shares' to different categories of shareholders.

**Satisfaction of Shareholders**

Very little analysis has been done about the 'emotional quotient' of varying degrees for various shareholders. Shareholders can be categorized as :

- Loyalist shareholders, perpetually with the company;
- Professional shareholders looking at their investment with rational and focused expectations for dividends, appreciation, liquidity etc.;
- Employee-shareholders with a mixed response to the 'share-reward behaviour';
- Speculative shareholders;
- Shareholders with greed;
- Promotee shareholders with an interest in 'ownership by control';
- Ambitious shareholders, with an eye on ultimate takeover;
- Shareholders easily driven by market forces, intermediaries, inefficient market data etc.;
- Shareholders are as nominees to represent various regulatory bodies, stakeholders;
- Vendors, technocrats, advisers

having got shares in exchange of their services and supply of goods to the company

Overall grouping of shareholders may be done as :

- Interested in ownership by control;
- Interested in steady return and growth;
- Interested in speculation

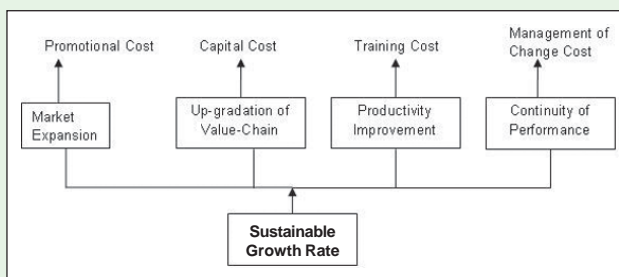
With such variety of shareholders and their expectations there cannot be an extra-mathematical model to satisfy all of them.

### Perpetual Sustenance of Financial and Real Growth of the Business Enterprise

'Perpetual sustenance' depends on 'self-activated system of managing change'. Sustenance of growth (both, financial and real) would depend on suitable and timely change in financial parameters. Cost-Profit-Volume-Sales Ratios and their benchmarks have to change, depending on changing business variables i.e. priorities, strengths, opportunities. Therefore, sustenance of growth would be assured more by 'strategic costs incurred on networking skills and structures' rather than costs incurred on 'linear process-like approach to doing everything'.

An enterprise will have to decide an average long term rate of financial growth and real growth may be for a period of 10 years at least and then make use of 'alternate financial algorithms' to achieve such a rate. These algorithms should take care of three major 'discounting factors' i.e. change in market, change in technology and generation gap. So the core of long-term strategic plan would definitely be a 'sustainable rate of growth', which should decide various permutations and combinations of financial and operational parameters every time.

The core rate i.e. the rate of growth will depend on the following major costs to be incurred alternatively or simultaneously.



A balanced combination of the above four growth factors and their respective costs will depend on varying weights to be attached to the following four ROI Ratios, year after year :

No.	Growth Factor	Relevance ROI
1.	Market expansion	Product ROI
2.	Upgradation of Value Chain	ROI per process or per value driver
3.	Productivity improvement	ROI per employee
4.	Continuity of performance	Time ROI

### Conclusion

A strategist CEO should be comfortable at financial engineering since the ultimate computation (or visibility) of the 'networth appreciation' is a financial exercise.

Financial engineering has to be 'innovation' for two important reasons :

1. It offers an edge over competition and enriches the overall competitive advantage during difficult times.
2. It enables technocrats to transform 'technical ideas' into 'financial reality'.

Financial engineering should be based on versatile attempts by everybody in the organization. The ultimate success of all engineering exercises depends on a balanced equilibrium of the following aspects :

1. Strategic suitability
2. Financial quantification of abstract influences
3. All concerned should understand financial objectives with equal clarity and significance
4. The exercises are a 'practical reality' and not an 'ideological gimmick'. □

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## Innovations in Transaction Banking



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### Introduction

The term 'transaction banking' has been in vogue among top tier global banks for over 3 decades. Broadly, the term signifies specialized services offered by banks to large corporate clients. The major services offered include cash management, trade finance, treasury, payments, and custody.

Many of the global banks have shown increasing interest to penetrate and deepen their corporate relationships by offering differentiated products and services to meet their corporate customers' varied needs. The transaction banking services predominantly generate 'fee based revenues', as opposed to 'fund based revenues' for banks. In the current high-cost and challenging regime, banks world-over are compelled to look at avenues for growth that would require lesser capital requirements. Hence global banks have taken transaction banking as focus area to gain their 'corporate customer's wallet' share.

Of late, even some of the large Indian banks have started offering one or more of such 'integrated' service offerings to retain and deepen their existing corporate client profile.

Let us look at a few of the innovations that have been seen in the Transaction Banking industry. These innovations have greatly helped corporates to derive the 'best possible service' from their banks at the 'same or lesser price'.

#### **A few trends in the Transaction Banking products :**

**(a) Cash Management :** This would broadly encompass three offerings viz.: Liquidity, Payables, and Receivables Management. Of the several variants under Liquidity Management, cash pooling and sweeping are quite popular among the corporates. These services would entail bring corporates' balances scattered across the country/geographies into a centralized location so that the corporates can take cost-effective and profitable investment decisions. To emphasize the service, if one considers the bank balances held at various current accounts across the country/global locations, the balances would look insignificant in isolation. However, if they are brought into a common location, such balances would be quite huge and corporates can advantageously invest such

large balances in overnight/money market instruments that would provide enhanced returns. Some of the global corporates adopt the 'follow-the-sun' policy to derive maximum benefit. Thus liquidity management can be considered as an effective 'revenue optimization' tool in the hands of corporates.

Similarly the receivables and payables management services offered by the banks can be availed by corporates to shorten and lengthen their trade receivables/payables respectively through providing/availing discounts, wherever possible. For this purpose, corporates can leverage their overall relationship with banks to get competitive pricing. This would thus act as an effective cost optimization strategy for the corporates.

Some of the trends in the cash management space include : (i) Remote Deposit Capture—wherein corporates can scan and upload their cheque receivables to the bank without physically presenting the cheques at the bank; this can be explored in India considering Cheque Truncation has already been practiced by banks in a limited way, (ii) Lock Box Services—which has already been used by a few large corporates in India wherein they can outsource the retail receivables, (iii) ERP integration for receivables/payables : this would entail corporates providing their receivables/payables data to their banks either through pull/push mechanism (including the popular Host-to-host mechanism). Subsequently banks can process the data and determine appropriate collection/financing strategy based on the needs of the corporates.

It may be highlighted that all the above would greatly reduce the time involved in the receivables/ payables cycle for the corporates and, hence, would ultimately result in optimum utilization of their scarce cash balances.

**(b) Treasury services :** Corporates avail such services for converting their receivables/payables into a designated foreign currency, based on the terms of trade or otherwise. These services could be plain vanilla spot and forward contracts or complex swap transactions. One recent trend noticed in the industry is the scenario wherein when remitting their foreign currency payables to their overseas partners, corporates



can ask their banks to convert the local currency into foreign currency at the originating location itself. This would help the remitting corporate to know upfront the 'final and actual' foreign currency amount that his overseas partner would receive. This would also help his bank, since the bank would be able to perform the profitable foreign currency conversion which would otherwise be performed by the receiver's bank at a foreign location. The bank would thus gain from such forex conversion, which can partly be passed onto their remitting corporate customer.

**(c) Trade Finance :** Traditionally corporate customers have been relying on 'Letter of Credit' transactions for carrying out their import and export transactions. However during the last few years, there has been an increasing reliance by corporates to adopt the recent innovation in the industry called 'Supply Chain Finance' to cater to their open account transactions with their counterparts. One of the typical trends in the industry is to adopt a 'anchor-supplier' model. One variant of this model involves the large global player having a tripartite arrangement among the global player, their trade partners and the bank wherein the banks can finance the large global player's counterparties at a cheaper interest rate by relying on the 'balance sheet strength' of the global player. This arrangement would act as an effective 'cost optimization' strategy for the large global player besides 'win-win' situation for all the three parties.

**(d) Payments :** Corporates can avail different payment mechanism and options provided by their bankers to cater to corporates' differing needs. Some of the payments could involve payment within the city, country or outside the country for which banks should have adequate infrastructure/arrangements such as provision of RTGS, NCS, ACH, SWIFT, RENTAS, SEPA etc. Considering some of the payments could be for high-value transactions, it is imperative for corporates to determine the appropriate cost-effective payment strategy while executing such high-value transactions.

**(e) Custody :** Custodial services are availed by Institutional Investors wherein their custodian banks can offer several innovative solutions encompassing trade confirmation, settlement, corporate actions, investment/fund accounting, securities lending etc. One recent trend noticed is in the arena of 'proxy voting' wherein the Institutional Investors can remotely exercise their voting rights in their investee companies through a platform offered by banks or other service providers.

Besides the above, Transaction Banking has also seen a quite a few other innovations in the recent past. This could range from using/offering (a) Electronic Bill Presentation and Payment to cater to B2C transactions, (b) Electronic Invoice Presentation and Payment for B2B

transactions, (c) e-invoicing strategy for B2B transactions. Though (a) and (b) have been experienced by a few Indian corporates, e-invoicing is gaining popularity in the European market with the authorities concerned formulating a mechanism wherein an invoice generated using the standards stipulated by the European authorities can be accepted as sufficient evidence by the Tax and Customs authorities spread across several European countries. This would provide sufficient stimulus towards (a) reducing cost in creation/generation of paper based invoices, (b) reduced cost of processing/following up paper based invoices. Interestingly, a few of the European countries have voluntarily adopted such e-invoicing approach at least for transactions involving Government organizations, though the statutory deadline date is still awaited.

### Conclusion

The innovations highlighted above are only a few with several variants being adopted by global players. For instance, two other innovations are gaining currency in this space, viz.: 'Cash Flow Forecasting' and 'Integrated Trade and Cash'.

It is imperative that professionals involved in Transaction Banking activities are conscious of the trends and innovations in the industry so that they can adopt/suggest suitable cost effective and revenue optimization strategies that would greatly increase corporates' bottom line. □

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## Demystifying 'Financial Innovations' — An Inquiry Into Its Fundamentals



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#### Introduction

The economies nowadays have recognized the necessity to understand the fundamentals of finance. In this relation, the innovations in the area of finance demand special attention. The author feels it necessary to clarify the concept of 'financial innovations' not only to finance personnel but also to a layman. It is the recognition of this simple fact that finance—with all its positive as well as negative effects, if any—does not affect an individual entity but eventually nations—ultimately the globe. The author attempts to demystify the fundamental concepts of 'financial innovations'.

The first section provides an introduction to the article. The second section attempts to trace the origin of financial innovations. In this section, the author attempts to distinguish between technological and financial innovations. The narrow as well as wide angle views of financial innovation are also brought to light in this section. The third section is an inquiry into the sources of financial innovations, the various factors influencing financial innovations and the process of their creation. The fourth section attempts to list various categories of financial innovations. The fifth section details with the various roles of financial innovations and the sixth section identifies the functions performed by them. The seventh section is the concluding section.

#### Tracing the origin of Financial Innovations

The term 'innovation' implies the origination of new ideas, solutions and instruments and their subsequent implementation in order to change the conditions of entities (usually in business) and to improve its situation. The application of innovations increases the competitiveness of a business entity and creates value for its owners (Dabic, Cvijanovic and Gonzalez-Loureiro, 2011; Grudzewski, Hejduk, Sankowska and Wañtuchowicz, 2010 : In Blach, 2011).

#### Technological and Financial Innovations

At the beginning, the term 'innovation' was applied to describe the changes in the technological solutions, creating new combinations of productive means,

generating the above-the-average rates of return and thus enhancing the dynamic development of the overall economy (Targalski, 2006: In Blach, 2011). The definition is quite narrow and can be said to define 'technological innovations'. In order to trace the origin of the term 'financial innovation' it is better to categorize the term 'innovation' as in Figure 1 below :



Figure 1 : Classification of the term 'innovations'

According to Dabic et al (2011), the traditional approach to technological innovations, introduced by J. Schumpeter, identified the following groups of innovations as technological in nature :

- (1) New products;
- (2) New methods of production;
- (3) Opening new markets;
- (4) New sources of supply of raw materials;
- (5) New organization forms and business structures; and
- (6) New methods of management.

The Organisation for Economic Co-operation and Development (OECD) methodology (OECD, 2005) was developed focusing on four groups of innovations :

- Product;
- Process;
- Marketing; and
- Business organization.

The new developments in these four categories are treated as 'innovations', if they are perceived as new for the entity implementing them, which means that these solutions can be already known and applied in other entities or organizations (Anderloni and Bongini, 2009).

The 'financial innovations' also have a long history

of evolution. It can be said that any financial instrument (other than traditional shares and straight bonds), any financial institution (other than traditional banks) and any financial market (other than the traditional markets for the straight bonds and shares), for a certain period of time, can be classified as 'financial innovations' (Blach, 2011).

It is important to note that the new financial developments and their evolution prove to be essential for the technological and economic progress of nations. The financial innovations are not a phenomenon, as they have been accompanying the technological innovations from the very beginning (Michalopoulos, Leaven and Levine, 2009). It can be said that technological and financial innovations are bound together and they evolve together over a period of time and often result in economic development. The relationship between them is shown in Figure 2 below :

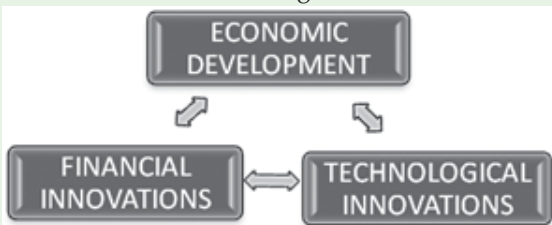


Figure 2 : Relationship between Economic Development, Technological Innovations, and Financial Innovations

The economic development can also influence technological and financial innovations. On one side, the financial innovations provide mechanism to finance innovative technological projects when traditional sources of funds are unavailable due to high investment risk and, on the other hand, the technological and economic progress resulting in the higher complexity of business processes and new types of risk forces the financial system and financial markets to adopt to the changes, to be modernized according to the new requirements of the business entities and to the challenges of the modern world (Blach, 2011). It can be considered that, without financial innovations, the technological and economic development would slow down and the wealth of nations would be lower.

#### Narrow and Broad Aspects of Financial Innovation

A preliminary review of literature on popular definitions on financial innovation (Al-Kaber, 2010; In Blach, 2011; Anderloni and Bongini, 2009; Fabozzi and Modigliani, 2003; Frame and White, 2009) reveals that the term 'financial innovation' can be viewed from the following aspects :

(i) Narrowly, the financial innovations are defined as any new development in financial instruments which are entirely new instruments, combination of traditional instruments, modification of traditional instruments, new application of existing instruments, etc.

(ii) Broadly, the financial innovations include any

new development in any elements of the financial system—new markets, new institutions, new instruments and new regulations.

The narrow approach to the concept is limited to 'product innovations'. However, the broader concept of 'financial innovations' can be developed based on the definition of the financial system (Blach, 2011). This broad definition can describe financial innovations as changes in the functioning and the new solutions and developments in :

- (i) Financial markets;
- (ii) Financial institutions;
- (iii) Financial instruments; and
- (iv) Financial regulations connected with their activity.

The relationship between these groups of financial innovations is multidimensional and can be described as the 'spiral of innovations' (Gubler, 2010) as shown in Figure 3 below :

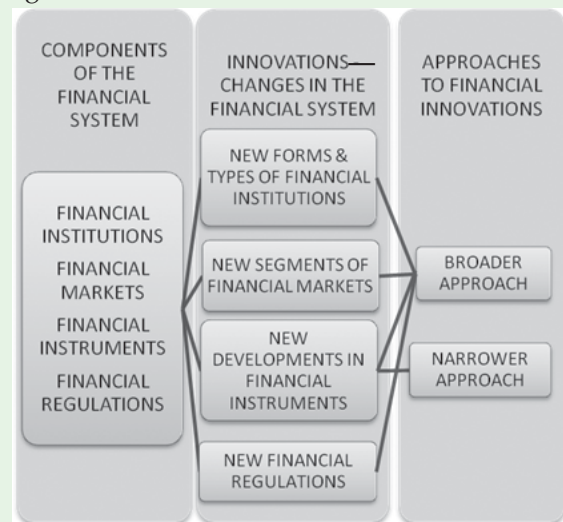


Figure 3 : Spiral of 'Financial Innovations'

The above diagram explains that the new financial institutions create the new financial instruments i.e. products and services that are traded in the new financial markets and these new solutions require shortly the new regulations. The changes in the market conditions together with the changes in the legal environment lead to the formation of new instruments and then foundation of the new markets and institutions specializing in these new developments. It is mention-worthy that the word 'new' implies that these financial innovations are perceived as novelties for the entity implementing them, not necessary objectively new for other participants of the financial system.

#### Why and How of Financial Innovations

There are two situations in which the financial innovations are created and implemented (Pantalone and Welch, 1987) :

- Firstly, the financial innovations are applied when the traditional financial solutions are no longer available, and



- Secondly, when the costs connected with the introduction of the financial developments are lower than the costs connected with the usage of the old, traditional solutions.

### Sources of Financial Innovations

The sources of 'innovations'—whether technological or financial—can be analyzed from the following two perspectives :

- (a) Demand theory of innovation; and
- (b) Supply theory of innovation.

The demand theory of innovations consider that the innovations are created as the response to the demand or needs of business entities that want to acquire competitive advantage in their business environment. These types of new developments are called the *demand-driven innovations*. However, they can be influenced either by the internal needs of the business entity aimed at improving its activity or by changing its environment requiring the proper adoption of business strategy.

The demand-side theory of the financial innovations indicates that the main reasons for the new developments are the imperfections of the financial market, mainly the asymmetric information, agency costs and transaction costs (Fabozzi and Modigliani, 2003). These imperfections create demand for the solutions that enable the market participants to reduce their negative consequences; for instance, the new solutions in the payment systems and instruments can be given, aiming at the reduction of the transaction costs.

Analyzing from the supply side, there are innovations which are firstly created by the innovation-providers and then implemented in the business entities that are the end-users of innovations. These types of new developments are called the *supply-driven innovations*.

Towards the end of the twentieth century, intense activity of the financial institutions creating new financial developments had been observed. This is the subject of the analysis of the supply-side theory of financial innovations. These new developments were created by the financial institutions in order to increase their competitive advantage. A large number of the financial innovations were offered to the clients—which were mainly aggressive innovations in various fields of the financial activity—new investments, savings, financing and payment instruments and tools. There are various other factors which can be cited such as globalization and disintermediation of the financial markets, increased volatility of the market parameters, deregulation and liberalization of the capital flows and the dynamic development of the communication technologies to list a few most important ones (more about the financial innovation drivers see in: Anderloni and Bongini, 2009; Fabozzi and Modigliani, 2003; Llewellyn, 2009; Socha, 2003 : In Blach, 2011; Tarczyński and Zwolan-kowski, 1999 : In Blach, 2011).

### Factors Influencing Financial Innovations

The demand-driven innovations are influenced by the internal factors arising from the needs and goals, decisions and changes in the management style of the financial system participants—both financial institutions and other entities, whereas the supply-driven innovations are influenced by the external factors resulting from the market imperfections, the changes in the business environment and the challenges of the modern economy. The factors influencing the financial innovations can be explained diagrammatically as in Figure 4 below :

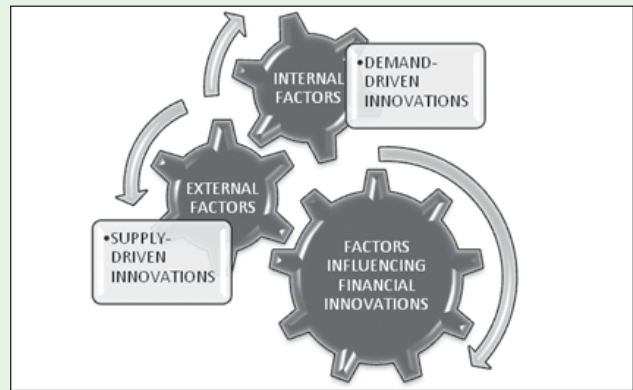


Figure 4 : Factors influencing 'Financial Innovations'

### Process of Financial Innovations

The process of financial innovations are usually consisting of the following three phases (Dabic et al, 2011), viz. :

- (1) Creativity — invention
- (2) Innovation; and
- (3) Diffusion — realized either by imitation or by commercialization of innovative solutions.

The process of creating and implementing financial innovations is quicker, less complicated and cheaper than the similar process in case of technological innovations. The increased numbers of financial innovations are because of relatively rare patent procedures as compared to technological innovations. The not-so-successful or failure ones can be withdrawn or reintroduced with modifications. The speed of diffusion of financial innovations in the global financial system is enhanced by the dynamic development of new communication and information technologies. The successful financial innovations can be easily imitated by the competitors in the market, so the new financial developments that are introduced by different financial institutions may be quite similar. Another aspect of financial innovations is the impact—the short-term innovations provide a temporary benefit for their users and simultaneously incurring negative effects for other market participants. There are financial innovations which can cause harmful effects to the financial system. Thus, there is a need for financial control and regulation, if not elimination



of those financial innovations (see more in : Anderloni and Bongini, 2009; Lumpkin, 2010).

### Classes of Financial Innovations

The issue of categorizing financial innovations has been viewed differently by different experts and institutions. The Table 1 shows various categories of financial innovations considering various bases (some adapted from Blach, 2011) as below :

CRITERIA	TYPES OF INNOVATIONS
Sources of financial Innovation	<ul style="list-style-type: none"> <li>Demand-driven innovations</li> <li>Supply-driven innovations</li> </ul>
Factors of Innovations	<ul style="list-style-type: none"> <li>Internal factors driven innovations</li> <li>External factors driven innovations</li> </ul>
Motives of Innovation	<ul style="list-style-type: none"> <li>Adaptive innovations</li> <li>Aggressive innovations</li> <li>Defensive innovations</li> <li>Protective innovations</li> <li>Responsive innovations</li> </ul>
Elements of Financial System	<ul style="list-style-type: none"> <li>Financial market innovations</li> <li>Financial institutions innovations</li> <li>Financial Instruments innovations</li> <li>Financial regulations innovations</li> </ul>
Nature of Innovations	<ul style="list-style-type: none"> <li>Product innovations</li> <li>Process innovations</li> <li>Risk-shifting innovations</li> </ul>
Effect of Innovations	<ul style="list-style-type: none"> <li>Sustainable innovations</li> <li>Harmful innovations</li> </ul>
Moment of Creation	<ul style="list-style-type: none"> <li>Ex-ante innovations</li> <li>Ex-post innovations</li> </ul>
Underlying Assets	<ul style="list-style-type: none"> <li>Equity-linked innovations</li> <li>Debt-linked innovations</li> </ul>
Successfulness in market	<ul style="list-style-type: none"> <li>Successful innovations</li> <li>Unsuccessful or Failed innovations</li> </ul>
Modification or reintroduction	<ul style="list-style-type: none"> <li>Original innovations</li> <li>Modified or Reintroduced innovations</li> </ul>
Presence in the market	<ul style="list-style-type: none"> <li>Established innovations</li> <li>Withdrawn innovations</li> <li>Modified innovations</li> </ul>

Table 1 : Classification of 'Financial Innovations'

The Table 1 above is not an exhaustive list of the various classes of 'financial innovations'. There can be various other views, which can be even conflicting in nature!

### ECC Classification of Financial Innovations

According to the Economic Council of Canada (EEC, established in 1963 and dissolved in 1993), financial innovations can be classified into three broad categories regarding their functions (Al-Kaber, 2010 : In Blach, 2011; Fabozzi and Modigliani, 2003) :

(a) Market-broadening instruments — The financial innovations that increase the liquidity of the financial markets, improves the availability of funds to deficit units and ensures access to new investment opportunities to surplus units.

(b) Risk management instruments — The financial innovations that enable to reallocate financial risk to those market participants who are less adverse to it or better prepared to handle with it.

(c) Arbitrating instruments and processes — Those financial innovations which give the opportunity for the market participants to benefit from differences in costs and returns between markets.

### Bis Classification of Financial Innovations

The Bank for International Settlements (BIS) have

elaborated the classification of financial innovations based on their functions (Fabozzi and Modigliani, 2003) and accordingly can be divided into five groups viz. —

(a) Price-risk transferring—The financial innovations which provide market participants with more efficient means for dealing with price or exchange rate risk.

(b) Credit-risk transferring — Credit-risk instruments are used to reallocate the risk of default.

(c) Liquidity-generating — Liquidity generating instruments can have three different consequences :

- They increase the liquidity of the market;
- They enable deficit units to look for additional sources of funds; and
- They allow market participants to avoid unfavorable law regulations.

(d) Credit-generating—Credit-generating instruments increase the amount of debt funds available to the deficit units; and

(e) Equity-generating instruments—The equity-generating instruments provide access to the additional sources of equity capital.

### Role Played by Financial Innovations

The financial innovations can play the following roles (Llewellyn, 2009) namely :

(a) Risk transfer—Risk reduction or protection against all types of market risk like price risk, exchange risk, interest rate risk or credit risk for instance by the use of derivatives, securitization or collateralization process.

(b) Risk pricing—The risks that are embodied in a financial instrument can be stripped out, priced, held and traded separately from other risks of this instrument for example by the transactions in secondary markets for Collateral Debt Obligations (CDOs) or Asset-Backed Securities (ABSs).

(c) Liquidity enhancement—Increasing liquidity of the assets or instruments for instance by the securitization process the loans can be traded in the secondary markets and the assets structure of the lending institutions can be improved.

(d) Credit-generation enhancement—Widening the access to the credit markets or increasing the credit capacity both for the borrowers and for the creditors, for example by the usage of CDOs or Credit Default Swaps (CDSs).

(e) Equity generation—Increasing the access to the equity financing together with the higher flexibility of the capital structure for example by the usage of debt-equity swaps or convertibles.

(f) Insurance — Widening the possibilities to insure risk in return for the payment of a premium; for instance credit risk can be insured by the issue of CDS.

(g) Asset and liability management — Widen the scope for managing assets and liabilities; for example securitization, Certificate of Company Deposits (CDs), CDOs.

(h) Funding of financial institutions — Widening the sources of financial institutions funding; for instance securitization enables to diversify the sources of funds used by the financial institutions to finance their activity.

### Functions of Financial Innovations

The functions of financial innovations can be shown diagrammatically as in Figure 5 below :



Figure 5 : Functions of 'Financial Innovations' [Adapted from Blach (2011)]

### Conclusion

The modern global financial system is characterized by high pace of financial innovations that can occur in any of its elements be it financial markets, financial institutions, financial instruments and financial regulations. The financial innovations have the potential to enhance the efficiency and effectiveness of the financial system and thereby improve the economic growth and increase the social wealth. The proper usage of particular financial innovation requires an extensive knowledge about its way of functioning and a thorough analysis of its consequences. The global financial crisis can be considered to be the output of one or more financial innovations. Thus, once again bringing to light the fact that theory put into practice will be efficient and effective only when those involved with and related to the innovation know the fundamentals. The author recognizes the fact that the problem of financial innovations and their role in the financial system is highly complex and can be an important and interesting subject for further research, both theoretical and empirical. The need of the hour is to find sustainable solutions for global financial problems. □

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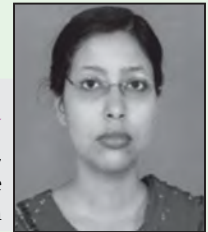
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## Financial Innovations — Harnessing the True Clarity of Different Sectors



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### Introduction

In general, Financial Innovation is the process through which some value is added to the raw materials or semi-finished product so as to make it useful to the users or consumers. Applying this general meaning of Financial Innovation, it can be said that financial innovation is the process through which finance managers or intermediary institutions in financial markets add value to existing plain vanilla products that satisfy the user needs. According to John Finnerty “Financial Innovation involves the design, the development, and the implementation of innovative financial instruments and processes, and the formulation of creative solutions to problems in finance”.

One of the essential characteristics of financially innovated products is ‘Innovation’. But not all engineered products are innovative. They are to be different and add value to users. A financially innovative product may be innovative today but it may eventually become a common product in the near future. The users of financially engineered products include investors including institutional investors like pension funds, banks and financial institutions, corporate, suppliers, consumers, employees and government.

For businesses to create and sustain innovative products, they need to maintain laser-like clarity on three things: clarity of purpose i.e., they must know what’s really important for the company to thrive; clarity about how resources need to be deployed for achieving what’s important; and clarity about the processes used for executing on what’s really important.

### Factors contributing to financial innovation

Finance is powerful. The last few centuries demonstrate that financial innovation is crucial, indeed indispensable, for sustained economic growth and prosperity. There are fourteen factors responsible for financial innovation. These factors are :

1. Product Features, 2. Tax Advantage, 3. Reduced Transaction Cost, 4. Reduces Agency Cost, 5. Risk Reallocation, 6. Increased Liquidity, 7. Regulatory or Legislative Factors, 8. Level and Volatility of Interest Rates, 9. Level and Volatility of Prices, 10. Academic Work, 11. Accounting Benefits, 12. Technological Development and Other Factors, 13. Investment Focus, 14. Product Domicile etc.

### Classification of Financial Innovation

‘Financial innovation’ is the act of creating and popularizing new financial instruments as well as new financial technologies, institutions and markets.

The “innovations” are classified into

1) **Product innovation** : The product innovations may be represented by new derivative contracts, new corporate securities or new forms of investment products.

2) **Process innovation** : The process improvements can be represented by new means of distributing securities, processing transactions, or pricing transactions.

In terms of financial innovations, securities innovations include instruments such as debt, preferred stock, convertible securities, and common equities. They help in reallocating risk, increasing liquidity, reducing agency costs, transactions costs, taxes and sometimes circumventing regulatory constraints.

### Functions of Financial Innovations

The financial innovations help in

- moving funds across time and space;
- pooling of funds;
- managing or reallocating risk;
- extracting information to support decision-making;
- addressing asymmetric information problems;
- facilitating the sale or purchase of goods and services through a payment system;
- reducing agency cost, and enhancing liquidity

### Process of Financial Innovation

Firms follow different processes for developing new value added product and services. Financial Innovation is not different from that process. Identification or realization of a need is the starting point of the process. Such needs are to be identified in the context of market and to bring out new value added products or services or solutions which suits the users requirements. Car manufacturers are adding new and innovative types of features in their products so that they can add more value to customers need and wants. Similarly, mutual funds managers have to constantly look for ways to innovate



new products that are appealing to investors and, at the same time, achieve certain additional objectives. For example, an open-end fund gives liquidity compared to close-end funds but still investors have to fulfil so many formalities to get the money.

The various stages of financial innovation are depicted in Figure 1.

### Globalization, Financial Engineering and the Crisis

Innovative financial products which were mismanaged by the bankers were held responsible for the Global Financial Crisis (2008). It should however be noted that financial engineering is a profession which is to be governed by the conduct of professionals.

The passion to succeed and greed to earn supernormal profits marred the foresight of the professionals from estimating the risks associated with financially innovated products. To service the bonds backed by sub prime mortgages, the banks started using the income stream of their prime/default free mortgages. This laid the foundation for financial crisis. Hence, there was collapse of many big players including Freddie Mac, Fannie Mae, AIG, Lehman Brothers and Merrill Lynch. Hence the crisis can be linked to the bad performance of a large number of top executives in the financial engineering profession and not to the profession of financial engineering itself.

The solution to the current global financial crisis will be there only by using the financial innovations intelligently and by incorporating the objective of social welfare in mind. For example, for solving liquidity problem that arose in September 2008 the US Federal Reserve extended financially innovated currency swap arrangements to other central banks to the tune of \$180 billion to fund the extra liquidity operations.

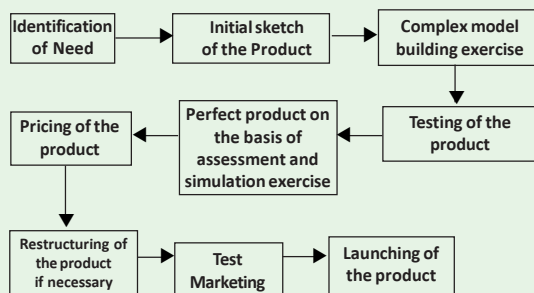


Figure 1 : Process of Financial Innovation

### Plan of the Paper

The paper has been divided into 8 sections. Section 1 introduces the reader to the concept of financial engineering and also the factors contributing to financial innovation. Section 2 discusses the relationship between the globalization, financial engineering and the current financial crisis. Section 3 gives the plan of the paper. Section 4 discusses the existing literature in India and abroad. Section 5 presents the recent financial innovations in the Indian banking sector. Section 6 discusses the innovations in

the Indian capital market in the recent past. Section 7 presents the innovation in the mutual fund industry, and Section 8 concludes the paper.

### Literature Review

*Finnerty* (1988) identified 11 factors contributing to the growth of financial engineering. The factors include tax advantage, reduced transaction cost, reduced agency cost, risk reallocation, increased liquidity, regulatory and legislative factors, level and volatility in prices and interest rates, accounting benefits and technological developments. *Finnerty* has also analyzed how each factor contributes to the growth of the selected debt innovations, selected preferred stock innovations, selected convertible debt /preferred stock innovations and selected common equity innovations.

*Dufey and Giddy* (1981) in their theory of innovation in international market found that innovations in international market arise usually when the financial institutions are able to fulfil one of the four functions: (a) Liquid and standardized instruments for payments in individual currencies; (b) Mechanism for conducting monetary exchange between currencies; (c) Institutions and market for channeling savings internationally; and (d) As a mechanism for allocating, diversifying and compensating for risk.

*Silber* (1983) identified the exogenous cause for financial innovations in US for a period from 1970-82. He found that inflation (level of interest rates, general price level and tax effects), volatility of interest rates, technology, legislative initiatives and internationalization are the factors responsible for financial innovations. He found that out of all exogenous forces, technology and legislative initiatives are the most important forces. In India also the two factors are responsible for majority of financial innovations.

*Silber* through his empirical research—concluded that financial innovations improved the ability to bear risk, lower transaction cost and circumvent outmoded regulations. It was established by him that financial innovations tend to yield economic benefits which are equal in welfare sense to the improvements in physical technology, as both contribute in increasing the standard of living.

*Bodie* (1990) found that pension funds have contributed significantly in the development of new debt and equity securities and derivative instruments. A pension plan generally tends to offer annuities providing a guaranteed flow of return. The sponsor to provide for the flow return must undertake immunization strategy to hedge their liabilities. The use of immunization and contingent immunization strategy has led to emergence of market for zero coupon bonds, Guaranteed Investment Contracts (GICs), Collateralized Mortgage Obligations (CMOs), options and futures.

*Verghese* (1990) concluded that the Indian financial system consists of gaps and deficiencies which need to be filled in. India cannot afford rapid proliferation of financial products. The systemic risk arising from



regulated financial innovations is significant and, hence, can't be ignored. Financial innovation provides opportunities for hedging risk and reducing individual transaction cost but at the same time exposes economic units to additional costs and risk by creating new risk and sometimes resulting in ballooning of transactions.

Merton (1992) saw financial innovations performing six very important functions including moving funds across time and space, pooling of funds, managing risk, extracting information to support decision making, addressing moral hazard and asymmetric information problem and facilitating sale or purchase of goods and services through a payment system.

### Financial Innovations in the Banking Sector

The various innovations in banking and financial sector are ECS, RTGS, EFT, NEFT, ATM, Retail Banking, Debit & Credit Cards, free advisory services, implementation of standing instructions of customers, payments of utility bills, fund transfers, internet banking, telephone banking, mobile banking, selling insurance products, issue of free cheque books, traveller's cheques and many more value added services. Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market.

#### Innovations in Indian Banking Sector

##### Types of Innovative Banking

#### 1. E-Banking

It enables people to carry out most of their banking transaction using a safe web site which is operated by their retail or virtual bank, credit union or building society.

Advantages of E-banking :

- Faster and more convenient transaction
- No longer required to wait in long queues
- Opening of account simple and easy
- Cost effective for banker side
- Fund transfer become faster and convenient.

#### 2. Core Banking Solution (CBS)

Core Banking Solution (CBS) is networking of branches, which enables customers to operate their accounts, and avail banking services from any branch of the bank on CBS network, regardless of where he maintains his account. The customer is no more the customer of a branch. He becomes the Bank's Customer. Thus CBS is a step towards enhancing customer convenience through anywhere and anytime banking.

#### 3. Corporate Banking

It provides financial services to large corporate and multinational corporations. Services provided under corporate banking include :

- Overdraft facility
- Domestic and international payments
- Funding
- Channel financing
- Letters of guarantee

- Working capital facility for domestic and international trade.

#### 4. Investment Banking

It creates funds and wealth for their clients. Investment banks create funds in two ways : Corporate Finance & Mergers and Acquisitions and Professional sales person providing advice on stock trading.

#### 5. Rural Banking

It provides and regulates credit services for the promotion and development of rural sector mainly agriculture, SSI, cottage and village industries, handicrafts and many more.

● Examples of Regional Rural Banks are NABARD, Haryana State Cooperative Apex Bank Limited, Syndicate Bank, United Bank of India

● *Kiosk Banking* — Kiosks are aesthetically and ergonomically designed cabins containing computers. They are used for advertising, promotion and information purposes. By equipping those with necessary security conditions Kiosks can be used for viewing or doing banking transactions.

#### 6. NRI Banking

This facility is designed for diverse banking requirements of the vast NRI population spread across the globe. It includes :

- NRE (Non Resident External Account)
- NRO (Non Resident Ordinary Account)
- FCNR (Foreign Currency Non Resident Account).

#### 7. Retail Banking

It refers to banking in which banks execute transaction directly with individual, rather than corporate banks. It is also known as 'one stop shop'.

Services available under retail banking include :

- Saving and checking accounts
- Mortgage
- Housing Finance
- Auto Finance
- Consumer Durable Loans
- Personal Loans
- Educational Loans
- Credit Cards.

#### Types of Products & Services

##### 1. Total Branch Automation

- Speed up bank transactions and less error
- More customer friendly and flexible
- Towards paperless transactions.

##### 2. Any Branch Banking (ABB)

Any Branch Banking (ABB) is a facility for the customers to operate their account from any of the networked branches. The branch where the customer maintains his account is the base branch and the branch from where he carries out his transactions is referred as the remote branches.

*Facilities available under ABB :*

- Cash withdrawal & Cash deposits

- Account statement
- Facility to issue multi-city cheques
- Fund transfer
- Balance enquiry
- Purchase of demand drafts pay order
- Repayment of loan account

### 3. DEMAT Services

It offers secure and convenient way to keep track our securities and investment over a period of time without the hassle of handling physical documents. It also provides facility of online trading.

### 4. Microfinance

It refers to a movement that envisions a world in which low income households have permanent access to a range of high quality financial service to finance their income producing activities, build assets, stabilize consumption and protect against risks.

### 5. Plastic Money

Plastic money is the alternative to the cash or standard money. It is convenient to carry. The various Plastic money/cards include ATM cards, Debit Card, ATM cum Debit Card, Credit Cards, Smart Card, Charge Cards, Co-branded cards; add on cards and so on.

### 6. Mobile Banking

Mobile Banking refers to provision and availment of banking- and financial services with the help of mobile telecommunication devices. The scope of offered services may include facilities to conduct bank and stock market transactions, to administer accounts and to access customized information. It is used for performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (PDA).

## Type of Electronic Systems

### 1. ATM

ATM stands for Automatic Teller Machine. It is a computerized telecommunications device that provides the clients of a financial institution with access to financial transactions in a public space without the need for a cashier, human clerk or bank teller.

In simple words, it is simple to use self service solution.

### 2. RTGS

It stands for Real Time Gross Settlement system. It is a fund transfer mechanism where transfer of money takes place from one bank to another on a real time and on gross basis. This is the fastest possible money transfer system through the banking channel. It is different from EFT and NEFT. It is primarily for large volume transaction. The time taken for effecting funds transfer from one account to another is normally 2 hours.

## Financial Innovations In the Capital Market

Financial innovation has been a continuous and integral part of growth of the capital markets. Greater freedom and flexibility have enabled companies to reinvent and innovate financial instruments. Many

factors such as increased interest rate, volatility, frequency of tax and regulatory changes etc. have stimulated the process of financial innovation. The deregulation of financial service industry and increased competition within investment banking also led to increased activities to design new products, develop better processes, and implement more effective solution for increasingly complex financial problems.

## Innovations in Financial Products

After the liberalization measures were announced in 1991, Indian companies undertook issuance of new instruments seriously in order to attract large section of investors. Essar Steel used convertible debentures with warrants and loyalty coupons, Tata Iron and Steel Company Limited issued Secured Premium Notes with warrants, Flex Industries issued partly convertible debentures and non-convertible debentures with warrant attached to each instrument, DLF issued multiple option bonds, Essar oil issued optionally fully convertible debentures and Reliance Petroleum issued triple option convertible with equity warrant and Esab India issued partly convertible debenture.

This burst of innovation has seen a typical shift in the design and development of new instruments. The classic conversion is that of debt into equity. Offering the investor the option of conversion keeps the cost of his convertible debt lower than straight debt, thus minimizing the cash out flows during the gestation period. Once the project yields steady profits, the equity conversion results in a relatively—expensive dilution. The use of futures like warrants makes the equity and convertible less expensive for the investor. It creates possibilities for their full subscription by the investors and also turns out to be cheaper for the issuing company.

The financial innovations in the area of capital market in India are discussed below :

### 1. Triple Option Convertible Debentures (TOCD)

- First Issued by Reliance Power Limited with an issue size of Rs. 2,172 Cr.
- There was no outflow of interest for first five years.
- Equity increase was in phases.
- No put option to investors and no takeover threat.
- Reduced dependence on the financial institutions.
- The expenses for floating the issue was just 2.62% of the issue size which was very less when compared to the 10-12% for a general public issue.

### 2. Deep Discount Bonds

- The investor got a tax advantage and could eliminate the re-investment risk.
- From the issuer's point of view also, the issue cost was saved as it involved no immediate service cost and lower effective cost. The refinancing risk was also eliminated.

### 3. Floating Rate Notes

- First issued by Tata Sons with a floor rate of 12.5% and

a cap of 15.5% and a reference rate of 364 T-Bill yield, which was 9.85% at the time of issue.

- The investors would get a minimum return of the floor rate and the maximum return was the cap rate. They would get higher than floor rate depending upon the fluctuations in the reference rate.

#### 4. Zero Coupon Bonds

- It did not involve any annual interest on the bonds. But it had a higher maturity value on the initial investment for a particular time period.

#### 5. Convertible and Zero Coupon Convertible Bonds

- Similar to the zero coupon bonds except that the effective interest was lower because of the convertibility.

#### 6. Secured Premium Notes (SPNS)

- First issued by TISCO in July 1992.
- These financial instruments were secured against the assets of the company but the investors had to pay a premium over the market price for these types of instruments.

#### 7. Equity with differential voting rights

- Issued by Tata Motors, in which the shares were classified as "Ordinary Shares" and "A Ordinary Shares".
- The ordinary shares were issued at Rs. 340 per share, had a voting right of one vote per share.
- On the other hand, the A ordinary shares were issued at Rs. 305 per share but the voting rights were limited to one vote for every 10 shares. In addition, they were paid extra dividend of five percentage points.

#### 8. Currency Futures

Currency derivatives were launched in August 2008 at National Stock Exchange. A currency future is a futures contract where the underlying asset is a specific foreign currency and amount. Profits and losses depend on the relative movements of the two currencies. This enables the market participants to hedge their risk in the currency market.

#### 9. Long Term Option Contract

Securities and Exchange Board of India (SEBI) has permitted the use of Long Term Option Contract (LTOC) on S&P CNX Nifty for trading in Future and Option segments from January 2008 onwards. The advantage of LTOC is that all the existing risk management measures used for index option contract such as initial margins, short option minimum change position limit and including the right of clearing corporation to close out positions can apply to LTOC on S&P CNX Nifty also.

#### 10. Exchange Traded Interest Rate Futures

SEBI has introduced Exchange traded 10-Year Notional Coupon bearing Government of India (GOI) security futures with specified details in terms of product design, risk management measures and other related issues. For trading in Exchange Traded Interest Rate Futures, recognized Stock Exchanges and their

Clearing Corporations/Clearing Houses, Clearing Members and Trading Members are required to fulfil certain prescribed conditions. To operationalise 10-Year Notional Coupon-bearing GOI security futures, it has been clarified that the Exchanges shall select their own basket of securities from the eligible Deliverable Grade Securities, viz., GOI securities maturing at least 7.5 years but not more than 15 years from the first day of the delivery month with a minimum total outstanding stock of Rs 10,000 crore. Exchanges are also required to disclose upfront to the market participants the composition of the basket of deliverable grade securities and the associated conversion factors for each of the quarterly contracts.

Revision of Basket of Deliverable Grade Securities is permissible. The additions, if any, made to the basket of deliverable grade securities disclosed upfront by the Exchange for each of the quarterly contracts, is required to be made not later than 10 business days before the first business day of the delivery month. The determination of daily settlement price (DSP) has also been prescribed.

#### 11. Index Options with Tenure up to 5 Years

SEBI permitted Stock Exchanges to introduce option contracts on Sensex and Nifty with tenure up to 5 years subject to the condition that there are 8 semiannual contracts of the cycle June/December in sequence to 3 serial monthly contracts and 3 quarterly contracts of the cycle March/June/September/December. The Exchange must also have in place the appropriate risk management framework for such derivative contracts.

#### 12. Call Auction in Pre-open Session

SEBI has decided to introduce call auction mechanism in pre-open session. To begin with, pre-open session shall be introduced on a pilot basis by BSE and NSE for the scrips forming part of Sensex and Nifty.

#### 13. Options on USD-INR Spot Rate

SEBI has permitted introduction of options on USD-INR spot rate on currency derivatives segment of eligible Stock Exchanges with its prior approval. SEBI has also prescribed detailed product design and risk management framework for options on USD-INR spot rate including the position limits at various levels such as client, trading member, and bank and clearing member level.

#### 14. Yankee Bonds

In July-August 1996, Reliance Industries Limited made news with successful flotation of \$100 million 50-year Yankee bond in the US markets. The latest Reliance Yankee bond was the first issue of such a long maturity by any issuer. Many commentators have argued that by subscribing readily to this and earlier bond issues by Reliance group, foreign investors are sending a strong signal about the creditworthiness of Indian borrowers in the world markets.

#### Financial Innovations in the Mutual Fund Industry

The Indian mutual fund industry has largely been product-led and not sufficiently customer focused. With deep fall in the stock market in 2008 the mutual fund



industry tends towards financial innovations for dealing with market turmoil. New financial innovations were introduced in the mutual fund sector. The following paragraphs discuss innovations in mutual fund sector.

#### ● *Arbitrage Fund*

Arbitrage Funds are equity and derivative funds providing an ideal way of realizing reasonable returns from equities with risk hedged by derivatives. The Arbitrage Fund capitalizes on the stock price differences between the spot market (cash segment) and the derivative market (F & O segment). The fund generates returns by availing the arbitrage opportunities that arise in case there are mispricing between the spot and derivative market. The returns can be generated irrespective of the overall market movement. Empirically they have shown better results than debt or income funds. They provide good returns during volatile periods.

#### ● *Mutual Funds and Derivative Strategy*

With a view to deal with global financial crisis, financial engineers have innovated equity linked fixed maturity plan mutual fund which involves taking position with minimal market risk. The fund buys one stock (or its derivative) and sells another (or its derivative). This is done by identifying the trend i.e. benefiting one company and at the same time detrimental to another.

#### ● *Fund of Funds*

The mutual fund industry innovated a noble way for achieving the maximum diversification and minimizing risk, by developing a mutual fund which derives its value from a pool of mutual funds which are under the management of the same company.

#### ● *Index Funds*

They invest in the portfolio of an index such as BSE Sensitive index (SENSEX), S&P NSE 50 index (Nifty), etc. The investment is done in the securities in the same weightage comprising of an index. The NAVs of such schemes would rise or fall in accordance with the rise or fall in the index.

#### ● *Gold ETS*

During festive seasons Indians buy gold. While physical gold is favourite among the masses, there exists a better way to invest in gold—gold Exchange Traded Funds or gold ETFs as they are called. Gold ETFs have been a success story around the world and Indians are warming up to the idea of investing in it since they were launched in 2007. Gold ETFs are open ended mutual funds that help us invest our money in gold which is 99.5 % pure. Gold Exchange Traded Funds are also known as paper gold. These are listed on the stock exchanges and investors are assigned units of the mutual fund where each unit often represents one gram of gold. Being passively managed funds, Gold ETFs simply follow the price of gold in the market and so their returns match the returns of gold we would buy off-line. An investor can buy and sell them on the stock exchange. Figure 2 shows

the performance of Gold ETS returns for 2 years. It shows that there is very little difference in terms of these funds performance wise.

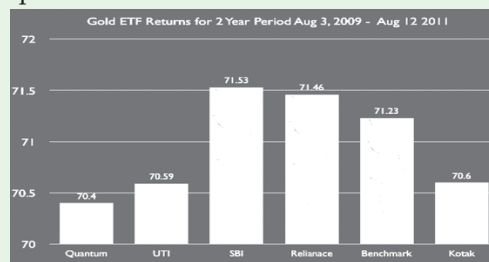


Figure 2 : Gold ETF Returns for 2 Year Period Ending Aug 12, 2011

#### Concluding Observation

Over the last three decades the role of banking in the process of financial intermediation has been undergoing a profound transformation, owing to changes in the global financial system. It is now clear that a thriving and vibrant banking system requires a well developed financial structure with multiple intermediaries operating in markets with different risk profiles. Taking the banking industry to the heights of international excellence will require a combination of new technologies, better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulations and not the least, human resources. Fortunately, we have a comparative advantage in almost all these areas. Our professionals are at the forefront of technological change and financial developments all over the world. It is time to harness these resources for development of Indian banking in the new century.

The pace of capital and credit reforms is rapid and is transforming the scenario. The existence of a variety of financial innovations with different terms and conditions, now provide a wide choice of instruments to suit the investment portfolio needs. They have led the growth of capital market and would continue to play their part, yet like other emerging market, Indian market is also evolving and maturing. It is in a favorable situation with regard to lesser complexity of instruments, adequate governance and risk management systems. Indian capital market innovations have the feature of investor protection, transparency, enhanced liquidity, reduced cost and mitigation of risk. However, when compared with other developed economies, Indian markets lack depth.

Initiation of further reforms is necessary to develop innovative capital market instruments to match those of its peers in Asia and other developed nations. There are significant opportunities for productive and prudent financial innovation, especially for senior citizens, poor people, women, rural people as well as a large middle class. There remains scope for development of insurance exchanges, credit reinsurance market, carbon market, property future, weather derivatives, freight derivatives, inflation derivatives and so on. It has been interesting to see this space evolve over the years, and see so many competitors come in, which is always good for the customer. □



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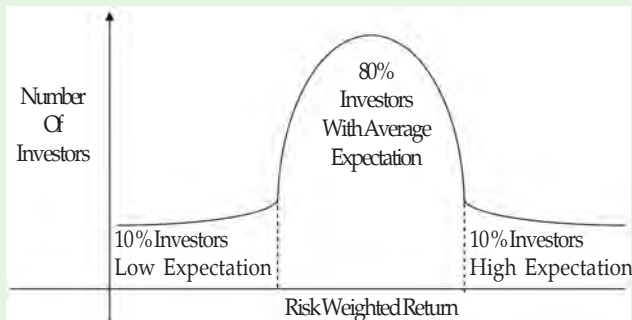
## Some radical views about the Cost of Equity



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Cost of ordinary share capital, i.e. equity, has got varied dimensions from both the viewpoints—of the issuing corporation and its investors. What a corporation can pay in short-run and long-run is also a critical factor, which different investors view differently. Although the ‘risk-return equilibrium’ is logically applicable to the ordinary shares, there are a few extreme types of investors who may not really follow such average logic. The bell-shape explanation of such behaviour may be shown as



### Investor’s Behaviour

It is the 80 % of the shareholders who decide the ‘perceived cost of capital’ based on their overall expectations. They decide their expectations from a corporation using any combination of the following determining factors :

1. Rate of appreciation in the value of shares
2. Rate of inflation and cost of living in their economy
3. Rate of cost of capital at which they get their funds to invest (or opportunity cost of capital)
4. Risk or advantage of diversity in their portfolio mix.
5. Comparative rate of return from other investment avenues (pre & post tax, risk-free & risky etc.)
6. Availability of investible funds
7. Perceived image of the corporation offering dividend
8. Expectations about bonus shares, right issues, convertible bonds, voting and non-voting preferences, lock-in and redemption preference,

shares of subsidiary corporations and co-operations from the same group

9. Taxability, endorsability and liquidity of the shares and dividends.
10. Administrative efforts, time and cost for monitoring, and acting on the volatility of the shares.

### Three major dimensions of Cost of Equity (COE)

COE may be defined and measured using three different dimensions :

1. The expectation of an ordinary investor based on his aspirations and perceptions
2. A corporation’s view-point of the servicing of the share capital
3. The neutral assessment of COE.

### The expectation of an ordinary investor

An ordinary investor expects the following matrix performance of his equity investment :

		—	Liquid	+	
			ity		
+	Fundability	+	Unattractive Government Equity	The Best Choice	+
			The Average Choice		Administrative Ease
—		—	The Worst Choice	Out of the reach of a small investor	—
			Adequacy of Return	+	

An ordinary investor normally attaches different weightages to the above four factors plotted on four axes viz. X - 1, X - 2, Y - 1 & Y - 2. As mentioned earlier (with the bell-shape graph), only a few ordinary investors would attach extremely different weightages to rate of return and liquidity. An empirical study concludes the following ‘degrees of importance’ (i.e. weightages) attached to the four factors :

**Weightages as per empirical study**

Determinant Factor	Weightage
Adequacy of return	4
Fundability	3
Liquidity	2
Administrative Ease	1
<b>Total</b>	<b>10</b>

A high net worth-holder individual or a public fund may attach the weightages differently as follows :

**Weightages from the point of view of high net worth holder individual or a public fund**

Determinant Factor	Weightage
Adequacy of return	4
Administrative Ease	3
Liquidity	2
Fundability	1
<b>Total</b>	<b>10</b>

Both the tables given above show an interesting similarity of same weightages attached to 'Adequacy of return' and 'Liquidity'.

A speculator may attach very different weightages to the determined factors :

**Weightages from the point of view of a speculator**

Determinant Factor	Weightage
Adequacy of return	5
Liquidity	3
Administrative Ease	1 <sup>1</sup> / <sub>2</sub>
Fundability	1 <sup>1</sup> / <sub>2</sub>
<b>Total</b>	<b>10</b>

Opposite to a speculator, a very conservative investor would attach weightages to the determinant factors, treating risks as uncertainties. Hence, he obviously prefers control of the investment to return on the investment as f:

**Weightages from the point of view of a conservative investor**

Determinant Factor	Weightage
Liquidity	3 <sup>1</sup> / <sub>2</sub>
Administrative Ease	2 <sup>1</sup> / <sub>2</sub>
Fundability	2
Adequacy of return	2
<b>Total</b>	<b>10</b>

**Important Notes**

1. The total of weightages attached to the determinant factors is taken as ten, which indicates the total maximum expression of four different expecta-tions from an equity investment.

2. The four factors obviously express the four risks associated with an equity. An investor would compensate his dilution in one expectation possibly with a proportionate increase in the other expectation. Yet, the total of weightages to be attached should be ten (showing the totality of significance assumed by an investor).

3. The risk attached to a determined factor depends on the deviation between 'should be performance & may be performance'. It may also be derived from the deviation between 'may be performance & actual performance'. Again, these risks may be viewed or weighted differently as optimal risk, moderate risk, absolute risk, notional risk and relative risk. It is these risks which dependently and independently decide the overall performance of an equity investment. Perceived Performance, Expected Performance (under improved circumstances) and Actual Performance shall depend on the overall interpretation of Perceived Risk, Expected Risk, and Actual Risk. We shall use these interpretations to decide the COE with the viewpoint of an investor considering the normal weightages attached to the factors.

**Relativity Model of COE**

**An ordinary investor's perspective**

We saw the four important factors considered by an ordinary investor while deciding his investment in an equity share. Let us now analyze and assess the relativity of these factors. They are independent and also interdependent. This complex dependency makes the investment decision complicated. Some analysts use mathematical models containing coefficient of correlation and standard deviation to establish the measurable relationship between these factors. Yet the probability of successful working of these models has not been very impressive. These models are not appropriate for imperfect stock markets of developing countries—where the quantum of uncertainty is more than risk.

We name this relatively simpler model as 'Relativity Model of COE, measuring an ordinary investor's perspective'. A few important assumptions (which are expected to be logical) will have to be made here :

1. Earning, Fundability, Liquidity, and Adminis-trative Ease can be approximately quantified on a scale of '0 to 10', where 10 indicates the maximum performance.

2. An equity share not so impressive on the factor of earning compels the investor to expect better performance on the other three factors. Yet the overall maximum performance of any of these factors may be defined as 10. In other words, the compensating improvement in a factor's performance

shall be up to 10 and not beyond 10, i.e. optimality is defined as 10.

3. As stated earlier, the weightages attached to the four factors are 4, 3, 2, and 1. These may be altered if the investor’s profile is different from an ordinary profile. Under special circumstances, a factor may be replaced by another factor or a fifth factor may be added.

We have to measure three risks associated with the investment decision. These risks are Absolute Risk (Ra), Relative Risk (Rr), and Expected Risk (Re). These risks are based on Optimal Performance (OP), Expected Performance (EP), and Actual Performance (AP) of a ‘equity’ on the four factors.

OP is an ideal or should be performance under ideal or supportive conditions. EP is the performance expected by an investor based on his perceptions about the behaviour of the factors under varied circumstances. These perceptions may be optimistic, moderate or pessi-mistic. Therefore, the ‘reward on equity’ expected by the shareholders differ :

$$Ra = \frac{OP - AP}{OP}$$

$$Rr = \frac{EP - AP}{EP}$$

$$Re = \frac{OP - EP}{OP}$$

**Illustration**

Mr. A, an ordinary investor, invested in the equity shares of ABC Limited. Following details (which indicate relative performance of the equity on the four factors) are available :

Performing Factor	Optimal Value (on 0 to 10 scale)	Probability of Expected Performance	Actual Performance (% of Optimal Value)
Rate of Return	8	90%	85%
Fundability	7	80%	75%
Liquidity	9	100%	100%
Administrative Ease	9	80%	90%

**Note :** The Optimal Value can be quantified on a ‘0 to 10’ scale, so that all the Optimal Values of all the factors are with same unit of measurement. Following scalability, which is a subjective expression of the four factors, is used in this illustration :

Factor	Scale										
	0	1	2	3	4	5	6	7	8	9	10
Rate of Return	0	2 %	4 %	6 %	8 %	19 %	12 %	14 %	16 %	18 %	20 %
Fundability	Nil	D	-C	C	C +	-B	B	B +	-A	A	A +
Liquidity	Nil	10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %	90 %	100 %
Administrative Ease	Nil	10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %	90 %	100 %

**Note :** Fundability refers to amount of fund available and rate of cost of fund. Rate of cost of fund may be the average rate of interest on borrowing applicable to an ordinary investor. (Alternatively, he may take the rate of opportunity cost of capital.)

**Explanation**

Computation of the three performances

Factor	Optimal Performance			Expected Performance			Actual Performance		
	AV	W	WV	AV	W	WV	AV	W	WV
ROR	8	4	32	72	4	2880	680	4	2720
Fundability	7	3	21	56	3	1680	525	3	1575
Liquidity	9	2	18	90	2	1800	900	2	1800
Administrative Ease	9	1	9	72	1	720	810	1	810
<b>Total</b>			<b>80</b>			<b>7080</b>			<b>6905</b>

Note : AV = Absolute Value, W = Weightage & WV = Weighted Value

$$\begin{aligned} \text{Absolute Risk (Ra)} &= \frac{OP - AP}{OP} \\ &= (80 - 69.05) \div 80 \times 100 \\ &= \mathbf{13.6875 \%} \end{aligned}$$

$$\begin{aligned} \text{Relative Risk (Rr)} &= \frac{EP - AP}{EP} \\ &= (70.8 - 69.05) \div 70.8 \times 100 \\ &= \mathbf{2.4718 \%} \end{aligned}$$

$$\begin{aligned} \text{Expected Risk (Re)} &= \frac{OP - EP}{OP} \\ &= (80 - 70.8) \div 80 \times 100 \\ &= \mathbf{11.5 \%} \end{aligned}$$

Normally, an investor bothers about the Relative Risk, which is decided by his expectations from equity. The most commonly known expectations are as follows, which should define the alternate computations of cost of equity :

1. Regular Dividend (Rd)
2. Regular Dividend + Share Price Appreciation (Rd + Rpa)
3. Regular Dividend + Share Price Appreciation + Periodic Bonus Share (Rd + Rpa + Pbs)
4. Higher Regular Dividend (Rhd) for ‘no voting rights’ (with or without the other advantages of price appreciation & bonus share)



5. Short Term Gain through Price Appreciation (STGpa)
6. Speculative Gain through very short-term market behaviour (both, bullish and bearish) (SGmb)
7. Occasional exploitation of a corporation's major growth plan like acquisition, restructure, amalgamation, merger, strategic alliance and joint venture (OEgp)
8. Exploitation of a corporation's sickness (Ecs)
9. Conversion of a bond (i.e. debt instrument) into an equity share (mostly a long-term possibility)
10. \*Preference in payment of dividend suitable conditions for a corporation to buy back the shares.

(\*in many countries today, a category of preference shares exists. These are non-voting shares, with a preference in payment of dividend and redemption of their capital. Normally, the rate of dividend on these shares is fixed. It may be fixed plus variable too. The variable portion depends on a corporation's performance.

Some preference shares may be convertible into equity shares or bonds. If a preference shareholder does not get dividend for two consecutive years, he automatically gains a voting right in the third year.)

#### Conclusion

The cost of equity is more perceptual than rational. This is simply because the 'equity investors' benchmark their expectations differently under different conditions. Therefore, the cost of equity is a strategic viewpoint for the entrepreneurial leaders of a corporation. A natural approach to the COE goes parallel with the versatile performance of a corporation and its relevant position in its life cycle.

In an economy like India, the imperfect market conditions compel the corporations to use more of radical thinking about COE than the safe approach based on the 'Capital Market Rationality' prevailing in the developed economies. Of course, the incidents after 2007 have proved that the rational thinking about COE in the markets like US and Europe has not been so rational. □

## Cancellation of Registration under Regulation 25(1) of CWA ACT, 1959 Registration Numbers Cancelled

**For June 2012 Examination**

**Up to**

**ERS/003664**

**NRS/005703 (except 5161-225, 5283-5305, 5324-5393, 5402-5700)**

**SRS/0011913, WRS/007780, RSW/078536, RAF/005860**

### Re—Registration

The students whose Registration Numbers have been cancelled (inclusive of the students registered up to 31st December 2004) as above but desire to take the Institute's Examination in June 2012 must apply for DE-NOVO Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For De-NOVO Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of The ICWA of India, payable at Kolkata.

Wishing you a very happy and prosperous New Year.

Date : 21st December 2011

Arnab Chakraborty  
Director of Studies

## Travels through tax land : Landmark cases of 2011



**P. Ravindran**

B.Sc, PGDM (GERMANY), M.L, (PhD)  
Advocate – Indirect taxes & IPRs

The old order changes yielding place to new. That was the adage in the poem of Lord Alfred Tennyson. Every year, new developments take place in virtually every field of human endeavour. Barring the spinning of Planet Earth, the unfailing turn around of the seasons and the immutable presence of the Stars and the Sky, everything about human activity is prone to change. Taxation is not a stranger to change. As a matter of fact, greater change and transformation comes about in Taxation than in any other sphere. The developments mainly come through tax litigation. The contest of wills and wits between the tax administration and the tax payers is a study in human motivation and the dated sovereign notions of tax policy. Here is a round up of select developments in the indirect tax arena during the year 2011.

### The double take in taxable event

In the Central Excise Law, it is a fundamental proposition that the taxable event is the fact of manufacture of goods. Without manufacture, no tax liability would arise. A resulting belief would be that when the goods, though manufactured, were either not dutiable or exempted unconditionally on the date of manufacture, would never be held to be subject to Central Excise Duty. This expectation is dashed by the Excise Law by stipulating that the duty liability on manufactured goods would be determined solely by whether such duty becomes payable in Law on the date of clearance of such goods from the factory of the manufacturer. Thus, the Central Excise Law cleverly extrapolates the taxable event from being solely founded upon the question of fact of manufacture and extends the concept of taxable event practically to the time of clearance of goods. The taxable event is effectively the time of dispatch of goods from the factory. If the goods are subject to Central Excise Duty at that time, duty becomes payable even though when the goods were manufactured no duty liability would have existed or be chargeable, at say a lower rate. Though purists of tax Jurisprudence would baulk at such an undue extension of the taxable event, the Hon'ble Supreme Court has put its seal of approval to such an

extrapolation of the concept of manufacture and excise liability thereon. Still at times contrary views come to be expressed by lower judicial authorities in situations of enhancement of duty rates after the goods are manufactured and the matter goes to the Apex Court. In *Union of India Vs. H.M.M. Ltd - 2011 (272) E.L.T. 338 (S.C.)*, the Apex Court has once again reiterated its view that liability to pay excise duty would be determined by the rate of duty prevalent at the time of clearance of the goods irrespective of the duty rates that existed at the time of manufacture of the goods.

### Value in the waste but no tax please!

Still on Central Excise, we have the Apex Court drilling some basic sense by holding in the case of *Grasim Industries Ltd Vs. Union of India - 2011 (273) E.L.T. 10 (S.C.)* that scrap and waste arising from the repair and maintenance of plant and machinery installed in the factory is not dutiable as they are neither by-products of the final product nor subsidiary products. The Apex Court had to point out to the Department that, to be dutiable, waste and scrap must arise regularly and continuously and produced in the course of manufacture of products manufactured by an assessee. The Top Court further stated that goods are not liable to excise duty merely because of their specification in a particular tariff entry. The following Guidelines were also established by the Hon'ble Court :

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

The **repairing activity** in any possible manner

cannot be called as a part of manufacturing activity in relation to production of end product. Therefore, the M.S. scrap and Iron scrap cannot be said to be a by-product of the final product. At the best, it is the by-product of the repairing process which uses welding electrodes, mild steel, cutting tools, M.S. Angles, M.S. Channels, M.S. Beams, etc."

### **Migraine over Margarine**

In the case of *Aluva Sugar Agency Vs State of Kerala* – 2011 (272) E.L.T. 649 (S.C.), the question pertained to the interpretation of the word 'edible' as well as what was an 'edible oil'. The Apex Court, before whom the sales tax case came up, explained that, to be 'edible' consumption of an item in the form in which it is available is not required to consider it as 'edible' and that (as an example) there are a number of ingredients used in cooking for preparation of food items which are not consumed in the same form in which they were available and still are used in the preparation of food articles which are consumed. Using the exposition, the Court held that **Margarine** made only from vegetable oils and used exclusively as raw material by bakers and confectioners is an edible substance even though it is not consumed directly. This was in the context of a sales tax case pertaining to Kerala. In the same case, the Court also defined edible oil as one which can be used for human consumption.

### **Let them wrap-up and let them sell**

At times the traders have to wrap an additional secondary packaging as a protective cover for the original wholesale package. In the context of Weights and Measures Law, the question arose whether such secondary outer packaging meant for protection and safety during conveyance / transportation had to contain details like Name and Address of the Manufacturer, Cost, Month and Year of Manufacture, etc., as per the Standards of Weights and Measures (Packaged Commodities) Rules, 1977. The Supreme Court in the landmark case *State of Maharashtra Vs. Raj Marketing* – 2011 (272) E.L.T. 8 (S.C.) held that such secondary outer packing meant for transportation or for safety of the goods being transported or delivered, cannot be described as a wholesale package and hence will not attract the statutory compliances meant for wholesale packages and that such packages cannot held liable to seizure.

Don't put them behind bars :

In the case of *Om Prakash Vs. Union of India* – 2011 (272) E.L.T. 321 (S.C.) that has shaken the Revenue Department, the Hon'ble Apex Court has mitigated the rigor of the Law by holding that offences under the above Acts cannot be equated with offences under the Indian Penal Code, that the offences under the Acts being non-cognizable and bailable the

Customs Officers have no power to arrest without a warrant, that if a person arrested by the Officers offers bail, he shall be released on bail and that the main object of Central Excise Act is recovery of central excise duty and not punishment for infringement of its provisions.

### **Estoppel and Precedent — a double bind for the department**

In *Commissioner of Central Excise, Meerut Vs. Convertech Equipment Pvt. Ltd.*, - 2011 (272) E.L.T. 342 (S.C.) a Three - Judge Bench of the Hon'ble Supreme Court has laid down a salutary proposition that the Revenue cannot be permitted to re-agitate a point which stands concluded by a Judgment of a High Court which has not been challenged by the Revenue.

When Mercy seasons Justice :

Notification No.43 / 2001 – CE (N.T.) is an important benefit allowing duty free clearance of intermediate goods needed for the manufacture of export goods. In the case of *In Re : Nilkamal Ltd.* – 2011 (271) E.L.T. 476 (G.O.I.) decided by the Revisionary Authority in the Department of Revenue, Ministry of Finance, Government of India, the failure of the manufacturer to follow the procedure under the above Notification while supplying plastic crates cleared to another company for using the export of glass bottles for its use was not held against the manufacturer on the ground that a substantial export benefit cannot be denied on ground of procedure or technical lapses, especially when there is proof of actual export of duty-paid goods.

### **Price volatility and Customs hostility**

In the case of *Commissioner of Customs, Visakhapatnam, Vs Aggarwal Industries Ltd.* – 2011 (272) E.L.T. 641 (S.C.), the Apex Court laid down certain salutary propositions regarding determination of customs transaction value at a time of price volatility. The Court held that transaction value as per contract price at the time of import is not rejectable by the Customs Department merely because there is an increase in international prices of such products after entering into the contract and by the time the goods are shipped. Goods imported under two different contracts, separated by a time gap of one month, especially at a time of drastic price fluctuations, cannot be treated as suitable for fixation of contemporaneous value.

### **Dear State! Don't be hard on some software**

IT software is a veritable tax crossroads buffeted by every tax you can name – customs, excise, vat and service tax. The last word on the multiple taxation of such software is not yet in. Here is a small relief for customer-oriented software development projects. In the

case of *Sasken Communications Technologies Ltd Vs Joint Commissioner of Commercial taxes* – TIOL – 2011-703- HC-Kar — ST, the High Court of Karnataka has ruled that such software development contracts are neither works contracts nor composite contracts but service contracts simpliciter. With this case, the levy of Vat on such software would be questionable.

#### Don't lose hope and interest in Interest

The year 2011 witnessed the shocker from the Apex court in the *Ind-swift laboratories* case when in a disappointing decision the Hon'ble Court in an old-fashioned interpretation held that the word "or" in Rule 14 of the cenvat credit rules by which cenvat credit taken or utilized were both liable to interest. The result was that even a mere book entry without using the credit was subject to the penalty of interest despite the fact the department did not suffer any loss. The blow has now been cushioned in a bold verdict of the Hon'ble Karnataka High Court in the case of **Commissioner of Central Excise, LTU Vs Bill Forge Ltd – 2011 – TIOL -799 –HC \_ KAR- HC-CX**. The High Court has done an adroit balancing of the difficult SC case by devising a novel concept of maturity of the credit entry at the time of actual use

of it. The words "credit taken" is explained by the Court as meaning the stage of maturity which is coterminous with actual use and that till that level is reached, the credit booked in the accounts could be reversed without attracting interest liability. The judgment is a shining example of the ability of the judges to produce a good grasp of the relevant jurisprudence and the remarkable justicing skill in getting around extant but very dated interpretations. The High Court case has not come a day too soon.

#### Conclusion

The tax tales of the modern era are potentially endless. The year 2011 came and went, making its mark on our tax life. The year also witnessed new service tax point of taxation rules which tell us *when* we should pay the tax. The New Year promises to bring us rules on *where* such tax should be paid. The government has also unveiled its plans on transforming service tax ahead of the coming of the GST. It may be a difficult new year for all stakeholders alike. Dropping anchor may be a better strategy than going full steam ahead in the choppy waters of the time. Tax is a dance that takes two to tango – the tax administration and the tax payers. Missteps may spoil the show. □

## REQUEST FOR COMMENTS

Cost Accounting Standards Board, the standard-setting body of the Institute, has already released the Exposure Draft of Cost Accounting Standard – 14 on Pollution Control Cost (CAS - 14) and requested for views / comments / suggestions on the same up to January 20, 2012.

Based on the request of the members it has been decided to extend the last date for submission of the comments up to 15th February 2012. The Exposure Draft is available on the website of the Institute i.e. <http://www.casbicwai.org>. We request you to please forward your comments, preferably by email on [casb@icwai.org](mailto:casb@icwai.org), at the earliest.

Comments, by post, should be addressed to :

The Secretary,  
Cost Accounting Standards Board,  
The Institute of Cost and Works Accountants of India,  
ICWAI Bhawan, 3rd Floor,  
3, Lodi Road, Institutional Area,  
New Delhi - 110003



## Import of Services—Recipient in India not liable for Service Tax before 18-4-2006 : An Analysis



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### Introduction

Recently, the CBEC has come out with a Instruction circular bearing No. F. No. 276/8/2009-CX8A, dated September 26, 2011, to clarify that the service tax liability on any taxable service provided by a non-resident or a person located outside India, to a recipient in India, would arise w.e.f. 18.4.2006, i.e., the date of enactment of Section 66A of the Finance Act, 1994. CBEC has withdrawn its own instruction F No. 275/7/2010-CX-8A, dated 30-6-2010, wherein the Board had communicated its view that services tax on a taxable service received in India, when provided by a non-resident/person located outside India, would be applicable on reverse charge basis with effect from 1-1-2005, and that the ratio of judgment in Indian National Shipowners Association (INSA) vs Union of India [2009] 18 STT 212 (Bom.) would not apply to such cases.

### Judicial Background for Issuing Instruction Circular by CBEC

Revenue had filed 6 Special Leave Petitions before the Hon'ble Supreme Court, for defending the levy of service tax on such services w.e.f. 1.1.2005 (i) SLP (C) No. 29539 of 2010 in CCE vs Bhandari Hosiery Exports Ltd., (ii) SLP (C) No. 18160 of 2010 in CST vs Unitech Ltd., (iii) SLP (C) No. 34208/09 of 2010 in UOI vs S R Batliboi & Co., (iv) SLP (C) No. 328/332 of 2011 in UOI vs Ernst & Young, (v) SLP (C) No. 25687-25688/2011 in CCE vs Needle Industries, (vi) SLP (C) No. 25689-25690/2011 in UOI vs SKM Engg Products. All above 6 SLPs had been dismissed by the Hon'ble Supreme Court. In The case of Commissioner vs Bhandari Hosiery Exports Ltd. — 2010 (20) S.T.R. J99 (S.C.) have been dismissed by Hon'ble Supreme Court recently and upheld the order of The Punjab & Haryana High Court, in the impugned order. It was held that there was no legislative intention to levy Service tax before 18-4-2006 on import of services. Services of overseas commission agents were availed and Service Tax was demanded under Business Auxiliary Services for the period from 9-7-2004 to February 2006 in this case.

The High Court agreed with Bombay High Court decision reported in case of Indian National Ship-owners Association vs Union of India — 2009 (13) S.T.R. 235 (Bom.), which was followed by Delhi High Court as reported in case of Unitech Ltd. vs Commissioner — 2009 (15) S.T.R. 385 (Del.)

Further, Review Petition No. 1686 of 2011, filed in the case of Bhandari Hosiery Exports Ltd. has also been dismissed by the Hon'ble Supreme Court vide order dated 18/8/2011 and concludes that This Review Petition is directed against order dated 4th October 2010, whereby the special leave petition was dismissed. There is delay of 181 days in filing the Review Petition for which no satisfactory explanation has been given. Even otherwise, we do not find any merit in the Review Petition. The Review Petition is dismissed on the ground of delay as well as merits.

### Legislative History

#### 1. Service Tax Circular No. 36/4/2001 dated 8-10-2001

Services not liable to tax provided outside the limits of Indian territorial waters—Service Tax—I am directed to say that question has arisen whether services provided outside the limits of the Indian territorial waters are liable to Service Tax or not.

The matter has been examined. At present the levy of Service Tax extends to the whole of India except the State of Jammu and Kashmir. The expression "India" includes the territorial waters of India. Indian territorial waters extend up to twelve nautical miles from the Indian landmass. Chapter V of the Finance Act which governs the levy of Service Tax has not extended to the levy to designated areas in the Continental Shelf and the Exclusive Economic Zone of India (as has been done in case of Central Excise vide Notification No. 166/87-C.E., dated 11-6-87 and in case of Customs by Notification Nos. 11/87-Cus., Dated 14-1-87 & 64/97-Cus., dated 1-12-97). It is, therefore, clarified that the services provided beyond the territorial waters of India are not liable to Service Tax as provisions of Service tax have not been

extended to such areas so far. This Circular has been withdrawn vide Circular No. 93/04/2007-ST dated 10/5/2007.

### 2. Notification : 1/2002-ST dated 1-March-2002

Extends the provisions Chapter V of the Finance Act (32 of 1994) to the designated areas in the Continental Shelf and Exclusive Economic Zone of India.—In exercise of the powers conferred by clause (a) of sub-section (6) of Section 6, and clause (a) of sub-section (7) of Section 7, of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and Other Maritime Zones Act, 1976 (80 of 1976), the Central Government hereby extends the provisions Chapter V of the Finance Act (32 of 1994) to the 1[installations, structures and vessels in the continental shelf of India and the exclusive economic zone of India] Old[designated areas in the Continental Shelf and Exclusive Economic Zone of India as declared by the Notifications of the Government of India in the Ministry of External Affairs Nos. S. O. 429 (E) dated the 18th July 1986 and S.O. 643 (E), dated the 19th September 1996 with immediate effect].

This Notification has been superseded vide Notification No. 14/2010-ST dated 27/2/2010.

### 3. Rule 2(1)(d)(iv) of the Service Tax Rules, 1994 inserted with effect from 16<sup>th</sup> August 2002

Rule 2(1)(d) person liable for paying the service tax" means :

(iv) in relation to any taxable service provided by a person who is a non-resident or is from outside India, does not have any office in India, the person receiving taxable service in India.

### 4. Notification: 36/2004-S.T. dated 31 Dec. 2004

Taxable Services Notified.—In exercise of the powers conferred by sub-Section (2) of section 68 of the Finance Act, 1994 (32 of 1994), the Central Government hereby notifies the following taxable services for the purposes of the said sub-section, namely : the services—

(i) in relation to 4 [telecommunication service] Old [a telephone connection or pager or a communication through telegraph or telex or a facsimile communication or a leased circuit];

(ii) in relation to general insurance business;

(iii) in relation to insurance auxiliary service by an insurance agent; and

(iv) in relation to transport of goods by road in a goods carriage, where the consignor or consignee of goods is,— (a) any factory registered under or governed by the Factories Act, 1948 (63 of 1948); (b) any company formed or registered under the Companies Act, 1956 (1 of 1956);

(c) any corporation established by or under any law; (d) any society registered under the Societies Registration Act, 1860 (21 of 1860), or under any law corresponding to that Act in force in any part of India; (e) any co-operative society established by or under any law; (f) any dealer of excisable goods, who is registered under the Central Excise Act, 1944 (1 of 1944) or the rules made there under; or (g) any body corporate established, or a partnership firm registered, by or under any law;

(v) in relation to business auxiliary service of distribution of mutual fund by a mutual fund distributor or an agent, as the case may be; (point no. (v) has been added vide notification no. 5/2005 dated 1-3-2005 and this change will be effective from 1st day of April 2005).

3 [(vi) in relation to sponsorship service provided to any body corporate or firm located in India.]

[2 (vi) in relation to sponsorship service provided to any body corporate or firm.]

1. New [(B) any taxable service provided or to be provided from a country other than India and received in India , under Section 66A of the Finance Act, 1994.]

Old [(B) any taxable service provided or to be provided by a person, who has established a business or has a fixed establishment from which the service is provided or to be provided, or has his permanent address or usual place of residence, in a country other than India, and such service provider does not have any office in India. (This paragraph has been substituted vide Notification No. 24/2005, Dt 7-6-05)].

2. This notification shall come into force on the first day of January 2005.

In paragraph (A), in sub-paragraph (iv), in item (b), for the words "established by or under", the words "formed or registered under" shall be substituted vide Notification No. 24/2005, Dt 7-6-05.

1. Substituted vide Notification No. 9/2006—Service Tax dated 19/4/2006

2. Inserted vide Notification No. 16/2006—Service Tax dated 25/4/2006

3. Changes vide Notification No. 3/2007—ST dated 1/3/2007

4. Substituted vide Notification No. 27/2007-ST dated 22/5/2007

5. *An explanation to Section 65(105) of the Act, which was in force between 16th June, 2005 and 17th April 2006*

"Explanation.—For the removal of doubts, it is hereby declared that where any service provided or

to be provided by a person, who has established a business or has a fixed establishment from which the service is provided or to be provided, or has his permanent address or usual place of residence, in a country other than India and such service is received or to be received by a person who has his place of business, fixed establishment, permanent address or, as the case may be, usual place of residence, in India such service shall be deemed to be taxable service for the purposes of this clause;”

**6. Section 66A of the Finance Act, 1994; which has been introduced with effect from 18th April 2006:**

‘66A. (1) Where any service specified in clause (105) of Section 65 is,—

(a) provided or to be provided by a person who has established a business or has a fixed establishment from which the service is provided or to be provided or has his permanent address or usual place of residence, in a country other than India, and

(b) received by a person (hereinafter referred to as the recipient) who has his place of business, fixed establishment, permanent address or usual place of residence, in India, such service shall, for the purposes of this section, be taxable service, and such taxable service shall be treated as if the recipient had himself provided the service in India, and accordingly all the provisions of this Chapter shall apply:

Provided that where the recipient of the service is an individual and such service received by him is otherwise than for the purpose of use in any business or commerce, the provisions of this sub-section shall not apply :

Provided further that where the provider of the service has his business establishment both in that country and elsewhere, the country, where the establishment of the provider of service directly concerned with the provision of service is located, shall be treated as the country from which the service is provided or to be provided.

(2) Where a person is carrying on a business through a permanent establishment in India and through another permanent establishment in a country other than India, such permanent establishments shall be treated as separate persons for the purposes of this section.

Explanation 1.— A person carrying on a business through a branch or agency in any country shall be treated as having a business establishment in that country.

Explanation 2.—Usual place of residence, in relation to a body corporate, means the place where it is incorporated or otherwise legally constituted.’

#### **Analysis of Instruction Circular**

Board had communicated its view, vide its letter, F No.275/7/2010-CX8A, dated 30.06.2010, that service

tax on a taxable service received in India, when provided by a non-resident/person located outside India, would be applicable on reverse charge basis with effect from 1.1.2005, and that the ratio of judgment in Indian National Shipowners Association (INSA) case would not apply to such cases. Further, direction was issued to field formations to defend the levy of service tax on such services for the period on or after 1.1.2005, as post INSA judgment, it has been held by the High Courts/Tribunal in a large number of cases, applying ratio thereof, that service tax on such services is livable only w.e.f. 18.4.2006.

The appeals filed by the department in 6 cases, before the Hon’ble Supreme Court, for defending the levy of service tax on such services w.e.f. 1.1.2005, have been dismissed recently (subsequent to the issuance of said instruction dated 30.6.2010). Further, Review Petition No. 1686 of 2011 filed in the case of CCE vs Bhandari Hosiery Exports Ltd has also been dismissed by the Hon’ble Supreme Court vide order dated 18/8/2011. After the aforementioned judgments of the Hon’ble Supreme Court, this issue has attained finality that the service tax liability on any taxable service provided by a non-resident or a person located outside India, to a recipient in India, would arise w.e.f. 18.4.2006, i.e., the date of enactment of Section 66A of the Finance Act, 1994.

The Board has accepted this position. Accordingly, the instruction F No. 275/7/2010-CX8A, dated 30.6.2010 stands rescinded and fresh Instruction Circular F. NO. 276/8/2009-CX-8A], DATED 26-9-2011 issued by CBEC.

#### **Conclusion**

Revenue seems to be having a love for realizing Revenue on Import of services w.e.f. 01.01.2005 in spite of fact that they have lost bunch of cases before different appellate forums on very similar issues. Hon’ble Supreme Court categorically held in the case of Indian National Shipowners Association vs Union of India that “Before enactment of Section 66A there was no authority vested by law to levy service tax on a person who is resident in India, but who receives services outside India.”

CBEC Board should issue Instruction for taking appropriate action in this matter for the pending disputes. It should further instruct to field officer for withdrawing the pending appeals from higher appellate forum on similar issue, so that energy, time and money of assesseees can be saved. It is a great relief on the part of the assesseees that CBEC accepted this judgment of the Apex Court and has issued these instructions. We can conclude here that it is a happy ending of a long-pending story. □

## TAX TITBITS



**S. Rajaratnam**

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### Payment for imported software – Whether tax is deductible?

The uncertainty of law on the inference of liability for the non-resident on payment for imported software was discussed in the last issue in the light of conflicting decisions on the subject. Two more decisions have now surfaced highlighting the extent of controversy with the prospect of enlargement of the dispute with almost every case of payment coming up for litigation in the light of the duty of resident to deduct tax at source, if it is taxable.

The first one is the decision adverse to the taxpayer rendered by the Karnataka High Court in CIT (International Taxation) v. Samsung Electronics Co. Ltd. [2011] 16 taxmann.com 141 (Kar), wherein the High Court held that software, which is downloaded from a dumb CD, by a resident and activated by the non-resident supplier cannot be treated as mere supply of shrink wrapped/ off-the-shelf software, since it is a combination of both, supply and use. It is a transfer of a licence leading to the inference of transfer of a copyright. The High Court on this reasoning dismissed the argument on behalf of the assessee relying upon the decision in Tata Consultancy Services v. State of Andhra Pradesh [2004] 271 ITR 401 (SC) as one rendered in the limited context of the definition of sale under the AP General Sales-tax Act, 1957. It distinguished the ruling of the Authority for Advance Ruling in Dassault Systems K.K. In re [2010] 322 ITR 125/ 188 Taxman 223 (AAR) on the ground, that it was a case of supply and not for use, a distinction which was not factually correct.

The other decisions from the Delhi High Court in Director of Income-tax v. Ericsson A.B. New Delhi [2011] 16 taxmann.371 (Del), was one in departmental appeal against the order of the Special Bench of the Tribunal in Motorola Inc. v. Dy.CIT [2005] 95 ITD 269 (Del), which had been approved in Dassault Systems' case (supra). The Delhi High Court without having occasion to know about the Karnataka High Court decision, had discussed and met the very basis of the decision of the Karnataka High Court with reference to section 14 of the Copyright Act, 1957. It also referred to section 51 of this Act dealing with

infringement of copyright and concluded that there was neither transfer of copyright nor any scope for inference of infringement in mere supply of software, which is licenced, as long as it is meant for the use of the purchaser as in the case before it, which along with hardware forms part of GSM Systems used by the operators to whom the supplies were made. Installation in this case, it was pointed out, though in pursuance of an overall agreement was found to be severable from supply. The High Court further found that the manner in which the supply was made is immaterial, because what was supplied was a programme containing intellectual property rights, which was capable of being transmitted, transferred, delivered, sources, possessed, etc. There was no assignment of copyright.

Unless the difference between assignment of copyright and sale of copyrighted product is understood, the litigation will continue. Any view, that it is a payment for royalty, will be contrary to the meaning assigned for royalty in the Double Taxation Avoidance Agreement. The liberal view should, therefore, be accepted by revenue in the interest of this industry vital for our economy.

### Withdrawal of approvals

Authorities having a second thought after an approval, believe that such approval can be withdrawn. The reasoning is that the authority which grants an approval has got the power to withdraw such approval. However, the Courts have not agreed with this view. Vested rights cannot get divested. It is, however, recognised that withdrawal can be effected, if specific power of withdrawal is granted by the statute. Law has been amended to withdraw registration of a charitable institution, which under the law is entitled to exemption, only if it is registered. Such amendments to section 12A/12AA enabling withdrawal of registration created further issues as to whether it can have effect for those registered at a time, when the power of withdrawal was not available. The Courts are now uniformly holding that the power of withdrawal is not available in case of those trusts and institutions registered prior to the date of amendment enabling cancellation, since the



amended law is prospective. It was the view taken by different High Courts in *Oxford Academy for Career Development v. Chief CIT* [2009] 315 ITR 382 (All), *CIT v. Manav Vikas Sewa Sansthan* [2011] 336 ITR 250 (All) and *Director of Income-tax (Exemptions) v. Mool Chand Khairati Ram Trust* [2011] 339 ITR 622 (Del).

There is further development in law granting a blanket power by the Finance (No.2) Act 2009, which has been conferred on the Central Government, Central Board of Direct Taxes and the authorities under section 293C to “withdraw such approval at any time” with effect from 1<sup>st</sup> October, 2009. However, it would still not answer the objection to jurisdiction, where approval is granted prior to 1.10.2009, the date on which it came into effect, so that the amendment can only have prospective operation. The expression “at any time” is still vague, since it is not made effective from any date earlier to the date of amendment, since there can be no retrospective cancellation. But such an interpretation may not be acceptable to revenue. If the amendment is understood to apply to all approvals, it would unsettle the concessions for units in special economic zones under section 10AA and other approvals littered in the statute on mere review of approvals already granted.

#### **One time settlement – Tax incidence**

Any liability of the assessee, which has been waived by the creditor should not constitute income in the conventional sense, since it would be a capital receipt as was decided in the context of a waiver of a debt by the Bombay High Court in *Mohsin Rehman Penkar v. CIT* [1948] 16 ITR 183 (Bom) following the English decision in *British Mexican Petroleum Co. Ltd. v. Jackson* [1932] 16 TC 570 (HL). Income-tax law counteracted this view to a limited extent by insertion of sub-section (2A) in section 10 under the Indian Income-tax Act, 1922 carried over in section 41(1) in the 1961 Act, so as to bring to tax, that extent of amount waived, which had been allowed to the assessee as a deduction in computation of taxable income. In the result, where overdue interest has been waived by a bank, for example, waived interest could be taxed to the extent it had been allowed as a deduction. Even such amount, which had been allowed, it has been held, could not be brought to tax under the Kerala Agricultural Income-tax Act in absence of a provision similar to section 41(1) under that Act in view of the law that it is a capital receipt,

as decided in *Commissioner of Agricultural Income-tax v. Kerala Estate Mooriad Chalapuram* [1986] 161 ITR 155 (SC).

But revenue now seeks to take refuge in a decision of the Supreme Court in *CIT v. T. V. Sundaram Iyengar and Sons Ltd.* [1996] 222 ITR 344 (SC), which related to unadjusted trade advance in the course of business and not to an amount which stood as a debt, but all the same, the wrong reliance of the Income-tax Department on this case led to a misdirection of law merely on the ground, that the loan was taken for business purpose as in *Solid Containers Ltd. v. Deputy CIT* [2009] 308 ITR 417 (Bom) purportedly following this decision in *T.V. Sundaram Iyengar and Sons’ case* (supra). The distinction between a debt waived and an unadjusted trade advance, which were unclaimed or waived has, however, been appreciated to spare liability in *Mahindra and Mahindra Ltd. v. CIT* [2003] 261 ITR 501 (Bom), *CIT v. Iskraemeco Regent Ltd. v. CIT* [2011] 331 ITR 317 (Mad) and *CIT v. Tosha International Ltd.* [2011] 331 ITR 440 (Del).

However, a recent decision of the Delhi High Court in *Rollatainers Ltd. v. CIT* [2011] 339 ITR 54 (Del) now seeks to make a distinction of loans for acquisition of a capital asset and for working capital. It would mean that all working capital loans including principal amount to the extent waived would be taxable. A borrowed amount, whether it is for acquiring a capital asset or stock-in-trade cannot have a character of income, because they are received on capital account. It is only the interest, which is meant to service the loan, which would have revenue character. The present law would require clarification to this effect, lest the borrowers getting waiver because of their incapacity to meet the liability, would be put into a worse position with the Income-tax Department taking away any part of the amount surrendered by the bank.

What is worse is the proposal in the Direct Taxes Code Bill, 2010. While retaining the present law foisting liability on an amount, which has been allowed under clause (xii) of section 33 also adds a new clause (xiii) to bring to tax “the amount of remission or cessation of any liability by way of loan, deposit, advance or credit”. The present view of the Income Tax Department and the proposal in the Code would unsettle the law as between capital and revenue as was understood thus far. □

## Clarifications issued by the MCA, CAB



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### 1. General Circular No. 67/2011 dated 30th November 2011 about coverage of certain sectors.

**Para(a)** : The negative list of activities not covered by the Compliance Report is given in Paras (i) to (v) such as

- Trading, health care, hospitality, IT etc.
- Job work manufacturing etc.
- Ancillary products/activities with turnover not in excess of 2% of the total turnover of the company, or Rs. 20 crores, whichever is lower.

**Salient Features & Observations on – clarifications issued by the MCA, CAB in connection with the recently issued Notifications/Circulars concerning Cost Accounting Records & Cost Audit Report and 3rd FAQ issued by ICWAI**

#### Issues

—Whether Infrastructure, Construction etc. activities are excluded from the coverage (3rd FAQ point no. 2 of ICWAI. It can be inferred that such activities are covered by Compliance Report).

Further, whether packing and repacking activities will not be covered?

- Companies engaged in job-work operations are coming under the definition of, production, processing and manufacturing u/s 209(1)(d) of the Companies Act, 1956. Clarification by MCA cannot supersede the interpretation of the Companies Act. So, whether this clarification of excluding job-work operations from Compliance Report & Cost Audit Report is correct?

Further, in the past, numerous Cost Audit Orders were issued to many such companies engaged in the job-work operations e.g. Textile process house, Pharma contract manufacturers etc. Does it mean, such earlier Cost Audit Orders stand cancelled?

- It is also not clear as to whether the company 'getting the job work done from outside manufacturer' will be covered by the CR & CAR for such activities e.g. Textile & Pharma industries.

**Para(b)** : The Cost Audit Orders dated 2.5.2011 and 30.6.2011 shall not apply to:

- (i) Companies generating electricity for captive

consumption (not less than 51% units consumed for captive use) (Rule 3 of the Electricity Rules, 2005) will not be covered by automatic Cost Audit for 'Electricity'. If the activity is subject to Cost Audit, it presupposes that such activity is covered by Records Rules, 2011,

under clarification given in Para a(v) above (also refer ICWAI FAQ 4, Sr. 4.5, revised clarification para 2).

(ii) Own manufactured products which are 100% captively consumed and used solely for 'end product', which is subject to Cost Audit.

(iii) 100% EOU.

#### Issues

- Whether power manufactured from windmills & transferred for captive consumption by paying wheeling charges to SEB will be covered under b(i).
- Clarification of Para (b)(ii) is not clear as to which type of products will be exempted from Cost Audit e.g. whether Bulk Drugs manufactured & 100% internally used for Formulations will be exempted from Cost Audit.
- In the past, numerous Cost Audit Orders were issued to many companies which were 100% EOU e.g. Textile, Pharma etc. Does it mean such earlier Cost Audit Orders stand cancelled?

**Para(c)** : The clarification on 'Intermediate products' and 'articles or allied products' (as per CAB notification dated 30.6.2011) is given in this para along with illustrations, to clear a lot of doubts & misunderstandings.

- Items of Raw Material listed in the relevant chapters and used in the same product (Industry) shall not be covered under Cost Audit.
- 'Articles or allied products' containing not less than 50% by weight or volume, by using the listed products as their primary inputs, shall be covered under Cost Audit under Cost Audit.

#### Issue

- Whether manufacturer of components and spare

parts for vehicle or machinery, containing more than 50% by weight, either Steel and/or Aluminium individually, will be covered for Cost Audit under 'Steel' and 'Aluminium' Industry, respectively.

**2. General Circular No. 68/2011 dated 30th November 2011 regarding applicability & compliance requirements**

**Para(a)** : If all the manufactured products/activities of a company are covered under Cost Audit, then the company is not required to file Compliance Report.

**Para(b)** : Companies covered first time for Compliance Report or Cost Audit need not prepare Cost records for the previous financial year (first year will be 2011-12).

**Para(c)**—The definition of 'Turnover' shall exclude taxes & duties. This has cleared the confusion created by Rule 2(p) of Cost Accounting Records Rules, 2011, issued vide GSR 429 dated 3.6.2011.

**Para(d)** : (i) The concept of lead Cost Auditor, in case of multiple Cost Auditors in the same company, has been introduced.

(ii) In case one/separate Cost Auditor for one/more than one products is appointed then either separate Report can be submitted or one consolidated Report can be submitted.

It is advisable that, in case of separate product line, separate Cost Audit Report should be submitted (e.g. a company covered for Cost Audit for Textiles, Steel, Electricity etc.).

**Para(e)** : A Cost Auditor cannot provide Cost Consultancy Assignment, maintenance of Cost Accounting Records and act as Internal Auditor for the product for which he is a Cost Auditor. However, a Cost Auditor can certify the Compliance Report for the same company.

**Issue**

- Cost Auditor is legally permitted to undertake

assignment of Cost Consultancy as per CWA Act & Regulations as well as, Professional Ethics & Code of Conduct of ICWAI. How can he be prohibited from accepting Cost Consultancy assignment in the same company for which he is a Cost Auditor?

**3. Observations on 3rd FAQ issued by ICWAI on Companies (Cost Accounting Records) Rules, 2011, and Companies (Cost Audit Report) Rules, 2011**

**FAQ 7**— Cost Audit cannot be applicable to a company if subsequently it has stopped manufacturing operations altogether.

**FAQ 9**— It is not mandatory to prepare product-wise Cost Sheet & figures for Para 4 to 9 (Annexure to CAR), for previous year in case of company with Cost Audit for the first time.

**FAQ 11**— Drafting of the question has to be corrected for the words 'under the purview' by the words 'out of the purview'.

**FAQ 14**— Final guidelines on Arms Length pricing is not issued by ICWAI so far. Exposure Draft on the same is displayed on the website of the Institute.

**FAQ 16**— Whether the words Cost Audit Report refer to Form II only for preparation of the Company as a whole or it will also cover Annexure to the Cost Audit Report (Para 1 to 11)?

**FAQ 17**— Exemption can be made available if subsequently company has stopped manufacturing operations altogether & even sold Plant & Machinery.

**FAQ 22**— Compliance Report (Form A) is not required to be digitally signed by the Cost Accountant. Therefore, attachment to the Compliance Report will contain Compliance Report (Form B) & Annexure to CR of Unit 5, and

Cost Audit Report (Form II) & Annexure to CAR of Units 1 to 4.

Hence, the clarification of this FAQ may need revision. □

## NOTIFICATION

Ref.No. DS-3/1/12

January 24, 2012

Finance Act, 2011 involving Assessment year 2012-13 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct Tax Management (Final) for the purpose of June 2012 term of Examination under Revised Syllabus 2008.

Arnab Chakraborty  
Director-Studies

## Appearance Before Company Law Board — An Area for the Practising Cost Accountant



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#### Introduction

The Central Government under Sec.10E(1) of the Companies Act, 1956 ('Act' for brevity) established a Board known as Board of Company Law Administration to exercise and discharge such powers and functions as may be conferred on it by the Act or any other law and shall also exercise and discharge such other powers and functions of the Central Government under this Act or any other law as may be conferred on it by the Central Government by notification in the Official Gazette under the provisions of this Act or that other law. The Company Law Board is given power to regulate its own procedure. Accordingly the Company Law Board made 'Company Law Board Regulations, 1991'.

#### Composition of Benches

The Company Law Board ('CLB' for short) shall consist of such number of members, not exceeding nine, as the Central Government deems fit, to be appointed by that Government by notification in the Gazette. The members of the CLB shall possess such qualifications and experience as may be prescribed. One of the members shall be appointed as the Chairman of the Company Law Board. The CLB may, by order in writing, form one or more Benches from among the members and authorize each such Bench to exercise and discharge of the Board's powers and functions as may be specified in the order; and every order made or act done by a Bench in exercise of such powers or discharge of such functions shall be deemed to be the order or act, as the case may be, of the Board.

#### Principal Bench

The Principal Bench shall be at New Delhi but it may sit at any other place in India at its discretion or at the joint request of all the parties. The CLB shall be dealt with by the Principal Bench consisting of one or more members the following matters:

- Section 247 — Investigation of ownership of a company;
- Section 250 — Imposition of restrictions upon shares and debentures and prohibition of transfer of shares or debentures in certain cases;

- Section 269 — Appointment of Managing or whole time director or manager to require Government approval only in certain cases;
- Section 388B — Reference of cases against managerial personnel.

#### Regional Benches

All proceedings, other than the proceedings before the Principal Bench, shall be instituted before the Bench within whose jurisdiction the registered office of the company is situated. The details of regional benches are furnished in the following table:

Sl. No.	Region	States/Union territories
1.	Eastern Region	States of Arunachal Pradesh, Assam, Bihar, Manipur, Meghalaya, Nagaland, Orissa, Sikkim, Tripura, West Bengal, Jharkhand and Union territories of Andaman and Nicobar Islands and Mizoram
2.	Northern Region	States of Delhi, Haryana, Himachal Pradesh, Jammu and Kashmir, Punjab, Rajasthan, Uttar Pradesh, Uttaranchal and Union Territory of Chandigarh
3.	Southern Region/ A d d i t i o n a l Principal Bench	States of Andhra Pradesh, Karna-taka, Kerala, Tamil Nadu and Union Territories of Pondicherry and Lakshadweep Islands.
4.	Western Region	States of Goa, Gujarat, Madhya Pradesh, Maharashtra, Chhattisgarh and Union Territories of Dadra and Nagar Haveli and Daman and Diu

The Bench may, at its discretion, hold sittings in any other city or town falling within their respective geographical jurisdiction or any other place outside their jurisdiction with the consent of the parties. The sitting hours of the Bench shall ordinarily be from 10.30 a.m., to 1.30 p.m., and from 2.30 p.m. to 4.30 p.m. on all working days except Saturday, Sunday and other public holidays subject to any general or



special order made by the Chairman. The matters that are to be dealt with by the Benches are furnished in the following Table :

Sl. No.	Section of Companies Act	Nature of petition/application	Fees
1	17(2)	Petition for confirming alteration in Memorandum of Association as to change of place of regd. Office from one state to another or with respect of objects of a company	Rs. 1000/-
2	18(4)	Application for extension of time for filing documents for registration of alteration	Rs. 100/-
3	19	Application for revival or order made under Sec. 17	Rs. 200/-
4	43	Petition praying for relief from consequences of failure to comply with conditions constituting it a private company	Rs. 100/-
5	49(10)	Petition to direct the company to allow an immediate inspection of Register of investments if the inspection is refused	Rs. 50/-
6	58A(9) or 117C	Application to direct the company to make repayment of the matured deposit or debentures	Rs. 1000/-
7	58AA	Petition to intimate the default in making repayment of the matured deposits from small depositors and interest thereon	Rs. 1000/-
8	79(2)	Petition to sanction issue of shares at a discount	Rs. 1000/-
9	80A(1) proviso	Petition to give consent to issue of further redeemable preference shares in lieu of irredeemable preference shares	Rs. 500/-
10	111/111A	Petition for rectification of Register of Members on any ground including refusal of registration of transfer/transmission of shares/debentures by the company	Rs. 500/-
11	113(1)	Petition for extending the period for delivery of the certificates of debentures	Rs. 50/-
12	113(3)	Petition for non compliance of Sec. 113(1) providing time limit for issue of share/debenture certificates	Rs. 1000/-
13	117B(4)	Petition to intimate the default in making repayment of the matured debentures and interest thereon	Rs. 50/-
14	118(3)	Petition for furnishing copy of trust deed to person requiring it	Rs. 200/-
15	141(1) & (3)	Petition for extension of time or condonation of delay in filing the particulars of a charge or modification of a charge or limitation of payment or satisfaction of a charge with the Registrar of Companies	Rs. 200/-
16	144(4)	Petition to direct inspection of copies of instrument creating charge or register of charges	Rs. 100/-
17	163(6)	Petition to direct inspection of registers and returns or to furnish the copies thereof to the person requiring it	Rs. 500/-
18	167	Application for directing to call annual general meeting	Rs. 500/-
19	186	Application for ordering for calling of general meeting (other than AGM)	Rs. 50/-
20	188(5)	Application for order as to which the rights conferred are being abused to secure needless publicity for defamatory matter and to order company's costs to be paid in whole or in part by the requisitionists	
21	196(4)	Petition to pass an order directing immediate inspection of minute books or directing a copy thereof be sent forthwith to person requiring it	Rs. 50/-
22	219(4)	Petition to pass an order directing that a copy of balance sheet and auditor's report demanded be furnished forthwith to person concerned	Rs. 50/-
23	225(3) proviso	Petition to decide as to whether right of auditors to get their representation circulated and read out at meeting is being abused to secure needless publicity for defamatory matter and to order company's costs on an application to be paid in whole or in part by retiring auditors	Rs. 500/-
24	235(2)	Petition to declare by an order that affairs of a company be investigated by inspector(s)	Rs.2,000/-
25	250	Complaint by any person for finding out facts about certain shares	Rs.2,500/-
26	284 (4)	Petition to decide as to proviso whether the right of a director to get his representation circulated and read out at meeting is being abused to secure needless publicity for defamatory matter and to order company's costs on application to be paid in whole or in part by such director.	Rs. 500/-

(contd.)

(contd.)

Sl. No.	Section of Companies Act	Nature of petition/application	Fees
27	304(2)(b)	Petition to pass an order directing immediate inspection of register maintained under Sec.303	Rs. 500/-
28	307(9)	Petition to pass an order directing immediate inspection of register maintained under the section	Rs. 500/-
29	397, 398, 399(4), 400, 401, 402, 403, 404, 405	Petition to exercise powers in connection with prevention of oppression and/or mismanagement	Rs. 5000/-
30	407(1)(b)	Petition to grant leave for an appointment of Managing Director or Manager whose agreement has been terminated or set aside provided notice has been served on Central Government	Rs. 2,500/-
31	408(1), (2) &(5)	Petition to decide whether it is necessary to appoint Government directors on the Board of Directors and to advice Central Government accordingly	Rs. 2,500/-
32	409(1)	Petition to prevent change in Board of Directors likely to affect company prejudicially	Rs. 2,500/- Rs. 500/-
33	614(1)	Petition to pass an order directing a company to make good the default from its failure to make returns, etc., to the Registrar of Companies	

### **A Practising Cost Accountant can Appear Before CLB**

Every party may appear before a Bench in person or through an authorized representative who may be :

- An Advocate; or
- A Secretary in whole time practice; or
- A practicing Chartered Accountant; or
- A practicing Cost Accountant.

A company may appoint and authorize its Director or Company Secretary to appear, in its behalf, in any proceeding before the Bench. The Central Government, the Regional Director or the Registrar may authorize an officer in its behalf.

### **Procedure for Filing Petition/Application Before CLB**

● Every application, reference or petition shall be prepared in Form No.1;

● A petition shall be based upon a single cause of action and may seek one or more reliefs provided that they are consequential to one another;

● Every petition/application shall be written, typewritten, cyclostyled or printed, neatly and legibly, on one side of the substantial paper or foolscap size in double space and separate sheets shall be stitched together and every page shall be consecutively numbered;

● Every petition/application shall be divided into separate paragraphs which shall be numbered serially and shall state thereon the matter and the name of the company to which it relates;

● No petition, application, reference, document or other matter contained in any language other than English or Hindi shall be accepted by the CLB unless

the same is accompanied by a true translation thereof in English and Hindi. All documents required to be translated into English or Hindi shall be translated by a person appointed or approved by the Board;

● Every petition, other than an application filed under Sec.58A(9) or Section 117C(4), shall set forth the name of the company, with its status, date of incorporation, the address of its registered office, authorized capital, paid up capital with division of different classes of shares and terms of issue, if any, in activities of the company, and shall also set forth concisely under distinct heads the grounds for such petition and the nature of relief(s) prayed for;

● Application under Sec.58A(9) or Sec. 117C(4) shall be in Form No-4 and shall be submitted in duplicate;

● A petition shall be accompanied by documents as prescribed in Annexure III and shall be accompanied by an index of documents. The documents may be attested by the party or the authorized representative or the advocate and the documents shall be marked serially as Annexure A1, A2, A3 and so on. Whether the petition is filed by the authorized representative, memorandum of appearances shall be appended to the petition as in Form No. 5; If the petition is filed by an Advocate it shall be accompanied by a duly executed vakalatnama;

● There shall be paid fees for every petition as prescribed in the Table given above. No fee shall be payable or shall be liable to be collected on a petition filed or reference made by the Registrar of Companies, Regional Director or by any officer on behalf of the Central Government; no fee shall be payable to be collected in respect of any matter of which proceedings are initiated by the Board on its own motion. The fees shall be paid

by means of a bank draft or bankers cheque drawn in favor of 'Pay and Accounts Officer, Ministry of Corporate Affairs, New Delhi, or Kolkatta or Mumbai or Chennai, as' the case may be;

- Every petition shall be accompanied by an affidavit verifying the same and shall be drawn up in the first person and shall state the full name, age, occupation and complete residential address of the deponent and shall be signed by the deponent and sworn before the person specified in Section 558 of the Act;

- Where the deponent is not personally known to the person before whom the affidavit is sworn he shall be identified by a person who is known to the person before whom the affidavit is sworn. Every affidavit shall clearly and separately indicate the statements which are true to the :

- knowledge of the deponent;
- information received by the deponent;
- belief of the deponent; and
- information based on legal advice.

The affidavit shall also include the name and complete residential address of the person from whom the information has been received by the deponent and whether the deponent believes that information to be true;

- The petition shall be presented by the petitioner in person or through authorized representative to the office of the Bench or be sent by registered post with acknowledgement due addressed to the Secretary or Bench Officer of the Bench concerned, as the case may be;

- The Bench may permit more than one person to join together and file a single petition if it is satisfied, having regard to the cause of action and the nature of relief prayed for, that they have a common interest in the matter. Such permissions shall be granted where the joining of the petitioners by a single petition is specifically permitted by the Act;

- A petition under Section 397 or 398 shall not be withdrawn without leave of the Board and where the petition has been presented by a member or members authorized by the Central Government under Section 399(4), notice of the application for leave to withdraw shall be given to the Central Government.

#### **Service of copy of the petition**

- The petitioner shall serve a copy of the petition on the respondent(s) and produce evidence of such service;

- Where the number of respondents are more than five, the Secretary or Bench Officer may permit the petitioner to file extra copies of the petition at the time of issue of notice to the respondents;

- The petitioner shall service a copy of the petition other than a petition under Sections 49, 79, 80A, 111,

111A, 113, 118, 144, 163, 188, 196, 219, 225, 284, 304 and 307 of the Act up on the Registrar of Companies having jurisdiction over the company and shall attach to and present with the petition an acknowledgement from the office of Registrar of Companies receiving a copy of the petition served;

- In case of petition filed under Section 17 by a company licensed under Section 25 of the Act the copy of the petition shall also be served upon the Regional Director;

- In the case of petition filed under Sections 235, 237, 250, 397, 398, 408 and 409 of the Act, a copy thereof shall be served upon the Central Government.

#### **Interlocutory application**

An application filed subsequent to the filing of the petition applying for any interim order or direction shall, as far as possible in Form No. 2 and shall be accompanied by an affidavit verifying the application. It shall not be necessary to present it separate application to seek an interim relief or direction, except for condonation of delay in filing the petition, if, in the original petition, the same is prayed for.

#### **Admission of petition**

The office of the Bench shall endorse on every petition the date on which it is presented. If on scrutiny, the petition is found to be in order, it shall be duly registered and given a serial number. If the petition, on scrutiny, is found to be defective and the defect noticed is not formal in nature, the Secretary or Bench Officer may allow the party to rectify the defect as he deems fit. Where the petitioner is aggrieved by the order of the Secretary or Bench Officer the matter shall be placed before the Bench for its order and it shall be competent for a single member of the Bench to issue necessary direction which shall be deemed to be the direction of the Bench.

#### **Seal of a Bench**

There shall be a separate seal of a Bench. Every such seal shall be kept in the custody of the Secretary or Bench Officer and shall be used under his direction or control. Every order or communication made, notice issued or certified copy granted, by a Bench shall be stamped with the seal of the concerned Bench and shall be authenticated by the Secretary or the Bench Officer, as the case may be.

#### **Serving of notice and process**

Any notice or process to be issued by the Bench may be served by any of the following modes directed by the Bench :

- Service by the party itself;
- By hand delivery through a messenger or the Office of the Bench;

- Under certificate of posting (now it is not in vogue);
- By registered post with acknowledgement due if so required by an order of the Bench;
- Where the Central Government is a party, through the Secretary of the concerned Ministry or Department or through Branch Secretariat of the Ministry of Law or through Standing Counsel of the Central Government;
- Where the State Government is a party, through the Chief Secretary or the Standing Counsel of the State Government;
- Where a notice is required to be served on a company it shall be served at its registered office by post under a certificate of posting or by registered post or by leaving it at its registered office or in such other manner as the Secretary or the Bench Officer may direct;
- Where a notice is required to be served on a foreign company is to be addressed to any person whose name has been delivered to the Registrar by post or by leaving it at, or sending it by post to any place of business established by the company in India;
- Where the notice sent by registered post is returned by the post office with the remark 'refused' the notice may be presumed to have been duly served;
- Where a notice is served by the registered post, the Secretary or the Bench Officer may, if the acknowledgement is not received, determine the question to the sufficiency of the service of the notice.

Every notice of the petition issued by the Bench shall, unless otherwise ordered, be accompanied by a copy of the petition. If it is not reasonably practicable to serve notice of petition on all the respondents, the notice may be served by public advertisement, as the Bench in each case direct. The Bench shall also determine who shall bear the cost of the public advertisement.

#### **Filing of reply/counter reply**

Each respondent intending to contest the petition shall file, in triplicate, the reply to the petition and the document relied upon with the office of the Bench within such period as may be fixed by the Bench but not exceeding 15 days of service of petition upon him. In the reply the respondent shall specifically admit, deny or explain the facts stated by the petitioner in his petition and may also state such additional facts as may be found necessary for the just decision of the case. The reply so filed shall be signed and verified. The documents shall also be filed along with the reply

and the same shall be marked as R1, R2, R3 and so on. The respondents shall also serve a copy of the reply along with the document duly attested to be true copies on the petitioner or his authorized representative, if any, and the proof of such service with the office of the Bench. The Bench may, if so satisfied, allow filing of the reply after the expiry of the prescribed period, on sufficient cause being shown.

Where the respondent states such additional facts as may be necessary for the just decision of the case, the Bench may allow the petitioner to file a counter-reply filed by the respondents.

#### **Hearing of Case**

##### **Powers of CLB**

Every Bench shall have powers which are vested in a Court under the Code of Civil Procedure, 1908 while trying a suit, in respect of the following matters, namely:

- Discovery and inspection of documents or other material objects producible as evidence;
- Enforcing the attendance of witnesses and requiring the deposit of their expenses;
- Compelling the production of documents or other material objects producible as evidence and impounding the same;
- Examining witnesses on oath;
- Granting adjournments;
- Reception of evidence on affidavits.

##### **Hearing of Petition**

The Bench may, if sufficient cause is shown at any stage of the proceeding, grant time to the parties or any of them and adjourn the hearing of the petition or the application. The Bench may make such order as it thinks fit with respect to the costs occasioned by such adjournments.

##### **Absence of parties**

Where, on the date fixed for hearing of the petition or any application or on any other date to which such hearing may be adjourned, the petitioner or the applicant as the case may be, does not appear when the petition or the application is called for hearing, the Bench may, in its discretion, either dismiss the petition or the application for default or hear and decide the same ex-parte.

Where a petition or application has been dismissed for default and the petitioner or the applicant files an application within 30 days from the date of dismissal and satisfies the Bench that there was sufficient cause for his non appearance when the petition or the application was called for hearing, the Bench may pass an order setting aside the order dismissing the petition or the application and restore the same. Where the case



was disposed of on merit the decision shall not be recalled.

Where, on the date fixed for hearing or any other date to which such hearing may be adjourned, the petitioner appears but the respondent does not appear when the petition is called for hearing, the Bench may, in its discretion, adjourn the hearing or hear and decide the petition ex-parte.

Where the petition has been heard ex-parte against the respondent such respondent may apply to the bench within 30 days for an order to set aside and if the respondent satisfies the Bench that the notice was not duly served on him or that he was prevented by any sufficient cause from appearing when the petition was called for hearing, the Bench may make an order setting aside the ex-parte order against him or them on such terms as it thinks fit and shall appoint a date for proceeding the petition. Where an ex-parte order is of such nature that it cannot be set aside one respondent only, it may be set aside as against all or any other respondent also. The Bench shall not set aside the ex-parte order merely on the ground that a shareholder or a creditor did not have the notice of the petition.

The Bench Officer, if it so deemed fit, may call upon the parties to prepare a paper book after completion of the pleadings.

An authorized representative who is professional, shall appear before the Bench in his/her professional dress, if any, and if there is no such dress :

- In the case of male, a suit with a tie or buttoned up coat over a pant;
- In the case of a female, in a saree or any other dress of a sober color.

Parties appearing in person before the CLB shall be properly dressed.

#### **Order of Bench**

The Bench may, before passing orders on the petition, require the parties or any one or more of them, to produce such further documents or other evidence as the Bench may consider necessary :

- For the purpose of satisfying itself as to the truth of the allegations made in the petition; or
- For ascertaining any information which, in the opinion of the Bench, is necessary for the purpose of enabling it to pass orders on the petition.

Every order of the Bench shall be in writing and shall be signed by the member or members constituting the Bench which pronounces the order. In case of difference of opinion among the members of the Members, the opinion of the majority shall prevail and the opinion or orders of the Bench shall

be expressed in terms of the views of the majority. Where a matter is heard by a Bench consisting to an even number of members and such members are divided equally in their opinion, it shall be placed before the Chairman who may himself deal with the matter or nominate any other Member to deal with the same.

Any order of the Bench deemed fit for the publication in any journal, authoritative report or the Press may be released for such publication on such terms and conditions as the Board may specify by general or special order.

A copy of every interim order granting or refusing or modifying interim relief and final order passed on any petition or reference shall be communicated to the petitioner or the applicant and to the respondents and other parties concerned free of cost. In case of order under Section 17 confirming change of registered office, two copies of the order shall be supplied to the petitioner company free of cost. If the petitioner or the applicant or the respondent to any proceeding requires a copy of any document or proceeding the same shall be supplied to him on such terms and conditions and on payment of such fee as may be fixed by the Bench by general or special order.

The Bench may make such order or give such direction as may be necessary or expedient to give effect to the orders or to prevent abuse of its process or to secure the end of justice. It shall be lawful for Bench to fix and award costs to any of the parties before it where is of opinion that the award of such costs is necessary.

Any clerical or arithmetical mistake in any order of the Bench or error therein arising from any accidental slip or omission may, at any time, be corrected by the Bench either on its own motion or on the application of the party. A Bench may, at any time, and on such terms as to costs or otherwise, as it may think fit, amend any defect or error in any proceeding before it, and all necessary amendments shall be made for the purpose of determining the real question or issue raised by or depending on such processing.

#### **Petition Under Section 17**

The company shall not less than one month before filing any petition under Section 17(2) :

(i) publish a general notice, at least once, in the district in a daily newspaper published in English and in the principal language of that district in which the registered office of the company is situated and circulating in that district clearly indicating the substance of the petition and stating that any person

whose interest is likely to be affected by the proposed alteration of the Memorandum may intimate to the Bench Officer within 21 days of the date of publication of that notice, the nature of interest and grounds of opposition; and

(ii) serve, by certificate of posting, individual notice(s) to the effect on each debenture holder and creditor of the company, unless otherwise required by the Bench to be sent by registered post.

Where the petition seeks to change the registered office of the petitioner company from one state to another, a notice together with the copy of the petition shall also be served by registered post on the Chief Secretary to the Government of the State in which the registered office of the petitioner company is situated or, where the registered office of the company is situated in a Union Territory, to the Administrator/ Lt. Governor of the Union Territory.

Any person intending to oppose the petition shall within 21 days from the date of service or publication of the notice, as the case may be, deliver, or cause to be delivered, or send by registered post, the objections supported by an affidavit, in original, to the Bench Officer and shall serve a copy of the objections on the petitioner company at its registered office. If default is made in complying with the same the person concerned shall be deemed to have consented to the alteration proposed in the petition. The Bench, if it thinks fit, even after the final hearing, permits any person to file objection after giving notice to the petitioner-company. The petitioner company shall prove the dispatch, publication and service of notice(s) by an affidavit and such affidavit shall be enclosed with the petition.

A petition under Sec. 17 shall invariably contain information relating to the number of creditors and the total amount due to them up to the latest practicable date preceding the date of filing of the petition. A list of creditors and debentureholders, shall also be filed along with the petition. The Secretary of the petitioner company, if any, and not less than two directors of the company one of whom shall be a Managing Director, where there is one, shall file an affidavit to the effect that they have made a full enquiry into the affairs of the company and, having done so, have formed the opinion that the list of creditors and debentureholders is correct, that the estimated value as given in the list of debts or claims payable on a contingency or not ascertained are proper estimates of the values of such debts and

claims included in the list borne out by the books and records of the company and that there are no other debts of, or claims against the company to their knowledge. Where the objection has been received from any of the parties, who have been duly served, the Bench Officer may put up the petition for orders without hearing.

#### **Petition under Sec. 407**

A petition under Sec. 407(1)(b) of the Act for leave to any of the persons mentioned therein as to be appointed or to act as the managing or other director or manager of the company, shall state whether notice of the intention to apply for such leave has been given to the Central Government and shall be accompanied by a copy of the notice.

#### **Reference under Sec. 621A**

Every application for compounding of an offence shall be made a company or its officers in default to the Registrar specifying clearly the nature of offence, the date or period during which the offence was committed or continued, the name and address of officers of the company who have committed the offence and the prayer made. The Registrar shall forward the application made by the company, together with his comments thereon, to the Board or the Regional Director, as the case may be, within 30 days from the date of receipt of the application. Every Regional Director shall exercise the powers to compound an offence, subject to any general or special order of the Board.

#### **Appeal Against the Order of CLB**

Any person aggrieved by any decision or order of the CLB may file an appeal before the High Court within 60 days from the date of communication of the order of the CLB to him on any question of law arising out of such order. The High Court, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding 60 days.

#### **Conclusion**

The Advocates and the Practising Company Secretaries occupy their area of practice. The Practising Cost Accountants rarely appear before the CLB. This practice is a wider area. The CLB is going to be replaced by National Company Law Tribunal which will also have the role of CLB and High Court. □

## Allowance of FDI up to 51% in Multi Brand Retailing



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### Introduction

Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. India

is considered as one of the world's lucrative retailing destination by the world's most renowned MNCs. Many MNCs have already entered India by entering into joint ventures with Indian companies e.g Walmart. The major retailers in India are REI AGROLTD Retail

with its 6TEN and 6TEN kirana stores, Future Group, Raymond Ltd., Fabindia, RP-Sanjiv Goenka Group with Spencer's Hyper, Spencer's Daily, Music World, Au Bon Pain (International bakery cafeteria), Beverly Hills Polo Club, The Tata Group with Westside, Star India Bazaar, Steeljunction, Landmark, Titan Indus-tries with World of Titans showrooms, Tanishq outlets, Croma and Reliance Retail with Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Autozone, iStore etc.

Retailing in India is one of the pillars of Indian economy. Retailing accounts for about 15% of India's GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India's retail and logistics industry, organized and unorganized in combination, employs about 40 million Indians (3.3% of Indian population).

### Emergence of Organized Retail Sector in India

One of the important aspects of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years. Major industrial houses have entered retail sector and they have announced their future expansion plans. Transnational and Multinational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies e.g Bharti Wal-Mart Venture.

Indian retail sector is dominated by "unorganized retail" which consists of a large number of small retailers consisting of the local kirana shops, ownermanned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in

### Organized Retail vs Traditional Mom and Pop Stores & Reactions to Recent Announcement of Allowance of FDI up to 51% in Multi Brand Retailing

metros and other important cities. Still, the overall share of organized retailing in total retail business has remained low.

The organized retail in food and grocery segment in India is growing at a very fast pace. Traditional retailers occupy a large space in Indian food retail; almost 99 per cent of food and grocery being sold in India is through traditional retailers. The expansion of organized retailers has posed a threat to the unorganized retailers. The outlets opened by modern retailers not only cater to high-end consumers primarily but to middle- and lower-income groups. These consumers from middle- and lower-income groups are attracted to low, discounted price offers offered by organized retailers. The prices offered by Reliance Fresh for many of the items and 50 per cent cheaper than those offered by local vendors (Chakravarty 2007). The traditional traders operating at the periphery of the organized sector are the first ones to bear the brunt of rapid expansion of organized retail sector.

### Recent Announcement of Allowance of FDI up to 51% in Multi Brand Retailing

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. FDI will ensure better operations in production cycle and distribution. FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. FDI will provide necessary capital for setting up organized

retail chain stores. FDI would create a competition among the global investors, which would ultimately ensure better and lower prices—thus benefiting people in all sections of the society.

On 24 November 2011, Congress, the ruling party, made the highest controversial announcement that India will allow foreign groups to own up to 51 per cent in “multi-brand retailers”. It further announced that the single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent. The interests of indigenous suppliers have also been considered. The government announced that both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers. All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7,935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India. Multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers. The opening of retail competition will be within India’s federal structure of government.

This announcement made a stir in the economy. This has sparked a debate. The supporters who support this decision say that retail reforms are likely to be massive boost to Indian job availability. Millions of additional jobs will be created during the building of and the maintenance of retail stores, roads, cold storage centers, software industry, electronic cash registers and other retail supporting organizations. India needs trillions of dollar to build its infrastructure, hospitals, housing and schools for its growing population. Global investment capital through FDI is necessary. Beyond capital, Indian retail industry needs knowledge and global integration. With 51% FDI limit in multi-brand retailers, nearly half of any profit will remain in India. Any profits will be subject to taxes, and such taxes will reduce Indian government budget deficit. Moreover, States have a right to say no to retail FDI within their jurisdiction.

There has been massive opposition also. On 1 December 2011, an India-wide “bandh” (close all business in protest) was called by political parties opposing the retail reform. The opposition claims the entry of organized retailers would lead to their dominance that would decimate local retailers and

force millions of people out of work. Chief Ministers of Tamil Nadu, Uttar Pradesh, Bihar and Madhya Pradesh have announced opposition to implement the retail reforms. Mamata Banerjee, the Chief Minister of West Bengal and the leader of the Trinamool Congress, announced her opposition to retail reform.

**Objectives of the Research Study**

1. To study the impact of organized retailers—Reliance Fresh and 6TEN on mom and pop stores (small kirana stores) in Sector- 38, Chandigarh.
2. To study the impact of organized retailers—Reliance Fresh and 6TEN on vegetable and fruit hawkers in Sector 38, Chandigarh.
3. To study the buying behavior of customers in Sector 38, Chandigarh.
4. To compare the services offered by organized retailers—Reliance Fresh and 6TEN and mom and pop stores (small kirana stores) in Sector 38, Chandigarh
5. To find the reaction towards recent announcement of allowance to foreign groups to own up to 51 per cent in “multi-brand retailers”.

**Methodology of the Research Study**

1. Questionnaire for the customers.
2. Face to face interviews with vegetable and fruit hawkers and employees of organized retailers.
3. Observation at stores.

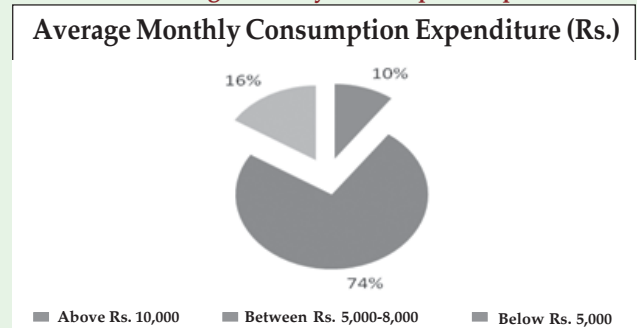
**Sample size of the Research Study**

1. Customers = 200
2. Vegetable and fruit hawkers = 14
3. Mom and Pop Stores = 26
4. Organized Retailers = 2

**The Analysis**

1. The average monthly consumption expenditure of the respondents on grocery, sanitary items, fruits and vegetables is Rs. 8,000. 10% of the respondents said their average monthly consumption expenditure is above Rs. 10,000. 74% said their average monthly expenditure is between Rs. 5,000 and Rs. 8,000. 16% said that their average monthly expenditure is below Rs. 5,000.

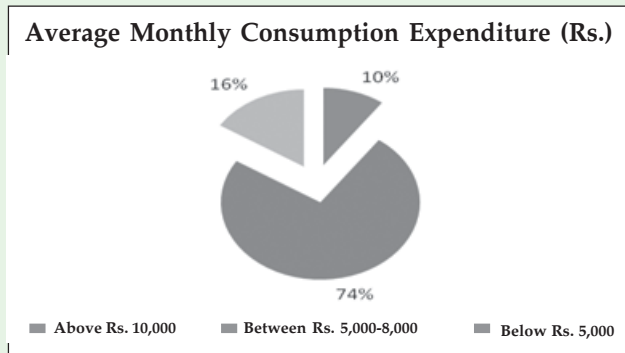
**Exhibit 1: Average Monthly Consumption Expenditure**





2. 56% of the respondents said that they buy their monthly grocery and sanitary products from neighborhood kirana stores (mom and pop stores), 23% said that they buy their monthly grocery and sanitary products from Reliance and 6TEN. 21% said they purchase some products from neighborhood stores and some from Reliance and 6TEN.

**Exhibit 2 : Source of Monthly Grocery and Sanitary Purchases (excluding Fruits and Vegetables)**



3. 46% of the respondents said that they visit once to neighborhood kirana stores (mom and pop stores) or Reliance and 6TEN to buy their monthly grocery and sanitary products, 22% said that they visit twice a month to neighborhood kirana stores (mom and pop stores) or Reliance and 6TEN to buy their monthly grocery and sanitary products and 32% said they visit more than 10 times to neighborhood kirana stores (mom and pop stores) or Reliance and 6TEN to buy their monthly grocery and sanitary products.

**Exhibit 3 : Frequency of Visiting a Store to buy Grocery and Sanitary (excluding Fruits and Vegetables) Products in a Month**



4. The responses towards the facilities provided by Organized Retail Stores—Reliance and 6TEN are given in the Table 1 :

**Table 1 — Analysis of Facilities provided by Organized Retail Stores—Reliance and 6TEN**

Sl. No	Facility	Excellent	Very Good	Good	Fair	Bad
1	Variety in Brands	84%	14%	2%	—	—
2	Shelf Arrangement	84%	10%	2%	4%	—
3	Personal Dealing	54%	22%	10%	10%	4%
4	Free Gifts	74%	15%	11%	—	—
5	Big Discounts	72%	15%	10%	3%	—
6	Home Delivery	—	—	—	—	—
7	One Stop Shop for all Necessities	36%	36%	14%	4%	10%
8	Credit Facility	—	—	—	—	—
9	Ambience and Environment	92%	8%	—	—	—
10	Knowledge of Products by Employees	56%	22%	12%	10%	—
11	Payment Options	53%	43%	—	—	—
12	Relationship Building	22%	10%	38%	10%	20%
13	Differential Pricing	—	—	—	—	—
14	Favoritism	—	—	—	—	—
15	Extra Benefits	81%	12%	7%	—	—
16	Quality of Products	32%	54%	10%	3%	3%
17	Combo Deals	63%	15%	10%	10%	—

a. Regarding the variety of brands, 84% of the respondents have given excellent to Reliance and 6TEN. If we take the example of Refined Oil, Reliance has number of brands like Ginni, Saffola, Sunflower, Fortune, Soyyam, Ricela etc.

b. Regarding the shelf arrangement, 84% of the respondents have given excellent to Reliance and 6TEN. The products are arranged in order so that customers can easily locate them and pile them in their baskets.

c. 54% of the respondents have given excellent to Reliance and 6TEN for personal selling. The salesmen attend the customers in a very courteous manner. Only 4% of the respondents have rated Reliance and 6TEN bad for personal selling.

d. 74% of the respondents have given excellent to Reliance and 6TEN for the free gifts on purchases. They said that most of the deals are with free gifts in Reliance and 6TEN.

e. 72% of the respondents have given excellent to Reliance and 6TEN for the great discounts on purchases. They said that they get discount between 15%-20% on most of the purchases in Reliance and 6TEN.

f. Both Reliance and 6TEN do not provide home delivery facility to the customers.

g. 36% of the respondents said that they get almost everything in Reliance and 6TEN. Sometimes they even get plastic products, electronic items, hosiery products etc. in Reliance Store.

i. Both Reliance and 6TEN do not provide credit facility to the customers.

j. 92% of the respondents have given excellent to Reliance and 6TEN for the ambience and environment. 8% of the respondents have given very good to Reliance and 6TEN for the ambience and environment. In summers the stores are fully air conditioned and exhausts are there to reduce the congestion.

k. 56% of the respondents have rated the knowledge of the employees regarding the products excellent. They said that the employees are well versed with the product features and they explain them very well.

l. 55% of the respondents said that both Reliance and 6TEN provide cash and card (both debit and credit card) options which are generally not available in mom and pop stores.

m. 22% of the respondents gave excellent for relationship building in both Reliance and 6TEN. 10% and 38% have rated both Reliance and 6TEN as very good and good, respectively.

n. There is no differential pricing followed in Reliance and 6TEN. All the customers are charged with same prices.

o. There is no favoritism followed in Reliance and 6TEN. All the customers are dealt with equally.

p. 81% of the respondents have given excellent to Reliance and 6TEN. They said they attain reward points on their purchases which they can redeem on future purchases.

q. 32% of the respondents have given excellent to Reliance and 6TEN for the quality of the products they sell. 54% and 10% have rated both Reliance and 6TEN as very good and good, respectively.

r. Regarding combo deals 65% of the respondents said that they generally get combo deals like 5 Kg flour, 5Kg sugar and 5Lt Refined oil for Rs. 699 etc.

5. The responses towards the facilities provided by traditional mom and pop stores are given below in the Table 2 :

**Table 2 — Analysis of Facilities provided by Traditional Mom and Pop Stores**

Sl. No	Facility	Excellent	Very Good	Good	Fair	Bad
1	Variety in Brands	24%	11%	12%	23%	30%
2	Shelf Arrangement	12%	12%	10%	4%	62%
3	Personal Dealing	74%	22%	4%	—	—

(contd.)

(contd.)

Sl. No	Facility	Excellent	Very Good	Good	Fair	Bad
4	Free Gifts	26%	5%	10%	29%	30%
5	Big Discounts	5%	5%	10%	13%	68%
6	Home Delivery	76%	14%	10%	—	—
7	One Stop Shop for all Necessities	6%	6%	14%	14%	60%
8	Credit Facility	74%	10%	10%	6%	—
9	Ambience and Environment	10%	10%	4%	5%	71%
10	Knowledge of Products by Employees	6%	2%	2%	10%	80%
11	Payment Options	—	—	—	—	—
12	Relationship Building	82%	12%	6%	—	—
13	Differential Pricing	66%	10%	10%	14%	—
14	Favoritism	79%	11%	10%	—	—
15	Extra Benefits	1%	1%	1%	1%	94%
16	Quality of Products	32%	54%	10%	3%	3%
17	Combo Deals	5%	15%	1%	15%	64%

a. Regarding the variety of brands, only 24% of the respondents have given excellent to traditional mom and pop stores. Very few brands are available depending upon the locality and purchasing power of the customers.

b. Regarding the shelf arrangement, 12% of the respondents have given excellent to traditional mom and pop stores. 62% of the respondents have rated them bad on this parameter. The products are not well arranged and both the salesmen and customers cannot easily locate them and pile them in their baskets.

c. 74% of the respondents have given excellent to traditional mom and pop stores for personal selling. The shopowner and salesmen attend the customers in a very courteous manner. They try to retain the customer with them for longer period of time.

d. Only 26% of the respondents have given excellent to traditional mom and pop stores for the free gifts on purchases. 30% of the respondents have rated them bad on this parameter. They said that most of the shop owners keep the free gifts for themselves or for their frequent customers.

e. Only 5% of the respondents have given excellent to traditional mom and pop stores for the great discounts on purchases. They said that they do not get any discount or if they get discount then it is between 5%-10% on the purchases.

f. Traditional mom and pop stores do provide home delivery facility to the customers. 76% of the respondents have rated them excellent on this parameter.

g. Only 6% of the respondents said that they get

almost everything in traditional mom and pop stores. 60% of the respondents have rated them bad on this parameter.

h. Traditional mom and pop stores do provide credit facility to the customers. 74% of the respondents have rated them excellent on this parameter.

j. Only 10% of the respondents have given excellent to traditional mom and pop stores for the ambience and environment. 71% of the respondents have rated them bad on this parameter. They said that these stores are generally overloaded and there is no space for the customers to stand.

k. Only 6% of the respondents have rated the knowledge of the employees of traditional mom and pop stores regarding the products excellent. 80% of the respondents have rated them bad on this parameter. They said that the employees are not well versed with the product features and they could not explain them very well.

l. Traditional mom and pop stores do not provide payment options. The sales are made on cash basis only.

m. 82% of the respondents gave excellent for relationship building in traditional mom and pop stores. They believe in maintaining the relationships. Some customers are buying from them for last 20 years also.

n. Traditional mom and pop stores follow differential pricing. Different prices are charged to the customers. 66% of the respondents said that they generally give discount on MRP to frequent and favorite customers and to others they do not give discount.

o. 79% of the respondents said favoritism is followed in traditional mom and pop stores. frequent and favorite customers are dealt with first and others are asked to wait.

p. 94% of the respondents have given bad to traditional mom and pop stores for extra benefits. They said they do not have any system of reward points etc.

q. 32% of the respondents have given excellent to traditional mom and pop stores for the quality of the products they sell. 54% and 10% have rated traditional mom and pop stores as very good and good respectively.

r. Regarding combo deals 64% of the respondents said that they do not get any combo deals in traditional mom and pop stores.

6. There is difference in the prices of the same products sold in Reliance and 6TEN and traditional mom and pop stores.

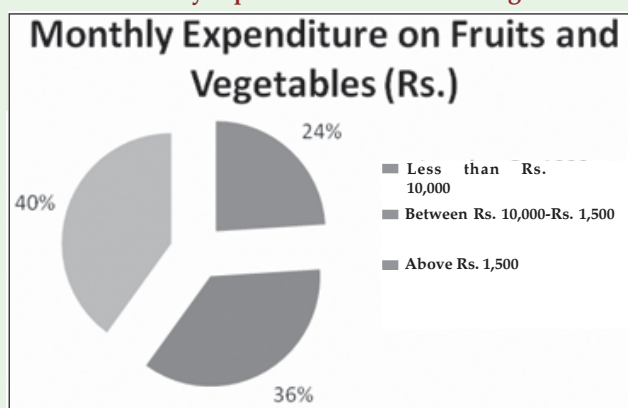
**Table 3 — Comparative Analysis of Prices of the products charged in Reliance and 6TEN and Traditional Mom and Pop Stores (Selected Items) (Rs.)**

Sl. No.	Product	Reliance Per Unit (Rs.)	6TEM Per Unit (Rs.)	Tradotional Mom and Pop Stores Per Unit (Rs.)
1	Sugar 5 Kg	190	195	215
2	Saffola Gold Blended Refined Oil 5 LT	680	680	680
3	Aashirwad Atta 10 Kg	215	220	240
4	Ruchi Gold Refined Oil	81.50	N.A	97
5	Real Juice (1 LT)			
6	Tata Salt	14	14	14
7	Surf Excel Detergent Bar (800 gm)	75	79	90
8	Ariel Oxy Blue Fresh Clean 1 Kg	77.40	77.56	79
9	Shakti Bhog Royal Basmati Rice 1 Kg	67	N.A	199
10	Real Juice 1 Lt	90	90	90
	<b>Fruits and Vegetables</b>	<b>Reliance</b>	<b>6TEN</b>	<b>Local Fruit &amp; Vegetable Hawkers</b>
1	Peas 1 Kg	11.99	12	15
2	Cauliflower 1 Kg	7	6.50	10
3	Potato 1 Kg	4.5	6	10
4	Onion 1 Kg	12	12.49	15
5	Bananas 1 Kg	24	30	40
6	Apples 1 Kg	74.99	75	80
7	Oranges 1 Kg	12	11.49	15
8	Guava 1 Kg	34.99	36	40

Table 3 shows that the prices at organized retail stores are less as compared to traditional mom and pop stores and local fruit and vegetable hawkers. In some products like Shakti Bhog Royal Basmati Rice 1 Kg, there is huge difference in the price charged at organized retail store and traditional mom and pop stores.

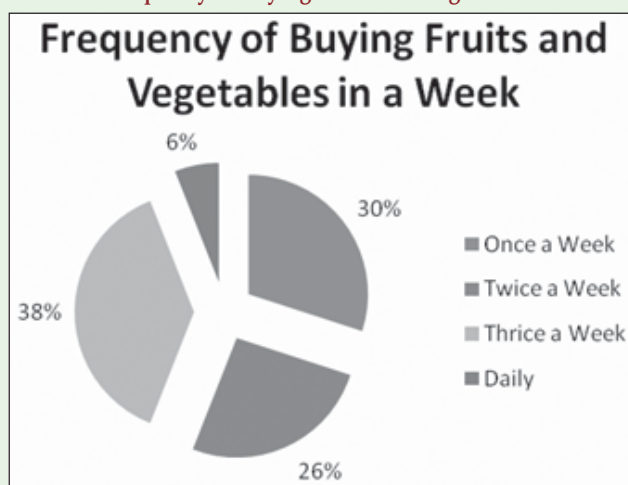
7. Fruits and vegetables are the main part of daily diet. 24% of the respondents said that their monthly expenditure on fruits and vegetables is less than Rs. 1,000, 36% of the respondents said that their monthly expenditure on fruits and vegetables is between Rs. 1,000 Rs. 1,500 and 40% said that their monthly expenditure on fruits and vegetables is above Rs. 1,500.

**Exhibit 4 : Monthly Expenditure on Fruits and Vegetables**



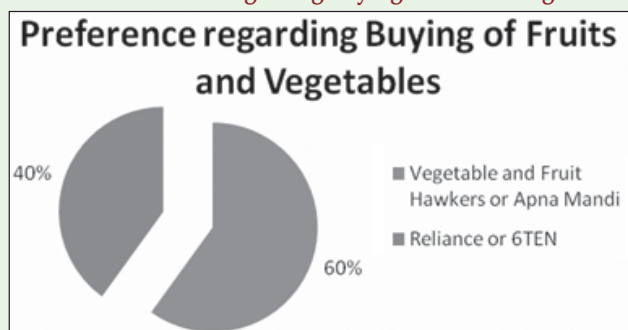
8. Regarding frequency of visits to stores to buy fruits and vegetables, 30% of the respondents said they buy once a week, 26% of the respondents said they buy twice a week, 38% of the respondents said they buy thrice a week and 6% of the respondents said they buy on daily basis.

**Exhibit5 : Frequency of Buying Fruits and Vegetables in a Week**



9. 60% of the respondents said that they prefer local vegetable and fruit hawkers to buy fruits and vegetables or they prefer apna mandis which are held in every sector once or twice a week. 40% of the respondents said that they prefer to go to Reliance or 6TEN to buy fruits and vegetables.

**Exhibit 6 : Preference regarding Buying Fruits and Vegetables**



10. When the respondents were asked to compare the organized retail stores Reliance and 6TEN with local fruits and vegetable hawkers then following are the findings:

**Table 4 : Comparison of Organized Retail Stores Reliance and 6TEN with Local Fruits and Vegetable Hawkers**

Sl. No.	Parameter	Organized Retail Stores Reliance & 6TEN are better	Local Fruits & Vegetable Hawkers are
1.	Variety	64%	38%
2.	Quality	55%	45%
3.	Prices	72%	28%
4.	Payment Options	100%	—
5.	Frozen Products	100%	—
6.	Buy as per requirement	100%	—
7.	Availability and accessibility	64%	38%

a. 64% of the respondents said that organized retail stores Reliance and 6TEN have more variety in fruits and vegetables. They keep expensive fruits also like kiwis, custard apple etc. 36% of the respondents said that local vegetable and fruit hawkers too have variety in fruits and vegetables.

b. 55% of the respondents said that organized retail stores Reliance and 6TEN keep fresh fruits and vegetables. They discard stale items on daily basis and never compromise with quality. 45% of the respondents said that local vegetable and fruit hawkers keep more fresh fruits and vegetables as compared to Reliance and 6TEN.

c. 72% of the respondents said that organized retail stores Reliance and 6TEN offer fruits and vegetables at low prices, whereas only 28% of the respondents said that local vegetable and fruit hawkers offer fruits and vegetables at low prices.

d. 100% of the respondents said that organized retail stores Reliance and 6TEN provide the option of paying in cash or by credit or debit cards. No such facility is provided by local vegetable and fruit hawkers.

e. 100% of the respondents said that organized retail stores Reliance and 6TEN have frozen food segment from where they can buy non seasonal items. No such facility is provided by local vegetable and fruit hawkers.

f. 100% of the respondents said that organized retail stores Reliance and 6TEN provide the option of buying in the quantity as per the requirement e.g 50 gm, 75 gm, 110 gm etc. No such facility is provided by local vegetable and fruit hawkers. They have the standard weights of 0.25 kg, 0.5 kg and 1 kg only.



g. 64% of the respondents said that organized retail stores are more accessible and available for the whole day. 36% of the respondents said that local vegetable and fruit hawkers are more accessible and available. They said they come daily and buying can be done at the doorstep only.

11. 31% of the respondents have completely shifted to organized retail stores for their monthly grocery and sanitary purchases and fruits and vegetables, 55% are partially buying from mom and pop stores and local vegetable and fruit hawkers and 14% are still going on with traditional mom and pop stores and local vegetable and fruit hawkers.

**Exhibit 7 : Shift to Organized Retail Stores**



12. When it was asked from the traditional mom and pop stores owners and local vegetable and fruit hawkers about the impact of organized retail stores on the number of customers and sales, 76% of the respondents said that there is negative impact on their business. Both the customers and sales have declined. 18% of the respondents said that there has been no impact at all on their business and 6% of the respondents did not answer the question.

**Exhibit 8 : Impact of Organized Retail Stores on Mom and Pop Stores and Local Vegetable and Fruit Hawkers**



13. When it was asked from the traditional mom and pop stores owners and local vegetable and fruit hawkers about the decline in the number of customers and sales, 16% of the respondents said that there decline of more than 40% in their business, 46% of

the respondents said that there was decline of 30-40% approximately in their business, 16% of the respondents said that there was decline of 20-30% approximately in their business and 22% of the respondents said that there was decline of 10-20% approximately in their business.

**Exhibit 9 : Decline in Sales and Customers of Traditional Mom and Pop Stores and Local Vegetable and Fruit Hawkers**



14. The reaction towards recent announcement of allowance to foreign groups to own up to 51 per cent in "multi-brand retailers" was also analyzed. 66% of the customers said that it is a welcome decision. This will be a customer oriented decision as the customers will get better quality, exclusive products, international brands, low prices, heavy discounts and free gifts. 34% of the respondents said that this should not be allowed as demonstration effect in these multi brand retail outlets lead to over spending on those products which are neither luxuries nor necessities. Moreover, these stores are not that pocket friendly as they are deemed to be.

**Exhibit 10 : Reaction of Customers towards Allowance to Foreign Groups to own up to 51 per cent in "Multi-Brand Retailers"**



15. The reaction of the traditional mom and pop stores owners and local vegetable and fruit hawkers towards recent announcement of allowance to foreign groups to own up to 51 per cent in "multi-brand retailers" was also analyzed. 86% of the respondents said that government should not allow foreign groups to own up to 51 per cent in "multi-brand retailers" because it will have negative impact on their business. 4% said that government should allow as they will

give healthier competition to already existing organized retail outlets and in their cat fight they will be the beneficiaries. 10% of the respondents said they cannot say whether government should allow or not foreign groups to own up to 51 per cent in "multi-brand retailers".

**Exhibit 11: Reaction of Mom and Pop Store Owners and Local Vegetable and Fruit Hawkers towards Allowance to Foreign Groups to own up to 51 per cent in "Multi-Brand Retailers"**



**Findings**

1. Organized Retail Stores provide better facilities as compared to traditional mom and pop stores. They score high on all parameters except home delivery and credit facility. They treat all the customers equally and do not cater to preferred customers at first. They give high discounts and free gifts. Their combo deals and extra benefits like accumulation of reward points attract the customers. The ambience, environment and shelf arrangement is excellent.

2. There is difference in the prices offered by Organized Retail Stores and traditional mom and pop stores and vegetable and fruit hawkers.

3. Organized Retail Stores have affected the business of traditional mom and pop stores and vegetable and fruit hawkers. Traditional mom and pop stores and vegetable and fruit hawkers have experienced sharp declines in the amount of sales and number of customers.

4. There has been shift in the customers buying behaviour. They have either shifted fully towards organized retail outlets or partially shifted. Very few are sticking to their traditional mom and pop stores and vegetable and fruit hawkers.

5. On the customers front, recent announcement of allowance to foreign groups to own up to 51 per cent in "multi-brand retailers" is a welcome announcement whereas on traditional mom and pop stores owners and local vegetable and fruit hawkers front it is an unwelcome decision.

**Suggestions**

The traditional mom and pop stores should improve upon in the following areas:

1. Shelf Arrangement of the products.
2. Ambience and Environment of the store.
3. Knowledge of the salesmen.
4. Variety of Brands.

By improving on these areas they will certainly get better customer base and their sales volume will grow. The contribution of unorganized retail sector to the economy cannot be ignored.

**Conclusion**

Retailing in India is one of the pillars of Indian economy. India is considered as one of the world's lucrative retailing destination by the world's most renowned MNCs. There are many organized retail outlets in India. The present study highlights that there is no doubt that organized retail outlets like Reliance and 6TEN are better in all aspects as compared to traditional mom and pop stores and local vegetable and fruit hawkers. But they have negatively affected the business of traditional mom and pop stores and local vegetable and fruit hawkers. Their sales and customers have declined considerably. On 24 November 2011, Congress, the ruling party, made the highest controversial announcement that India will allow foreign groups to own up to 51 per cent in "multi-brand retailers". This announcement made a stir in the economy. On the customers front it is a welcome announcement whereas on traditional mom and pop stores owners and local vegetable and fruit hawkers front it is an unwelcome decision. According to the indigenous store owners they will grab the maximum share of the business and they have to lose at the hands of Indian organized retailers and foreign groups as multi-brand retailers. We as the customers can wait and watch what will happen ultimately. Will we be the losers or gainers, the result is being awaited. □

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## Audit and Ethics : A complete protection measure for shareholder groups



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### Introduction

**E**xamination of books of accounts with supporting vouchers and documents, in order to detect and prevent errors and frauds, is the main function of auditing.

But a statutory auditor does this work (check and examine events roughly) within the shortest possible period. As an auditor depends significantly upon internal check system and department of the company, there is enough scope to exist undetected errors and omissions. Normally, salaried accounting personnel do act in favor of companies because they are directed by the top level management. Suppression of facts, window-dressing, evasion of taxes, malpractices of accounting concepts etc. are very common in corporate world. Extent and intensity of these manipulations are also varying from country to country, and the laws regarding the protection of the investors and creditors against such irregularities are widely varied across the world. No system or regulation can fulfil this loophole—rather trends are widening. Hence significance of ethics is realized.

Ahead of investment proposals, investors should have every right to check the background of corporate social responsibilities (CSR); Board of Directors' role; auditor's view and credit rating report; while ethics encourages positively to these to take on the right means of living.

Business ethics is concerned with set up of stakeholder friendly standard codes and practices and their proper application. Paying actual taxes in time, paying right amount of dividends, making the quality of goods or services, charging the right price, disclosing the true and fair statements etc. are all parts of business ethics. It creates corporate values in and outside of any organization that benefits all stakeholders. It has strong psychological effects over employees, managers and policymakers that they believe to give top priority to financial interest of outsiders.

Again, audit is a must. So, audit and ethics are complementary to each other in the light of shareholder protection and to achieve organizational development.

### Relevance

Audit report and corporate ethics is boon to outside

stakeholders in the way to measure the riskiness and validity of their investment proposals. Auditor's report helps investors and creditors to know about the financial viability and financial state of condition of a business firm. Investors across the globe depend heavily on this report for the purpose of making investment decisions.

Ethical company is the company which has strong corporate values and ethos. Ethical audit, on the other hand, determines the internal and external consistency of a company's value base. It begins internally with a review of papers, processes and people. The findings of the audit are then tested out with stakeholder groups, to ensure that the value base is one which is shared by—or at the least acceptable to—all its key shareholders. An audited company with its ethical mode is 'a complete safety net' to all interested parties. This state of condition ensures the minimum or zero level of corruption or frauds but that does not mean investment is free of risk and capital is either intact or enhanced. Therefore, investment in capital market is full of risk and it changes rapidly on the basis of changing environments (business factors, industry factors, legal-political factors, technological factors, social-cultural factors, natural factors and economy—internal and international—as well). Henceforth, the importance of introducing this article is not only sought to bring down the level of internal frauds and errors but also comeback investors' confidence in the wake of successive corporate scams in India and outside world.

### Objectives

In order to protect the financial interest of investors and to control such irregularities with greater degree of certainty, market participants must be ensured with updated information. However, this article has set out the following objectives:

(i) To bring down the level of internal frauds and errors and comeback investors' confidence in the wake of successive corporate scams in India and abroad. (ii) To protect the financial interest of various stakeholders in order of priority on the basis of reliable, authentic and valuable information that must be supplied by the listed companies. (iii) To make an

investor friendly atmosphere. (iv) To maintain purity and transparency in the capital market. (v) To ensure that price of any script is changing on the basis of market principles. (vi) To popularize capital market among the common people to invest in. (vii) To draw out the reader's attention about the relevance of business ethics and long term benefits.

### Social Aspects of an Audit

The purpose of conducting social audit is not to find fault with the individual functionaries but to assess the performance in terms of social, environmental and community goals of the organizations. Prof (Dr). B. K. Basu has classified the social objects into two heads. **From humanitarian side**, the following are the main objectives of social audit:

(i) To assess the social performance of business organization towards the society. (ii) To determine total expenditure incurred by an organization for the development of the society. (iii) To provide accurate information about social accounts in various projects to the management authority of the organization. (iv) To make an evaluation on actual with expected contribution for the overall development of the society. (v) To know about reasons for deviations and taking remedial measures for recurrence the deficiencies.

**From financial side**, the following are the crucial objectives of social audit :

(i) To protect the interest of shareholders. (ii) To stop evasion of tax. (iii) To stop capital erosion. (iv) To measure the fair wages for laborers. (v) To determine reasonable prices for customers. (vi) To find out fair return and justice to the investors. (vii) To evaluate the social cost and benefit.

### Why are Ethics Important?

Recent events in corporate America have demonstrated the destructive effects that occur when the leadership of a company does not behave ethically. One might wonder why highly educated, successful and business savvy corporate professionals at Enron, Tyco, WorldCom, and Adelphia got themselves into such a big mess. The answer lies in a profound lack of ethics. Ethics are important not only in business but in all aspects of life because it is an essential part of the foundation on which a civilized society is built. A business or society that lacks ethical principles is bound to fail sooner or later. We have seen successful businesses fail, we have witnessed profitably running businesses suffer from a downfall, and some seemingly effective corporates receive a great fall in their profits and popularity. Most of the cases revealed that unjustifiable nexus between auditors and promoters were behind these scams. Money makers who don't heed ethical values can only earn a short-

lived success. To exist in the market, business ethics is essential. In spite of having adequate measures, the companies were liquidated.

Is there any means to protect other firms from bankruptcy? Yes, of course, we have ethics in business. Ethics is important to businesses for several reasons : (i) Values create good relationship among various stakeholders. (ii) Values help control system easy. (iii) Ethics is an index for development. (iv) Ethics is a key aspect before acquisition. (v) Ethics reduces the corruption level and mistrust. (vi) Ethics creates investor friendly atmosphere and minimizes risk.

In addition to above, ethics is indispensable in different areas of a business concern. These, suggested by Dr. K. Aswathappa, are (i) Ethics corresponds to basic human needs. (ii) Values create creditability with the public. (iii) Values gives management creditability with employees. (iv) Values help better decision making. (v) Ethics and profit go together. (vi) Law can't protect society, ethics can.

### Factors Identified for Ethical Erosion

The highly competitive world is responsible for the decreasing trends of ethics and values to a great extent. The effects of globalization and liberalization add more fuel to fire. From top level management to lower level employees, performance is sought from them. Productivity is replaced by ethics. Advanced culture from Europe has changed the mindset of developing world.

The factors identified for the crises of ethics are : (i) Highly competitive environment. (ii) Tight working schedules of the management personnel. (iii) The effect of globalization, liberalization and privatization. (iv) World of cultures and conflicts. (v) Agency problems. (vi) National policies towards states. (vii) National policies towards neighbours. (viii) Political turmoil. (ix) Danger of nuclear family. (x) Newspapers and their negative role. (xi) Family culture and tradition. (xii) Debatable role of electronics media. (xiii) Aggressive marketing and deterioration of the quality of assets. (xiv) Misleading advertising (xv) Destructive effects of Hollywood and Bollywood over teenagers and youths. (xvi) Wide disparities of income and wealth among regions and unequal distribution. (xvii) Religious movement. (xviii) Egoism (xix) Non-transparency in works and procedures. (xx) Unipolar dominance over rest of the world. (xxi) Favouritism, nepotism and non-governance. (xxii) Unhealthy nexus between promoters and auditors. (xxiii) Lack of stringent rules. (xxiv) Ineffective regulatory bodies. (xxv) Mental and attitudinal problems. (xxvi) Revolution of new generation electronics goods and gadgets including computer and mobile phones with internet connection. (xxvii) Prefer material world to spiritual side of life.



### Rules Fail but Ethics Effective

This article bears the importance of the shareholders' protection from different malpractices followed by the companies and intermediaries. Money makers attempt to earn huge profits by any unfair means in the shortest possible period. Principles of performance and promotion are adequate for a global manager while CSR is still a crowd. In presence of regulatory bodies and their rules, several companies have collapsed across the world. That means no system can protect a company and its shareholder groups nor prevent it from liquidation. This kind of situation is horrible and harmful to all stakeholders and business environment as well. When system fails ethics starts functioning. It brings overall air of fairness in the minds of investors and restores confidence. Rules and regulations can control somehow or minimize the corruption, but can't prevent it fully—or to achieve zero defect—while ethics can.

All investments in capital market carry certain risks and investors take risk in expectation to get extra gains. Even SEBI in India can't eliminate risk or its consequences. The existence of SEBI does not remove the need on the part of the investor to carefully consider where he wants to invest his money or the possibility that his investment decision may go wrong. The risk in capital market is quite natural and inherent in every investment decision but loss from liquidation comes silently. Surprisingly, auditors sometimes forget their key duty and they are involved in conspiracy with top brasses in the way of fudging the books of accounts. Enron in USA, Satyam in India are established presence of such unhealthy nexus between them. This kind of collusion on the part of the auditors is a serious concern for shareholder groups and a curse to capital markets. In this respect, ethics can rescue the auditors from malpractices to standard practices, from untruth to truth, from unfair means to fair means and from stereotype audit to ethical audit. Therefore, in order to protect the stakeholders absolutely, ethical audit with business ethics is must, appropriate and adequate.

### Loopholes of an Auditing System

Actually speaking, an audit should have no limitations of its own. It is designed to protect the interest of all parties who are interested in the affairs of the business. According to Mr. Phillip Sober, the recent spate of company failures has led to considerable criticisms of auditors and demand for tighter control of corporate finances.

One possible solution is introduction of audit committees as intermediaries between the auditors and the board. However, some identified limitations are (i) a limitation on the cost of an audit results in selective testing or sampling of the accounting records and

supporting data. (ii) Auditor's report is usually issued three to five weeks after the balance sheet date. This time constraint may affect the amount of evidence that can be obtained concerning events and transactions after balance sheet date that may have an effect on the financial statements. (iii) Alternative accounting principles (AAP) are permitted under GAAP. External users of financial statements face serious accessibility problems. (iv) Estimates, an inherent part of the accounting process, and no one including auditors can foresee the outcome of uncertainties. Estimate range from the allowance for doubtful accounts and an inventory obsolescence reserve to impairment tests of fixed assets and goodwill. An audit can't add exactness and certainty to financial statements when these factors do not exist.

### Satyam Scam in India : An Emerging Issue

In a country's biggest corporate fraud involving about Rs. 8,000 crore, iconic IT major Satyam was hurtling towards disaster following the shocking disclosure of accounts fudging by its founder, who then quit as chairman—leaving an uncertain future for the company and its 53,000 employees. The government, regulator SEBI and the industry reacted with shock and anguish over the turn of events that could tarnish India's corporate picture and raise vital issue like ethics, corporate governance, and accounting and business practices.

The lessons learnt from Satyam saga will help improve the level of corporate governance in India in the years to come—the apex body of chartered accountants, ICAI—said. Satyam is a study in itself and a matter of research also—said Mr. Amarjit Chopra, President, ICAI. Probably Satyam is the best things that could happen because it shall prevent frauds in future. It was the failure of audit committee chairman to raise the issue of frauds to the tune of Rs.2,000 crore lying in Satyam's current account, otherwise the scam could have surfaced much earlier, referring to striking points in the Rs.8000 crore scam.

But the real question is much different and pertinent. Satyam fraud may be first of its kind in India, but not the first such fraud of the world, where fraud was given effect by fudging the books of accounts. Fact is when Satyam fudged its accounts, the auditing company was certifying these accounts to be correct. Auditor is obliged to minutely inspect each and every transaction of a firm and certify the same to be correct and as per rules. These certified account statements are then sent to the shareholders. Thus we can say that fraud has not been committed by Ramalinga Raju alone, auditing company also must have been involved in the same. It is worth noting that PWC, auditing firm of Global Trust Bank (USA) also, is facing legal proceeding in the case of not only certifying fudged accounts of the book but also giving it a good rating. Experts believe that the company could not have done

a fraud of this magnitude without the connivance of the auditors and, finally, penalized the PWC.

**ROLE OF SEBI:** Constituted under an Act of Parliament, Security and Exchange Board of India (SEBI) is a regulatory body of Indian share and bond market. It is expected from SEBI that no company or broker is allowed to act against the interest of the shareholders. In fact, existence of a regulator gives a confidence amongst the shareholders in that sector. But this regulating agency has failed at various occasions. Thousands of companies vanished—eating away lakhs of crores of rupees of investors—and SEBI could not do anything. Sometimes tiny cases of insider trading by companies are investigated by SEBI, fraud of lakhs of crores of rupees gets easily escaped from its scanners!! Then why SEBI could not get a clue about such a big fraud?

Learning lesson from the present case and to avoid repetition of such incidents, there is a need to make government's audit compulsory for all big private sector companies on lines of public sector companies. We know that strict auditing of public sector companies by Comptroller and Auditor General of India (CAG) has been the reason why there has never been any big scam in public sector companies.

Secondly there is a need to examine the constitution and functioning of SEBI and make suitable changes whenever needed to enable SEBI to meaningfully discharge its duty as a regulator in the stock market. All multinational and Indian auditing companies which are found to indulge in fraud in any part of the world, should be placed under the scanner and their acts be investigated in India. This would be a proactive step in the interest of the nation at large.

#### Presentation of India's Top 10 Scams

The nature of scams is different and has taken place in different circumstances between mid-nineties to first decade of twenty first century in India but the motive behind the scams is same. The purpose of such scams is to grab the public money by few opportunists.

India's top ten scams are :

Name of the scam	Who belongs to	Area of the scam	Amount lost (Rs. in Cr.)
Satyam's Scam	Mr. Ramalinga Raju	IT Sector	8,000
Bull Scam	Harshed Mehata	Share market	4,000
K-10 Scrips Scam	Ketan Parekh	Share market	1,500
The Bhansali Scam	C.R.Bhansali	Mutual Fund	1,200
Cobbler Scam	Sohin Daya	Shoes market	Not Found
DSQ Scam	Dinesh Dalmia	Share market	595
Fake Stamp Scam	Abdul Karim Telgi	Government stamp	171.33
RGB Scam	Virendra Rastogi	Money market	43
The UTI Scam	P. S. Subramanyam	Mutual Fund	32
Plantations Scam	Uday Goyal	Growing Plantations	210
Gilt-edged Scam	Sanjaj Agarwal	Govt. Securities	92

(contd. to page 198)

#### Business Ethics : A Corporate Advantage

What advantages do business practices and programs provide to organizations? Business leaders increasingly recognize the direct relationship between fulfilling a company's responsibilities and corporate scandal. Companies with sound business practices and established values report improved employee morale, reduced employee turnover, and increased productivity. An effective business practices and program ensure, (i) A markets-place advantages. (ii) Superior-employee performances. (iii) Reputation managements. (iv) Powerful legal and financial incentives.

#### Suggestions

From breaking news of many corporate houses coming into light, it is found that audit system does control the accounting aspects while ethics guides the entire system of an organization in just and right manner. It is proved that ethics can maintain the business spirit over the years. Corporate values have shown the right path and will restrain the businesses from indulging in any unfair means. However, in order to provide improved investor's environment and best protection, the following guidelines may be adopted in addition to existing framework and rules:

(i) To prepare a separate set of mandatory code of ethics covering all entities of a company. (ii) Public auditing system should be introduced to all issuing companies. (iii) Private auditing system should be confined to companies with minimum capital base. (iv) Frequent follow up and speedy remedial actions. (v) Sound track record of CSR initiatives should be taken as a pre-condition of new issue. (vi) Accounting controls system should be brought down under the new scanner. (vii) Books of accounts should be audited twice a year. (viii) An auditor can't audit a firm for more than five years continuously. (ix) Performance of Board of Directors should be reviewed regularly and accordingly measures taken up.

## An empirical analysis of the factors influencing the financial performance of an Apex Cooperative Bank : A Case Study



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### Introduction

Cooperative Banks in India have experienced major transformation since independence. Since the primary role of the cooperative banking system was to channel funds to the rural sector, efficiency and profit-ability were not among top priorities. When economic and financial sector reforms were initiated in 1991 for international economic integration and globalization of financial market, the extension of reforms to cooperative banking institution could be treated as enabling the cooperative banks to function on sound lines at par with other banks.

The impact of the reform measures is reflected in an improvement in profitability, financial health, soundness and overall efficiency of the banking sector. Ever since the cooperative movement was launched in the country it was realized that there should be a strong bank at the state level to coordinate the activities of the Primary Agricultural Credit Societies (PACs) and Central Cooperative Banks (CCBs)/ District Central Cooperative Banks (DCCBs) in the state. Such an apex bank is to work as a final link in the chain between the PACs and CCBs/DCCBs on the one hand and the money market on the other hand.

The State Cooperative Banks were organised in India initially on the recommendations of the Maclagan Committee of 1915, but they gained prominence only after independence, primarily on the basis of the recommendations of all India Rural Credit Survey Committee. The apex bank in the cooperative structure ensures coordination of activities of the PACs and the CCBs/DCCBs in the state. The apex cooperative institution not only attracts deposits from the richer urban centers but also serve as a channel between the cooperative movement and the money market.

In West Bengal the apex cooperative institution is the combination of both two and three tier structures. The West Bengal State Cooperative Bank (WBSCB)—a scheduled Apex Cooperative Bank of the State of West Bengal—came into existence in 1918. Originating as a Cooperative Bank basically for lending to agricultural sector, it encompasses now in its periphery almost all the activities and functions of a commercial Bank like deposit mobilisation, issuing all types of loans and

advances, providing ancillary services like locker renting, fund transfer, domestic treasury operation etc., and as the leader of the cooperative movement rendering varied service to its affiliated District Central Cooperative Banks (DCCBs)/ Urban Coop Banks (UCBs), as well as doing the liaison work for integrating and developing the Cooperative Banking families including Land Development Banks and Primary Societies etc. Since independence the apex cooperative bank of West Bengal made remarkable progress in the various segments of state economy.

WBSCB is a federal cooperative and its objective is to serve the member societies e.g. DCCBs, CCBs and PACs at the same time. As per BR Act, 1949, WBSCB is a scheduled bank. Since its inception, WBSCB engaged itself in improving the efficiency of cooperative credit system in West Bengal. Over the years, WBSCB is viewed as the common man's bank. It has played a key role in rural financing in the state of West Bengal. A remarkable feature of its performance over the past few decades has been the expansion of its retail network in rural as well as urban areas. The growth of branch network has enabled WBSCB to expand the banking activities in the unbanked areas and mobilize rural savings. With so many constraints on the operation of cooperative bank it is natural that the financial performance of this apex institution like other cooperative banks of similar structure has been a matter of concern.

### Objectives

The focus of this paper is to enquire factors that influence the performance of the apex Cooperative Bank in West Bengal. Issues concerning Cooperative Banks are an area that is less visited empirically in comparison of other banks. A model based approach has been pursued to identify the factors that are responsible for the performance of this apex Cooperative Bank. The outcome may help in focusing the attention for a pragmatic solution for other Cooperative Bank. A reasonable long period for analysis is considered for getting more dependent result.

The rest of the paper unfolds as :

A brief review of the relevant literature is furnished for identifying the factors that influence the performance of banks. The data sources along with identification of inputs and outputs have been reported in database and methodology portion. Subsequently an outline of the



methodology and its empirical variant that have been used is discussed. Next part consists of result of empirical analysis. Concluding observations are discussed in the final part.

### **Brief Review of Literature of factors that affect performance of bank**

The West Bengal State Cooperative Bank Ltd., as an apex agricultural lending institution in the state of West Bengal, primarily focuses on rural economy but, at the same time, has a commercial orientation. Starting with the seminal contribution of Haslem (1968), the literature recognizes that internal set of factors have an influence in the performance of the bank. Internal factors are often bank specific and originate from balance sheet and profit and loss account of the concerned Bank. Size and capital are some of the typical internal determinants [Akhavein et al (1997), Short (1979), Goddar et al (2004)].

The liberalization of the finance sector in India has exposed Co-operative banks to a different economic environment that is characterized by increased competition and new regulatory requirements. Risk management is of crucial importance for a bank's financial health. Banks may prefer to increase liquid holding in order to reduce risk. Amandeep (1991, pp 43-45) in the paper Determinants of Banks' Profitability identified profitability of banks was determined and affected mainly by two factors—spread and burden. Molyneux and Thorat (1992) found a negative and significant relationship between level of liquidity and profitability. Miller and Noulas (1997) has found that credit risk has a negative impact on profitability.

In contrary, opposite result was reported by Bourke (1989). Conflicting findings may be due to different elasticity of demand for loans in the samples used in the studies (Guru, Strauton and Balashanmugam, 2004). Financial institutions that are exposed to high risk loans have produced lower returns (Athanasoglou, Brissimis and Delis, 2005) due to accumulation of unpaid loans. Fund management, capital and liquidity ratios, credit deposit ratio, loan loss expenses are some of the internal determinants found in different works [Bell, Murphy (1969); Short (1979); Kwast and Rose (1982)].

Saveeta Bhatia and Satish Verma (1998, pp 433-445) made an attempt to determine empirically the factors influencing profitability of public sector banks in India by making use of the technique multiple regression analysis. Expense management is an important determinant of a bank's profitability. Efficient management of expenses improves bank's profitability. Bourke (1989), Molyneux and Thorat (1992) found better quality management and profitability go hand in hand. Sultan Singh (2001), in his work, revealed that total income, interest earned, other income, spread, total expenses, interest expended, operating expenses and establishment expenses are comparatively more consistent of Indian commercial banks in the post reform period.

Cooperative Banks play an important role in meeting

growing credit needs of rural India. The performance of these banks, however, has been much less than satisfactory. In order to revive and revitalize the Cooperative Banks, the Government of India constituted a task force (Vaidyanthan Committee, 2004) which recommended legal reform. The Committee also recommended creation of basic infrastructure for carrying out business including computerization.

One of the reason why Cooperative banks keep slipping back into the red is because of the riskiness of the underlying activity—particularly agriculture. If the issue of risk is not addressed adequately the Cooperative banks are left with clients that are not serviced by commercial banks, are intrinsically vulnerable and, therefore, the institutions will turn out to be vulnerable (Sriram, 2005).

To evaluate the performance of WBSCB, updated methods have been used in the study. Keeping in mind that inflation may affect the costs and revenues of WBSCB, the performance indicators are expressed in the ratios for avoiding the effect of inflation in the performance indicators' growth and stability. The performance of WBSCB have been evaluated by measuring the growth, stability, and mean of different related liquidity, loans and advances, expenses, net income and investment.

### **Data Base**

The database has been collected from the published annual reports of WBSCB for the period 1972-73 to 2007-08. The study deals with the financial performance of WBSCB and to get deeper insight into the internal factors contributing to performance of cooperative banks. The period of analysis has covered both pre- and post-liberalization period, i.e from 1972-73 to 2007-08. The other sources of data are from :

- i. CCB Conference Report of WBSCB
- ii. RBI Bulletin/Notification/publications
- iii. NABARD publications
- iv. Publications of The Clearing Corporation of India Ltd.

### **Methodology Enquiring the impact of past year's performance on present year**

The multiple regression analysis is to be administered to analyze the impact of net profit margin. Net income as a percentage of total assets (**nipta**) is taken to be the indicator of financial performance of WBSCB. It measure how efficiently and profitably WBSCB is making use of its total assets.

The performance of WBSCB is depending on both internal and external factors. The internal factors are represented through the balance sheet information of the bank. Here we have considered only internal factors. WBSCB's source of income is primarily from lending and investment. Balance sheet management on part of WBSCB requires a judicious mix between lending and investment. Loans and advances as a



percentage of total assets (**lapt**s) and investment in securities as proportion (**inspt**s) of total assets are included as explanatory variable.

WBCSB is involved in the business of transforming short term deposits into long term credit, so it would be constantly faced with maturity mismatch. The bank holds liquid assets which can be easily converted to cash. However, liquid assets are often associated with lower rates of return. Hence high liquidity is expected to be associated with low return. The impact of liquidity (**lipta**) is taken as a factor which is represented through cash in hand as a proportion of total asset. Another factor is significant—efficiency of expense management. A total expense is the sum of interest expense and operating expenses. While rising operating cost to support increasing business activities is natural, increasing operating costs to support increasing relative to non-operating expenses is a matter of concern and reflects poor expense management. The impact of expense management on balance sheet health, the variable operating expenses as a percentage of total expenses (**oepta**) has been taken as an independent variable.

To find the impact of internal factors over the years the following regression model has been used :

$$\text{nipta}_i = \alpha * \text{lipta}_i + \beta * \text{inspts}_i + \gamma * \text{lapt}_i + \delta * \text{oepta}_i + \varepsilon_i \dots\dots (1)$$

where  $\alpha, \beta, \gamma,$  and  $\delta$  are the parameters to be estimated.

Past year's performance has an impact in present year's performance and non-incorporation may blur the impact of other variables on net income on Total asset (**nipta**). Lagged value of **nipta** has been considered in the extended equation :

$$\text{nipta}_i = \alpha_0 \text{nipta}_{i-1} + \alpha_1 * \text{lipta}_i + \alpha_2 * \text{inspts}_i + \alpha_3 \text{lapt}_i + \alpha_4 \text{oepta}_i + \varepsilon_i \dots\dots (2)$$

where  $\alpha_0, \alpha_1, \alpha_2, \alpha_3$  and  $\alpha_4$  are the parameters to be estimated.

When lagged dependent variable is introduced as explanatory variable, chances of auto-correlation of error term and the lagged variable is there. The presence of auto-correlation does not cause a bias in estimation of model coefficients, but reduces the efficiency of the model. By applying Prais-Winsten statistical methods, auto-correlation effect is removed.

**Sub periods' growth**

The difference between the estimated growth rate over the entire period and the estimated growth rates over the two sub-periods has been observed. In order to address this problem, computation of kinked-exponential growth rates has been done. Here the trend lines of the two sub-periods are forced to meet at the midpoint that divides the sub-periods. The rationale for beginning with 1972-73 and 1990-91 in the two sub-periods is because both are considered as normal years and have been identified as base years. This choice was basically done to enable a comparison between pre-reform period and post-reform period.

The period since 1990-91 broadly refers to the post-reform period and it might be appropriate to examine happenings after the reforms permitting some lag effects. It has to be enquired whether the growth rates of the

two sub-periods have differed significantly (statistically) or not. For the period  $t = 1, \dots$  to  $n$  is broken at point  $k$ . The kinked point shifted to origin i.e. 1991 for normalizing  $t$  denotes the time of the whole period.

Discontinuous growth rate estimates for the two resulting sub periods could be derived by estimating them separately or, equivalently, by fitting the single equation :

**Single-Kink Model**

$$\text{In}y_t = \alpha_1 D_1 + \alpha_2 D_2 + (\beta_1 D_1 + \beta_2 D_2) t + u_t \quad (1)$$

where  $D_j$  is a dummy variable which takes the value 1 in the  $j^{\text{th}}$  subperiod and 0 otherwise.

Discontinuity between the two trend lines can be eliminated via a linear restriction such that they intersect at the break point  $k$  :

$$\alpha_1 + \beta_1 k = \alpha_2 + \beta_2 k \quad (2)$$

Substituting for  $\alpha_2$  (and noting that  $\alpha_1 D_1 + \alpha_1 D_2 = \alpha_1$ ), we get the restricted form :

$$\text{In}y_t = \alpha_1 + \beta_1 (D_1 t + D_2 k) + \beta_2 (D_2 t - D_2 k) + u_t \quad (3)$$

The OLS estimates of  $b_1$  and  $b_2$  from (3) give the exponential growth rates for the two sub-periods. There is a kink between the two trend lines whenever  $b_1 \neq b_2$ .

**Major Findings**

When lagged dependent variable is introduced as an explanatory variable in equation (2) the outcome of the estimated coefficients are shown :

$$\text{nipta}_i = 0.837 * \text{nipta}_{i-1} - 0.0706 * \text{lipta}_i + 0.0458 * \text{inspts}_i - 0.0585 * \text{lapt}_i + 3.09 * \text{oepta}_i + 1.25$$

Last year's performance has positive impact in the present year performance. Investment contributed positively to **nipta**. Loans and advances have negative impact on the **nipta**. Liquidity has negative impact on the **nipta**. Operating expenses have significant positive impact on the financial performance of WBCSB.

**Growth analysis of the entire period and two sub-periods :** The estimated growth rate of the entire period and kinked exponential growth is reported :

Parameter	Overall Growth	Kinked <sup>1st</sup> sub-period growth	Kinked <sup>2nd</sup> sub-period growth
Ratio of Net Income to Total Assets (%)	(-)3.22	(-)4.15	1.78
Ratio of Investment in Securities to Total Assets (%)	751	677	293
Ratio of Loan and Advances to Total Assets (%)	(-)4.24	(-)1.15	(-)1.37
Ratio of Operating Expenses to Total Expenses (%)	(-)6.66	(-)1.93	(-)3.67
Efficiency ratio	(-)3.32	(-)5.93	(-)3.26
Credit Deposit ratio (%)	(-)3.97	(-)1.76	(-)2.03

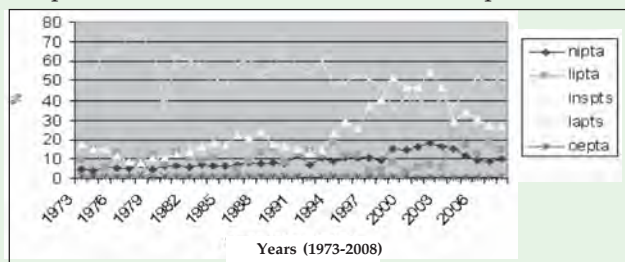
The estimated growth rate of **nipta** over the entire period is negative. It means that the bank is successful in asset creation but not in net income generation. But in the post-liberalization period the bank's performance in net income generation is marginally improved because this sub-period's growth is positive. The estimated growth rate of investment over the entire period is significantly positive. It means that the bank is successful in increasing investment portfolio as a proportion to total asset.

During the post-liberalization period the pace of

growth minimizes in comparison the to first sub-period. The growth of loan disbursement as a percentage of total assets is decreasing. The estimated growth rate of loan as a proportion of total assets over the entire period is negative. It means that the bank's loan portfolio's growth has no match with total asset growth. It is to be noticed that the during the post- liberalisation sub-period the negative growth is higher in comparison to pre-liberalisation sub-period.

The efficiency ratio is calculated by dividing overhead expenses by the sum of net interest income and non-interest or fee income. A decrease in efficiency ratio is viewed as positive. It is estimated that the efficiency ratio is decreasing over the years. In the pre-liberalisation years it is found that the decreasing trend was higher compared to post-liberalization years. The estimated growth rate of credit deposit ratio over the entire period is negative. It means that the bank is successful in deposit mobilization but not in net loan disbursement. In the post-liberalization period the bank's loan disbursement growth is lesser in comparison to pre-liberalization period as proportion to total asset.

The outcomes of the study disclose that pre-liberalization sub-period's growth is higher in comparison to post-liberalization sub-period. It is also noticed that the overall growth rate has no match with the sub-period's growth rate. It means growth rate of the parameters fluctuates in different sub-periods.



(contd. from page 196)

(x) More power should be conferred to Registrar of Companies regarding overall matters of all issuing companies.

### Conclusion

Corporate governance, business ethics and effective compliance management are increasingly critical to an organization's reputation and success. To regain public trust, safeguard reputation and growing market share all organizations need to embed ethics and compliance into their culture and core business process. One approach to the examination of financial crisis is an understanding of the financial reporting climate in which auditors emerge. The damage—both economic and social—has been incalculable, and the implications are far-reaching for corporate management, company directors, audit firms and the investing public. Billions of dollars in corporate values were lost due in significant part to unscrupulous management and board of

### Conclusion

In this study, we have made an attempt to identify the impact of internal factors in an apex cooperative bank's net income. This paper argues that to identify the impact of internal factors in apex cooperative banking operation it is imperative to model a function performed by bank.

In presenting this argument, we have used regression model to measure the impact of internal factors. The analysis is based on regression model used on chronological data from 1972-1973 to 2007-2008. The study has brought out that the impact of some explanatory variables is significantly high; while some other variables are found with low impact on the net income as a percentage of total assets. The outcomes provide useful lesson about the impact of last year's performance on present year's performance.

Net income of the bank is influenced by several factors but the result of the extended equation has shown loan & advances are areas of concern of the apex cooperative bank. Loan and advances have a negative impact in the net income of the bank, but to a lower extent. The study divulges the importance of operating expenses, loans, investment and liquidity of the cooperative bank.

Nowadays, cooperative banks are having ample fund, but the required phenomenon is the effective utilization of funds available to the bank at a lower cost. If the cooperative banks are highly efficient in utilizing their fund at reasonable operating expenses, they can maximize their net income.

We can conclude from the above that control of operating expenses will improve net income of cooperative bank. One of the contributions of this paper to the empirical literature is that it demonstrates regression analysis could be successfully applied to cooperative banking systems. Despite certain concerns the analysis provides a plausible outcome. □

directors that failed to meet their responsibilities. The accounting profession, including auditors, also played a major role in these events.

While the story behind these corporate failures is always complex, a lack of ethical behaviour by many individuals is a big part of it. The biggest challenge ahead for auditors is to identify how ethical behaviour can be and be seen to be respected, as it is this that will be the basis for the reconstruction of public trust in the profession and in the practice of auditing.

Besides, there is a greater need to introduce the public audit system to major private corporate houses and, at the same time, to prepare comprehensive, stringent and tough rules and regulations for the management, the directors and the auditing firms. But these are not adequate for protecting the companies and their investing public. To exist in the market, ethical audit with ethics in business has no exception. □

## Is the Sun Setting on the Telecom Sector in India?



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Not a single day passed during the late nineties, when some newspaper or other did not carry an exciting story about the Telecom sector. These were justifiably among the most exciting times in India's growth story. The decade from 2000 to 2010 perhaps witnessed the most dramatic impact of policy and regulatory measures in the Indian Economy. This not only surprised the general public but the regulators themselves. Combined with the dramatic growth and explosion of the IT sector, even skeptics started to believe that 'the elephant can indeed dance'.

The initiatives taken by the Telecom sector transformed the static landscape into a vibrant one, with bustling activities in manufacturing, roll-out of Networks and setting up of massive distribution channels. Truly world-class innovation bloomed in outsourcing network maintenance, availability of sub 1k handsets, and the plummeting of call rates with the entry of Government owned telecom giant BSNL. Subscribers of services were treated to shock-waves of falling tariffs through the introduction of Pre-paid vouchers in tiny sachet packets.

Shashi Tharoor, a prolific coiner of words and enchanted preacher of India's growth story, in "The Elephant, The tiger, and The Cell phone", could not resist putting picture of ancient saffron clad sadhu with a mobile phone on the Book's cover. This was more than a photo-opportunity. It impacted the lives and living attitudes of ordinary people. By putting the mobile phone in the hands of the otherwise deprived population, there was an increase in economic activity, creation of employment and rise in income levels. A World Bank study reports that a 10% increase in telecom penetration leads to nearly 1% growth in GDP for poor countries. The Mobile Phone Industry supports a vast ecosystem of other industries like tower infrastructure, excavation and cable laying, Network equipment manufacturing, Signal and coverage Testing Equipments, Captive power plants, Logistics, Sales and Distribution systems. IT/ITES services etc... This provides direct employment to 2.8 million people and

more than thrice that number indirectly, according to a recent study. An ICRIER study points out that the growth rate of states in India has been higher in those states which have higher tele-density. The share of Telecom sector in India's GDP has also risen significantly during this decade.

The Government has been a direct beneficiary of this growth, as its share of revenues has not only increased from taxation of the sector, but from non-tax revenues like license fees, spectrum charges and sales/auction of additional spectrum.

### Signs of Weakening in the Telecom Sector

The momentum that the opening up of the economy had on the telecom sector seems to have run out of steam. It is hard to find anyone talk about telecom revolution other than for the wrong reasons. The 2G scam is but the icing on the cake. Big Telecom operators have been wrestling with falling ARPU (Average Revenue per User) and profit margins. Market valuations of these companies have hurt the investors badly. The small players are not yet on the horizon in terms of subscriber base or revenues. Systema Sham has revised the projection for breakeven to some time during 2014. Late entrants like Videcon have pathetic share of the subscriber numbers. The story of Public sector giant BSNL is even more revealing. It has the second largest revenue base after Bharti. However, unable to place equipment orders, badly needed to capture the hyper-growth GSM market, due to red tape and other behind the scenes reasons, the giant is now faced with eroding market share and unabated decline in net profits.

The equipment manufacturers have had their best years behind them. They now face shrinking purchase orders from cash-strapped operators. There is a fierce battle brewing in the handset market as leaders like Nokia are threatened by domestic players unheard of till recently.

The banking sector in India has a total exposure of nearly a lakh crore rupees as credit to these Players. A



large amount of this money was given to the operators to enable them to bid for the 3G licenses. And these lenders are not so sure about whether such loans are safe bets any more. Most of the Telcos are yet to get a grip on the 3G market and the experience of those who launched the services is not very encouraging. Recently the big players in the GSM market have written to the Government asking them to take back the Spectrum and return the money. Rajiv Chandrashekhar, MP and BPL Mobile founder, says "the Sector has hit rock bottom in all aspects."

The overall financials of the major players during 2010-11 is nothing to write home about. Bharti Airtel has seen a -16% CAGR (compounded annual growth rate) in its ARPU over the last 3 years. Idea Cellular saw both its ARPU and Market Cap decline over the same period. Perhaps the most telling sign is the heavy decline of PAT (Profit after Tax) by -19.2% in the case of Reliance Communications and its ARPU is among the lowest and declined -27% between 2008-9 and 2010-11. Investors have seen their Rs.100 investment in Reliance Communications dwindle to less than Rs.10 today. The earnings of the Government investment of Rs.10 in October 2000 in BSNL lose Rs.-12.77 today. It is important to know why this happened so fast and so dramatically.

### What Went Wrong?

What may have been a boon for Telecom Sector at the start of the millennium has perhaps become the bane at the end of the same decade. The policy makers saw the grand growth rates of neighboring countries like China and wanted desperately to increase telecom penetration. NTP (National Telecom Policy) 94 was expected to be the big game changer. Deregulation of the Sector released the stranglehold of the Government monopolies over telecom. Mobile Telephony was a marvelous introduction, but alas, meant for the very rich and famous, with call rates as high as Rs.17 a minute. This left the policy makers aghast. NTP99 was the real game changer, with its pro consumer approach and revenue based license fees. The average growth rates in subscriber base shot up to 40% per annum. With the entry of the Government entity BSNL, the tariffs plummeted to panwallah levels. People were clamoring for more and availability of network capacity was the only problem for growth. Demand was defined as unlimited, and the policy maker lapped it up. In 2005 the Government introduced the concept of UASL (Universal Access Service License). There were no restrictions on the number of entrants into the Sector;

License would be granted if spectrum was available. At the same time FDI into Telecom was raised to 74% from 49%. Call it what you may, but the First-come-first-served policy unleashed the tsunami of subscriptions to mobile service—"it is in telecommunications that the transformation of India in recent years has been most dramatic. In March 2007 seven million Indians subscribed to a new mobile phone..... That's a world record" says Sasi Tharoor.

The downslide of this type of policy making was buried deep in its own writing.

Firstly, nowhere in the world there are 12-15 telecom operators per licensed area. The economics of the Industry does not permit this type of a scenario. Experience in Nordic countries and the whole of Europe have shown that 4 or 5 operators in a country each sharing about 18% to 22 % of the subscriber market is ideal. India is the only country with more than 12 operators in each circle. This means that in addition to heavy fixed investments in network elements, the Telco will have to spend unreasonable amounts for each customer acquisition. Beyond a point this becomes unsustainable. And this is what is happening in India at the moment.

Secondly, new entrants into the sector after 2005 had to fight for subscriber base. Their only recourse was to cut prices. A savage price-war was unleashed by the new entrants as soon as their networks were up and running. The three year old price war started deliberately to gain subscribers but has landed themselves in the biggest business mess of the decade. Voice-call prices have dropped to near zero levels. Customer base has appeared to increase for many operators, revenues have fallen. The 38% fall in net revenues of Bharti in September quarter 2011 was the fourth straight fall. ARPU at Rs. 140 is the lowest in the world according a recent PWC study on telecom sector. Acquisition costs have crept above the ARPU levels. Active connections in the network, as opposed to the reported subscriptions of operators, figures of tele-density is in the region of 55%-60% for urban areas, and below 35% for rural segments. This means that more than half the population in the country has no access to telecommunications. The gap between the urban and rural areas is widening by all accounts, even though policy aimed at closing the gap.

The heavy consequence of the policy of unrestricted entry was the twin failures: to bridge the digital divide by increasing rural penetration and to make the industry self sustainable propelling for future growth.



### Is the Sun Setting on the Sector?

Is the much hyped sun-rise industry of the decade now facing westwards? Industry observers' answer ranges from 'likely' to 'uncertain'. The actual course of events will largely depend on the fresh round of changes that are essential for the sector to reinvigorate itself.

Firstly, operators need to make significant investments over the next few years to expand their networks. Major operators like Bharti, Idea, Reliance and PSU giants like BSNL and MTNL have cut investments by more than half over the last four years, according to Bank of America Merrill Lynch. Moreover, FDI into Telecom sector was down by almost 35% in 2011 over the previous year. The reasons are not far to see. Rate of return on investments in telecom have been nose-diving. From an attractive average 27% return on Capital Employed (ROCE) in 2007 it is down to 9% in 2011. In the case of BSNL, which has under-taken massive projects for the economically backward regions, the returns are negative. (-8%). The experience is similar in the case of other operators. The Financial experience of operators over the last few years has been negative in terms of revenues, network rollout demand and availability of infrastructure like towers. In fact the share of government (19-28% through various levies) from telecom revenues is higher than the Profit after tax of the most efficient operator.

The paradox of declining investments when the sector in fact needs massive rollouts can be attributed to the poor financial health of the operators in the mobile segment. This is the direct result of hyper-competition unleashed by the policy of simultaneous issue of multiple licenses in 2008. A comparison of the scene among other countries both developing and developed—show that only a handful of countries have more than 4 players. As already stated earlier, this policy has led to all-round deterioration of revenue per user, falling usage per minute per subscriber, even though there has been exponential growth in mobile connections. Operating parameters of the players have been hit badly at the same time that costs of network rollout and operations have mounted.

The situation of the new entrants after 2008 is even more precarious. Loop telecom has requested the government of return of Spectrum and surrender of License. Many of the players have not been able to rollout the services in areas where they won licenses, and are faced with massive losses. The combined market share of the new entrants is about 5% today.

### What needs to be done?

The government policies so far has brought into the open the infrastructural nature of telecom industry, and clearly demonstrated its linkages to the rest of the growth process. It aimed at (1) availability, (2) affordability, (3) contribution to exchequer, and (4) Sustainability. India has been able to provide the cheapest telecom services in the world. The national government certainly made money from share of telecom revenues and sale of spectrum. But it must be realized that the achievement of all objectives stated is possible only if the sector players continue to grow and invest its surpluses back into the sector. Here it would seem that the policy is no longer in alignment with the changing sector profile. The divergence is threatening the sector, with tariff hikes, drying up of network rollouts, and stagnation, ultimately hurting consumers.

There is an imperative need to defragment the sector. About 4-5 players would still provide sufficient competition but would ensure each player's viability. Trading in Spectrum for operations needs to be permitted on a commercial basis. A rationalization of telecom levies and fees is perhaps long overdue. NTP 2011 is already looking at these and other vital issues proactively. However, political economics is a minefield and the government will have the going very tough as recent developments at liberalization of retail sector have shown. Real reforms as opposed to damage control are what will make the real difference.

Broadband penetration in India is abysmally low compared to many other countries. 3G/BWA spectrum sale was intended to address this issue. But the impact so far has been marginal. Operators say that it takes 5-6 years for data services to stabilize. The mainstay of all players today is voice-call revenues. The share of Data services revenue is only 8% - 13% among Telco's. This will need to change if the sector has to reach levels of sustainability. 4G rollout holds promise. A major player is stated to enter the market with 4G enabled bundled devices and connectivity at reasonable prices. There is a need for these services among young literates. Content will have to be in regional languages. The industry dominance may have to shift from operators to content providers, application developers, advertisers, vendors....

What saved the telecom sector from total collapse was the game changing NTP 99. What may perhaps save the sector now could be NTP 2011, if it proves proactive enough. □

## Valuation of Intellectual Property (IP) In Emerging Markets – Role of CMAs In IP Accounting And Audit



**K P C Rao**

LLB., FCS., FICWA

### Background

The term ‘*Intellectual Property*’ (IP) reflects the idea that its subject matter is the product of the mind or the intellect. Intellectual property rights help in providing exclusive rights to creator or inventor thereby induces them to distribute and share information and data instead of keeping it confidential. It provides legal protection and offers them incentive of their work. Rights granted under the intellectual property act helps in socio and economic development.

India has defined the establishment of statutory, administrative and judicial framework for protecting the intellectual property rights in the Indian territory, whether they connote with the copyright, patent, trademark, industrial designs or with other parts.

Tuning with the changing industrial world, the intellectual property rights have continued to strengthen its position in the India. In 1999, the government has passed the important legislation in relation to the protection of intellectual property rights on the terms of the worldwide practices and in accordance to the India’s obligations under the Trade Related Aspects of Intellectual Property Rights (TRIPS) including The Patents (Amendment) Act, 1999 amending the Patents Act of 1970, The Trade Marks Act, 1999 replacing the Trade and Merchandise Marks Act, 1958, The Copyright (Amendment) Act, 2000, The Geographical Indications of Goods (Registration & Protection) Act, 1999, The Industrial Designs Act, 2000 replacing the Designs Act, 1911, The Patents (Second Amendment) Act, 1999 further amending the Patents Act 1970 and making it compliance with the TRIPS.

Indian economy has been consistently growing to rank as world’s largest economy. Speculators of developments see various exotic situations like joint ventures, mergers & acquisitions, technology transfers, foreign direct investments. For all these, valuations are quite important, especially for Intellectual Property Rights, where a lot of possibilities exist.

Now the CMAs have to understand the economics

of IP development & life cycles and its related technical aspects including IP portfolio Management Matrix to do justice to economic –financial accounting valuations.

### Importance of Intellectual Property Rights

The first reason is that it is both just and appropriate that the person putting in the work and effort into an intellectual creation has some benefit as a result of his endeavor. The second reason is that by giving protection to intellectual property many such endeavors are encouraged and industries based on such work can grow, as people see that such work brings financial return.

An example of this later point is given by the case of the world pharmaceutical industry. An investment of many years, and R&D expenses (lab time for creation, testing, government or agency approval procedures) running into the hundreds of millions of pounds sterling (or yen, lira, dollars) may be necessary before any new medicine reaches the market. Without the IP rights to exclude competitors from also making such a new medicine, the pharmaceutical company creating such a new compound would have no incentive to spend the time and efforts outlined to develop their drugs.

Without patent protection, such a company would face economic losses originating from the “free-riding” of their competitors. Without trademark protection, this company, again, could not build “brand” that, hopefully, would last beyond the years of protection granted by patents.

Without the protection given within IP laws and treaties, such pharmaceutical firms simply would not commit an effort to experiment, in searching for new health products. As you can see from this brief example, without the protections outlined above, the world might well be literally less healthy than it is.

Intellectual property rights may also help to extend protection to such things as the unwritten and unrecorded cultural expression of many developing countries, generally known as folklore. With such protection they may be exploited to the benefit of the country and cultures of origin.

## Developments in the Intellectual property in India

### 1. Establishment of NIIPM

The Government has already approved the proposal for establishment of a National Institute for Intellectual Property Management (NIIPM) at Nagpur. The Institute will perform training, education and research in this field.

### 2. Modernization of the IP Offices

To provide additional employees, establish a higher level of computer network to support on-line processing, strengthen the data base and novelty search facilities, to make the people aware of generation activities, and to provide an access to international treaties/conventions easily the government is planning to modernize the IP offices. This proposal will be taken up in the 11<sup>th</sup> five year plan.

### 3. Madrid Protocol on Trademarks

Madrid Protocol, administered by World Intellectual Property Organization (WIPO), is an uncomplicated, facilitative and lucrative system for the registration of International Trademarks. If India becomes a member of this then the Indian companies will have an advantage of registering their trademarks in all the countries which are the members of this protocol by filing a single application. The amendment of the Trade Marks Act is in progress so that our country can be a member of this protocol.

### 4. International Searching Authority (ISA) and International Preliminary Examining Authority (IPEA)

ISA and IPEA's provide search reports on uniqueness and examination reports on patentability of various inventions. In India a scheme is under consideration to get recognition for the Indian Patent Office as an International Searching Authority (ISA) and International Preliminary Examining Authority (IPEA) under the Patent Co-operation Treaty.

### 5. Mashelkar Committee

The Indian government has established a group of technical experts to examine the following patent law issues:

- i. Whether it would be compatible to the TRIPS agreement to limit the grant of patent for pharmaceutical substances only to a new chemical entity or to a new medical entity.
- ii. Whether it would be compatible to the TRIPS agreement to exclude micro-organisms from patenting.

### Significance of IP Valuation

Value is the representation of all future benefits of ownership, compressed into a single payment. Therefore, value is continually changing as the future benefits increase or decrease, either with the passage of time or with changing perceptions of what the future

will bring. Value does not exist in the abstract and must be addressed within the context of time, place, potential owners and potential uses.

With the increasing global competition in Post WTO regime, companies are focusing their efforts on creating shareholder value in order to survive the intense competition. In view of this, it is becoming important for companies to measure the value they create for their shareholders in light of competitive situations.

In knowledge-based economies, intellectual assets such as intellectual property (IP), human capital and organisational capabilities play a crucial role in business performance and economic growth. An increasing share of the market value of firms appears to derive from their intellectual assets, and firms are managing these assets more actively to further enhance their contribution to value creation. These developments raise the importance of technology licensing markets and IP valuation schemes.

Intellectual Properties increasingly play a lead role in promotion of innovation and economic growth in a knowledge-based economy. Effective management and utilization of intellectual assets is essential to business performance and competitiveness, foreign direct investments decisions, Business combination decisions etc. Therefore there is a need to improve knowledge and information about the valuation and utilisation of Intellectual Property (IP).

### IP Valuation in Emerging Markets

The problems of Valuation in Emerging Markets are:

- i. Risk and obstacles in Business,
- ii. Great micro economic uncertainty,
- iii. Control on capital flow,
- iv. Illiquid Capital Markets,
- v. Less rigorous Accountings or Financial Reporting Systems and
- vi. High level of Political Risk, etc.

The Valuers generally take extra caution for valuing assets of / or corporate valuation of companies in emerging markets. McKinsey suggested (Koller, Whessels) the Mixed approach. They Add Country Risk Premium, Adjustment for Inflation & use of Comparable trade & transaction multiples. As most of valuers estimate on the basis of historical assumptions that in real term, GDP declines once in every five years for emerging market (on average), they take about 20 % addition in risk adjusted Cost of capital rate (for emerging market risk rate).

One myth is that IPs are not relevant to countries in development, because of the relatively low state of technological development. Some critics of the patent system claim that IP may even be harmful to developing nations because of the power over markets and price that IP confer on their owners that take them

out of competition.

Indeed, IP are power tools for economic development for Emerging Countries. The role of governments and policymakers of emerging countries is crucial in determining whether such countries use the power of the IP system for economic development by implementing pro-active IP policies.

### Intellectual Property and Their Valuations

#### 1. IP ASSETS

An asset is a claim to future revenue streams, such as the rents generated by commercial property, interest payments derived from a bond, or cash flows from a production facility. An IP asset is a claim to future accruals that does not have a physical or financial (a stock or a bond) measurement. A patent, a brand, or a unique organizational structure (e.g., an Internet-based supply chain) that generates revenue stream, value or cost savings, are IP assets. IP assets possess the following attributes :

- (a) Non physical in nature
- (b) Capable of producing future economic benefits
- (c) Protected legally or through a de facto right
- (d) For Valuation purpose, the asset must also be readily identifiable and capable of being separated from other assets.

Therefore, the terms IP, knowledge assets, and intellectual capital are used interchangeably. All three are widely used—IP in the accounting literature, knowledge assets by economists, and intellectual capital in the management and legal literature—but they refer essentially to the same thing: a nonphysical claim to future benefits. When the claim is legally protected, such as in the case of patents, trademarks, or copyrights, the asset is generally referred to as intellectual property.

Physical and financial assets are rapidly becoming commodities, yielding an average return on investment, as in this era of global village, physical assets are available and its existence is transparent. Wealth and growth in today's economy are primarily driven by IP assets in form of intellectual properties. Value creation, abnormal profits and dominant competitive positions achieved by IP. There are three major nexuses of IP, distinguished by their relation to the generator of the assets: innovation, 'organizational' designs and "Brands and human resources". "Brands", a major form of IP prevalent particularly in consumer products beverages like Coke. Coke's highly valuable brand is the result of a secret formula and exceptional marketing savvy. In Internet companies like Infosys, IP assets are often created by a combination of innovation. The unique products created and acquired by Infosys during the 1990s are responsible for its IP. The human resources are generally created by unique personnel and compensation policies, such as Talent pools, citation index of the organization, investment in training, incentive-based compensation, and collaborations with

universities and research centers. Such human resource practices enable employers to reduce employee turnover, provide positive incentives to the workforce, and facilitate the recruitment of highly qualified employees. Specific organizational designs like Xerox's Eureka system, which is aimed at sharing information among the company's 20,000 maintenance personnel, enhance the value of the human resource-related IP by increasing employee productivity. While it is convenient to classify IP by their major generator—innovation, organizational design, Brands or human resource practices. The IP assets are often created by a combination of these sources.

#### Forces Driving IPs

IP (intellectual capital or knowledge assets) are surely not a new phenomenon. With the creation of civilization whenever ideas were put to use in households, fields, and workshops, IP were created. Breakthrough inventions, such as Internet, mobiles, electricity, engines, the telephone, and pharmaceutical products, have created waves of IP. New driving surge in IP since 1980 is the unique combination of two related economic forces :

- (a) Intensified business competition, brought about by the globalization of trade and deregulation in key economic sectors like telecommunication etc
- (b) The arrival of Information Technologies (IT) and Internet.

The emergence of IP as the major driver of corporate value at Ford is thus the direct result of the two forces mentioned above: competition-induced corporate restructuring facilitated by emerging information technology. Production-centered economies were sooner or later exhausted and could no longer be counted on to provide a sustained competitive advantage in the new environment: "...traditional economies of scale based on manufacturing have generally been exhausted at scales well below total market dominance, at least in the large U.S. market. In other words, positive feedback based on supply-side economies of scale ran into natural limits, at which point negative feedback took over. These limits often arose out of the difficulties of managing enormous organizations."

Once economies of scale in production have been essentially exhausted, production activities, intensive in physical assets, became commoditized and failed to provide a sustained competitive advantage and growth. Companies responded to this commoditization of manufacturing by :

- (a) Outsourcing activities (e.g., Ford's parts production) that do not confer significant competitive advantages, and
- (b) Innovation as the major source of sustained competitive advantage. Thus providing gateways for creating IP.

#### Concerns of IP

This analysis clarifies the relevance of intellectual



Properties to wide range of business and society, with the following groups having primary interest in IP :

(a) **Promoters and shareholders** : IP investments are associated with excessive cost of capital. Excessive cost of capital hinders investment and growth. Promoters and shareholders are interested in mechanisms aimed at reducing the excess cost of capital.

(b) **Capital market regulators** : Research documents the existence differences in information about organizations between corporate insiders and outsiders in IP intensive companies. That may lead to consequences such as systematic losses to the less informed persons and thin volume of trade, which the regulators want to check.

(c) **Accounting standard boards** : The deficient accounting for IP leads to presentation of biased and less trustworthy and even fraudulent financial reports. This should obviously be of concern to regulators of financial information.

(d) **Policymakers** : In key areas, such as the assessment of fiscal policy (e.g., R&D tax incentives) supporting innovation, optimal protection of IP. A thorough examination of the attributes of IP and specific harmful consequences related to intellectual Properties should be concerned about.

WIPO holds that IP should be of benefit to all people and, in this sense, views IP protection as leading to IP opportunities. The basic ingredients that drive the knowledge economy and feed the IP system – creativity and innovation – are found all over the world. Lack of awareness of the enabling possibilities of IP systems paired with the unfortunate view that IP is merely a field of law have led many countries away from taking full advantage of IP regimes. What this view neglects is an actively managed IP. An IP system established with the needs of the country in mind and managed in the best interests of the country can substantially contribute to economic growth and the welfare of human beings all over the world.

To bridge the gap that currently exists in the use of the IP system, WIPO is actively seeking to bring knowledge about the appropriate valuation and use of IP to countries. In doing so WIPO builds on three decades of technical assistance through which it has sought to enable potential IP owners to become high performers. Jointly with IP stakeholders, WIPO has created toolkits that help countries and people to understand best practice IP management, has illustrated the real 'value added' of IP systems through concrete field studies and has promoted knowledge sharing among Member States by sharing IP success stories.

### **IP Valuation**

#### **Significance of Value Reporting of IP**

IP assets surpass physical assets in most business enterprises, both in value and contribution to growth; remain absent from corporate balance sheets. This treatment of capitalizing physical and financial invest-

ments, while expensing IP, leads to biased and deficient reporting of organisations' performance and value.

The market-to-book (M/B) value i.e. the ratio of the capital market value of companies to their net asset value, as stated on their balance sheets is frequently invoked to motivate the focus on IP. The mean M/B ratio of the S&P 500 companies has continuously increased since the early 1980s. This suggests that, of every \$6 of market value, only \$1 appears on the balance sheet, while the remaining \$5 represents IP assets. Hence, some argue, the current focus on IP is warranted.

There are many Factors highlighted for Valuation of IP Assets like The subjectivity of the valuation process, the separability of IP assets from underlying business and the consistency of valuation method applied.

#### **Studies conducted on IP assets found**

- (a) Many IP assets are identifiable, separable and capable of being valued
- (b) There was considerable consensus over valuation methodologies
- (c) Valuation of IP may be subjective but not more than valuation of unquoted companies, pension funds and emerging markets.

#### **IP Valuation Approaches**

##### **i. Cost Based Approach**

This approach may be used to assess the replacement cost of the IP or the cost of creating equivalent assets. This approach requires accumulation of costs invested in the IP. In this approach, costs are adjusted for Inflation and Required rate of return on investment.

However, there are certain limitations associated with of Cost Based approach :

- (a) No correlation between expenditure and subsequent value.
- (b) Lack of Information
- (c) On separation of expenditure that enhance value and those distorts

##### **ii. Market Based Approach**

In Market based approach, the IP are valued by reference to recent market transactions for comparable assets, which provides credibility and objectivity. In this approach term of most IP transactions are not disclosed. Values may have to be estimated from the sale of companies owning substantial IP assets.

##### **iii. Economic Based Approach**

The Economic based approach is Identification, separation and quantification of cash flows attributable to IP and Capitalization of those Cash flows attributable to the IP assets. Various methodologies exist. Despite apparent differences, all methodologies seek to quantify parameters.

##### **iv. Royalty Method**

Under Royalty Method IP assets are valued by capitalizing estimates of annual post tax royalty payable under a licensing arrangement. Valuation parameters may be estimated using details of Arm's length arrangements for comparable intangible assets.

Reasonable royalty approach is often used in the estimation of damages arising from patent infringement. There are many different sources of royalty data.

### **Bankruptcy — Relevance of IP**

When Enron descended into Chapter 11<sup>1</sup> on December 12, the \$63 billion bankruptcy represented the largest-ever filing in modern history; the attorneys were to consider how to handle a bankruptcy when the debtor company's possessions are largely composed of intellectual property. Perhaps the intangible assets are not much use to the business that developed it, but another organization may find them to be very valuable. It appears that Investors are often betting on cash flows they anticipate in the future. Therefore, a correct assessment of risk must be performed for the company being valued.

The declaration of bankruptcy may itself diminish the value of intellectual property and other intangibles. There is a possibility that some potential buyers will question the value of the intangible assets, considering that the company wasn't able to succeed, after studying the brand value of a well-known consumer electronics company that declared Chapter 11 and found that its name still carried considerable value. But consider a company like Enron: That name currently has negative connotations and the market value of its intellectual property may now be significantly weakened. If the business is being reorganized and will continue to operate, the company will look at the assets' value as a continuing business, based on current value and whether there is an impairment of value.

Under FASB Statement No. 141, a recently issued regulation, intangible assets like patents, trademarks, intellectual property and copyrights must generally be valued when they are acquired as part of a business combination. But if a company develops intellectual property internally, it would generally be expensed as R&D. Although there are no prescribed rules for valuation of IP at bankruptcy, the practice of bankruptcy laws recognize valuation of intangible assets.

### **Globalisation—IP Accounting**

In the mid-1980s, Reckitt & Colman, a UK-based company, put a value on its balance sheet for the Airwick brand that it had bought. In 1988, Rank Hovis McDougall (RHM), a leading UK food conglomerate, played heavily on the power of its IPs to successfully defend a hostile takeover bid by Goodman Fielder Wattie (GFW).

RHM's defence strategy involved carrying out an exercise that demonstrated the value of HM's IP portfolio. This was the first independent IP valuation establishing that it was possible to value IPs not only when they had been acquired, but also when they had been created by the company itself. After successfully defending the GFW bid, RHM included in its 1988 financial accounts the value of both the internally generated and acquired IPs under intangible assets on the balance sheet.

In 1989, the London Stock Exchange endorsed the concept of IP valuation as used by RHM by allowing the inclusion of intangible assets in the class tests for shareholder approvals during takeovers. This proved to be the drive for a wave of major Companies having good IP to recognize the value of IPs as intangible assets on their balance sheets. In the UK, these included Cadbury Schweppes, Grand Metropolitan (when it acquired Pillsbury for \$5 billion), Guinness, Ladbroke's (when it acquired the Hilton) and United Biscuits (including the Smith's IP). Today, many companies including LVMH, L'Oréal, Gucci, Prada and PPR have recognized acquired IPs on their balance sheet. Some companies have used the balance-sheet recognition of their IPs as an investor-relations tool by providing historic IP values and using IP value as a financial performance indicator.

UK, Australia and New Zealand have been leading in term of Accounting Standards, the way by allowing acquired IPs to appear on the balance sheet and providing detailed guidelines on how to deal with acquired goodwill. In 1999, the UK Accounting Standards Board introduced FRS 10 and 11 on the treatment of acquired goodwill on the balance sheet. The International Accounting Standards Board followed suit with IAS 38. And in 2002, the US Accounting Standards Board introduced FASB 141 and 142, scarping pooling accounting and laying out detailed rules about recognizing acquired goodwill on the balance sheet. There are indications that most accounting standards including international and UK standards will eventually align to the US GAAP. This is because most international companies that wish to raise funds in the US capital markets or have operations in the United States will be required to adhere to US Generally Accepted Accounting Principles (GAAP).

Internationally recognized bodies like the Financial Accounting Standards Board (FASB) and the Securities and Exchange Commission (SEC) determined for the harmonization of accounting standards at the global level. They have recognized the existing gap between the kind of information provided by accounting and the information needed by investors and stakeholders. The concerns raised by the FASB have led to a revision of the way in which IP is treated in Mergers and Acquisition (M&A). The new approach to IP in M&As is generally considered to be a very progressive step as it allows, for the first time in the history of accounting, to separately list the respective IP of the firms involved in the M&A and to put a value on such IP. The principal stipulations of all these accounting standards are that acquired goodwill needs to be capitalized on the balance sheet and amortized according to its useful life.

Recommended valuation methods are discounted cash flow (DCF) and market value approaches. The valuations need to be performed on the business unit (or subsidiary) that generates the revenues and profit. The accounting treatment of goodwill upon acquisition is an important step in improving the financial reporting

of intangibles such as IPs. It is still insufficient as only acquired goodwill is recognized and the detail of the reporting is reduced to a minor footnote in the accounts.

There is also still a problem with the quality of IP valuations for balance-sheet recognition. Although some companies use an IP-specific valuation approach, others use less sophisticated valuation techniques that often produce questionable values.

The debate about bringing financial reporting more in line with the reality of long term corporate value is likely to continue, but if there is greater consistency in IP valuation approaches and greater reporting of IP values corporate asset values will become much more transparent.

### **Globalisation—IP Audit**

Audit is a review process to validate the organizational methods and critically analyze the pros and cons of systems deployed or to be deployed. This is a tool to take stock of available assets so as to establish a system to protect the same. An IP audit is a systematic review of the IP owned, used or acquired by a company. The goal of an audit is to identify all the IP a company may have. It is all part of good business management and protection of your core business assets – often IP.

While some organizations have sophisticated processes and systems in place to identify, protect, and manage IP assets as they are created, majority may not. Some organizations have control for managing those IP rights that can be patented but find themselves in trouble when valuable staff members leave, taking undocumented know-how with them. “IP aware” organizations should periodically review.

While the use of IP audit is critical when the balance sheet fails to tell the complete story, this is only one of many times the IP audit should be used. In addition to valuation, IP audits are designed to identify those opportunities to exploit assets being under-utilized, to identify those areas where funds are being spent unnecessarily, and to correct those situations where legal or financial liability may be developing as a result of misuse of the IP owned by third parties.

### **Core Objectives of IP Audit**

- (a) Whether or not your IP rights are registered?
- (b) Who owns the rights? If you do not, then identify any conditions that apply to their use
- (c) An assessment of whether your IP is being used effectively
- (d) Whether your rights are being challenged or threatened by others? When to conduct an IP audit? IP audits are generally conducted as part of an ongoing IP asset management program, when a business is being bought or sold or when you are enforcing or defending your IP rights. An IP audit will give you a broad picture of your IP assets.

### **The Kinds of IPs Covered Under Audit**

The audit falls into two broad classes :

1. IP created by the company itself.
2. Used by the company under a license from another party.

The Second class is comprised of software licenses necessary for operation of PCs, servers, networks, Web sites, Web hosting, offsite storage, disaster recovery, equipment licenses, etc.

### **IP—Audits Tools**

#### **1) Preparing IP Policies & Plans**

The audit team can read policies, but if the policies are not followed, they provide little protection. A discussion of trade secrets will reveal far less than a quiz about what information the company most wants to keep from the competition.

#### **2) Personnel surveys and direct observation**

If a software license provides for 100 computers, then the count should be checked. If staff reductions mean that only 15 machines operate the software, then the license should be renegotiated rather than merely renewed. The information gathering process is the heart of the IP audit.

#### **3) Internal Control systems & analysis**

Identified contracts should be cataloged, patents listed, trade secrets categorized, and copyrighted materials indexed Assessing Risk & Preparing Response plan. By Good ideas Policies need to be revised to better protect the trade secrets. Within the “to do” list generated by the audit, priorities must be set. The “to do” list will serve as a starting point for the next audit.

### **The Key Steps to an IP Audit**

1. Meetings with representatives :
  - (a) To decide on the areas of concern for them,
  - (b) The type of research to be carried out,
  - (c) The personnel to be interviewed, and
  - (d) Other factors affecting the audit.
2. Identification :
  - (a) Identifying, describing and defining the existing IP,
  - (b) Potentially patentable inventions,
  - (c) Potential or actual trademarks, copyright works and the like,
  - (d) Identifying staff know-how or trade secrets.
3. Scheduling :
  - (a) For most companies, no audit has ever been conducted, now is the time to start.
  - (b) For those with some history of IP audits, new updates are necessary whenever any of the following events occur.
  - (c) Mergers, acquisitions, and sales of significant corporate assets should trigger new audits.
  - (d) Planning tool in advance of any filings for bankruptcy, significant plans for employee layoffs, business closure, or abolition of significant lines of business.



#### 4. Ownership :

Consideration of issues surrounding the ownership of the identified IP is the next step. It is essential to establish who or what entity owns the IP.

#### 5. Legal Protection :

The next step involves developing and recording strategies on how to best protect any unregistered IP and what sort of IP applications should be pursued to maintain a competitive advantage for the business. Such an analysis will usually extend to provide guidance on protecting in-house know how and to protect trade secrets.

#### 6. Liability Assessment :

This part of the audit will usually involve consideration of any liabilities or risks associated with the IP identified, including the likes of :

- (a) Are there ownership risks and liabilities?
- (b) What are the documentation/record keeping standards like?
- (c) What risks are involved with trade secrets/know how?
- (d) Key personnel liabilities
- (e) Potential or existing litigation/opposition issues.
- (f) Are there any obligations or encumbrances on the IP?

#### 7. Valuation of IP

The valuation step may also allow for some rationalization of the portfolio, especially if there are several pieces of IP being maintained that are not aligned with the current and/or future commercial direction of the business.

#### 8. Recording

After the IP audit has been conducted the findings of the audit should be recorded and perhaps even provided in an electronic format.

#### 9. Others

- (a) List unregistered IP and give it a dollar value,
- (b) List other valuable assets such as client lists and corporate knowledge,
- (c) Check who has written and designed your marketing material (e.g. brochures, leaflets). Were they done in-house or were external contractors used? If an external contractor was used, did contracts specify who owned the IP that was created?
- (d) Identify key staff involved in developing, maintaining and protecting your IP and investigate the feasibility of them signing agreements relating to confidentiality and competition,
- (e) Educate staff on the nature of IP, how to protect it and their responsibilities? Who can help?

#### 10. Setting Up Systems

If systems are already in place, changes may be recommended depending on the findings of the audit keeping in view the use of a 'watching service' to ensure a business is up to date with their competitors' IP protection strategies.

If no system is present develop a new system keeping in view the following aspects :

- (a) R & D based business may wish to concentrate on establishing a system to identify and protect assets

by obtaining IP registrations for the relevant technologies and documenting or recording non-registrable assets.

(b) A business may also wish to increase its competitors' time to market in order to obtain an edge in the market place usually achieved by monitoring the marketplace for infringement and by reviewing and selectively objecting to the IP registrations of competitors.

(c) A start-up company will usually want to gain the appropriate IP protection for its core technologies and/or other IP assets by Setting up systems for identifying IP at an early stage in the life of a company can also increase ingenuity based growth.

(d) A business acquiring or investing in another business will want to focus on valuing the assets of that business, including assessing the extent of IP rights. This is also an important consideration for organizations that are considering selling key IP assets.

An IP audit can have a big impact on the future potential of a business. As Intellectual Property assets become more important to organizations, those with a full appreciation of the value of these assets and strategies in place to deal with their protection will be in an excellent position to get the most out of their innovations.

#### Role of CMAs

The Rapid Economic changes taking place in the recent past served to enhance the recognition given by market participants to the importance of professional property valuations. The quickening pace in the globalization of investment markets further underscored the need for internationally accepted standards for reporting in value of property. It became obvious that without international valuation standards there was considerable potential for confusion. Differences of viewpoints among national professional valuation bodies might lead to unintentional misunderstandings. Therefore, the CMAs have to understand the economics of IP development & life cycles and its related technical aspects including IP portfolio Management Matrix to do justice to economic-financial accounting valuations. In response to this situation, there is a need for joint efforts by the CMAs, scientific community, and practitioners of IP valuation and associations of investors with an interest in more adequate reflection of the value of companies in reports. Therefore, In order to overcome the contradictions between valuation standards the CMAs have to play a lead role with the following twofold objectives:

(1) To formulate and publish, in the public interest, valuation Standards for property valuation and to promote their worldwide acceptance; and

(2) To harmonize Standards among the world's States and to identify and make disclosure of differences in statements and/or applications of Standards as they occur. □



# Predictive Business Analytics



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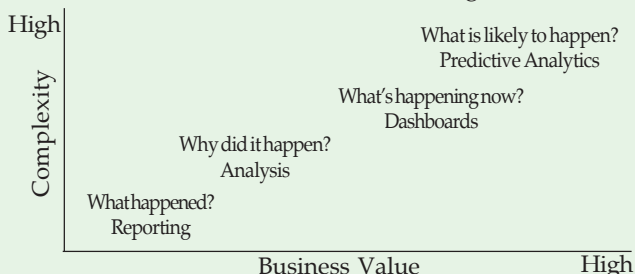
## Introduction

**P**redictive analytics is the next step in the evolution of Business Analytics. Most companies, even local small businesses, have already implemented business software that help them understand what has happened, why it happened, and what is currently happening. For example, most small businesses have implemented Analytics that allow them to report, analyze and display data about their finances, operations and marketing.

The next step in the evolution of business analytics is to understand what is likely to happen. Predictive Analytics allows executives to learn from the cumulative knowledge of their organization. This systematized learning has the potential to help businesses and executives to make decisions that are less wrong, so that they can work more effectively. Imagine understanding your customers well enough that you only send discounts to profitable customers who are at risk of leaving, and not to customers that are unprofitable or not at risk of leaving.

Predictive Analytics is a technology that has proven itself in Academics, Medicine, Government and Business. By combining Mathematics and Statistical methods to discover patterns in data, Predictive Analytics differentiates itself from other Business Analytic tools by being able to 'learn' from experience. It is the only Business Analytic tool that doesn't rely on the user's ability to find patterns in the data and deduce meaningful insights.

When properly implemented, Predictive Analytics enables an organization to move beyond information to insights about why something happened, what you should do next and what the future might look like.



The following matrix highlights the Information that traditional Business Analytics provides, and the Insights that Predictive Analytics provides.

	Past	Present	Future
Information	What happened? (Reporting)	What happening now? (Alerts)	What will happen? (Extrapolation)
Insight	How and why did it happen? (Modeling, experimental design)	What is the next best action? (Recommendation)	What's the best/worst that can happen? (prediction, optimization, simulation)

Since Predictive Analytics produce *Insights* that are customized specifically to an organization, its customers, employees, and competitors; it has the potential to provide the Enterprise with a unique and non-transferable competitive advantage.

The Return on Investment realized from Predictive Analytics depends on the value of the 'business question' that requires to be answered. Most research in the ROI of Predictive Analytics conclude that ROI is maximized when companies use Predictive Analytics to improve the effectiveness of their business processes, such as Sales, Marketing, Customer retention, Management and Strategic Planning.

## When To Apply Predictive Analytics

If we are not careful it is easy to start reducing everything into predictive models. To make sure that predictive analytics experience is a continued success, it is essential to carefully consider when and where to apply predictive analytics.

### *Predictive Analytics should not be applied if :*

(a) The cost of being wrong is low. One should not apply Predictive Analytics if reducing uncertainty does not provide enough value. Predictive models should only be applied in situations with a high cost and/or probability of being wrong and where Predictive analytics can provide information to reduce uncertainty. To determine if Predictive Analytics is worth applying to a decision one needs to calculate

the 'Expected value of information'. In the book "How to Measure Anything" (see box), Hubbard provides the following formula—Expected value of information is equal to the difference between the Expected opportunity loss before and after Information. The Expected opportunity loss is equal to the chance of being wrong multiplied by the cost of being wrong.

(b) The relationships are obvious. A Predictive model is basically a story about why something happens and what will most likely happen in the future.

With this in mind, there is no need to develop models, if people are able to accurately describe the relationships between variables well enough that they can easily predict about why certain things are or are not happening.

(c) The model cannot be reproduced. Even if a model is developed, it may not be reliably reproduced, in which case one should admit that Predictive analytics cannot be applied.

Predictive models find and tell stories that are difficult for people to discover because there are either too many variables or the events being studied are too rare. The value in knowing the story of why something happens is that you can reduce uncertainty, make better decisions and work more effectively.

The following are situations when Predictive Analytics should be applied :

(i) **Too Much Information.** Over the last 30 years there has been an explosion of data, and business analytics has been focused on collecting and presenting that data. Predictive Analytics is one of the tools that is capable of statistically filtering out what data is most important.

Customer Management is an example of when Predictive Analytics can be used to find valuable patterns in an overwhelming amount of data. Predictive Analytics can be used to determine how to group customers, and develop campaigns to improve specific behaviour for each client segment. For example, a PBA system sorted through over 500 different variables and millions of observations to determine the 5 variables that have a significant impact on responses to specific market campaigns.

(ii) **Rare but Important Events.** When an event is rare and results in either major gains or losses, it can be very beneficial to gain a better understanding of why the event happens. Predictive Analytics can help one to develop plans that encourage or discourage specific rare events.

Predicting the failure of essential business processes is an example of when Predictive Analytics can be used to find valuable patterns in rare but

important events. Using Predictive Analytics, enterprises are able to replace equipment and parts before they breakdown so that essential business operations continue to move forward. Imagine being able to know and replace parts at risk of failing—before you spend the time and money to instal a piece of heavy construction, mining or logging equipment on site.

Thus, the next step in the evolution of Business Analytics is to understand what is likely to happen. **Predictive Analytics allows executives to learn from the cumulative knowledge of their organization.**

This systematized learning has the potential to help businesses and executives to make decisions that are less wrong, so that they can work more effectively.

However, it is important that Predictive Analytics is applied in the right applications, so that it produces the most value to the end users.

### How to Measure Anything

Some things are easy to measure. Time, money, Exercise, Calories, and Location—all of these are relatively straightforward to repeatably determine or calculate.

But how does one go about measuring happiness? What about compassion, or public influence, or creativity? These are more intangible, harder to pin down to a number that means anything.

Douglas Hubbard has written an impressive work called "How to Measure Anything: Finding the Value of Intangibles in Business".

While it's written primarily for business people, the lessons transfer smoothly to others as well.

Hubbard begins with a compelling case for why to measure intangibles:

"Often, an important decision requires better knowledge of the alleged intangible, but when a [person] believes something to be immeasurable; attempts to measure it will not even be considered.

As a result, decisions are less informed than they could be. The chance of error increases. Resources are misallocated, good ideas are rejected, and bad ideas are accepted. Money is wasted. In some cases life and health are put in jeopardy. The belief that some things—even very important things—might be impossible to measure is sand in the gears of the entire economy.

Any important decision maker could benefit from learning that anything they really need to know is measurable."

He goes on to explain in detail how to measure intangibles, including sections on how to clarify problems, calibrate estimates, measure risk, sample

reality, and use Bayesian statistics to add to available knowledge. He also describes his Applied Information Economics (AIE) Approach that ties together several threads of his ideas:

“The AIE approach addresses four things :

1. How to model a current state of uncertainty?
2. How to compute what else should be measured?
3. How to measure those things in a way that is economically justified?
4. How to make a decision?”

#### **Common Applications of Predictive Analytics**

The following are some examples of how Predictive Analytics can be applied in Financial Services, Retail and Manufacturing. This list is not comprehensive, but it provides some interesting applications.

**A.** In the Financial Services, the cost of making the right decisions provides marginal benefits, while making the wrong decisions can have significant costs.

Most applications of Predictive Analytics in the financial services industry help companies avoid making the wrong decisions. For example, credit card companies are able to determine who is most likely to default on their credit cards in the next 6 months by applying predictive analytics to customer’s purchases and demographics.

**B.** In Retail, understanding customers is essential to success. Retailers have provided customized shopping experiences by using Predictive Analytics to understand the drivers of profitability, loyalty and activity for each customer segment and develop specific campaigns for each segment. This has allowed retailers to wow customers with personalized services while scaling and keeping prices competitive.

Predictive analytics have helped both offline and online retailers determine which products to carry, optimize marketing plans, and develop promotional and loyalty programs. Imagine only offering effective loyalty promotions to profitable customers at risk of leaving, while avoiding offering discounts to unprofitable or already loyal customers. Another example is knowing what a customer is most likely to purchase next, so that your staff or website can make informed recommendations.

**C.** Manufacturing is about knowing what, how, and how much to produce. Predictive Analytics have helped manufacturers manage their supply chain and production schedules by accurately forecasting demand, and have helped manufacturers produce goods in the most effective way possible, by predicting failure of equipment, monitoring workers, and identifying ways to eliminate inefficiencies. For

example, PBA has helped organizations with tens of thousands of units as sales each month to forecast sales within 10 to 50 units, so that they can optimize production schedules and supply chains. Also, imagine being able to understand why different managers have different levels of employee turnover, employee injuries, and equipment failure.

#### **IFAC Exposure draft on “Predictive Business Analytics: Forward-Looking Measures to Improve Business Performance”**

The Professional Accountants in Business Committee of the International Federation of Accountants (IFAC) has approved an exposure draft entitled “Predictive Business Analytics: Forward-Looking Measures to Improve Business Performance”, for publication in May 2011. This proposed International Good Practice Guidance (IGPG) may be modified in light of comments received before being issued in final form. The salient features of this exposure draft (available on [www.ifac.org](http://www.ifac.org)) are :

Today, more than ever, professional accountants in business must be capable of assisting their organizations to implement and utilize predictive business analytics to improve managerial decision making across many core performance areas. For years, organizations have sought to develop and deploy an effective process to capture and filter forward-looking measures that enable it to understand significant patterns, relationships, and trends in order to facilitate better and more insightful decisions about the future.

Several terms are in current use for this process: Predictive Analytics, Business Analysis, Driver-based Forecasting, etc. To ensure that this guidance relates the application of predictive analytics to all organizational functions, we have elected to use the term Predictive Business Analytics (PBA).

As the term implies, PBA is forward-looking in nature, oriented to the organization at an enterprise level, and based on analysis of relevant business data and drivers that have a strong and traceable linkage to financial results and operational performance. Business drivers can be financial or operational; they can also be external or internal. There are many examples of such drivers: (a) some reflect changes over time, such as new home sales, new product sales, mortgage delinquencies and foreclosures; (b) Some reflect changes in a given period, such as new births, new car sales, and new hiring; and (c) Some reflect changes at a point in time, such as in interest rates, fuel prices, tax rates, and sales commissions. PBA should enable management to identify new opportunities for growth and improvement, as well as

to highlight areas for corrective actions and possibly strategy adaptations.

These past several years of economic turbulence and uncertainty have provided excellent examples of the importance and benefits to be realized by organizations that have (a) developed a workable PBA process, and (b) used it to anticipate and guide its operations to productive outcomes. Conversely, that period also demonstrated the consequences of omitting or not adequately developing a relevant PBA process. “Analytics has been around for a long time and generally refers to the process of using decision-support systems, business intelligence, statistics, and predictive models to give companies a competitive edge and is used by high-performing companies to improve profitability.”

A recent survey of over 400 senior financial leaders in both the public and private sectors found that high-performing companies outperformed low performers by 54 per cent in several key categories, and were 43 per cent more effective in their use of alerts or warning systems, driver-based forecasting, and data mining. This enabled them to manage by exception and be proactive, rather than be reactive to emerging issues and opportunities. High performers were also 44 per cent more effective in cascading accountability for business drivers through the use of relevant and controllable performance metrics.

For example, the chief financial officer of Darden Restaurants, using predictive insights based on customer data, anticipated opportunities to capitalize on non-traditional growth areas and sought to expand into the Middle East to capitalize on its brand and a fast-growing market for American dining brands. This illustrates the notion that chief financial officers will have to balance traditional stewardship responsibilities with the ability to provide analytical truths and points of view that help shape overall strategy. It’s not enough to simply collect and report on financial data—you also have to figure out how to help your organization capitalize on it. A well-structured and properly executed program of PBA can achieve tangible and measurable benefits in a variety of core performance areas.

#### Core Performance Areas

**Economic**—Are we optimizing revenues by anticipating future events and market trends; are we eliminating or avoiding non-value added costs of services, financing, etc.? In effect, are we delivering the results and value expected by our key stakeholders (e.g., shareholders, creditors, customers, employees, etc.)?

**Strategic**—Are we positioned for future changes to our functional and industry practices, opportunities, and

competitors; can we recognize and respond rapidly to fundamental changes in our business model, customer markets, competitive positions, regulatory requirements, and external developments?

**Operational**—Are we using and managing the proper operating business model for our customers, suppliers, employees, stakeholders, and regulators; are we achieving the proper balance of effectiveness and efficiency; are our governance, risk management, and control practices and policies meaningfully related to how we operate and perform?

**Organizational and Reputational**—Are we sufficiently transparent in our management processes; do we have the right set of skills, competences, and resource capabilities; are our people and colleagues treated fairly; are rewards and recognition systems effective in incentivizing desired behaviours and performance cultures? Do we recognize our societal obligations for the environment, and the sustainability of our owned and used natural resources; do we comply with defined laws and regulations and our internally stated values and code of conduct?

The primary purpose of PBA is to identify how the future might look and what subsequent actions need to be taken. It is a continuous process to cultivate managerial and operational decision making that affects future financial and operating results, and facilitates strategy execution. Several uses of this process include: updating estimates of projected results given the current state; evaluating changes to current strategies and operating plans (deviations) and adopting corrective actions (gap closing); sharing expectations among interdependent groups or entities; looking “around the curve” with an eye towards actions and changes; and approximating results based on changes in business drivers to provide a broad palette of alternative actions for discussion and decision among responsible managers.

PBA supports an organization’s need for the capability to (a) anticipate future events, (b) forecast their possible outcomes, and (c) select actions and decisions that improve its performance, operational capabilities, response to changing market and industry dynamics, and its recruitment and retention of critical people, skills, and competencies.

The quality of management information expected by internal business users is expanding both in terms of the range of data to be considered and the level of required analysis. From strategic issues to routine tasks, all executives, managers, and operational staff expect higher-quality information to support their decision making.

Management information also should (a) relate financial to non-financial performance measures,



(b) report past performance and monitor current operations, and (c) assist operating managers to anticipate future events and, if needed, take appropriate corrective actions.

The perception of professional accountants, of CFOs and finance directors, and of the finance function, will be related strongly to the analytical support provided to decision makers and others. Finance professionals are increasingly expected to have the capacity to provide decision support as “business partners” or “navigators.” As navigators, professional accountants support organizational leaders and managers with information and analysis about the organization’s position and course. They contribute to strategic and operational decision making, and are prepared, when necessary, to challenge constructively to ensure that the organization is managed in the long-term interests of stakeholders. In essence, the financial professional needs to contribute, basing that contribution on hard analytics and facts, to become a valued business partner to the organization. Such capabilities will require a blend of operational experience and a strong use of finance acumen.

The Exposure draft further sets out the Key Principles Supporting the Design and Implementation of Predictive Business Analytics, Practical Guidance on Implementing the Principles, Designing & Deploying a PBA Continuous Framework and Implementation Strategies, Approaches, & Challenges.

### Impact of Predictive Analytics

Beyond specific applications, predictive analytics has the unique ability to help companies become less wrong, scale decisions and achieve systematized learning.

**A. Less Wrong :** The basic idea of Less Wrong is that, in business, like almost anything in life, you can never be perfectly right, but you can be less wrong and, by striving to continually become less wrong, you get closer and closer to being right. By using Predictive Analytics you will not get the perfect answer, but you can determine what is happening, what is most likely to happen, and what, most likely, is the right thing to do. For example it might be really nice to know exactly what commodity prices will be in a month, unfortunately, this is not possible. However, using Predictive Analytics, you might be able to predict with 70% accuracy as to which direction a commodity price will trend. If this is better than before, then it, most likely, will be worth the investment.

Another example would be picking which commodity would most likely be the best investment in the next 6 months. The reason that Predictive Analytics can’t produce exact results is because it is not a simple science and has to take into account a

multitude of possibilities with distinct probability of occurrence.

**B. Scale Decisions :** Predictive Analytics has the unique potential to allow executives to scale their decision making, as organizations and decisions become increasingly more complex with ever thinner margins for error. Predictive Analytics can be used to create a model of the business based on the organization’s data and executives’ theories. For example, an experienced sales manager will be able to determine which sales leads will most likely respond, purchase, and be profitable customers—however, he or she does not have time to review every lead for a 200 person sales team. Also, while a sales manager knows what makes a lead worth pursuing, he or she, most likely, finds it difficult to communicate the rules and criteria to his/her team.

Using Predictive Analytics a sales manager can develop a model to score incoming sales leads. This model can be coded directly into the company’s customer relationship management (CRM) system so that leads are scored as soon as they are entered into the system.

**C. Systematized Learning :** In the future, **profits will be directly related to an organization’s rate of metabolizing new knowledge**, as opposed to renting out existing knowledge. Predictive Analytics can increase the ability of the enterprise to metabolize new knowledge by continually studying the data produced by it, its customers, non-customers and competitors— to find important patterns that will impact the business. For example, Predictive Analytics can help executives identify when customers stop responding to a certain campaign and why.

While every company can benefit from becoming analytical, like any other tool, Predictive Analytics cannot fix everything. However, it is most certainly the next step in the evolution of Business Analytics. If properly applied, Predictive Analytics has the potential to help businesses become more cost effective, prepare better for the future, and be forward-looking. □

### References

- [www.ifac.org](http://www.ifac.org) “Copyright © May 2011 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.”
- [www.canworksmart.com](http://www.canworksmart.com)
- ‘Predictive Analysis with Data Mining—How it Works’ by Eric Siegel [www.information-management.com](http://www.information-management.com)
- Other literature on Predictive Business Analytics available in the Public Domain.

## Remittances and Indian Economy



### Prof. Dr. Badar Alam Iqbal

DAAD, Ford Foundation and Fulbright Visiting Professor  
Former Dean and Chairman, Department of Commerce  
Aligarh Muslim University, Aligarh, U.P.

#### Introduction

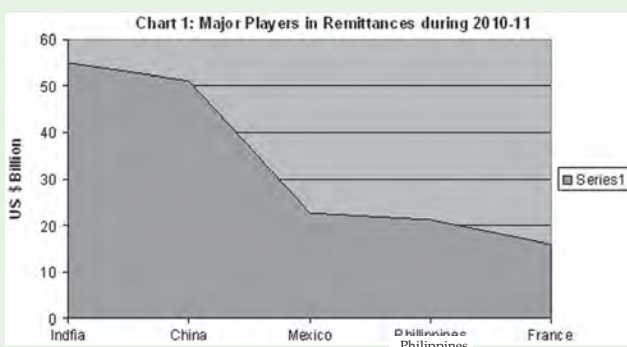
According to the World Bank Report, there were 215 million total immigrants worldwide and these immigrants have generated remittances amounting to US \$ 440 billion during 2010-11 of which nearly 33 per cent were from developing economies.

Global major players in remittances are India, China, Mexico, Philippines and France (see Table 1).

**Table 1**  
**Top of Global Chart**  
**(country-wise Remittances during 2010-11)**

Country	Total Remittances in US \$ Billion
India	55.0
China	51.0
Mexico	22.6
Philippines	21.3
France	15.9

Source : World Bank Graphic; Washington 2011



Source : Based on Table 1

India beats China in diaspora numbers (Chart 1). China has a clean lead over India in many areas, including population, manufacturing, and exports. India is a potential winner or having edge over China, if one is to consider its immigrants across the globe. Although China boasts of a diaspora population of 35 million and India's figure stood at 27 million spreading over 190 countries of the globe. Chinese figure includes immigrants from Hong Kong and Taiwan. If we

exclude the immigrants of Hong Kong and Taiwan from Chinese figure then Chinese figure would be much lower than Indian figure of immigrants.

Indian immigrants stood at 11.4 million in 2010-11 and these immigrants are nearly 1 per cent of India's total population. India accounts for 0.5 per cent of total global immigrants and 12.4 per cent of world total remittances during the year 2010-11. Non-Resident Indians (NRIs) are of the view that if India is to calculate figures of remittances the way China does, it would have to include the diaspora of Pakistan and Bangladesh in its figures of remittances. While Pakistan and Bangladesh were once part of India and are of the same ethnic stock, they are now independent countries so their figure cannot be taken into account. Whereas India and China are sometimes compared in the case of economic growth, experts are of the belief that Chinese figure could be lowered by 1 per cent as they have their own peculiar style of calculating statistics.

Just how much do the 27 million global desis, scattered across 190 countries all over the world, contribute and play a strategic role to the Indian economy? World Bank data indicate an enormous rise in three digits i.e. an increase of nearly 162 per cent in the remittances that India received from overseas Indians during the last 8 years. Whereas India got about US \$ 21 billion in 2003-04, the figures went up to an all time high figure of US \$ 55 billion (Table 2).

**Table 2**  
**Flow of Remittances into India between 2003-04 and 2010-11 (US \$ Billion)**

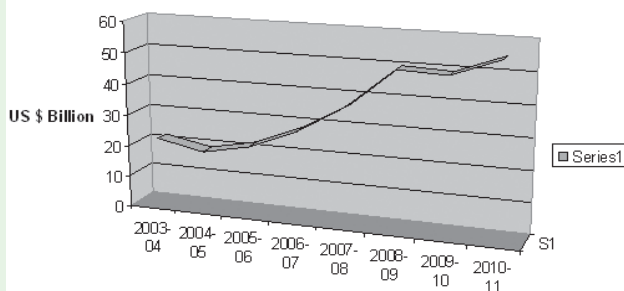
Year	Total Remittances
2003-04	20.9
2004-05	18.8
2005-06	22.1
2006-07	28.4
2007-08	37.2
2008-09	49.9
2009-10	49.3
2010-11	55.0

Source : World Bank Statistics, 2011

Although there was a slight decline in Indian remittances from 2003-2004 to 2004-05 and again marginally during 2008-09 to 2009-10 (see Chart 2) the same bounced back in the year 2010-11 to a level higher than during 2008-09. On the whole, India's remittances from overseas are steady in nature and contents. The States of Kerala and Punjab are presently among the states that have received largest remittances from abroad residents. The rise in remittances has been much to do with a great degree of faith in the Indian banking system, coupled with a lack of faith in the US banks.

The size of the amount only tells part of the issue. The Indian Government and their financial institutions make an appreciable profit from these remittances by artificially setting a much difference between buying rate and selling rate (the difference could be Rs. 2 for every dollar). Therefore, Indian financial institutions are making around Rs. 1.0 billion every year in commission.

Chart 2: Emerging Trends in Remittances from abroad into India between 2003-04 and 2010-11



Source : World Bank Statistics, Washington; 2011

India's remittances from abroad are in number of forms, namely—domestic consumption, property, health, and education. This is also true that this is real money that is very much part and parcel of the local economy, and is not money that is simply parked or deposit in the banks.

Money is increasingly being remitted from abroad to Indian economy from educated Indians who have temporarily moved out of the country for work. Those who earlier left the country for the US and other countries world over often settled down there for good and did not send money back home. Earlier, the money coming back to Indian economy was largely from poor persons who migrated to Gulf countries and sent a major part of their income back home.

The main sources or countries which are contributing significantly in India's total remittances from abroad are Saudi Arabia, Oman, UAE, Bahrain, Qatar, Kuwait, Bangladesh, Nepal, US, UK, Canada and Sri Lanka. Out of these nations, some economies, namely, Saudi Arabia, Oman, Qatar, UAE and

Bahrain, are alone contributing 30 per cent of the total remittances coming to Indian economy.

Unlike other loans and financial commitments that Indian Government takes on every year, this influx comes with no strings attached. Most of this money is sent to parents/relatives/friends directly and benefit the areas wherein they live. Increasing Indians living abroad are also beginning to look at India as an investment destination that offers better return than the countries they live in.

### Domination of Persian Gulf Region

The share of remittances from Persian Gulf grew during the world economic crisis 2007-08 and 2009-10 and declined from North America and East Asia. These days, Indians are queuing up at money exchange houses in Dubai and other emirates for remitting money back to India with rupee falling against UAE Dirham. With the Dirham now fetching over Rs 13 as compared to Rs 11 in July 2011, remittances from UAE between July 2011 and September 2011 have gone up by more than 30 per cent compared to the preceding quarter—resulting into rise in value volume of remittances from UAE.

India's remittances from Gulf region are likely to increase in the coming festive season amid chances of the rupee further weakening against the dollar. The volume of currency transactions to India in the UAE Exchange increases traditionally during festivals, namely Onam, Diwali, Eid, Christmas and the New Year. Expatriate Indians in the UAE usually accumulate dirham with an eye on the exchange rates and remit funds as soon as the rupee falls.

The unrest in the Arab World and catastrophic events in Japan and US triggered fears of a lower inflow of remittances by Indians. Earlier this year, Standard Chartered Bank waived all charges on remittances made by customers to India through its online banking service under a limited period promotional offer in the UAE.

The Indian Government has deregulated banking and finance sector a lot and NRIs can now invest a lot more and hold a lot more in their bank accounts than ever before. This—combined with the fact that Indian rupee is depreciating against the dollar and Indian interest rates are rising—makes the Indian rupee very attractive for NRI investors.

Standard Chartered had tied up with Timeso Money in order to serve customers in the UAE and other nations. Timeso Money is a leading payment

service provider that serves different financial enterprises offering them money transfer service. Fundamentally, the institution is poised for good expansion. Persian Gulf Region is, no doubt, a huge market. But remittances are expanding from North and West countries—namely the US and the Europe as well. There are estimates of 10 per cent growth in Indian remittances to the economy and the figure would touch US \$ 60 billion in 2011-12.

Remittances from Persian Gulf Region have been growing steadily since the beginning of August 2011 because Eid and Onam festivals are approaching. There has also been increasing operation in large ticket segment. These are from people who send money for investment rather than domestic consumption.

### Newly Emerging trends

Business analysts opine that the Indian rupee would be under pressure considering the increased fiscal deficit and the rising oil import bill. If Euro continues to weaken, the rupee could further depreciate. For instances, a person got 50,000m dirham as advance to pay house security deposit from my office. Person transferred the entire amount, i.e. Rs. 6.5 lakh, after the currency conversion to India. Now that person have opted for a PG accommodation by paying dirham 2,000 per month.

Besides the rupee, all Asian currencies have weakened against dollar, including Malaysian ringitt, Indonesian rupiah, Philippines Peso, Korean Won. Also, remittances to some countries, namely Philippines, Pakistan, Sri Lanka, Indonesia are on the rise, though not as much as that of India.

The relationship between NRIs and Indian Government is best described as awkward. Until recently, the Indian Government has taken NRIs for granted and has done very little to cultivate and build a relationship that can be mutually beneficial for the both segments. After years of lobbying for favorable visa rules, Indian Government has implemented dual citizenship for NRIs. This, unfortunately, applies to NRIs living in certain nations only and most NRI's know that dual citizenship is really not dual citizenship as the rest of the world knows it. Why is the Government dragging its feet not willing to go all the way?

### Why Remittances to India have increased?

The increase in remittances to India could be attributed to certain factors which have emerged as driving forces:

- (a) The emerging role of various channels to send money and wealth;
- (b) Shifting pattern of immigration to highly skilled intensive activities;
- (c) Greater and stiff competition in regard to money transfer;
- (d) Increase in the degree of economic operations in the source country;
- (e) Changing perception of NRIs towards Indian economy;
- (f) Sound and strong Macroeconomic fundamentals; and
- (g) Conducive and congenial business environment, in terms of increasing incentives, more tax exemptions; and liberalized foreign exchange regime.

### Strategy

There is a greater need to protect the rights of these migrants and introduce schemes to support them when they return home. It is not just the money that is returning to India. India has also the largest number of returning migrants. While six to eight lakh Indians leave the country each year, a significant number of overseas Indians, i.e. more than one lakh, return to the country yearly. There is a reason for staying on in the country—a bigger goal—that of building the Indian economy and the excitement of being present at the creation. The economies such as US and UK have taken advantage of the NRIs living there by appointing them to key Government positions. This gives them a certain access, understanding and influence over India that they otherwise might not have. □

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(Statutory body under an Act of Parliament)

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**Fill in the Application Form and submit online by 29th February 2012. Hard copies of the application will not be accepted.**

RB/ICWAI/1202

NOTIFICATION

Circular No 017 2012-Customs

F. No. 401/46/2008-Cus.III  
 Government of India  
 Ministry of Finance  
 Department of Revenue  
 Central Board of Excise and Customs

North Block, Room No. 253-A,  
 New Delhi, the 5th January 2012.

To,

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

**Subject : Refund of 4% Additional Duty of Customs (4% CVD) in terms of  
 Notification No. 102/2007-Customs dated 14.09.2001-regarding.**

Sir / Madam,

Your kind attention is invited to the Circular No. 18/2010-Customs dated 8th July, 2010, vide which Board has simplified procedure for sanction of refund of 4% SAD in case of ACP importers. Vide Para 4.1 (d) of the Circular No. 18/2010-Customs, dated 08.07.2010 it was provided that the amount of 4% CVD refund shall be sanctioned in full, on preliminary scrutiny of the documents and certificate of statutory auditor/Chartered Accountant, for correlating the payment of ST/VAT on the imported goods with the invoices of sale and also to the effect that the burden of 4% CVD has not been passed on by the importer to the buyer. However, as Para 6 of the said Circular only Chartered Accountant can issue a certificate that incidence of burden of 4% CVD has not been passed on by the importer to the buyer.

2. Representations have been received in the Board for amending Para 6 of the said Circular to make it in consonance to Para 4.1 (d) ibid to enable Cost Accountants to issue the Certificates as statutory auditors for the purpose of refund of 4% CVD.
3. The matter has been examined in the Board. Board noted that the Circular No. 18/2010 - Customs dated 08.07.2010 disentitles Cost Accountants in regard to issue of requisite certificate though they may be statutory auditors of the importer. Board also observed that several States currently recognize Cost Accountants for purpose of VAT audit and it would be a hardship to trade already using statutory auditors/ Cost Accountants to get required certificate for amount of 4% refund from Chartered Accountants. Therefore, as a measure to facilitate the trade Board has approved the amendment of the Circular No. 18/2010 Customs dated 08.07.2010 so as to authorize Statutory Auditors/ Cost Accountants/ Chartered Accountants to issue a certificate, certifying that burden of 4% CVD has not been passed on by the importers to any other person.
4. Accordingly, para 4.1(d) and Para 6 of Board Circular No. 18/2011-Customs, dated 08.07.2010, stands modified to above extent.
5. Suitable Public Notices or standing orders may be issued to guide the trade / industry and officers.

(Vikas)

Under Secretary (Customs-IIIA/1)

**NOTIFICATION**

F. No. 52/26/CAB-2010  
 Government of India  
 Ministry of Corporate Affairs  
 Cost Audit Branch

B-1 Wing, 2nd Floor,  
 Paryavaran Bhavan,  
 CGO Complex, Lodi Road,  
 New Delhi-110 003

Dated the 24<sup>th</sup> January, 2012

**ORDER**

In exercise of the powers conferred by sub-section (1) of section 233B of the Companies Act, 1956 (1 of 1956), the Central Government, being of the opinion that it is necessary to do so, hereby directs that all companies to which the Companies (Cost Accounting Records) Rules, 2011 apply, and which are engaged in the production, processing, manufacturing or mining of the following products/activities, including intermediate products and articles or allied products thereof, and wherein the aggregate value of the turnover made by the company from sale or supply of all its products/activities during the immediately preceding financial year exceeds hundred crore of rupees; or wherein the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India, shall get its cost accounting records, in respect of each of its financial year commencing on or after the 1<sup>st</sup> day of April, 2012, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959 (23 of 1959).

Sl. No.	Name of the Industry	Relevant Chapter Heading of the Central Excise Tariff Act, 1985
1.	Jute, cotton, silk, woolen or blended fibers/textiles	Chapters 50 to 63
2.	Edible oil seeds and Oils (incl. vanaspati)	Chapters 12 and 15
3.	Packaged food products	Chapters 2 to 25 (except Chapters 5, 6, 14, 23 and 24)
4.	Organic & Inorganic Chemicals	Chapters 28, 29, 32, 38 and 39
5.	Coal & Lignite	Chapter 27
6.	Mining & Metallurgy of ferrous & non-ferrous metals	Chapters 26 and 74 to 83 (except Chapters 76 and 77)
7.	Tractors & other motor vehicles (incl. automotive components)	Chapters 84, 85 and 87
8.	Plantation Products	Chapters 8, 9, 21 and 40
9.	Engineering machinery (incl. electrical & electronic products)	Chapters 84 and 85

**Notes:**

- Intermediate or final products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985 not mentioned above shall also be covered under these orders.
  - Items falling under above Chapter reference exclude those products that have been already covered vide cost audit orders dated 2nd May 2011 and 30th June 2011.
  - Products falling under above Chapter references are to be considered against the respective industry as applicable.
- Every company to which these orders apply shall follow the revised procedure for appointment of cost auditor as laid down vide Ministry of Corporate Affairs' General Circular No. 15/2011 dated 11<sup>th</sup> April 2011.

3. The audit shall be conducted in such manner as will enable the cost auditor to prepare the report in accordance with the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430(E) dated 3<sup>rd</sup> June 2011. The report of the cost auditor shall be forwarded to the Central Government in the prescribed format within the time stipulated under the said Rules.
4. In view of issue of industry specific cost audit orders, all company specific cost audit orders issued to the individual companies prior to 31<sup>st</sup> March, 2011 directing them to get their cost records audited for the products/activities specified in such orders stand withdrawn with effect from the financial year commencing on or after the 1<sup>st</sup> day of April, 2012.
5. All companies who were earlier issued company specific orders prior to 31<sup>st</sup> March, 2011 but are later covered either by this industry specific order and/or by earlier similar orders dated 2<sup>nd</sup> May 2011 or 30<sup>th</sup> June 2011 [subject to their meeting with the qualifying criteria mentioned therein] shall now comply with the industry specific orders, as applicable, replacing the earlier company specific order.
6. All companies wherein in this industry specific cost Audit order and the similar orders issued on 2<sup>nd</sup> May 2011 and 30<sup>th</sup> June 2011 are not applicable but their products/activities were covered under the company specific cost audit orders issued prior to 31<sup>st</sup> March 2011 shall comply with the said company specific orders before their withdrawal becomes effective i.e. for all financial years prior to the financial year commencing on or after the 1<sup>st</sup> day of April, 2012.
7. If a company contravenes any provisions of these orders, the company and every officer thereof who is in default, including the persons referred to in sub-section (6) of section 209 of the Companies Act, 1956, shall be punishable as provided under sub-section (2) of section 642 read with sub-section (11) of section 233B of the Companies Act, 1956 (1 of 1956).
8. These orders are subject to clarifications issued vide Ministry of Corporate Affairs' General Circular Nos. 67/2011 and 68/2011, both dated November 30, 2011.

Sd/-

**(B. B. Goyal)**

Adviser (Cost)

## MAIL TO EDITOR

Sir,

First I offer my sincere thanks to all team members of our prestigious Journal and New Chairman of this Team Shri T.C.A Srinivasa Prasad, CCM for giving new look of Journal through through provoking editorial, quality papers, monthly issue with relevant topics, presentations of articles with author's photo, explanations for giving Cost management Awards to particular company/their Cost management practices. These new changes are highly appreciable.

January 2012 Issue with topic Financial Inclusions is very interesting, particularly article of Sh L Srinivasan/Nirmal Kumar Chakraborty/Tax Titbits by Sh S Rajarathnam are Lucid, interesting and knowledgeable.

I want to share some suggestion for this Journal.

- Kindly publish email ID of Author/Authors, so that we may follow authors on same/different issues for our benefits.
- Kindly publish success story of our prominent members like members who were given award by institute on National Cost convention 2011 at Chennai as "**ICON of Institute**" /their Core Area/achievement or their Interview/View on relevant Topics, so that other members can take inspiration from these icons. Also publish about Prominent Management Accountants of other counterpart of world, their expertise on Management Accountancy or their success story through using Cost and Management accounting Practices.
- Start new section as Meritorious article and share meritorious articles which were published on other Management Accounting bodies of worlds or other sisters professionals bodies within country or across the world or appearing in news papers but relevant for members (This practice is following by Pakistan Management Accountant Journal). This feature was present in past head **Executive digest** but it was discontinued for unknown reasons.

I hope my suggestions will be considered by this team.

Thanking you

**Umar Farooque**

M-23193

We would be too happy to publish your valued opinion/views/comments on subjects having a bearing on the profession or on matters of interest to members. If you have anything to share, please rush in your mails to : [rjn.rajendra@icwai.org](mailto:rjn.rajendra@icwai.org).



FOR ATTENTION OF MEMBERS

The fees payable by the members of the Institute have been revised by the Council with effect from 1<sup>st</sup> April, 2012 from the financial year 2012-2013 onwards as follows :

Category of fees	Amount Payable
Associate Entrance Fee	Rs. 1,000/-
Associate Membership Fee	Rs. 800 /- p.a.
Fellow Entrance Fee	Rs. 1,000/-
Fellow Membership Fee	Rs. 1,500/- p.a.
Certificate of Practice Fee	Rs. 1,000/- p.a.

The fees payable by the retired members entitled to pay at reduced rate in pursuance of Regulation 7 (4) of the Cost and Works Accountants Regulations, 1959 with effect from 1<sup>st</sup> April, 2012 from the financial year 2012-2013 onwards shall be as follows :

Category of fees	Amount (Rs.)
Associate Membership Fee	Rs. 200 /- p.a.
Fellow Membership Fee	Rs. 375/- p.a.

The Management Accountant — March, 2012 will be a special issue on  
**‘SUSTAINABLE GROWTH’.**

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to [rnj.sumita@icwai.org](mailto:rnj.sumita@icwai.org), followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8<sup>th</sup> February, 2012.

The Management Accountant — April, 2012 will be a special issue on  
**‘COST ACCOUNTING MODELS FOR PRICING’.**

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to [rnj.sumita@icwai.org](mailto:rnj.sumita@icwai.org), followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8<sup>th</sup> March, 2012.

The Management Accountant — May, 2012 will be a special issue on  
**‘ARMS LENGTH PRICING : ROLE OF CMA’s’.**

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to [rnj.sumita@icwai.org](mailto:rnj.sumita@icwai.org), followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8<sup>th</sup> April, 2012.

MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12

**THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA**  
(Set up under an Act of Parliament)

**Management Development Programmes 2011-12**

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	Residential
<b>February, 2012</b>				
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax-Planning, Compliance and Management	Bhubaneswar		33,000
21 - 24	Strategic Cost Management	Bhubaneswar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : \* Rs. 7000/- if any nomination is for both the programmes together.

For Non-Residential Programmes — **Fee includes course fee, course material, lunch, tea/ coffee etc.**

For Residential Programmes — **Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.**

CEP Credit Hours — [For 1 Day Prog. – 4 Hours] [For 2 Days Prog. – 6 Hours] [For 3 Days more Prog. – 10 Hours]

**For Kind Information**

- For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
- For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.
- For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

*For further details and Registration please contact :*

**Shri D. Chandru, Director (CEP)**

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President

**Shri M. Gopalakrishnan**

## ADMISSION TO MEMBERSHIP

**The Institute of Cost and Works Accountants of India Advancement to Fellowship**

**Date of Advancement :  
11th January 2012**

M/3639

Dr. Bhabatosh Banerjee  
MCOM, PHD, FICWA  
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Hsg. Society, 164/78, Lake  
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M/4371

Shri Kishan Lal Agarwal,  
BCOM(HONS),  
FCA, FICWA  
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Kolkata 700064

M/6489

Shri Kishore Ramakrishnan  
Nair  
MCOM, FICWA  
Director & C.E.O., Eastern  
Soffina Services Ltd., 48A,  
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Chembur, Mumbai 400 074

M/7020

Shri Subrahmanyam Vadali  
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M/8230

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M/8400

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M/8683

Shri Ayitam Gopala Krishna  
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M/13085

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M/13753

Shri Maninath Sahoo  
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M/14284

Shri Ashok Kumar Soni  
BCOM(HONS), FICWA  
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M/14702

Shri Lawrence I.  
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M/15796

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Navi Mumbai

M/16053

Shri Chittaranjan Ghosh  
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M/16074

Shri A. V. Jaya Rama  
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No. 555, III Main, BHEL  
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M/16459

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M/19035

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M/19298

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M/19437

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M/19609

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M/20091

Shri Pravin Kumar  
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M/20146

Shri V. Chandrasekaran  
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M/20851

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M/22917

Shri Girish Hosakere Seebi-  
narasappa  
BCOM, FICWA  
No. 20 'Udayaravi' (New No.  
36), Keshava Theater Road  
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Garden, Yeshwanthpur,  
Bangalore 560 022

M/23097

Shri J. Gayatri Prasad  
MCOM, FICWA  
H. No. 5-4-892/2, Plot No.  
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M/24826

Shri Jayendra Kumar Jha  
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Bhiwadi 301 019

M/24962

Shri Praveen Kavdia  
MA, LLB, FICWA  
General Manager (Accounts)  
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Junagadh 362 276

M/25080

Shri Ram Binod Thakur  
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M/25088

Shri Ramaswamy Ganapathy  
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Dubai

M/25464

Shri Satyanarayana Patna-  
yakuni  
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HITECH City,  
Hyderabad 500 081

M/25574

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M/25678

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M/25929

Shri Viswanatha H. V.  
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Bangalore 560 062

M/26013

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M/26079

Shri Chakravarthi Thiruve-  
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BCOM, FICWA  
25/11, Kesava Perumal Koil  
South Street, Mylapore,  
Chennai 600 004

**The Institute of Cost and  
Works Accountants of India  
Admission to Associateship**

**Date of Admission :  
11th January 2012**

M/31839

Shri Avdresh Kumar Goel  
BCOM(HONS), FCA, AICWA  
EG - 102, Inderpuri  
New Delhi 110 012

M/31840

Ms. Mallela Kalyani  
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Dy. Manager (Finance) O/o.  
The General Manager,  
RG-II, SCCL, The Singareni  
Collieries Company Ltd.,  
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Karimnagar 505 211

M/31841

Shri Tej Singh  
BCOM(H), AICWA  
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M/31842

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2, MITCON - Balewadi Road,  
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M/31843

Shri Abhay Kumar Pathak  
BCOM, AICWA  
75-A, Ranaji Enclave,  
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Neeraj Clinic, Najafgarh,  
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M/31844

Shri Narendra Kumar  
MCOM, AICWA  
C/o. Brijkesh Maurya, L-2/  
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M/31845

Ms Rajani  
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Shekhar Gali, Bhim Sen  
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M/31846

Shri Biswa Ranjan Dash  
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At : Injana, P.O. Kalara-  
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M/31847

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M/31848

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M/31852

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M/31853

Shri Prashant Ganpati Kamble  
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Miraj 416 410

M/31854

Shri Gurpreet Singh  
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Jagdishpur 227 817

M/31855

Shri Chandrashekhar  
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M/31856

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M/31857

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M/31858

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- M/31859  
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BCOM, AICWA  
307. Sadashiv Peth, Near  
Navi Peth, Vithal Mandir,  
Pune 411 030
- M/31860  
Shri Amit Kumar Verma  
AICWA  
Executive - Fin. & Accts.,  
M/s. Hitachi Lift India Pvt.  
Ltd., 307 ABW Elegance  
Tower, Jasola District  
Centre, New Delhi 110 025
- M/31861  
Shri Rajender Yadav  
AICWA  
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- M/31862  
Shri Dheeraj Bhanawat  
BSC, AICWA  
1135, Sector - 4, Hiran Magri,  
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- M/31863  
Shri Chikkam Rakesh  
MCOM, AICWA  
S/o. C S N Murthy H. No.  
6-240/5, Mahendra Nagar  
Colony, Chintal, Ranga  
Reddy District  
Hyderabad 500 032
- M/31864  
Shri Udaya Bhaskar Ayyala-  
somayajula  
BCOM, AICWA  
Plot No. 22, Gandhi Nagar,  
Purnodaya Model School,  
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Hyderabad 500 070
- M/31865  
Ms Anishakumary M C  
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sserry, Thrissur 680 322
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- M/31867  
Shri Adduri Rakesh  
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Hanamkonda,  
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- M/31868  
Shri Surendra Anchan  
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Post/ Tal : Karkala,  
Udupi 574 104
- M/31869  
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- M/31870  
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- M/31871  
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- M/31872  
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- M/31874  
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- M/31875  
Shri Mehul Hemantbhai  
Gandhi  
AICWA  
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Navsari 396 445
- M/31876  
Shri P Karthikeyan  
BCOM, AICWA  
47 / 14, Vijay Apartments,  
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Chennai 0
- M/31877  
Shri Rangarajan Krishna-  
murthy  
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Chennai 600 040
- M/31878  
Shri Virender Kumar  
BCOM, AICWA  
S/o. Ishwar Chand Near  
Hanuman Mandir, Litani  
Road, Uchana Mandi,  
Jind 126 115
- M/31879  
Shri Mutyapu Kishan  
MCOM, AICWA  
Sr. Accounts Officer M/s.  
The Singareni Collieries Co.  
Ltd., G M Office,  
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Ramagundam - I,  
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- M/31880  
Shri Pankaj Kumar  
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- M/31882  
Ms Malathi Macha  
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1 - 6 - 184 / 3 / A, Bapuji Nagar,  
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- M/31883  
Ms Sayali Kiran Nagmoti  
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- M/31884  
Ms Vimla Pandey  
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Dy. Manager, M/s. Bhushan  
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- M/31885  
Shri Dushmanta Panda  
MCOM, AICWA  
S/o. Bidyadhar Panda At -  
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Dist - Kalahandi,  
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- M/31886  
Shri Rakesh Pande  
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- M/31887  
Shri Lakshminarayana  
Syamkumar Pochamcherla  
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Seethaphalmandi,  
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- M/31888  
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- M/31889  
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- M/31890  
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- M/31891  
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Reddy  
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Jr. Accountant, M/s. The  
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- M/31892  
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- M/31893  
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Sr. Officer - Finance, M/s.  
Bosch Ltd., GSIN - Bldg.  
No. 204 / 1, Post Box No.  
3000, Hosur Road, Adugodi  
Bangalore 560 030
- M/31894  
Shri Pulluru Rajeshwar  
MCOM, AICWA  
Sr. A. O., Accounts Depart-  
ment, M/s. The S. C. Co.  
Ltd., G M Office, Centenary  
Colony, RG - III - Area,  
Godavari Khani 505 209
- M/31895  
Shri Prashant Narayan  
Sarode  
AICWA  
SR. No. 53 / 1 / 26, Lane No.  
3, Netaji Nagar, Nr. Datta  
Mandir, Pimple Gurav, New  
Sangvi, Pune 411027
- M/31896  
Shri Shankar A  
BBM, MBA, AICWA  
Staff No. 212912, Finance /  
Milcom Dept., Jalahalli Post,  
Bangalore 560 013
- M/31897  
Ms Archana Kiranchandra  
Shah  
MCOM, AICWA  
1106 - Marvilla, Bldg. - B, S  
No. 211, Behind Hadapsar  
Bus Depot, Hadapsar,  
Pune 411 028
- M/31898  
Shri Ashwin Sharma B. S.  
MCOM, AICWA  
Jr. Manager (Accounts) M/  
s. KIOCL Ltd., 2nd Block,  
Sarjapur Road, Koraman-  
gala, Bangalore 560 034
- M/31899  
Shri Harmeet Singh  
BCOM(HONS), MBA(FIN),  
AICWA  
WZ - 243/1, Street No. 3,  
Virender Nagar,  
New Delhi 110 058
- M/31900  
Shri N. S. Sujha  
BCOM, AICWA  
C - 2, Plot # X, Ayyappa  
Apartment, Metro Star City,  
Manikandan Nagar Kundra-  
thur, Chennai 600 069
- M/31901  
Shri Malaya Kumar Samal  
BCOM, LLB, AICWA  
At - Jalapock, PO - Karilo-  
patna, Dist - Kendrapara,  
Kendrapara 754 223
- M/31902  
Shri Anupam Tiwari  
BSC, AICWA  
16 - B, 150 Feet Road, Jajmau,  
Kanpur 208 010
- M/31903  
Shri Vipul Pramodrai Uchat  
BCOM, ACA, AICWA  
No. 115 - A, Sector - 7, Reliance  
Greens, Motikhavdi,  
Jamnagar 361 142
- M/31904  
Shri Biju Varghese  
BCOM, AICWA  
Asstt. Vice President M/s.  
J P Morgan Services India  
(P) Ltd., Prestige Tech Park,  
Sarjapur Outer Ring Road,  
Nr. Marathalli Junction,  
Kadabeesanahalli,  
Bangalore 560 087
- M/31905  
Ms. S. Vishnupriya  
BCOM, AICWA  
Plot No. 301, Arul Nagar,  
Annai Anjugam Nagar  
Post, Urapakkam West,  
Urapakkam 603 211
- M/31906  
Shri Pramod Kumar Yogi  
MCOM, MBA(FIN), AICWA  
Ward No. 17, Near Chrawa  
College, Chirawa,  
Jhunjhunu 333 026
- M/31907  
Shri Bajarang Lal Agarwal  
AICWA  
206, Bhavya Tower, Alokik  
Alankar Plaza, Kabir Marg,  
Bani Park, Jaipur 302 016
- M/31908  
Shri Deepak Bhojwani  
MCOM, AICWA  
4/117, Malviya Nagar,  
Jaipur 302 017
- M/31909  
Shri Avishek Bandyopadhyay  
BCOM(HONS), AICWA  
58 / 1 Niranjan Pally,  
Block - C, PO - Bansdrone,  
Kolkata 700 070
- M/31910  
Ms Paulami Ghoshal  
BCOM(HONS), AICWA  
J. N. Sur Road, Bag Bazar,  
chandannagar 712 136
- M/31911  
Shri Susheel George  
AICWA  
A - 163 / A - 5, Sweta Apart-  
ment, Extension - II, Shali-  
mar Garden, Sahibabad,  
Ghaziabad 201 005
- M/31912  
Shri Jenefer S  
BCOM, AICWA  
Cost Accountant M/s.  
Taegutec India Private Ltd.,  
No. 120, Bommasandra,  
Industrial Area, Phase - IV,  
Bangalore 560 099
- M/31913  
Shri Sameerkhan Faiyajkhan  
Inamdar  
MCOM, MPHIL, AICWA  
C/o. Khandekar S. V., 34/4,  
Amey Sahakari, Grah  
Rachana, Near Pawar Hosp.,  
Balaji Nagar, Dhankawadi  
Pune 411 043
- M/31914  
Shri Mrinal Kanti Koley  
AICWA  
Vill - Khagragachhi (East),  
PO - Bajemelia, Dist - Hooghly,  
Bajemelia 712 407
- M/31915  
Shri Ram Kumar  
BCOM, AICWA  
A - 301, New Ashok Nagar,  
Near Shiv Mandir,  
New Delhi 110 096
- M/31916  
Shri V Krishnakumar  
BSC, AICWA  
Nesuki Illam, C 7 TNHB  
(West), Kandampatty - Po.,  
Salem 636 305
- M/31917  
Ms Sudha Lal  
MCOM, AICWA  
1, Kailash Bose Lane, Kalidas  
Apartment, Block - A, 1st  
Floor,, Flat - 102,  
Howrah 711 101
- M/31918  
Shri V. S. Murthy  
MCOM, AICWA  
Accounts Officer M/s.  
Bharat Heavy Electricals  
Ltd., Shree Mohini Complex,  
345 - Kingsway,  
Nagpur 440 001

- M/31919  
Shri Arun Kumar Mittal  
AICWA  
H. No. 2382, Street No.-13  
Kailash Nagar, Delhi 110 031
- M/31920  
Shri Tuhin Kumar Nandy  
BCOM(HONS), AICWA  
71 / 1H, Prince Baktiar Shah  
Road, Kolkata 700033
- M/31921  
Shri Jagannath Gourhari  
Nayak  
MCOM, AICWA  
5/6, Devicharan Chawl,  
Kajupada Pipeline, Kurla  
(West), Mumbai 400 072
- M/31922  
Shri Debabrata Paul  
AICWA  
13, Kedar Nath Deauty  
Lane, Kadamtala,  
Howrah 711 101
- M/31923  
Shri Santanu Pal  
BCOM(HONS), MBA(FIN),  
AICWA  
Rabindranagar, Pannajhill  
(Block - I), PO - Noapara,  
PS - Barasat, Dist - North 24  
Parganas, Kolkata 700 125
- M/31924  
Shri Alope Pandit  
BCOM(HONS), AICWA  
Vill - Raghunathpur,  
PO - Haripur, PS -  
Santipur, Dist - Nadia,  
Haripur 741 404
- M/31925  
Shri Abhijit Roy  
MCOM, AICWA  
Vill - Birbhanpur,  
PO - Durgapur - 2, Roy Para,  
Dist - Burdwan,  
Durgapur 713 202
- M/31926  
Shri Ramalingam R  
BSC, AICWA  
C-20 / 8, Mohan Nagar  
Township, Maramangala-  
thupatty, Salem Steel Plant,  
Salem 636 030
- M/31927  
Shri Ramamoorthy R  
BCOM, AICWA  
Regional Manager M/s. The  
Oriental Insurance Co. Ltd.,  
Metro Palace, North Rly.  
Station Road,  
Ernakulam 682 018
- M/31928  
Shri Sougata Roy  
AICWA  
3/1/4, Kedar Bose Lane,  
Bhowanipur,  
Kolkata 700 025
- M/31929  
Ms Kavita Sharma  
AICWA  
Q. No. Type - III /159, N. T.  
P. C. Colony, Unchahar  
Thermal Colony,  
Rae Bareli 229 406
- M/31930  
Shri Diwakar Sah  
BCOM(HONS), AICWA  
S/o. Kuseshawar Sah Vill +  
Po . Shewra, Via - Patory,  
Samastipur 848 519
- M/31931  
Shri Bikash Saha  
MCOM, MBA, AICWA  
10A, Kedar Bose Lane,  
Bhowanipur,  
Kolkata 700 025
- M/31932  
Shri Subramanian Srinivasan  
BCOM, AICWA  
No. 8 / 1, Venkateswara  
Street, Sri Venkateswara  
Flats, Rajaji Nagar, Villiva-  
kkam, Chennai 600 049
- M/31933  
Shri Pankaj Kumar Tiwari  
BCOM(HONS), AICWA  
22, Prince Anwar Shah Road,  
Kolkata 700 033
- M/31934  
Shri J Venkatachalam  
BCOM, ACA, AICWA  
No. 11E, Karumariamman  
Koil 1st Cross Street, Bharathi  
Nagar, New Perungalathur,  
Chennai 600 048
- M/31935  
Shri Satish Amarpuri  
MCOM, AICWA  
13/330, Geeta Colony,  
Block-13, New Delhi 110 031
- M/31936  
Ms Sunita Arora  
MCOM, AICWA  
C4B / 13 / 3, Janak Puri,  
New Delhi 110 058
- M/31937  
Shri M Kalai Azhagan  
BA, MSC, AICWA  
C-19, BHEL Township,  
Gayatri Nagar, Gotri,  
Vadodara 390 021
- M/31938  
Ms Megha Abrol  
MCOM, MBA, AICWA  
H. No. 32, Sector - 33, Rail  
Vihar, Noida 201 307
- M/31939  
Shri Amit Agarwal  
BCOM, ACA, ACS, AICWA  
" Northern Heights ",  
105 / 2A, Bidhan Nagar  
Road, Flat No. 104 A,  
Block - I, Ultadanga,  
Kolkata 700 067
- M/31940  
Ms Leena Biju  
MCOM, AICWA  
Officer Costing,  
M/s. Graphite India Ltd.,  
Visvesvarya Layout,  
Mahadevpura, Whitefield,  
Bangalore 560 048
- M/31941  
Ms Joyita Bhattacharjee  
BCOM(HONS), AICWA  
Sweet Enclave, Flat No. 3  
(C), Ankur Path, Survey,  
Beltola, Guwahati 781 028
- M/31942  
Shri Srinivasa Rao Dangeti  
BCOM, AICWA  
Pothavaram Post,  
Nallajerla Mandal,  
West Godavari 534 176
- M/31943  
Shri Deep Dutta  
BCOM, AICWA  
36, Charuchandra Place  
(East), Kolkata 700 033
- M/31944  
Shri Rahul Gaba  
BCOM, AICWA  
H. No. 1676 / B - 2, Vishka-  
rma Colony, Bitna Road,  
Pinjore, Panchkula,  
Pinjore 134 102
- M/31945  
Ms Nilam Prabhatchandra  
Gupta  
BCOM, AICWA  
H. No. 3, Prakash Park  
Apartment, Near College  
Campus, Tithal Road,  
Valsad 396 001
- M/31946  
Shri Gowri Shankar V  
BCS, MFM, AICWA  
No. 52, 3rd Block, 1st Street,  
Kaviyarasu Kannadasan  
Nagar, Chennai 600 118
- M/31947  
Shri Sumit Kumar Gupta  
AICWA  
K-3/25, Street No. 11,  
Ganpati Vihar, Ghonda,  
New Delhi 110 053
- M/31948  
Ms Jolika Gupta  
BSC, AICWA  
48, Amba Enclave, Sector - 9,  
Rohini, New Delhi 110 085
- M/31949  
Shri Janardhanan Harihara-  
puthran  
BCOM, AICWA  
Apt. No. 1 C, Shantinekatan  
Oakmount, 333, M K N Road,  
Alandur, Chennai 600 016
- M/31950  
Shri Hardik Narendraray Jha  
MCOM, LLB, AICWA  
Executive, M/s. Intas Phar-  
maceuticals Ltd., Chinubhai  
Centre, Ashram Road,  
Ahmedabad 380 009

- M/31951  
Shri Prathap N Jadhav  
BCOM, AICWA  
No. 75, 2nd Main, 6th Block,  
Bel Layout, Vidyaranyaपुरa,  
Bangalore 560 097
- M/31952  
Shri Jaya Kumar M. S.  
AICWA  
No. 299/4, Anthony Mansion,  
1st Floor, Nr. Canara Bank  
West, Begur Main Road,  
Bangalore 560 068
- M/31953  
Shri C. Gireesh Kumar  
BCOM, AICWA  
District Programme Manager,  
DPM Office, District Health &  
Family Welfare Soc.,  
W & C Hospital Compound,  
Thiruvananthapuram 695 014
- M/31954  
Ms S Kokila  
BCOM, AICWA  
"Gokulam", Plot CSC / A,  
D. No. 1/1373A, Surya  
Nagar, Medavakkam,  
Chennai 600 100
- M/31955  
Shri Manohar Kothinti  
BCOM, AICWA  
Finance & Accounts Officer,  
M/s. Oil and Natural Gas  
Corpn. Ltd., ONGC., FH -  
3, Internal Audit Deptt.,  
Godavari Bhawan, ONGC  
Base Complex,  
Rajahmundry 533 106
- M/31956  
Shri Chandra Sekhar Kala  
MCOM, AICWA  
563, Near Ramalay, Kavitam  
Post, Poduru mandala,  
W. G. Dist.,  
West Godavari 534 338
- M/31957  
Shri Sanjeev Kumar  
MCOM, MBA(FIN), AICWA  
House No. 917, Gobind  
Nagri, Street No. 2, Abohar,  
Dist - Fazilka,  
Abohar 152 116
- M/31958  
Ms Kanchana A  
BCOM, AICWA  
23, Palappalayam, Pichanda-  
mpalayam - PO.,  
Perundurai 638 052
- M/31959  
Shri Pratap Mukkala  
BCOM, AICWA  
No. 217, 5th Cross, 4th Main,  
BSK Ist Stage, Srinivasa  
Nagar, Bangalore 560 050
- M/31960  
Ms. Usha Mrudula Mogulluri  
MCOM, AICWA  
Flat No. I - 38, 2nd Phase,  
TVS Nagar,  
Hosur 635 109
- M/31961  
Ms Manimala Muthigi  
BCOM, AICWA  
# 1098, 35 D Cross, 26 Main,  
4 T Block, Jayanagar,  
Bangalore 560 041
- M/31962  
Shri Muniraju H V  
BCOM, AICWA  
# 38, Harohalli, Madivala  
Post, Malur (T), Kolar (D),  
Madivala 563 130
- M/31963  
Shri Suryanarayana Murty  
Maruvada  
BCOM, AICWA  
General Manager - Finance,  
KIOCL Limited II Block,  
Koramangala  
Bangalore 560 034
- M/31964  
Shri Awadhesh Mishra  
AICWA  
Plot No. 17, Near S B I.,  
Rasulgarh,  
Bhubaneswar 751 010
- M/31965  
Shri Ramesh Ajjavara  
Mariyappa  
BCOM, AICWA  
No. 346, 22nd Main,  
BTM Layout, 2nd Stage,  
Bangalore 560 076
- M/31966  
Ms Nirmala S  
BCOM, AICWA  
D / 11 Sterling Lotus, 11th  
Street, Korattur,  
Chennai 600 080
- M/31967  
Shri Manoranjan Patra  
AICWA  
C/o. Sarat Ch. Patra,  
At - Barapada, PO - Kunjuri  
Dist - Khurda  
Kunjuri 752 056
- M/31968  
Ms Neelam Pandey  
BCOM, AICWA  
H. No. 49, Phase - 2,  
Housing Board Colony,  
Saproom, Solan 173 212
- M/31969  
Shri Bhavin Rajubhai Patel  
BE(MECHANICAL), AICWA  
79, Nirman Park, Behind  
Pramukh Prasad Society,  
Manjalpur, Vadodara 390 011
- M/31970  
Shri Sagar Shamkant Puranik  
MCOM, MBA, AICWA  
6B, Bay House, Eden Woods  
C. H. S., Gladys Alvares  
Marg, Off. Pokhran Road  
No.2, Thane (West) 400 610
- M/31971  
Shri Venkata Sridhar Pamarti  
MCOM, AICWA  
Flat No.102, Plot No. 138,  
"Patel Homes", Manga-  
puram, Meer Pet, Moula Ali,  
Hyderabad 500 040
- M/31972  
Shri Sujit Purushothaman  
Panicker  
BCOM, AICWA  
Branch Head, HDFC Bank,  
Gurukrupa Complex,  
LIC Road  
Godhra 389 001
- M/31973  
Shri A. Hari Narayana Prasad  
BCOM, MBA(F), AICWA  
66/62, Upstairs, Fort,  
Kurnool 518 001
- M/31974  
Shri Lalit Mohan Phulara  
BCOM(P), AICWA  
E - 1378, Netaji Nagar,  
New Delhi 110 023
- M/31975  
Shri S. Radhakrishnan  
MCOM, AICWA  
Flat - F3, Block - C, New  
Elstar Apartments No. 25,  
Perumal Koil Street Mettu-  
palayam, West Mambalam  
Chennai 600 033
- M/31976  
Shri Rakesh  
BCOM, AICWA  
House No.1470-G,  
Sector 41 - B  
Chandigarh 160 036
- M/31977  
Shri N. Rajasekaran  
BA, MCOM, MBA, ACS, AICWA  
Cost Accountant, Anayappa  
Nayackar Agencies, 290,  
Bazaar Street Dist. Villupu-  
ram, Chinnasalem 606 201
- M/31978  
Shri Rajakumar A  
MA, MCOM, MPHIL, AICWA  
19 / 24, Nedunchezian Street,  
Allapuram, Thorapadi Post,  
Vellore 632 002
- M/31979  
Shri Biswajit Sarkar  
MCOM, AICWA  
C/o. Monomohan Sarkar,  
Post - Harinavi, Mitra Para  
2nd Lane, Kolkata 700 148
- M/31980  
Shri Vishal Manharbhai Shah  
BCOM, AICWA  
17/A Gajanan Society  
Manjalpur,  
Vadodara 390 011
- M/31981  
Ms. Archana N. Solanki  
BCOM, AICWA  
K-3, Sabar Flat, Narayan  
Nagar Road, Chandra Nagar,  
Paldi, Ahmedabad 380 007



- M/31982  
Shri Suresh Babu  
BCOM, ACA, AICWA  
FF1, Lakshmi Regal Apartments, West Adaya Valanjan, Srirangam,  
TRICHY 6200 06
- M/31983  
Shri Santhosh B.  
BCOM,ACA,AICWA  
F-6, Veena Vihar, No.9,  
South End Road, Seshadripuram, Bangalore 560 020
- M/31984  
Shri N. Sakthivel  
BCOM,AICWA  
4/277, Anna Nagar,  
Tk - Hosur, Dist. Krishnagiri  
Shoolagiri 635 117
- M/31985  
Shri Sajjan Kumar Singh  
BCOM (H), AICWA  
C/o. Fathe Singh WA - 91,  
Gali No - 15, Ground Floor,  
Shakarpur,  
New Delhi 110 092
- M/31986  
Shri Sreejith H. S.  
BCOM,AICWA  
Junior Manager (Accounts),  
KIOCL Ltd, 2nd Block,  
Sarjapur Road Koramangala  
Bangalore 560034
- M/31987  
Shri Ashish Tiwari  
AICWA  
E 5/141, Arera Colony  
Bhopal 462 016
- M/31988  
Shri Shylu Varghese  
AICWA  
MIG - 8, Good Shepherd  
Colony, Kolar Road,  
Bhopal 462 042
- M/31989  
Shri Murtuja Ali  
BCOM(HONS), AICWA  
D - 26, Tigri Extension,  
New Delhi 110062
- M/31990  
Shri Shyam Singh Bisht  
MCOM, MBA, AICWA  
10 B - 19, Sector - 10, Vasundhara, Ghaziabad 201 012
- M/31991  
Ms Bhoomalakshmi K  
MCOM, AICWA  
Dy. General Manager M/s.  
IDBI Bank Limited, Trade  
Finance Dept., No. 7, South  
Boag Road, T. Nagar,  
Chennai 600 017
- M/31992  
Shri Ashis Kumar Chakraborty  
BCOM(HONS), AICWA  
15 / 144, Jheel Road,  
Kolkata 700 075
- M/31993  
Ms Ambika Annappa  
Dhanawade  
MCOM, AICWA  
Surve No. 379, Plot No. 2,  
Sankeshwar Road,  
S. T. Colony, Gadhingales,  
Kolhapur 416 502
- M/31994  
Shri Rahul Garg  
MCOM, AICWA  
5 / 1090, Moh : Munshiyana,  
Khalapar, Nr.Today India  
Hosiery Factory,  
Saharanpur 247 001
- M/31995  
Shri Sanjay Garg  
BCOM(HONS), AICWA  
C - 465, Yojana Vihar,  
New Delhi 110 092
- M/31996  
Shri Nitya Nirlipta Jena  
BCOM(HONS), AICWA  
At - Kanpur, PO- Dumuka,  
PS-Marsaghai  
Dist - Kendrapara  
Kendrapara 754 213
- M/31997  
Shri Jayaprakash K  
BCOM, ACA, ACS, AICWA  
G.M. (Fin & Accts) Cum Co.  
Secretary M/s. Premedia  
Global Pvt. Ltd., 12th Floor,  
Phase - II, Ascendas International  
Tech Park, Taramani,  
Chennai 600113
- M/31998  
Shri Chandan Kumar  
BCOM(HONS), AICWA  
Asstt. Manager Finance,  
M/s. M T N L., O/o. DGM  
(FMS), Matunga Tele Exchg.  
3rd Floor, Dr. Ambedkar Rd.,  
Kings Circle, Matunga,  
Mumbai 400 019
- M/31999  
Shri Chandrasahas Sarabhayya Kasina  
AICWA  
R. No. 16, Samadhan Apt.,  
Nr. "F" Cabin, Shivaji  
Nagar, Waldhuni,  
Kalyan 421 304
- M/32000  
Ms Shweta Luthra  
BCOM(HONS), AICWA  
J - 3 / 338, D D A Flats,  
Kalkaji, New Delhi 110019
- M/32001  
Shri Tintu Philip  
BCOM, AICWA  
Cost Accountant M/s. City  
Pharmacy Company, Flat  
No. 901, 9th Floor, Al Otaiba  
Tower, Sh. Hamdan Street,  
Po Box 2098, Abu Dhabi
- M/32002  
Shri Shuvasis Prusty  
BCOM, MBA, AICWA  
At / Po. Kunjuri,  
Via - Pallahat, Dist - Khurda,  
Kunjuri 752 056
- M/32003  
Ms Chaitali Prashant Patange  
BCOM, AICWA  
B - 701, Nebula, Cosmos  
Paradise, Opp : Devdaya  
Nagar, Pokhran Road No. 1,  
Thane (West) 400 606
- M/32004  
Ms Rekha Rani  
MCOM, MPHIL, MBA,  
AICWA  
M/s. Sanjay Elect. Industry,  
Baroda Road, Kath Mandi,  
Gohomo, Sonapat 131301
- M/32005  
Shri Rajan Kumar Rai  
BA, AICWA  
Dy. General Manager (Commercial) M/s. Balarampur Chini  
Mills Ltd., (Unit - Tulsipur),  
PO. Tulsipur, Balrampur 271 208
- M/32006  
Ms Prashansa Saxena  
BCOM(HONS), AICWA  
Flat No. 363, Sector - 12,  
Pocket - 1, Gangotri Apartment,  
Dwarka,  
New Delhi 110 078
- M/32007  
Ms Ranu Kar  
MCOM, AICWA  
RGM 16, 19 / 22, Raja Kuthi,  
B C Sarani, Jyagrity Sangha,  
Jyangra, Baguihati,  
Kolkata 700 059
- M/32008  
Shri Dheeraj Kumar  
BCOM, AICWA  
C/o. Shankar Paul Choudary  
1 / 94, Azadgarh, 1st Floor,  
13 No. Gate, Tollygunge,  
Kolkata 700 040
- M/32009  
Shri Deepak Kumar Sahu  
BA(HONS), AICWA  
Qtr. No. C - 227, PTS., NTPC  
Kahalgaon, PO - Kahalgaon  
STPP, Bhagalpur 813 214
- M/32010  
Shri Pankaj Sharma  
BCOM(HONS), AICWA  
C-1/16, MTNL Staff Quarters,  
Opp : Goregaon Tele.  
Exchange, S.V.Road,  
Goregaon (W)  
Mumbai 400 062
- M/32011  
Shri Ankit Dhirendrakumar  
Shah  
BCOM, AICWA  
Project Controller M/s.  
Bombardier Transportation  
(I) Ltd., Plot No. 724, Savli  
GIDC., Phase - III, Tal : Savli,  
Vadodara 391 775

M/32012

Shri Ajay Kumar Trivedi  
BCOM, AICWA  
Asstt. Manager (Accounts)  
M/s. Tulsipur Sugar Co.,  
(Unit of BCM Ltd.,)  
PO - Tulsipur,  
Balrampur 271 208

M/32013

Ms Preeti Thankappan  
BCOM, AICWA  
Officer (Finance) M/s. Indian  
Rare Earths Limited, Dept. of  
Atomic Energy, PO - Chavara,  
Kollam 691 583

M/32014

Shri Thirumal C  
BCOM, AICWA  
Executive Finance M/s.  
Firepro Systems Pvt. Ltd., No.  
10 & 11, Service Road, HAL  
2nd Stage, Indiranagar,  
Bangalore 560 008

M/32015

Shri Manish Kumar Tak  
BCOM, AICWA  
6/17, Raj Krishna Kumar  
Street, PO. Belurmath,  
Howrah 711 202

M/32016

Shri Dhawal J Vora  
BCOM, AICWA  
Dy. G. M. (Fin. ) & Company  
Secretary M/s. Skyline Millars  
Ltd., 4th Floor, 32 - 34 Veer  
Nariman Road, Churchgate  
House, Fort, Mumbai 400 001

M/32017

Shri O. S. Kishore Kumar  
BSC, AICWA  
A - 3, Chella Villa, 19, East  
Road, West C I T Nagar,  
Nandanam, Chennai 600 035

M/32018

Shri Vikas Kumar  
Aggarwal  
MCOM,AICWA  
Moh - Neel Khudana  
Jwalapur,  
Haridwar 249407

M/32019

Ms. Deepa Agarwal  
BCOM (H), AICWA  
C/o. Ashish Agarwal Plot  
No.1, Near Boudh Vihar  
Hiwri Nagar  
Nagpur 440 008

M/32020

Shri Krishnaraj  
MCOM,AICWA  
187, L.I.G. Colony K. K.  
Nagar  
Madurai 625 020

M/32021

Shri Deepak Bansal  
MCOM,AICWA  
S/o. Shri Diwan Chand  
Bansal Nandi Colony  
Azad Nagar,  
Lalheri Road  
Dist. Ludhiana,  
Khanna 141 401

M/32022

Ms Raj Rani Rathi  
BCOM, AICWA  
4 - 6 - 181, Moti Market,  
Esamia Bazar,  
Hyderabad 500 027

## At the Helm of Affairs



Shri Anil Mittal, an Associate Member of the Institute, has taken charge of Director (Finance) of Uttarakhand Power Corporation Ltd. (UPCL), A Government of Uttarakhand Undertaking w.e.f 17.12.2011. Shri Mittal has been associated

with UPCL since 2001 and Contributed Significantly in Centralized ERP implementation process of Accounts, Payroll, GPF etc.

Our heartiest congratulations to Shri Mittal and we wish him all success in life.



Shri Shibaji Rakshit has recently joined the Kolkata based Eveready Industries India Ltd. as head of Internal Audit in the rank of General Manger. Shri Rakshit is an Associate

Member of the ICWAI & ICAI and had previously worked with Lovelock & Lewis, Berger Paints and Tata Group in various capacities.

We wish him all success in life.



## MADRAS STOCK EXCHANGE LTD.

"Exchange Building" Post Box No.183,  
No.30, Second Line Beach, Chennai - 600 001  
Phone: 25228951 / 52 / 53 / 4393 Fax: 044-25244897  
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**MSE has entered into a strategic partnership in November 2009 with NATIONAL STOCK EXCHANGE OF INDIA LTD. (NSE), whereby the Members of MSE can trade in NSE's Cash and F&O segments.** Similar Partnership with Bombay Stock Exchange (BSE) is in progress.

Through this tie-up, Members of MSE can issue contract notes in their names. Shares of companies listed only with MSE get nation-wide reach by inclusion in the NSE trading platform. MSE has plans to tap SME companies to raise capital and list their shares, for which MSE has set in motion proposals to revive its own trading platform, wherein the shares of companies, which are listed on MSE, will get traded.

MSE is a DP in both NSDL and CDSL, whereby MSE Members also get the DP facility for their clients at a very reasonable tariff.

MSE membership is open to Professionals like CA/CS/ICWA who fulfill the eligibility criteria laid down by SEBI and MSE. The Exchange is offering a concessional tariff only to THESE PROFESSIONALS which is available only up to 28<sup>TH</sup> FEB 2012. Application forms, terms and conditions of Membership and other details can be downloaded from our website [www.madrasstockexchange.in](http://www.madrasstockexchange.in)

**For any queries regarding membership please call  
C.GURUNATHAN in 99400 13220 or  
M.V.SWAMINATH in 98419 77419 or  
044 2521 8200 / 8000**



## REGIONS AND CHAPTERS

### **EIRC**

#### **Asansol Chapter of Cost Accountants (ACCA)**

A Members Meet was held at Asansol Chapter of Cost Accountants on Wednesday, the 18<sup>th</sup> January, 2012 at 6.00 PM. Present in the meet were Shri S.R.Sanyal, ED(F&A), ISP-SAIL, Burnpur, Guest of Honour, Shri Amal Kumar Das, Past President, ICWAI, Shri Manas Kumar Thakur, Council Member, Shri T.C.A.Srinivasa Prasad, Council Member, Shri Subrato Banerjee, Chairman, Asansol Chapter and Shri P.G.Nandy, Past Chairman of EIRC, ICWAI.

At the outset, Shri Subrato Banerjee, Chairman, ACCA, welcomed the participants to the Members Meet. The speakers delved elaborately on the recent modification of Cost Accounting Report Rules and Record Rules. The discussion also touched upon the new avenues available to the practitioners.

The Chapter took the opportunity to felicitate Shri S.R.Sanyal, who, in his speech, shared his experiences on various issues from recruitment of Executives to the expectations from present and future Management Accountants. The meeting was attended by members, practitioners and other dignitaries of SAIL-ISP, Burnpur, Burn Standard Co. Ltd, ECL, Hindustan Cables Ltd etc.

### **NIRC**

#### **Udaipur Chapter of Cost Accountants (UCCA)**

Udaipur Chapter of Cost Accountants from 23<sup>rd</sup> to 25<sup>th</sup> December 2011 organized a Residential Regional Conference at Udaipur on "Managing Growth under Global Slowdown". All the delegates and members were welcomed by offering a SAFA (turban/headwear) in unique Rajasthani tradition. The conference started with a welcome address and lighting of the lamp by Shri Ajay Garg, Director (Finance), NBCC, Shri Rakesh Singh, Vice President, ICWAI, Shri Sanjay Gupta, Council Member, Shri B.L. Jain, Chairman, NIRC, Shri Vijender Sharma, Secretary, NIRC, Shri Rakesh Bhalla, Vice Chairman, Shri Rajeev Mehrotra, Managing Director, Rites Ltd and Past Chairman, NIRC and, Shri B S Gupta, Chairman, UCCA.

Shri Rakesh Singh, Vice President, ICWAI emphasized that not merely accounting or reporting but responsibility is much more important. The notifications are to help the industry where we are playing a facilitator's role. On the valedictory day, Dr. C.P. Joshi, Hon'ble Union Minister for Transport and Highways, graced the occasion who stated that in a country like ours, with strong domestic demand for goods and services and huge potential for further investment in infrastructure, the global slowdown is expected to be less damaging. The Hon'ble Minister concluded his speech by stating that he was happy to note that ICWAI has taken up the issue of managing global slowdown as the theme of this residential conference, and this would generate enough ideas for a strong beginning in the New Year 2012.

### **SIRC**

#### **Bangalore Chapter of Cost Accountants (BCCA)**

Bangalore Chapter of Cost Accountants organized the Southern India Regional Cost Convention on "Dynamics of Indian Economy – CMA as a catalyst" at Hotel Capitol, Bangalore on

20<sup>th</sup> January 2012 which was inaugurated by the Hon'ble Union Minister for Corporate Affairs, Dr. M. Veerappa Moily. Dr. Moily, in his inaugural address, appreciated the contribution of the Cost and Management Accountancy profession in building of the Indian economy. He further added that the Cost and Management Accountants should put their best efforts to control the cost thereby resulting in the economic growth of corporate sector. At the end of his inaugural address, the Minister wished all success for the Convention and hoped that Cost and Management Accountants would rise to the occasion to meet the global challenges in the present scenario. The Convention was presided over by Shri M. Gopalakrishnan, President, ICWAI. Shri B.R. Prabhakar, Chairman, SIRC spoke about the Convention. More than 300 delegates from all over India participated in this Convention.

#### **Hyderabad Chapter of Cost Accountants (HCCA)**

A Members' meet was held at ICWAI Bhavan, Himayatnagar, Hyderabad on 20<sup>th</sup> December 2011 on "Financing Power Projects: Indian Experiences" where Dr. S. Mallikarjuna Rao, Associate Professor of University of Hyderabad presented a paper for the benefit of members and the students. Shri A.S. Nageswar Rao, Chairman, HCCA, Shri K.K. Rao, Vice Chairman of the chapter and 34 members and students participated in the programme which was very interactive.

### **WIRC**

#### **Indore-Dewas Chapter of Cost Accountants (IDCCA)**

Indore Dewas Chapter of Cost Accountants organized Regional Cost Conference at Indore on "Achieving Sustainable Excellence through Cost Management and Statutory Compliances" on 23<sup>rd</sup> and 24<sup>th</sup> of December 2011. The conference started with a welcome note and inaugural addresses from, Shri Vijay P. Joshi, Chairman of WIRC, Shri Shrenik Shah, Vice Chairman, Shri Dhananjay V. Joshi, Past President, ICWAI and the Chief Guest Shri Shiv Singh Mehta, Managing Director, Kriti Industries India Limited.

Shri Dhananjay Joshi, Past President, ICWAI gave the preamble to the New Mechanism of Cost Audit. Shri Sanjay Bhargave, Council Member, threw important light on the Cost Audit Notifications issued by the Ministry of Corporate Affairs. Adding to the same, Shri Amit Apte, Council Member elaborated the salient features of the new Rules in specific respective concerns.

The session taken by Shri Ashok B. Nawal, RCM, WIRC 'SEZ – Past, Present and Future' was an eye opener in the sense that the practical aspects of the Business related to Special Economic Zones and Free Trade Zones were discussed at length. This special session on SEZ was graced by the presence of Development Commissioner (Indore Special Economic Zone) Shri. S.K. Rathore and Deputy Commissioner, Customs (ISEZ) Shri. Adesh Jain. Shri M. Gopalakrishnan, President, ICWAI graced the occasion on the second day addressing the members regarding Cost & Works Accountants (Amendment) Bill, 2011 and explained the developments in the new name of the Institute as well as designated letters which members can use to denote their membership.

The conference was attended by about 225 people out of whom a substantial composition was of Industry representatives, making the conference a great success.



**Elements of Statistics**

By B. N. Asthana

S. Chand and Company Ltd.  
7361 Ram Nagar,  
New Delhi 110 055  
First Edition 2011  
Price Rs. 270.00



This book provides the principles of statistics with clarity combined with simplicity so that even those students who are not very comfortable with mathematical abstractions are able to grasp the concepts with ease. The target students of this book are those studying commerce, economics, management, psychology, education and also those of professional courses e.g. CPT, IPCC, ICWA and CS.

Statistics now is used in almost all fields of human activity. Hence today the science of statistics is regarded as basic to the study of almost every field—chief among them is management, economics, and sociology. This book is written with this wider application of statistics in mind covering its use in planning, estimating, forecasting, decision-making and controlling.

The book has twentyone chapters. The first seven chapters discuss the definitions, graphs and diagrams, and descriptive measures of statistics. The next three chapters cover correlation and regression. Next come time series and index number, and types of frequency distribution. It is then followed by elements of probability and sampling, ANOVA, experimental designs and interpolations. The last but three chapters are on association of attributes and contingency, SQC, and interpretation of statistical data. The last chapter is on Indian statistics which starts with evolution of statistical systems in India, then discusses CSO, National Sample Survey, NSSO, National Statistical Commission, and National Academy of Statistical Administration, etc.

The tables of normal distribution, t-distribution, chi-square distribution, F-distribution and factors useful in construction of control charts have been given as appendices. Now-a-days almost every statistician uses some statistical packages e.g. SPSS or SAS etc. An introduction to the application of statistical packages would have made this book more complete from the point of practitioners.

A good number of problems have been solved in each of the chapters, as applicable, followed by a large number of questions with answers for numerical problems. The lucid presentation of serious subject like statistics in a comprehensive and elaborate manner makes this a self-study referency book for all students. It deserves a place in related libraries in our country.

**Prof. Subir Chakraborty**

B.E. (Mech), FICWA M/5756, MFM

**Tulsian's Cost Accounting  
A Self-Study Text Book**

By P. C. Tulsian

S. Chand and Company Ltd.  
7361 Ram Nagar, New Delhi 110 055  
Revised Edition 2011  
Price Rs. 450.00



In the context of changing scenario of expanding business in the competitive world, Cost Accounting assumes a dynamic role. Cost ascertainment and cost-control through accounting information is an indispensable help to modern traders and industries. Cost Accounting assists management in decision-making and cost control.

The book provides wide coverage of Cost Accounts for B.Com, M.Com, BBA and MBA of all Indian University and professional courses.

Each chapter of the book is supplemented with basic theoretical knowledge and properly graded problems with solutions. Some innovative chapters like Inter-firm comparison, cost audit and cost accounting (Recording) Rules have been included in the book inducing the students to be enlightened with new thoughts and ideas which will facilitate the application of the derived knowledge with utmost satisfaction.

The book under review consists of 26 chapters and appendix containing revision one day before examination. The first section contains Introduction, Accounting for material cost, Accounting for Labour cost, Accounting for Overheads, Unit Costing, Process Costing I, Process Costing II, Work-in-progress, joint

Products and by-Products, Operating Costing, Integral and Non-Integral System, Reconciliation of Cost and Financial Accounts, Activity-based Costing-Material Cost variances. Labor cost variances, miscellaneous and Cost Control and Cost Reduction etc.

In the second section, Appendix chapter has been introduced. The author contributes six articles for revision Test Paper-based on formulae, on methods, on Accounting Treatment, on Formats, on distinction and on short notes. Due care has been taken here to ensure that the guidelines given by the author are brief, stimulating and more than sufficient for the examination-orientation.

The presentation of problems and their solutions are very selective. The pedagogical features and the distinctive features containing revision one day before examination in Appendix is not only novel but also meet the requirement of all the courses having Cost Accounting Papers.

The book is a novel product of knowledge and experience harmonized in a symphony. The book is exhaustive and the inclusion of learning objectives at the very outset of the chapters, assignments covering theoretical and practical questions at the need of each chapter cater to the needs of the students.

In comparison with the volume and the knowledge-packed programme, the printing and get-up of the book is qualitative. The author deserves appreciation for bringing out a need-based self-study text book on Cost Accounting.

The present publication is the revised edition of the book published in 2011. The first edition was published in 2008 which enjoyed the popularity and growing

demand of the book on the subject. While analysing the book, humble critic holds that the book has been written in Indian context with lucid language giving a summarized but sufficiently specific and spontaneous discussion on Cost Accounting.

The book has been written in simple language. The subject matter has been demonstrated with heading for each paragraph, tabular form, eye catching screens and uniform format of chapter to make the subjects understandable and easy to learn. The book provides an attentive and analytical study relating to Cost Accounting. I hope the book will be treated as a golden treasure to the libraries of different Indian Universities and Professional Institutions and a package of self-learning to the readers.

We, however, have missed Life-cycle costing, Target costing, comparative study in between Kaizen costing and standard costing, present value tables, strategic cost management and bench-marking in this book. In Cost Audit, absence of Proforma to the Audit Report from A to F, GI & II, H to K, with notes are also missing.

It would have been a pleasure if the writer had take the pains with International Accounting Standards, suggested reading including references in the text, glossary and alphabetical index in the concluding pages of the book—the readers would have been highly benefited.

I hope the book will get due justice all over the country in the academic and professional circle.

**Dr. P. K. Basu**

Professor of Commerce, Kanchra Para College,  
24- Parganas (N), WB.





# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

## 53rd National Cost Convention -2012

At Vigyan Bhawan, Maulana Azad Road, New Delhi-110 001

Theme

### SUSTAINABILITY FRAMEWORK

Integrated Reporting, Imperatives for CMAs

On 15th, 16th & 17th March, 2012



Hosted by : Northern India Regional Council, 3, Institutional Area, Lodhi Road, New Delhi-110 003

Tel. : 011-24602281 Fax : 011-24644630 mail to us : [ncc2012@icwai.org](mailto:ncc2012@icwai.org)





## 53<sup>rd</sup> NATIONAL COST CONVENTION- 2012

### THEME : SUSTAINABILITY FRAMEWORK - Integrated Reporting, Imperatives For CMAs

For the last couple of years many Corporates have been reporting on Sustainability and Sustainability Performance which includes social, environmental and economic results, which determines the overall stakeholder value.

Sustainability of organizational success is an integral part of the business strategy and management accountants play a key role in the process. It has become an essential element of corporate activities that sub serves the interest of all stakeholders and makes sound business sense, as accountability, transparency, governance, reporting and risk management all form part of drivers for sustainability. Sustainability has three dimensions i.e. economic viability, social responsibility and environmental responsibility.

Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value. Integrated reporting allows the organisations to succeed and prosper in the long run. Organisational social and environmental performance is becoming integral to their whole business and sustainability of their company.

CMAs are well positioned to help organizations interpret sustainability issues in a relevant way for their organizations, and to integrate those issues into the way they do business. Although developing a sustainable organization is a multi-disciplinary responsibility, the finance and accounting function needs to be clear on its role in providing and supporting sustainability leadership. CMAs can also contribute in managing "behaviour and outcomes" by incorporating sustainability considerations into strategies and plans, business cases, capital expenditure decisions, into performance management and costing systems.

Integrated sustainability management involves managing opportunity and risk, measuring and managing performance, providing insight and analysis to support decision making. This provides opportunity to augment value business partnering. Recent circulars and notifications by Ministry of Corporate Affairs, Government of India coupled with International focus on Cost Management and integrated reporting highlights the growing importance of role of CMA's in Sustainability framework.

Looking forward for your co-operation and active participation.

Thanking you,  
Yours faithfully

**B.L.Jain**

Co-Chairman, Convention Committee

**Rakesh Singh**

Chairman, Convention Committee





## PROGRAMMES

### 15th March, 2012

<b>Inaugural Session :</b>	09:30 a.m. to 11:00 a.m.
Tea Break	11:00 a.m. to 11:30 a.m.
<b>Plenary Session :</b>	11:30 a.m. to 13:00 p.m.
Policy Intervention for Sustainable Development with CMA as an Enabler	
Lunch Break	13:00 p.m. to 14:00 p.m.
<b>Technical Session I :</b>	14:00 p.m. to 15:30 p.m.
Enhancing Corporate Governance Framework to Integrate Sustainability and Strategy (i) Performance Management	
Tea Break	15:30 p.m. to 16:00 p.m.
<b>Technical Session II :</b>	16:00 p.m. to 17:30 p.m.
Enhancing Corporate Governance Framework to Integrate Sustainability and Strategy (ii) Compliance	

### 16th March, 2012

<b>Technical Session III :</b>	09:30 a.m. to 11:00 a.m.
Deepening Capital Markets through Responsible Investment Supporting Sustainability	
Tea Break	11:00 a.m. to 11:30 a.m.
<b>Technical Session IV :</b>	11:30 a.m. to 13:00 p.m.
From Financial Reporting to Integrated Reporting-Paradigm Shift	
Lunch Break	13:00 p.m. to 14:00 p.m.
<b>Technical Session V :</b>	14:00 p.m. to 15:30 p.m.
Climate Change, carbon emissions and Management Accounting	
Carbon Accounting :	
Tea Break	15:30 p.m. to 16:00 p.m.
<b>Technical Session VI :</b>	16:00 p.m. to 17:30 p.m.
CMA as a game changer in supporting sustainable strategies	
Risk Management	
Whole Life Costing	

### 17th March, 2012

<b>CFO Forum :</b>	09:30 a.m. to 11:00 a.m.
<b>(Indian CFOs Experience Sharing)</b>	
Tea Break	11:00 a.m. to 11:30 a.m.
<b>Valedictory Session</b>	11:30 a.m. to 13:00 p.m.



## 53<sup>rd</sup> NATIONAL COST CONVENTION- 2012

### DELEGATE FOR CONVENTION

Dear Sir,

We invite you / your company to register / sponsor delegates for the 53rd National Cost Convention 2012 to be held from 15th to 17th March 2012 at Vigyan Bhawan, New Delhi.

#### Participants

Corporate Directors, CFOs, COST and Management Accountants and other Senior Management Executive in the Corporate Sector, Practicing Professional in Secretarial, Financial, Legal and Management Disciplines, Researchers, and Academicians would benefit from participation in the Convention.

### DELEGATE FEE AND REGISTRATION PROCEDURE

PARTICULARS	Payment by Cash, Cheque or Demand Draft
Corporate Delegates	₹ 6,000/-
Members	₹ 5,000/-
Cost Accountant-in-practice	₹ 3,000/-
Student	₹ 2,500/-
Spouse	₹ 2,000/-
Foreign Delegates	\$200/-

The entire fee is payable in advance and is not refundable once the nomination is received. The registration form duly completed along with Delegation Fees in favour of "National Cost Convention-2012" payable at New Delhi may please be sent to:

**The Chairman,**  
 Delegate Committee,  
 NIRC of ICWAI, ICWAI Bhawan,  
 3 Institutional Area, Lodhi Road,  
 New Delhi-110 003

Thanking you,

**Sanjay Gupta**  
 Chairman, Delegate Committee





## SPONSORSHIP ADVERTISEMENT DETAILS

### PLATINUM SPONSOR

One special full page (Art Colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 10 delegates  
Prominent display at Convention Backdrop as platinum Sponsor  
Sponsor Logo in badges and all NCC Material –Rs. 10,00,000

### GOLD SPONSOR

One special full page (Colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 6 delegates  
Prominent display at Convention Backdrop as Gold Sponsor  
Sponsor Logo in badges and all NCC material –Rs. 5,00,000

### SILVER SPONSOR

One special full page (Colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 4 delegates  
Prominent display at Convention Backdrop as Silver Sponsor –Rs. 3,00,000

### SPONSOR FOR DINNER

One special full page (Colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 4 delegates  
Display at Convention Dinner  
Display at Convention Backdrop as Sponsor –Rs. 3,00,000

### SPONSOR FOR LUNCH

One Special full page (Colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 4 delegates  
Display at Convention Lunch  
Display at Convention Backdrop as Sponsor – Rs 2,50,000

### SPONSOR FOR CONVENTION KIT

One special full page (colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 4 delegates  
Display at Convention Backdrop as Sponsor  
Sponsor name printed in Convention kit –Rs. 2,00,000

### SPONSOR FOR MEMENTOES

One special full page (colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 2 delegates  
Display at Convention Backdrop as Sponsor  
Sponsor name printed in Mementoes –Rs. 1,00,000

### SPONSOR FOR CULTURAL EVENT

One special full page (colour) advertisement in the Souvenir  
Delegate fee (non-residential) exemption for 2 delegates  
Display at Convention Culture Event  
Display at Convention Backdrop as Sponsor –Rs. 1,00,000

### OTHER SPONSORSHIPS

Banner/ Stall / Publicity Material on request – Rs 50,000



## 53<sup>rd</sup> NATIONAL COST CONVENTION- 2012

### THEME : SUSTAINABILITY FRAMEWORK - Integrated Reporting, Imperatives For CMAs

Dear Sir,

The Institute of Cost and Works Accountants of India, established under an Act of Parliament, is a premier professional body imparting, training and propagating Cost and Management Accountancy in India and abroad. There are over 56,000 members in Service and Practice. The members in service in Government, Public and Private Sectors have occupied higher position like Chairman & Managing Director, Directors, CEOs, CFOs and so on.

We are proud to inform you that the 53rd National Cost Convention-2012 is being organised by the Institute of Cost and Works Accountants of India with Northern India Regional Council.

The theme of the Convention is **Sustainability Framework - Integrated Reporting, Imperatives For CMAs** scheduled on 15th, 16th & 17th March, 2012, at New Delhi. This mega Convention will be attended by a large number of delegates from India and abroad.

The Convention will be addressed by eminent personalities both from India and abroad. On the occasion of this Convention, the committee has decided to bring out a Souvenir which will be released by the Chief Guest at the Valedictory Function. The Convention of this nature can be a success only with your participation through Advertisements.

We request, you once again to kindly accept our appeal and take part in this mega event by Releasing a Advertisement in the Souvenir and for this act of kindness, we shall remain ever grateful. Please see the Souvenir Space Order Form enclosed.

Looking forward for your co-operation and active participation.

Thanking you,  
Yours Sincerely,

**TCA Srinivasa Prasad**  
Chairman,  
Souvenir Committee

Advertisement Tariff	₹
Back Cover - 18 cm x 24 cm	75,000/-
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Centre Spread (Colour) - 18 cm x 24 cm	25,000/-
Special Full Page (Colour) - 18 cm x 24 cm	15,000/-
Ordinary Full Page - 18 cm x 24 cm	5,000/-





# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

## 53<sup>rd</sup> NATIONAL COST CONVENTION- 2012

### Theme : Sustainability Framework - Integrated Reporting, Imperatives For CMAs DELEGATES REGISTRATION FORM

The Chairman,  
Delegates Committee,  
National Cost Convention-2012  
The Institute of Cost and Works Accountants of India  
NIRC, 3 Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

Please register the following delegates for attending the 53rd National Cost Convention -2012 on March 15th, 16th & 17th 2012 at Vigyan Bhawan, New Delhi. The particulars of the delegates are as under:

#### 1. Name of the delegates(s)

NAME OF THE DELEGATE	DESIGNATION	ADDRESS OF THE DELEGATE (for Convention correspondence)

MEMBERSHIP NO. / STUDENT NO.	PRACTICING / NON PRACTICING	TEL. No.	MOBILE No.	E-MAIL

#### 2. Detail of the Payment

#### 3. Mode of Payment

A) Cash

b) A Bank Draft / At par Cheque bearing No. ....Dated.....  
favouring "National Cost Convention-2012" payable at New Delhi is enclosed.

Yours faithfully,

**Contact Detail :** Northern India Regional Council, 3, Institutional Area, Lodhi Road, New Delhi-110 003  
Tel. : 011-24602281 Fax : 011-24644630 mail to us : ncc2012@icwai.org



# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

## 53<sup>rd</sup> NATIONAL COST CONVENTION- 2012

Theme : Sustainability Framework - Integrated Reporting, Imperatives For CMAs

### SPONSORSHIP FORM

The Chairman,  
Delegates Committee,  
National Cost Convention-2012  
The Institute of Cost and Works Accountants of India  
NIRC, 3 Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

I/We wish to Sponsor

..... in connection with  
**the National Cost Convention-2012** on 15<sup>th</sup>, 16<sup>th</sup> and 17<sup>th</sup> March at New Delhi.

A crossed, Cheque/DD No. .... Dated .....  
for ₹ ..... drawn on ..... Bank  
in favour of **National Cost Convention-2012** is attached.

Name of the Organisation..... Signature.....

Address ..... Name .....

..... Designation.....

Tele. No. .... Mobile .....

Fax ..... E-mail..... Website.....

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Particulars	₹
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LUNCH	2,50,000/-
CONVENTION KIT	2,00,000/-
MEMENTOES	1,00,000/-
CULTURAL EVENT	1,00,000/-
OTHER SPONSORSHIPS	50,000/-

\* Taxes Extra as applicable

**Contact Detail :** Northern India Regional Council, 3, Institutional Area, Lodhi Road, New Delhi-110 003  
Tel. : 011-24602281 Fax : 011-24644630 mail to us : ncc2012@icwai.org





# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

## 53<sup>rd</sup> NATIONAL COST CONVENTION- 2012

Theme : Sustainability Framework - Integrated Reporting, Imperatives For CMAs

### SOUVENIR ADVERTISEMENT FORM

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National Cost Convention-2012  
The Institute of Cost and Works Accountants of India  
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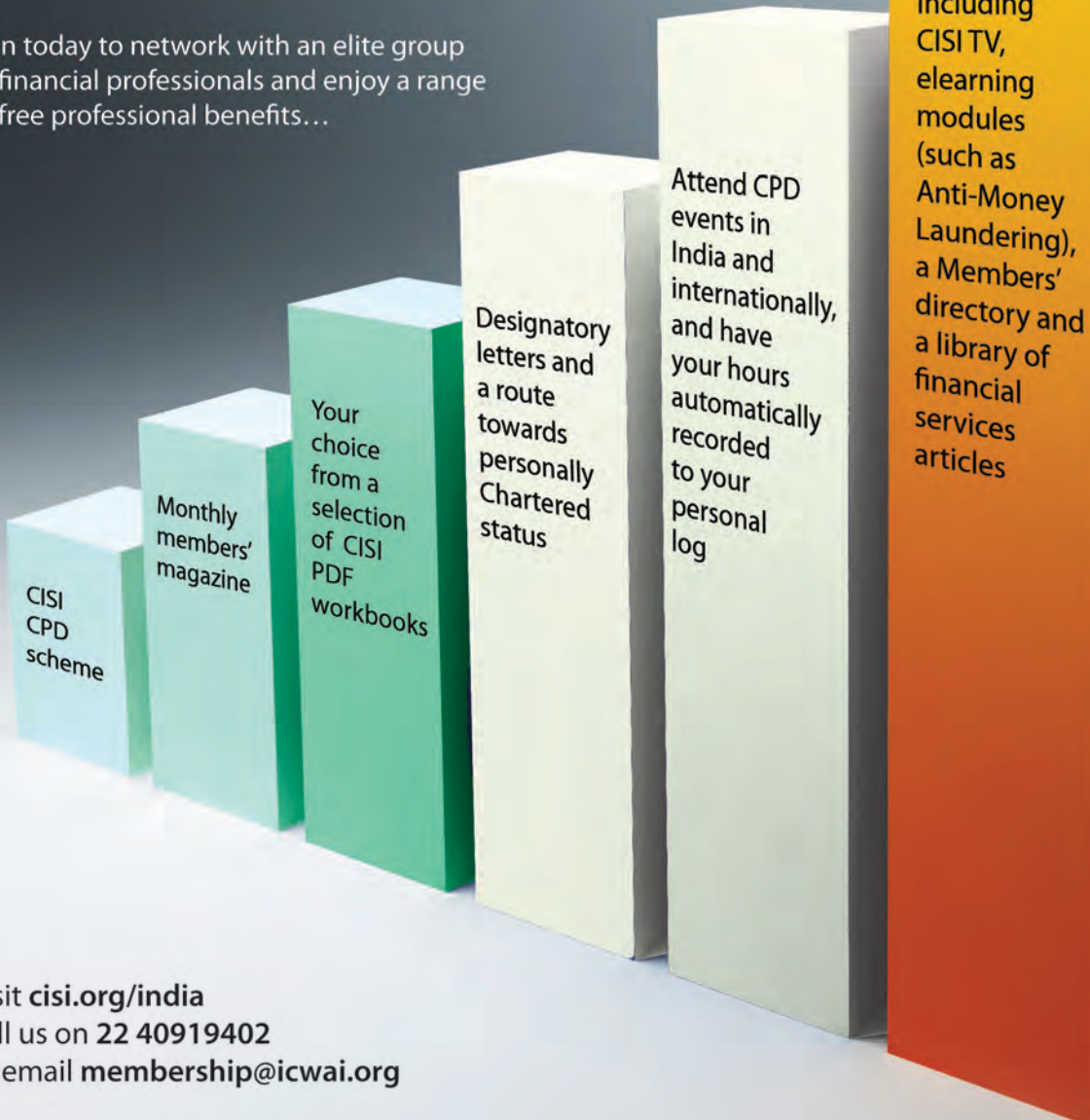




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