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# CMAs' INDUSTRY BULLETIN

MARCH 2019

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Behind every successful business decision, there is always a CMA

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

## VISION STATEMENT

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

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# CHAIRMAN'S MESSAGE

**CMA Biswarup Basu**
Chairman
Members in Industry Committee

***Greetings!!!***

It is heart warming and appreciating to note that the 'CMAs Industry Bulletin' has received overwhelming acceptance and admiration from all quarters including the readers from various industries. The members in the Committee feel honoured for this gesture from the readers and we assure you that we will continue to try and deliver quality for our esteemed readers.

The Members in Industry Committee has been conducting various programs, seminars and webinars on the current and typical issues of Industries on regular basis. I request continuous support from every corner in the quest for value creation through the activities of this Committee. Industry participants, members and other stakeholders have been attending these programs in large numbers and have appreciated for being enriched through such programs.

The support and encouragement from my colleagues in the Council have definitely helped me to incessantly work towards the development of this profession and share knowledgeable and valuable industry information for our readers and to make this e-journal more effective and acceptable to all.

Thank you all for your effort and contribution as we work towards our goal together.

With Warm Regards

**CMA Biswarup Basu**
March, 2019

# EDITORIAL PREFACE

***Greetings!!!***

We are glad to place before our esteemed readers the fourth issue of 'CMAs Industry Bulletin'. We hope that our readers have enjoyed the previous issues and that it has been informative for everyone in the industries. We will always be happy to receive your valuable feedback on the issues being released.

In this issue we have incorporated industry information related to the Pharmaceutical Industry, the e-commerce industry of India, and the Consumer durable market in the country. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. The consumer durable sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. Global corporations view India as one of the key markets from where future growth is likely to emerge.

The e-commerce has transformed the way we do business in India. Much growth of the industry has been triggered by increasing internet and smartphone penetration. The government's Digital India, Make in India, Start-up India, Skill India and Innovation Fund. The timely and effective implementation of such programs will likely support the e-commerce growth in the country. Similarly, the Indian government is taking many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

Hope you will enjoy reading this issue of 'CMAs Industry Bulletin'.


# CONTENTS

# LEVERAGING PERFORMANCE MANAGEMENT SYSTEM FOR IMPROVING ORGANIZATIONAL EFFECTIVENESS

**CMA (Dr.) S K Gupta**
*MD & CEO*
*IPA of Institute of Cost Accountants of India*

**The Perspective**

Performance management is a set of activities that ensure goals are met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, an employee, or the processes in place to manage particular tasks. 'The process of assessing the proficiency with which a reporting entity succeeds, by the economic acquisition of resources and their efficient and effective deployment, in achieving its objectives. Performance measures may be based on non-financial as well as on financial information.' CIMA Official Terminology, 2005.

Managers use performance management to align company goals with the goals of teams and employees in an effort to increase efficiency, productivity, and profitability. A performance measurement is a numeric outcome of an analysis that indicates how well an organization is achieving its objectives. These measurements can be used to examine the performance of all aspects of a business. One of the most important challenges that people in senior management positions face is the responsibility of ensuring their organizations' effective practice of performance management.

Performance management is the process of developing measurable indicators that can be systematically tracked to assess progress made in achieving predetermined goals and using such indicators to assess progress in achieving these goals. The Benefits of an effective performance management system are as under:

**Direct financial gain**

- Grow sales
- Reduce costs in the organization
- Stop project overruns
- Aligns the organization directly behind the CEO's goals
- Decreases the time it takes to create strategic or operational changes by communicating the changes through a new set of goals

**Motivated workforce**

- Optimizes incentive plans to specific goals for over achievement, not just business as usual
- Improves employee engagement because everyone understands how they are directly contributing to the organizations high level goals
- Create transparency in achievement of goals
- High confidence in bonus payment process
- Professional development programs are better aligned directly to achieving business level goals

**Improved management control**

- Flexible, responsive to management needs
- Displays data relationships
- Helps audit / comply with legislative requirement
- Simplifies communication of strategic goals scenario planning provides well documented and communicated process documentation

Effective performance measurement is key in ensuring that an organization's strategy is successfully implemented. It is about monitoring an organization's effectiveness in fulfilling its own predetermined goals or stakeholder requirements. A company must perform well in terms of cost, quality, flexibility, value and other dimensions. A performance measurement system that enables a company to meet these demands successfully is essential. It helps ensure better informed and more effective decision making at both strategic and operational levels. Performance measurement has evolved from purely financial performance measures such as profit, cash flow or the return on capital employed (ROCE).

Today there is greater emphasis on non-financial and multidimensional performance measures to understand and manage the performance of the organization to achieve its goals. Deficiencies in traditional (financial) performance measurement have led to frameworks and techniques being developed in recent years. Some of these are listed below. The best known performance measurement tool is the Balanced Scorecard, which is based on four distinct perspectives (financial, customer, internal process, and learning and growth). These perspectives are designed to cover the whole of the organization's activities both internally and externally, both current and future.

**Literature Review**

Performance Evaluation Emmanuel et al. (1990) noted that performance evaluation was an important function of management accounting. Performance evaluation provides information for managers to support the achievement of their organization's strategic objectives (Jusoh and Parnell, 2008). Hall (2008) argued that in recent years organizations have sought to develop more comprehensive performance measurement systems (PMS) to provide managers and employees with information to assist in managing their operations. Hall (2008) also stated popular techniques for delivering a wider set of performance measures are the balanced scorecard (Kaplan and Norton, 1996), and performance hierarchies (Lynch and Cross, 1992). CIMA (2002) highlighted the frameworks for performance measurement and management which are the value-based management (VBM); ABC and activity-based management; balanced scorecard; European Foundation for Quality Management (EFQM) excellence model; benchmarking; strategic enterprise management (SEM); and six sigma. However the literature indicates that in general both financial and non-financial measures are used to measure performance (Gomes et al. 2004). Financial measures such as return on investment (ROI) and profit measures were extensively used in most countries: in U.K (Abdel-Kader and Luther, 2006); in Japan (Abdel-Maksoud et al. 2008); in Singapore Ghosh and Kai-Chan (1997); in India (Joshi, 2001). B. Maskell (1989, p. 33) claims very strongly that the traditional performance measures are inadequate and sometimes misleading. They are inflexible, very often too late to be effective, usually expressed in irrelevant financial terms and are not directly related to the company's strategy.

M. E. Beischel and K. R. Smith (1991, p. 25-26) offer a framework for measuring manufacturing performance based on two basic premises. In their opinion first step is to establish critical success factors, items so important to the company that, without any one of them, the company would fail6. Certain factors are universal to all manufacturing companies and they distinguish quality, customer service, resource management, cost, and flexibility. Second, all manufacturing measures at all organization levels should be linked to ensure constancy of purpose among organizational levels and to point to cause-and-effect relationships so all employees can solve the problems that cause poor performance and continue practices that cause good performance.

M. W. Grady (1991, p. 49) expresses a belief that in most companies business strategy is set by senior management behind closed doors. Technical and functional management usually does not understand the corporate strategy and, in many cases, isn't even aware one exists. He claims that the lack of communication between upper and lower level managers results in decisions that are not consistent with the company's strategic direction. Thus, he proposes that basic requirements for performance management systems are following (Grady, 1991, p. 49-53): 1. The performance management system should include a set of measures that directly supports company strategies and provides diverse and balanced support. The performance measures must provide all management levels with feedback on how well the strategies and objectives are being met. 2. Performance measures need to convey strategies and objectives through hierarchical and cross functional linkages. Hierarchical linkages provide feedback to goals or strategies at multiple levels of the organizations. On the other hand, strategies are cross functional therefore performance measures need to be cross functional as well. 3. Performance measures need to provide constant feedback at all management levels and functions of the business. The feedback ensures that top management's visions are translated to strategies and objectives for middle management and critical success factors and action plans for tactical management. 4. Performance measures need an external benchmark to evaluate feedback. Performance measurement needs to be included in the budgeting process and longer term business planning. Targets, both long-term and short-term, should be set by management with an eye on competitive performance. 5. Performance measures need to be balanced. Balance includes internal measures with external benchmarks, cost and non-cost measures, results measures to access the degree goals are achieved, and process measures to evaluate critical tasks and provide early feedback.

Comprehensive Set of Requirements Taking into account presented opinions of different authors as well as discussions from academic literature it is possible to synthesize these considerations. As a result it is proposed a comprehensive set of ten requirements that should be fulfilled by modern performance management systems: 1. linkage to organizational strategy, 2. focus on stakeholders, 3. multidimensional and balanced performance measurement, 4. allowing for critical success factors, 5. stimulation of organizational learning and continuous improvement, 6. performance reporting, 7. performance cascading, 8. orientation on future and planning, 9. serving as a control tool, 10. taking into account the motivational aspects.

**Steps in development of an effective performance measurement system**

Political and economic volatility, globalization and new business models and processes enabled by digital technologies are creating an increasingly fast-paced business environment. Organizations and the professional accountants working in them therefore need to be agile, flexible and future oriented. Before any organization can achieve its vision, it needs a clear strategy and defined metrics to measure its performance. Strategic planning and performance management are therefore vital.

- The performance measurement system must be integrated with the overall strategy of the business.
- There must be a system of regular feedback and review of actual results against the original plan and the performance measures themselves.
- The performance measurement system must be comprehensive. It needs to include the range of factors that contribute to the organization's success such as competitive performance, quality of service and innovation. This requires a range of financial and nonfinancial indicators.
- The system must be owned and supported throughout the organization. The implementation must be top-down so that individuals setting strategy can determine the objectives and develop appropriate top-level measures. These should filter down to the rest of the organization. Other levels throughout the organization should set their own measures in consultation with the level above and these must be consistent with the top-level measures.
- Measures need to be fair and achievable. Where performance measures are used to reward managers' performance, the evaluation should include only the elements they have direct control over.
- The system and results reporting need to be simple, clear and understandable, particularly to non-finance professionals. There is a need to prioritize and focus so that only the key performance indicators for the business in strategic terms are measured.

**Choice of performance measurement factors (Critical success factors)**

Critical success factors (CSFs) are the vital areas 'where things must go right' for the business in order for them to achieve their strategic objectives. The achievement of CSFs should allow the organization to cope better than rivals with any changes in the competitive environment. The organization will need to have in place the core competencies that are required to achieve the CSFs, i.e. something that they are able to do that is difficult for competitors to follow.

There are five prime sources of CSFs:

**(1) The structure of the industry**- CSFs will be determined by the characteristics of the industry itself, e.g.in the car industry 'efficient dealer network organization' will be important where as in the food processing industry 'new product development' will be important.

**(2) Competitive strategy, industry position and geographic location**

- Competitive strategies such as differentiation or cost leadership will impact CSFs.
- Industry position, e.g. a small company's CSFs may be driven by a major competitor's strategy.
- Geographical location will impact factors such as distribution costs and hence CSFs.

**(3) Environmental factors** - factors such as increasing fuel costs can have an impact on the choice of CSFs.

**(4) Temporary factors** - temporary internal factors may drive CSFs, e.g. a supermarket may have been forced to recall certain products due to contamination fears and may therefore generate a short term CSF of ensuring that such contamination does not happen again in the future.

**(5) Functional managerial position** - the function will affect the CSFs, e.g. production managers will be concerned with product quality and cost control.

**Reported problems in performance measurement**

Organizations which fail to utilize performance measurement effectively tend to fall into two categories:

1. Those who still continue to employ the traditional accounting performance measures rather than new approaches such as the Balanced Scorecard. 2. Those who have failed to implement or revise their performance measurement system to include multidimensional and non-financial factors. The first category should widen their approach by including non-financial and multi-dimensional performance measures. The second category should be aware of the following issues when trying to use or implement a multidimensional performance measurement system: difficulty in measuring key success drivers, such as innovation or flexibility, leading to the temptation to avoid them employees' behavior not in line with strategic objectives. This can happen when the strategy, objective and target setting processes are not aligned the system conflicts with the culture of the organization assuming the development process is too time consuming or difficult. A systematic and logical approach should be encouraged. Achieving a robust system will take time.

**Wrong signals and an inappropriate action**

A performance management system that is badly designed or which is applied in an insensitive manner may end up doing more harm than good. There are many ways in which poorly designed systems can result in wrong signals and dysfunctional behavior.

- **Misrepresentation** - 'creative' reporting to suggest that a result is acceptable.
- **Gaming** - deliberate distortion of a measure to secure some strategic advantage.
- **Misinterpretation** - failure to recognize the complexity of the environment in which the organization operates.
- **Short-termism** - leading to the neglect of longer-term objectives.
- **Measure fixation** - measures and behavior in order to achieve specific performance indicators which may not be effective.
- **Tunnel vision** - undue focus on stated performance measures to the detriment of other areas.
- **Sub-optimization** - focus on some objectives so that others are not achieved.
- **Ossification** - an unwillingness to change the performance measure scheme once it has been set up.

**Conclusion**

Performance management involves constant monitoring and reporting the results achieved in different parts of the organization at all levels of the organizational hierarchy and across various functions, such as marketing, research and development, production etc. Performance management includes managerial reporting that provides concise, timely-based information on performance to managers. This information is needed in order to get insights in how the organization is really doing and what actions should be taken and how to do it. Performance management also includes compensation system design in such a way that managers and employees behave in a manner that is consistent with the goals of the organization and follow the organizational strategy. Performance management involves taking corrective actions if the actual performance is not in line with the expectations. This should be done by means of both feed-back and feed-forward loops. Finally, the process of performance management should challenge the strategy in order to confirm if the strategic assumptions remain valid. It involves considering and rethinking the actual strategy and, if needed, doing the changes in strategy that may have an impact on performance. By means of all the given components, performance management assures organizational learning and enables managers to improve the company performance.

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*The author may be reached at*
*cbst.skgupta@gmail.com*

# SPEEDING SOCIAL ENGINE WITH ALIGNMENT OF OPPOSITE FORCES OF COMPANIES ACT AND INCOME TAX ACT ON CSR

**CMA Vitin Kumar**
*Dy. Engineer, Bharat Heavy Electricals Limited*
*Power Sector - Northern Region, Noida*

Existing and emerging definitions of corporate social responsibility terming it as core element of corporate survival and sustainability. Philosophy of social responsibility is inherent and integral in business processes, as approach is all about contribution to sustainable development by delivering economic, social and environmental attributesboth at macro and micro level.Businesses are receiving direct benefit fromCSR. Being a core business activity CSR yields gamut of positive benefits of revenue and capital nature. More importantly, CSR creates a shield against the negative information about businesses, its products and services. Onrevenue front CSR attract attention of public at large. People perceive presence of business and relate it products or services whenthey come across. Thus, businessesaccruingbenefit from CSR similar to advertisements in this sense. On capital front, CSR create and maintain positive brand image in long run, otherwise said "Goodwill"a form of intangible assets of capital nature.

With enactment of the Companies Act, 2013, CSR found new dimension and India has become the forerunner to mandate spend on Corporate Social Responsibility activities through a statutory provision.As envisaged under Section 135 of the Act, companies with an annual turnover of at least INR1, 000 crore, or a net worth of minimum INR500 crore, or a net profit of INR5 crore and above shall constitute a CSR panel of the Board to report annually about its CSR affairs and mandate spending of 2% of their average net profit towards specified CSR activities during the year, among other things. Schedule VII of the Companies Act prescribes activities leading to all aspects of social development including relief to poor, eradicating extreme hunger and poverty, promoting education, women empowerment, skill development, vocational training,environmental sustainability, social business projects, reducing child mortality and improving maternal health and many more.

At this side of coin, the objective of legislature to share the burden of social responsibility by businesses, which is otherwise assumed by the government, looks pretty good, as corporate are responsible citizen and onus lies only once business achieved a financial threshold. The other side of coin is, explanation 2 of section 37(1) of income tax act 1961, which is reverse in directionof former intention of legislature (Companies Act) and demoralize those corporate citizen, who were asked to share a cost for better civil society by virtue of section 135 of companies Act-2013. Insertion of explanation 2 of 37 (1) in Income tax act -1961, placed embargo on deductibility of CSR expenditure, as business expenditure. It changed the microstructure of core element of business (CSR), as deeming fictionkeep out it from business activity, by not allowing as expenditure for business purpose.

In line to make the relevance of further reading of paper,Section 37(1) and explanation 2 is reproduced hereunder.

**Section 37 of income tax -1961**

> *1)* Any expenditure (not being expenditure of the nature described in sections 30 to 36 and not being in the nature of capital expenditure or personal expenses of the assesse), laid out or expended wholly and exclusively for the purposes

of the business or profession shall be allowed in computing the income chargeable under the head -Profits and gains of business or profession.

Explanation 2.-For the removal of doubts, it is hereby declared that for the purposes of sub-section (1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 (18 of 2013) shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.

- Explanation relies ondeeming fiction and disallow CSR expenditure on the following grounds for deductibility under section 37.
- Section 37 covers residuary items of expenditure in connection of business.
- Expenditure must be incurred wholly and exclusively for the purpose of business of taxpayer.
- CSR expense which is not connected with taxpayer's business would not meet this condition.
- CSR to be incurred only by specified class of companies; hence it bears character of appropriation
- CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company.
- Essence of CSR is to share burden of the Government in providing social services by companies based on net worth or turnover or profit threshold. If such expenses are allowed as tax deduction, this would result in subsidizing of aboutone-third of such expenses by the Government by way of tax expenditure.

Although, CSR expenditure may not be *wholly and exclusively* for business purpose and application of income which disqualify it for definition purpose, but CSR generate current and enduring benefits to modern businesses and more importantly social welfare is one of core element of any business activities embracing not only dimensions of businesses, butTax laws also.

Nevertheless, explanation 2 explicitly disallow deduction of expenditure incurred for CSR, still following judicial pronouncements and interpretation seems very relevant for logical deduction from two opposite forces placed by Companies Act 2013 and Income Tax Act- 1961 on CSR expenditure.

- *The concept of business is not static. It has evolved over a period of time to include withinits fold the concrete expression of care and concern for the society at large and the locality inwhich business is located in particular. Being a good corporate citizen brings goodwill of thelocal community as also with the regulatory agencies and society at large, thereby creating an atmosphere in which the business can succeed in a greater measure with the aid of suchgoodwill (CIT v. Madras Refineries Ltd. [2004] 266 ITR 170, Sri Venkata Satyanarayna Rice Mill Contractors Co. v. CIT [1997] 223 ITR 101, Hindustan Petroleum Corporation Ltd VsDCIT [(2005) 96 ITO 186 (Bom)]*
- The amendment in the scheme of Section 37(1), which has been introduced with effectfrom 1st April 2015, *cannot be construed as to disadvantage to the assessee in the period prior to this amendment*. This disabling provision, as set out in Explanation 2 to Section 37(1), refers only to such corporate social responsibility expenses as under Section 135 of theCompanies Act, 2013, and, as such, it cannot have any application for the period not covered by this 'statutory provision which itself came into existence in 2013. Explanation 2 to Section 37(1) is, therefore, *inherently incapableof retrospective application any further*. In any event, as held by Hon'ble Supreme Court's five judge constitutional bench's landmark judgment, inthe case of CIT Vs Vatika Townships Pvt Ltd [(2014) 367 ITR 466 (SC)], the legal position inthis regard has been very succinctly summed up by observing that Of the various rules guiding how legislation has to be interpreted, one established rule is that unless a contrary intention appears, legislation is presumed not to be intended to have a retrospectiveoperation. The idea behind the rule is that a current law should govern current activities. Lawpassed today cannot apply to the events of the past. If we do something today, we do it keeping in view the law of today and in force and not tomorrow's backward adjustment of it.

- It may appear to be *some kind of a dichotomy in the tax legislation* but the well settled legal position is that when a legislation confers a benefit on the taxpayer by relaxing the rigour of pre-amendment law, and when such a benefit appears to have been the objective pursued by the legislature, *it would a purposive interpretation giving it a retrospective effect but when a tax legislation imposes a liability or a burden, the effect of such a legislative provision can only be prospective*. Also noted that the amendment in the scheme of section 37(1) is not specifically stated to be retrospective and the said Explanation is inserted only with effect from 1st April 2015. In this view of the matter also, there is no reason to hold this provision to be retrospective in application. As a matter of fact, the amendment in law, which was accompanied by the statutory requirement with regard to discharging the corporate social responsibility, is a disabling provision which puts an additional tax burden on the assessee in the sense that the expenses that the assessee is required to incur, under a statutory obligation, in the course of his business are not allowed deduction in the computation of income. This disallowance is restricted to the expenses incurred by the assessee under a statutory obligation under section 135 of Companies Act 2013, and *there is thus now a line of demarcation between the expenses incurred by the assessee on discharging corporate social responsibility under such a statutory obligation, and under a voluntary assumption of responsibility.* As for the former, the disallowance under Explanation 2 to section 37(1) comes into play, but, as for latter, there is no such disabling provision as long as the expenses, even in discharge of corporate social responsibility on voluntary basis, can be said to be "wholly and exclusively for the purposes of business.

  (Bengal NRI Complex Ltd. v/s DCIT (ITAT, Kolkata 31/11/2018)

Apart from above, CSR expenditure was held deductible in the following cases;

- Funds provided for establishing drinking water facilities and providing aid to school meant for residents of the locality in which the taxpayer operated.(CIT v. Madras Refinery Ltd.,(Mad.))
- Expenditure on community assistance programmes and welfare measures undertaken in the vicinity of taxpayer's manufacturing unit.(CIT v. Madura Coats Ltd.(Mad.))
- Installation of traffic lights in the vicinity of taxpayer's office to improve traffic situation, serving dual purpose of benefitting the employees as also social commitment. (Infosys Technologies v. JCIT (Bang))
- Trips to Bhuj and Jamnagar post-earthquake for relief work.( Jindal Steel and Power Ltd., (Delhi))
- Construction of hockey stadium for use of local residents. (ITO v. Velu Manickam Lodge,(Chennai))
- Sponsorship of sports tournaments bearing the sponsor's name on banners and association with the trophy. (CIT v. Lake Palace Hotels & Motels (P) Ltd.,293 ITR 281,(Raj))
- Contributions made by Pharma Company to health care society and science foundation allowed as it would bring Goodwill to the assesse. (ACIT v. Ranbaxy Labs Ltd. ,7 ITR (Trib) 161 (Delhi)

There are several enabling provisions in income tax regime itself, where expenditures bearing characters of CSR are allowable under section 80G and 80GGB, despite not for business purpose. Further, projects outlined by schedule VII of Companies Act are overlapping with the items eligible for deduction under 80G of Income tax. Reverse force places by the explanation 2 of 37 (1) of income tax not considered integral and inherent social dimension of modern businesses. CSR expenses should be to allow from business income to encourage corporates to assume more social activities. As regards to ensure genuineness of claims certificate from practicing professional Cost Accountants or Chartered Accountants may be called for. Ongoing deliberation and persistent representations at individual and institutional level may draw the attention of law makers to extend natural alignment in two opposite forces to accelerate the speed of social engine.

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1. Companies Act-2013
2. Income tax Act -1961
3. https://www.sci.gov.in/

*The author may be reached at vitinktyagi@gmail.com*

# Industry Focus - Pharmaceutical Industry

**Introduction**

India is the largest provider of generic drugs globally. Indian pharmaceutical sector industry supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in UK.

India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Presently over 80 per cent of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

**Market Size**

The pharmaceutical sector was valued at US$ 33 billion in 2017. The country's pharmaceutical industry is expected to expand at a CAGR of 22.4 per cent over 2015–20 to reach US$ 55 billion. India's pharmaceutical exports stood at US$ 17.27 billion in FY18 and have reached US$ 10.80 billion in FY19 (up to October 2018). Pharmaceutical exports include bulk drugs, intermediates, drug formulations, biologicals, Ayush & herbal products and surgicals.

Indian companies received 304 Abbreviated New Drug Application (ANDA) approvals from the US Food and Drug Administration (USFDA) in 2017. The country accounts for around 30 per cent (by volume) and about 10 per cent (value) in the US$ 70-80 billion US generics market.

India's biotechnology industry comprising bio-pharmaceuticals, bio-services, bio-agriculture, bio-industry and bioinformatics is expected grow at an average growth rate of around 30 per cent a year and reach US$ 100 billion by 2025.

**Investments**

The Union Cabinet has given its nod for the amendment of the existing Foreign Direct Investment (FDI) policy in the pharmaceutical sector in order to allow FDI up to 100 per cent under the automatic route for manufacturing of medical devices subject to certain conditions.

The drugs and pharmaceuticals sector attracted cumulative FDI inflows worth US$ 15.83 billion between April 2000 and June 2018, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Some of the recent developments/investments in the Indian pharmaceutical sector are as follows:

- Between Jul-Sep 2018, Indian pharma sector witnessed 39 PE investment deals worth US$ 217 million.
- Investment (as % of sales) in research & development by Indian pharma companies* increased from 5.3 per cent in FY12 to 8.5 per cent in Fy18.
- In 2017, Indian pharmaceutical sector witnessed 46 merger & acquisition (M&A) deals worth US$ 1.47 billion
- The exports of Indian pharmaceutical industry to the US will get a boost, as branded drugs worth US$ 55 billion will become off-patent during 2017-2019.

**Government Initiatives**

Some of the initiatives taken by the government to promote the pharmaceutical sector in India are as follows:

- In October 2018, the Uttar Pradesh Government announced that it will set up six pharma parks in the state and has received investment commitments of more than Rs 5,000-6,000 crore (US$ 712-855 million) for the same.
- The National Health Protection Scheme is largest government funded healthcare programme in the world, which is expected to benefit 100 million poor families in the country by providing a cover of up to Rs 5 lakh (US$ 7,723.2) per family per year for secondary and tertiary care hospitalisation. The programme was announced in Union Budget 2018-19.
- In March 2018, the Drug Controller General of India (DCGI) announced its plans to start a single-window facility to provide consents, approvals and other information. The move is aimed at giving a push to the Make in India initiative.
- The Government of India is planning to set up an electronic platform to regulate online pharmacies under a new policy, in order to stop any misuse due to easy availability.
- The Government of India unveiled 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacture. Approval time for new facilities has been reduced to boost investments.
- The government introduced mechanisms such as the Drug Price Control Order and the National Pharmaceutical Pricing Authority to deal with the issue of affordability and availability of medicines.

**Road Ahead**

Medicine spending in India is projected to grow 9-12 per cent over the next five years, leading India to become one of the top 10 countries in terms of medicine spending.

Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers that are on the rise.

The Indian government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies. In addition, the thrust on rural health programmes, lifesaving drugs and preventive vaccines also augurs well for the pharmaceutical companies.

**References:** Consolidated FDI Policy, Department of Industrial Policy & Promotion (DIPP), IBEF, Press Information Bureau (PIB), Media Reports, Pharmaceuticals Export Promotion Council, AIOCD-AWACS, IQVIA, *Top 10 companies as per research by HDFC Securities

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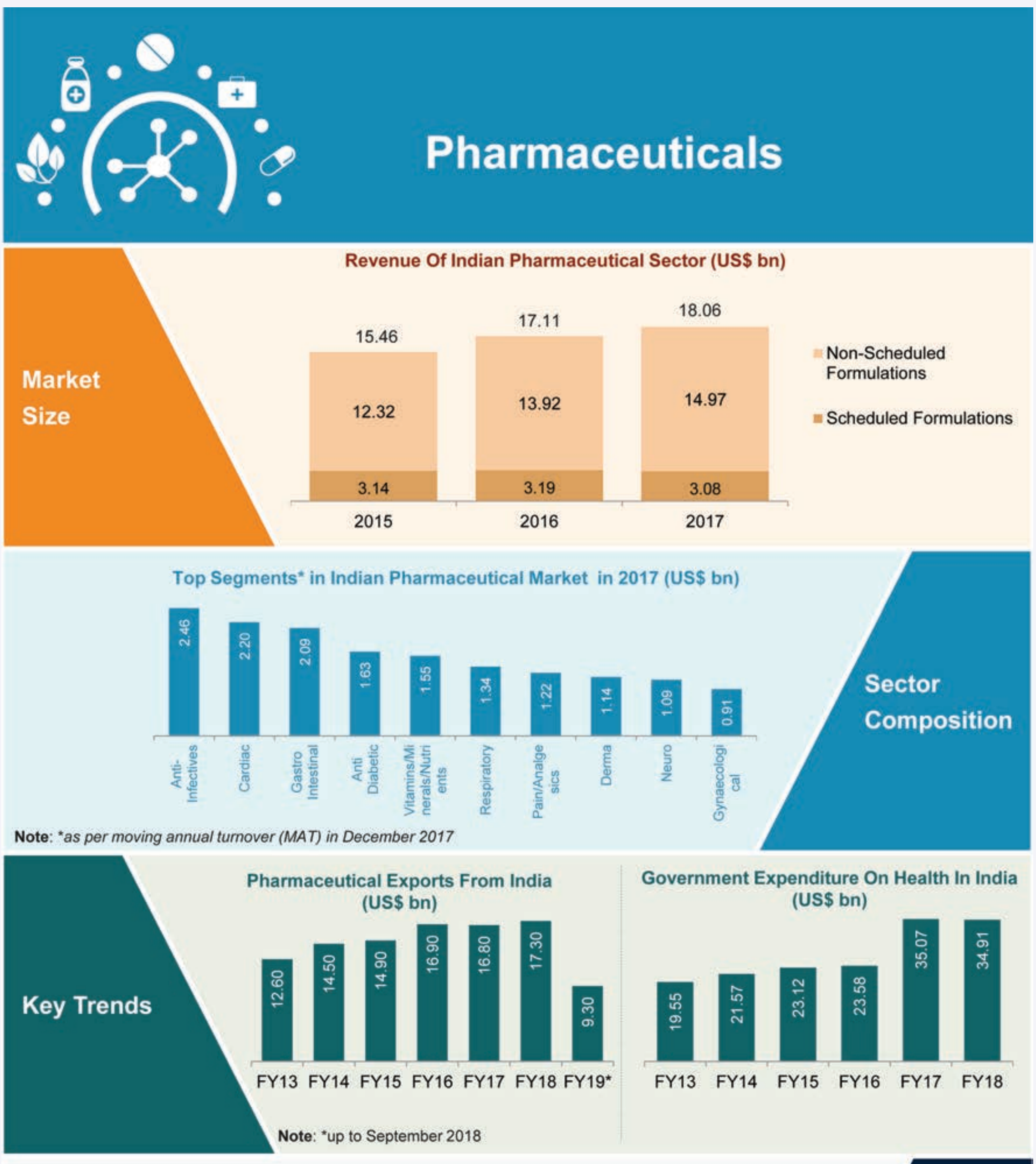

# Industry Focus - Consumer Durables Market

**Introduction**

Indian consumer durables market is broadly segregated into urban and rural markets, and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favourable population composition and increasing disposable incomes.

Per capita GDP of India is expected to reach US$ 3,273.85 in 2023 from US$ 1,983 in 2012. The maximum consumer spending is likely to occur in food, housing, consumer durables, and transport and communication sectors.

**Market Size**

- India The growing purchasing power and rising influence of the social media have enabled Indian consumers to splurge on good things. Import of electronic goods reached US$ 53 billion in Fy18.
- Indian appliance and consumer electronics (ACE) market reached Rs 2.05 trillion (US$ 31.48 billion) in 2017. India is one of the largest growing electronics market in the world. Indian electronics market is expected to grow at 41 per cent CAGR between 2017-20 to reach US$ 400 billion.
- As of FY18, washing machine, refrigerator and air conditioner market in India were estimated around Rs 7,000 crore (US$ 1.09 billion), Rs 19,500 crore (US$ 3.03 billion) and Rs 20,000 crore (US$ 3.1 billion), respectively.
- India became world's second largest smart phone market with 40.1 million units shipped between July-September 2018. India is expected to have 829 million smart phone users by 2022.

**Investments**

According to the data released by the Department of Industrial Policy and Promotion (DIPP), the electronics sector attracted foreign direct investment (FDI) worth US$ 1.97 billion between April 2000 and June 2018. The S&P BSE Consumer Durables Index has grown at 20 per cent CAGR between 2010-17.

Following are some recent investments and developments in the Indian consumer market sector.

- India is now the world's second largest mobile phone manufacturer with presence of 120 factories as of July 2018.
- In July 2018, Samsung announced an investment of Rs 5,000 crore (US$ 745.82 million) for expansion of manufacturing capacity to 120 million from 68 million devices at its Noida plant in India.
- Intex Technologies will invest around Rs 60 crore (US$ 9.27 million) in 2018 in technology software and Internet of Things (IoT) startups in India in order to create an ecosystem for its consumer appliances and mobile devices.
- Micromax plans to invest US$ 89.25 million by 2020 for transforming itself into a consumer electronics company.

**Government Initiatives**

- A draft National Policy on Electronics Policy was released by the Ministry of Electronics & Information Technology in October 2018.
- A new Consumer Protection Bill has been approved by the Union Cabinet, Government of India that will make the existing laws more effective with a broader scope.
- The mobile phone industry in India expects that the Government of India's boost to production of battery chargers will result in setting up of 365 factories, thereby generating 800,000 jobs by 2025.
- The Union Cabinet has approved incentives up to Rs 10,000 crore (US$ 1.47 billion) for investors by amending the M-SIPS scheme, in order to further incentivise investments in electronics sector, create employment opportunities and reduce dependence on imports by 2020.
- The Government of India has allowed 100 per cent Foreign Direct Investment (FDI) under the automatic route in Electronics Systems Design & Manufacturing sector. FDI into single brand retail has been increased from 51 per cent to 100 per cent; the government is planning to hike FDI limit in multi-brand retail to 51 per cent.

**Road Ahead**

Indian appliance and consumer electronics (ACE) market is expected to increase at a 9 per cent CAGR to reach Rs 3.15 trillion (US$ 48.37 billion) in 2022. Demand growth is likely to accelerate with rising disposable incomes and easy access to credit. Increasing electrification of rural areas and wide usability of online sales would also aid growth in demand.

Exchange Rate Used: INR 1 = US$ 0.0149 as of Q1 FY19

**References**: Media reports, press releases, Press Information Bureau (PIB), IBEF, Union Budget 2017-18, Boston Consulting Group, International Data Corporation.

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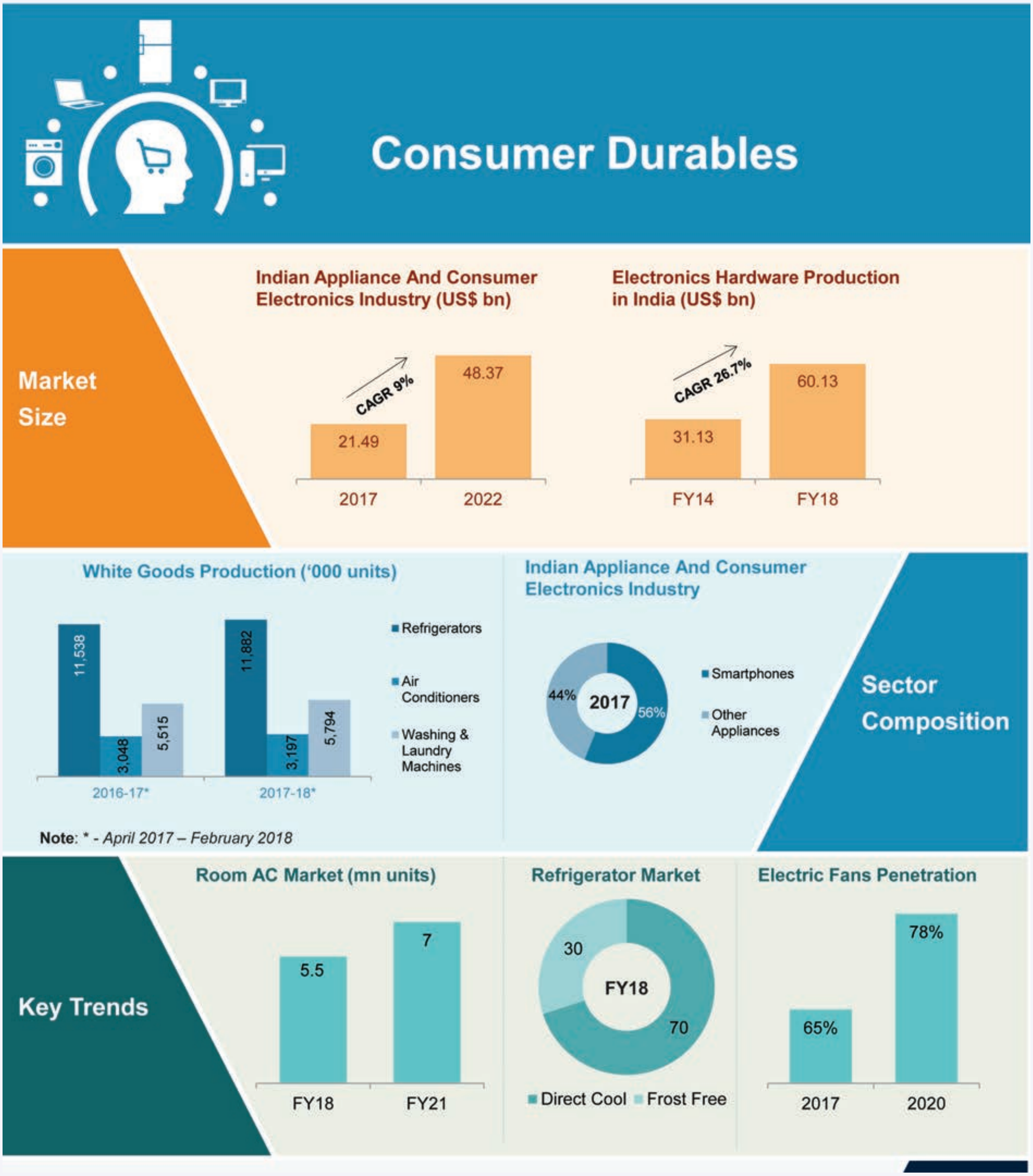

# Industry Focus - E-Commerce Industry

**Introduction**

The e-commerce has transformed the way business is done in India. The Indian e-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion as of 2017. Much growth of the industry has been triggered by increasing internet and smartphone penetration. The ongoing digital transformation in the country is expected to increase India's total internet user base to 829 million by 2021 from 560.01 million as of September 2018. India's internet economy is expected to double from US$125 billion as of April 2017 to US$ 250 billion by 2020, majorly backed by ecommerce. India's E-commerce revenue is expected to jump from US$ 39 billion in 2017 to US$ 120 billion in 2020, growing at an annual rate of 51 per cent, the highest in the world.

**Market Size**

Propelled by rising smartphone penetration, the launch of 4G networks and increasing consumer wealth, the Indian e-commerce market is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion in 2017 Online retail sales in India are expected to grow by 31 per cent to touch US$ 32.70 billion in 2018, led by Flipkart, Amazon India and Paytm Mall. During 2018, electronics is currently the biggest contributor to online retail sales in India with a share of 48 per cent, followed closely by apparel at 29 per cent.

**Investment/Major development**

Some of the major developments in the Indian e-commerce sector are as follows:

- Flipkart, after getting acquired by Walmart for US$ 16 billion, is expected to launch more offline retail stores in India to promote private labels in segments such as fashion and electronics. In September 2018, Flipkart acquired Israel based analytics start-up Upstream Commerce that will help the firm to price and position its products in an efficient way.
- Paytm has launched its bank - Paytm Payment Bank. Paytm bank is India's first bank with zero charges on online transactions, no minimum balance requirement and free virtual debit card
- As of June 2018, Google is also planning to enter into the E-commerce space by November 2018. India is expected to be its first market.
- E-commerce industry in India witnessed 21 private equity and venture capital deals worth US$ 2.1 billion in 2017 and 40 deals worth US$ 1,129 million in the first half of 2018.
- Google and Tata Trust have collaborated for the project 'Internet Saathi' to improve internet penetration among rural women in India.

**Government Initiatives**

Since 2014, the Government of India has announced various initiatives namely, Digital India, Make in India, Start-up India, Skill India and Innovation Fund. The timely and effective implementation of such programs will likely support the e-commerce growth in the country. Some of the major initiatives taken by the government to promote the e-commerce sector in India are as follows:

- In order to increase the participation of foreign players in the e-commerce field, the Indian Government hiked the limit of foreign direct investment (FDI) in the E-commerce marketplace model for up to 100 per cent (in B2B models).
- In the Union Budget of 2018-19, government has allocated Rs 8,000 crore (US$ 1.24 billion) to BharatNet Project, to provide broadband services to 150,000 gram panchayats
- As of August 2018, the government is working on the second draft of e-commerce policy, incorporating inputs from various industry stakeholders.

**Achievements**

Following are the achievements of the government in the past four years:

- Under the Digital India movement, government launched various initiatives like Udaan, Umang, Start-up India Portal etc.
- Under the project 'Internet Saathi', the government has influenced over 16 million women in India and reached 166,000 villages
- Udaan, a B2B online trade platform that connect small and medium size manufacturers and wholesalers with online retailers and also provide them logistics, payments and technology support, has sellers in over 80 cities of India and delivers to over 500 cities.
- According to the UN's eGovernance index, India has jumped 11 positions to 107 in 2016 from 2018 in 2014.
- The government introduced Bharat Interface for Money (BHIM), a simple mobile based platform for digital payments.

**Road Ahead**

The e-commerce industry been directly impacting the micro, small & medium enterprises (MSME) in India by providing means of financing, technology and training and has a favourable cascading effect on other industries as well. The Indian e-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034. Technology enabled innovations like digital payments, hyper-local logistics, analytics driven customer engagement and digital advertisements will likely support the growth in the sector. The growth in e-commerce sector will also boost employment, increase revenues from export, increase tax collection by ex-chequers, and provide better products and services to customers in the long-term.

**References:**

Media Reports and Press Releases, IBEF, Department of Telecommunication (DoT), Department of Industrial Policy and Promotion (DIPP), India Services Sector Report by Deloitte

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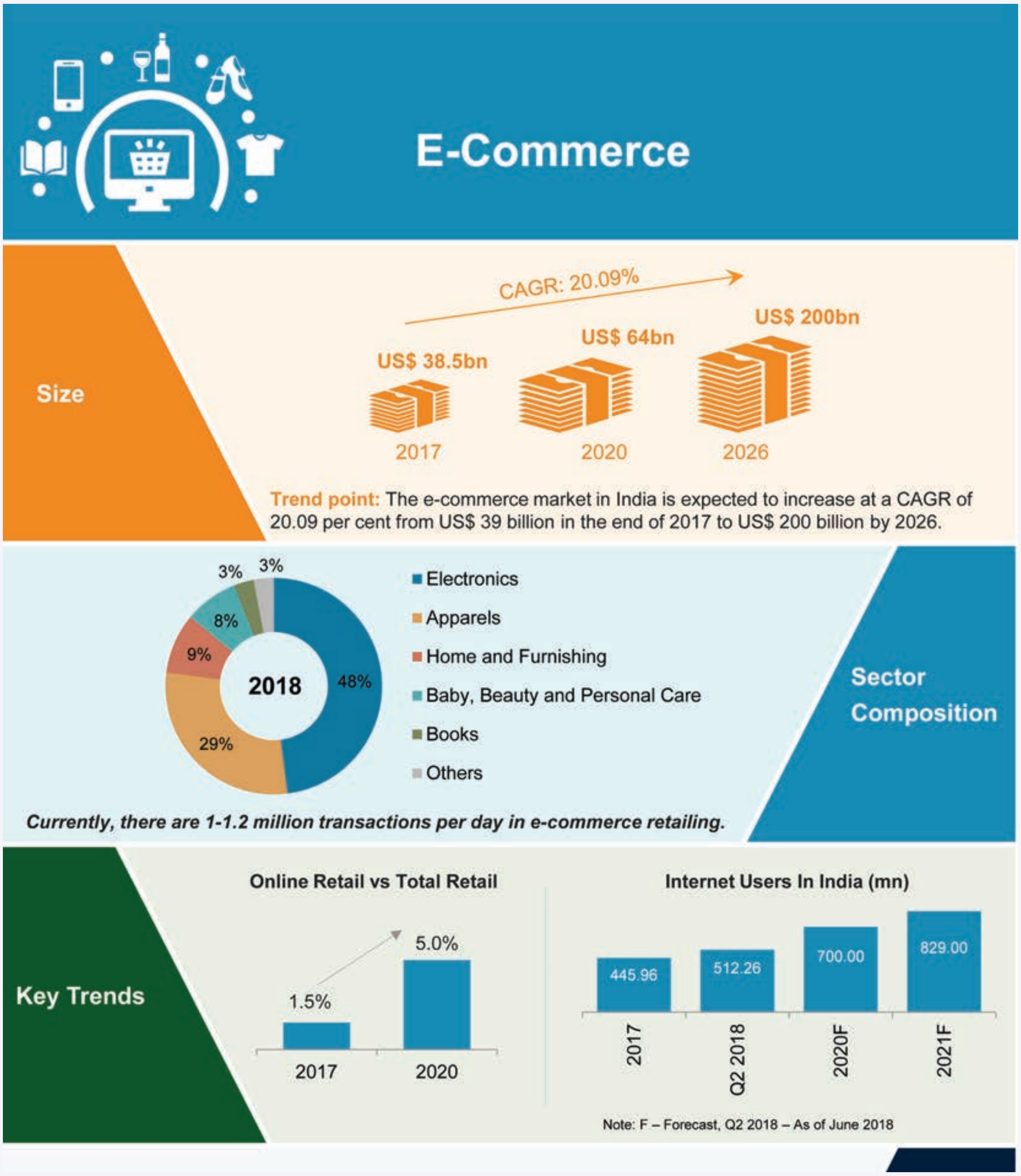

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**Statutory Body under an Act of Parliament**

**www.icmai.in**

**Headquarters**
CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: +91-33-2252 1031/34/35/1602/1492

**Delhi Office**
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: +91-11-24666100

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