

DOES CORPORATE REPORTING UNDER IFRS IMPACT GLOBAL CAPITAL MOBILIZATION?: A CASE STUDY OF DR. REDDY'S LABORATORIES LIMITED

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ABSTRACT

In the era of globalisation, the companies are now a days trying to access global markets for mobilising the capital needed for starting and expanding the business. The role of accounting becomes important in this situation, which will enable the investors across the globe to take informed decisions regarding their investment. Since different countries use different accounting standards, the investors would face difficulties in making comparisons between the financial statements prepared by the companies across different countries. In the event of adoption of IFRS by the companies, it would be imperative to understand the impact of IFRS on the preparation and presentation of various financial reports and its incidence on various dimensions of accounting. The Pharmaceutical Industry in India is the worlds third-largest in terms of volume and lot of money is spent in research and development of various drugs, vaccines and accounting for such expenditure is to be dealt with in the light of IFRS. This paper explains the expert's opinion on importance of IFRS in corporate reporting and analyzes the impact of IFRS adoption on global capital mobilization.

KEYWORDS: *Globalisation, Accounting Standards, IFRS, Global Capital Mobilization.*

Introduction

In the wake of globalisation, the role of corporate reporting becomes very important in promoting the growth and development of a country's business and economy. Thus investors expect all relevant information about the company they invest and the companies shall provide all information and enable the investors to measure the performance of companies in a better way. Since different countries use different accounting standards, the investors would face difficulties in making comparisons between the financial statements prepared by the companies across different countries. In 1973, the International Accounting Standards Committee (IASC) was formed in England with a view to issue accounting standards which shall be followed globally. IFRS have been developed to harmonize the accounting standards worldwide, whereas at present more than 100 countries in the world have adopted International Financial Reporting Standards. Recent decades have experienced lot of changes in the area of accounting and the companies accessing the global markets for capital needs have started reporting globally and adopted IFRS voluntarily.

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In the event of adoption of IFRS by the companies, it would be imperative to understand the impact of IFRS on the preparation and presentation of various financial reports and its incidence on various dimensions of accounting. Adoption of IFRS invariably boosts investors' confidence and attract cross border financial transactions which is the basis for economic growth¹. The Pharmaceutical Industry in India is the world's third-largest in terms of volume. The number of purely Indian pharmaceutical companies is fairly low. Dr. Reddy's Laboratories founded by Dr. K. Anji Reddy is an Indian multinational company. During the year 2001, the company issued American Depository Receipts for the first time and got listed on the New York Stock Exchange. As the pharmaceutical industry is research oriented one, lot of money is spent in research and development of various drugs, vaccines and accounting for such expenditure is to be dealt in the light of IFRS.

Review of Literature

The following research thesis and articles were found to be useful for the paper:

Antehunegn Yihene² in his Ph D research "International Financial accounting Problems faced by Industries in Implementing IFRS" found that it is real that the globe needs similar accounting standard and this standard is IFRS, it is also real that this standard needs high level and qualified expertise to take a smooth move towards IFRS.

Rishi Bhargav Das³ in his research article "International Financial Reporting Standard: A New Dimension in the Area of Financial Reporting in India" revealed that with the growth of Indian economy and increasing integration with the global economies, Indian corporate are raising capital globally and the fair financial reporting with the help of IFRS will enable the corporate to grow.

Srinivasa Rao K and Malyadri⁴ in their research article "International Financial Reporting Standards: A Frame Work" concluded that IFRS adoption improves the functioning of global capital markets by providing comparable and high-quality information to investors. In this connection corporate have to disclose the realities of their business activities and professionals in turn to interpret and report as per the standards without any violations.

Ramona Lapte and Ioana Sofian⁵ in their research "A new dimension of the entities' financial reporting: Integrated Reporting" summarised that transparency, the openness of a company, is, in fact, an attempt to a collateral global awareness of the moral obligation of each one of us to transmit the respect of values and of a better world to future generations.

Objectives

- To examine expert's opinion on significance of corporate reporting under IFRS
- To analyze the trends in foreign institutional investors after adoption of IFRS in Dr. Reddy's Laboratories Limited

Data Collection

The paper is based on both primary and secondary data. The primary data is collected from the stakeholders of pharmaceutical industry viz., Auditors and Investors. The sample size comprised of 200 auditors and 200 investors in Hyderabad city of Telangana state. The secondary data is collected from the annual reports of Dr. Reddy's Laboratories Limited for the years 2008-09 to 2016-17.

Expert's Opinion on Significance of IFRS

In the recent past there is a lot of change in the process of financial reporting by firms across the globe. For an investor from the outside country or continent, it is difficult to understand the financial statements prepared by an entity which is not situated in his hometown as different companies may follow different accounting standards while preparing the financial statements. IFRS are supposed to play the role of global accounting language and the implementation of IFRS necessitate the in-depth study as to how the IFRS are going

to meet the requirement of presenting the true and fair view of the financial statements. The significance of IFRS in corporate reporting process has gained importance due to the qualitative attribute of the financial statements provided by the firms. It is presumed that IFRS helps for better and quality reporting. The statement was verified with the help of responses from the stakeholders of pharmaceutical industry. The following tables provide an analysis of the statement on the basis of the profession of the respondents.

Table 1: IFRS and Quality Reporting - Auditor's Opinion

Profession	Response	No. of Respondents	Percent
Auditor	Strongly Disagree	1	0.5
	Disagree	4	2.0
	No Opinion	21	10.5
	Agree	105	52.5
	Strongly Agree	69	34.5
Total		200	100

Source: Primary data

The process of implementation of IFRS has become prominent due to the increasing importance of qualitative phenomenon of the financial statements. It is evident from table 1 that 87 percent of the auditors agree that IFRS helps better and quality reporting.

Table 2: IFRS and Quality Reporting – Investor's Opinion

Profession	Response	No. of Respondents	Percent
Investor	Strongly Disagree	5	2.5
	Disagree	10	5.0
	No Opinion	30	15.0
	Agree	74	37.0
	Strongly Agree	81	40.5
Total		200	100

Source: Primary data

The responses taken from the investors tabulated in table 2 clearly show that 77.5 percent of investors agree that IFRS helps better and quality reporting. This shows that adoption of IFRS will bring quality financial statements. The opinions of the auditors and investors were tested by setting up the following hypothesis to know whether there is any significant difference in the opinions provided by them on the statement IFRS helps better and Quality Reporting.

H₀: There is no significant difference in opinions of auditors and investors that IFRS helps better and quality reporting.

H₁: There is significant difference in opinions of auditors and investors that IFRS helps better and quality reporting.

Result: P value = 0.788

The Null Hypothesis cannot be rejected at 5% level of significance.

Hence, it is concluded that there is no significant difference in opinions of Auditors and Investors that IFRS helps better and Quality Reporting. On the other hand, the quality aspect of financial reports provided by a company is understood from various dimensions. The following are some of the important qualitative characteristics of financial statements

- Understandability
- Relevance
- Comparability
- Consistency

- Dr. Reddy's Laboratories limited prepares the financial statements in a more descriptive and elaborate manner by providing all the required explanations to the stakeholders so as to make the financial statements easily understandable. The balance sheet and statement of profit and loss prepared by the company are easily understood by the stakeholders and are supplemented by notes on various items included in the financial statements.
- The word "Relevance" may be understood as a quality phenomenon which affects the decision making process of various stakeholders of a company on the basis of accounting information provided to them. It contains the materiality or timeliness of the information provided. In other words, it may be understood as to what extent various stakeholders consider or believe the information provided to them is relevant for decision making. Every stakeholders needs information that is useful to him. To say that a piece of information is relevant, it must be capable of making a difference in the decision making by a stakeholder in the form of understanding the present situation of the business and predicting the future trend of the business. The annual report of a company is of great importance to various stakeholders like shareholders, bankers, creditors, Government authorities, tax officials, etc.,

For instance, a prospective shareholder should not jump to the conclusion about the prospects of a company just by seeing one financial year data. He should be able to predict the future price of the share before investing in the company. Dr. Reddy's Laboratories limited is providing the annual reports to its stakeholders in a timely manner so that they can use the reports as a basis for their judgements on different decisions about the company. The information relating to various key indicators or performance of the company like revenues, EBITDA, EPS etc., is made available in its reports in a clear manner. In view of this it may be inferred that the financial statements provided by Dr. Reddy's Laboratories limited are relevant for decision making by its stakeholders.

- Since, the company has adopted IFRS for preparing the financial statements, it can be said that the financial statements are comparable over a period of time. The figures in one particular year are easily comparable with the other years. Also, the figures are comparable with other global companies in view of IFRS adoption
- With regard to consistency attribute of the financial statements of Dr. Reddy's Laboratories limited, it is observed that the company has adopted consistent policy of preparing financial statements. For example, the depreciation policy adopted by the company for providing depreciation on various items is consistent over a period of time.

IFRS and Global Capital Mobilization

In the era of globalisation, a lot of companies are now a days trying to access global markets for mobilising the capital needed for starting and expanding the business. Financial reports of a company speak about the methods adopted by it to prepare the financials and the investors globally will rely on the reports to take investment decisions overseas. The role of accounting becomes important in this situation, which will enable the investors across the globe to take informed decisions regarding their investment. Thus investors should be provided all material information regarding the company.

IFRS play an important role in providing the financial statements to the investors worldwide to understand the financial position of a company. The assumption whether IFRS promote global capital mobilization was checked with the help of primary data collected from the auditors and investors.

The table 3 provides an analysis of the data collected from the respondents on the basis of profession.

Table 3: IFRS and Global Capital Mobilization – Auditor’s Opinion

Profession	Response	No. of Respondents	Percent
Auditor	Strongly Disagree	2	1.0
	Disagree	15	7.5
	No Opinion	29	14.5
	Agree	125	62.5
	Strongly Agree	29	14.5
Total		200	100.0

Source: Primary data

It can be seen from table 3 that 62.5 percent of the auditors agree that IFRS promote global capital mobilization.

Table 4: IFRS and Global Capital Mobilization - Investor’s Opinion

Profession	Response	No. of Respondents	Percent
Investor	Strongly Disagree	12	6.0
	Disagree	3	1.5
	No Opinion	20	10.0
	Agree	78	39.0
	Strongly Agree	87	43.5
Total		200	100.0

Source: Primary data

It is evident from table 4 that a large number of Investors strongly agree that IFRS promote global capital mobilization. The opinions of the auditors and investors were tested by setting up the following hypothesis to know whether there is any significant difference in the opinions provided by them that IFRS promote global capital mobilization.

H₀: here is no significant difference in opinions of auditors and investors that implementation of IFRS promote global capital mobilization

H₁: There is significant difference in opinions of auditors and investors that implementation of IFRS promote global capital mobilization

Result: P value = 0.000

The Null Hypothesis was rejected at 5% level of significance.

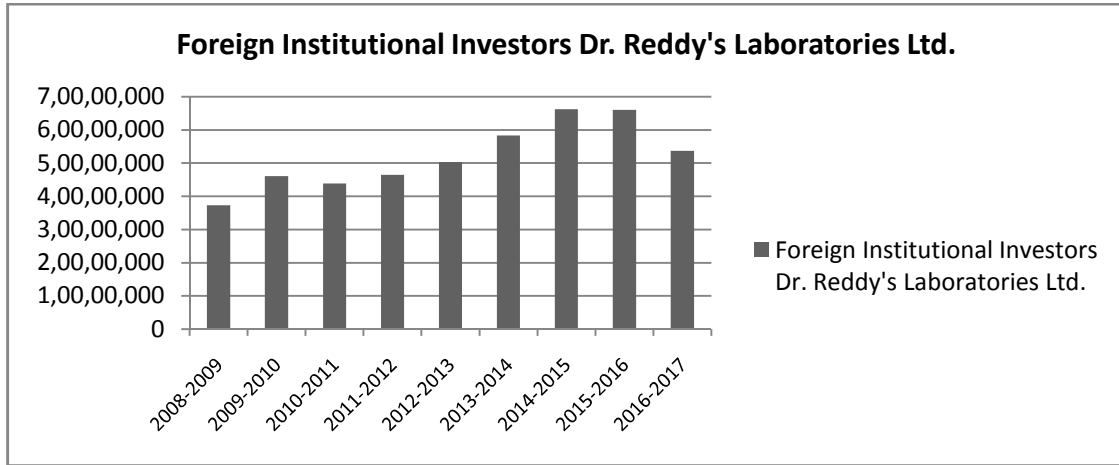
Though the auditors and investors individually agree that IFRS promote global capital mobilization, but in group comparison they differ in opinions on the statement that IFRS promote global capital mobilization. Hence, it was concluded that there is significant difference in opinions of Auditors and Investors that Implementation of IFRS promote global capital mobilization. In order to know the effect of IFRS adoption and global capital mobilization an attempt has been made to study the pattern of foreign holding in the capital structure of Dr. Reddy’s Laboratories Limited. Dr. Reddy’s Laboratories Limited adopted IFRS during the year 2008-09. The foreign share holding pattern after the adoption of IFRS and global reporting for the year 2008-09 onwards was analyzed and the following trend was observed.

Table 5: Share Holding of Foreign Institutional Investors in Dr. Reddy’s Laboratories Ltd.

Financial Year	No. of Shares owned by FIIs
2008-2009	3,73,24,443
2009-2010	4,60,44,755
2010-2011	4,38,34,909
2011-2012	4,64,97,438
2012-2013	5,03,67,192
2013-2014	5,83,53,621
2014-2015	6,62,11,413
2015-2016	6,60,05,077
2016-2017	5,36,94,200

Source: Company annual reports

Chart 1: Foreign Institutional Investors of Dr. Reddy's Laboratories Limited



Source: Company annual reports

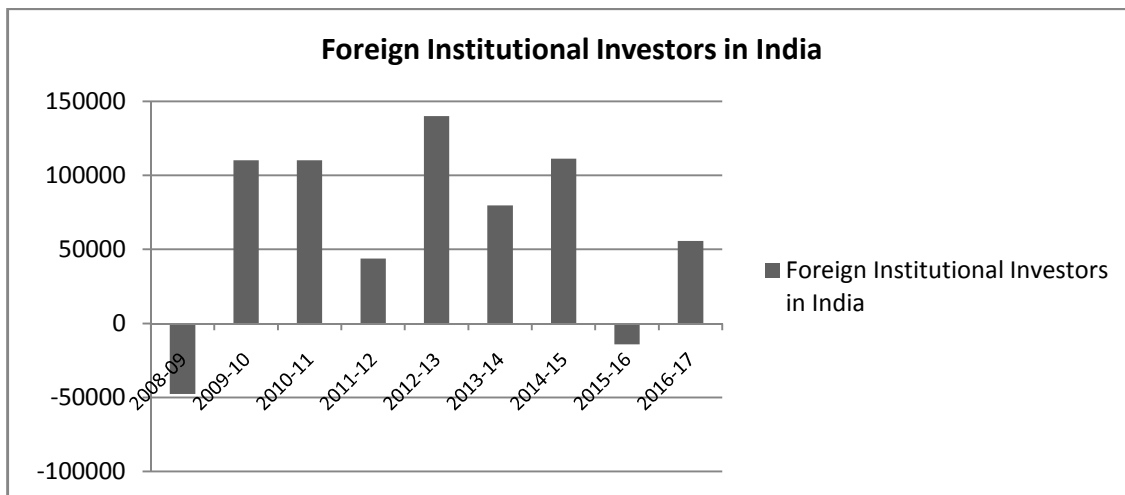
It is evident from the table 5 and chart 1 that, the shares owned by the foreign institutional investors increased continuously after adoption of IFRS except the year 2016-17 where the company implemented buy back strategy.

Table 6: Total inflow Foreign Institutional Investors in India

Financial Year	Inflow of Fils
2008-2009	-47706
2009-2010	1,10,221
2010-2011	1,40,033
2011-2012	43,738
2012-2013	1,40,033
2013-2014	79,709
2014-2015	1,11,333
2015-2016	-14172
2016-2017	55,703

Source: NSDL

Chart 2: Foreign Institutional Investors in India



Source: NSDL

Table 6 and chart 2 show the inflow of foreign institutional investors in India for the period 2008-09 to 2016-17. It is clear that the total inflow of foreign institutional investors in India during the period 2008-09 to 2016-17 has no consistent trend during the period of study. On the other hand, there is negative trend in FIIs in the year 2008-09 due to heavy outflow of investment in the year. This is contrary to the figures of foreign institutional investors in table 5 of Dr. Reddy's laboratories limited which has an upward trend when compared to the base year 2008-09.

Hence, it can be concluded that adoption of IFRS and providing the financial statements globally has boosted the confidence among the foreign institutional investors resulting in an increase in the share holding pattern across the period of study when compared to the year 2008-09. Thus, the decision of the company to adopt IFRS has shown a positive development on the share holding pattern with the increase of investment by foreign institutional investors.

Conclusion

In India, IND AS are adopted versions of IFRS. The Government of India through Ministry of Corporate Affairs has made IND AS mandatory for every listed company and unlisted companies with net worth greater than or equal to 250 crores. Based on the data collected, it can be concluded that corporate reporting under IFRS has reached new heights which aims at providing all the relevant information to the stakeholders which is comparable and easily understandable. Adoption of IFRS and reporting globally has brought a positive change in the investors globally and increased the level of confidence among the investors resulting in an increase in the share holding pattern by the foreign investors in Dr. Reddy's Laboratories Limited.

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