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EDITORIAL

Investor protection occupies a prominent place in the emerging capital market environment. The number of individual investors have grown from around 30 lakhs to approximately 6.30 crores in 2003-04. SEBI has evolved dual approach in this regard. The issues like redressal of investor grievances, investigations, enquiry officers etc. have been analysed by Prof. P. Vishwanath. Prof. V. Bhanu examines the comparative trends in profitability of merged and selected 134 companies. Prof. Suresh Chander discussed the role of various regulatory agencies in corporate disclosure practices. Pre and post merger financial performance of selected four companies was analysed by Dr. Raghunatha Reddy and S. Padma. Dr. S.K. Mangal made a comprehensive analysis on time gap between AS and IAS and identified reasons for such time gap. Mr. Patra tried to examine the issue of liquidity vs. profitability. Sandeep K. Bhatt has used traditional method of ratio analysis. Dr. Ashok Mishra highlighted issues relating to environmental audit. Dr. Vijay Kumar raised issues relating to present State of Accounting Education and Research.

Date: 30.6.2005

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INVESTOR PROTECTION : THE ROLE OF SEBI

*P. Viswanadham

ABSTRACT

One of the main objectives of SEBI is to protect the interest of the investors. 'Investor Protection' occupies a prominent place in the changing financial environment in general, capital markets in particular. Companies which made tall claims and false promises vanished into thin air leaving the investor cheated and bankrupt. The concept of investor protection is of two fold issue. One is self-protection and the other one is protection from the regulatory mechanism. This study examines the investors' complaints against various financial intermediaries such as Brokers , Merchant Bankers, Issue managers and Registrars. This paper also reveals that the investors complaints with SEBI are mounting and SEBI is playing a crucial role in resolving their complaints, taking up the investigations and the actions against various intermediaries.

INTRODUCTION

The number of individual investors have grown from around 30 lakhs to approximately 6.30 crores in 2003-04. In 1995-96, the total amount raised by Corporate sector by issue of equity was Rs. 8,882 crores. However, it was 17,821 crores in 2003-04. It is much more in the year 2004-05. The same trend is also followed in debt markets . The investment culture has spread from urban to semi -urban and rural areas of the country. According to SEBI-NCAER Survey, conducted in June 2000, the percentage of rural investors in Equity shares is 13.28 % to their total investment comparatively that of urban investors with 16.62 percentage. However, the enthusiasm and interest of many small investors was curtailed by many companies, brokers, issue managers, mutual funds and banking institutions by displaying an apathetic attitude and deficiency in the quality and performance of their services thereby causing a lot of dissatisfaction and loosing confidence and faith in financial sector. This is evidenced from the fact that the total number of grievances received by the SEBI from investors from 1991-92 to 2003-04 are 27.85 lakhs . As pointed out by L.C. Gupta in his survey on Indian Share Owners, 61% of the household investors are dissatisfied with the companies for their apathetic attitude towards investors. In addition to that, 44% of the investors are not satisfied with the information

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supplied by the companies in which they are shareholders. The basic objective of the paper is to make a critical assessment of the role of SEBI in taking up investor protection issues.

The study is based upon the data collected from annual reports of SEBI and various surveys and journals. The web sites of various Investors' associations and SEBI are also widely used to make the study more and more informative.

As a part of its role towards investor protection, SEBI has, since its inception, evolved dual approach i.e. Proactive approach and Reactive approach.

I) PROACTIVE APPROACH

Under this approach, SEBI strongly believes that investors are the backbone of securities market and 'investors' awareness' is the right solution to solve the problem. "Investors' awareness" can be created by "investors' education". Today "investor Education" has become a focus for the regulations in general and SEBI in particular. SEBI has been taking direct steps to educate the investors through various programmes. They are as follows:

SMAC (Securities Market Awareness Campaign)

SEBI launched a comprehensive education campaign aimed at creating awareness among investors about securities market, which has been christened as "Securities Market Awareness Campaign (SMAC)". The main motto of this campaign is '*An Educated Investor is a Protected Investor*'. The above said campaign was launched by the then Prime Minister Shri Atal Bihari Vajpayee on 17th January 2003 at the National Level. It was closely followed by launches in 12 States in the same year namely Punjab, Gujarat, Kerala, Maharashtra, Uttar Pradesh, New Delhi, Karnataka, Rajasthan, Tamil Nadu, Andhra Pradesh, West Bengal and Uttaranchal.

Workshops

Till date more than 1167 workshops have been conducted in around 500 cities/towns in 20 States in the country. The basic aim is to acclimatize the investors with the functioning of the securities market.

Educative Material

SEBI has also prepared a standardized reading material to guide on topics concerning investors. Tips on 'Dos and Don'ts' in investment game are also referred in the material. The material is available in 10 major regional languages other than Hindi and English. In addition to Educative material, Audio-Visual Clip depicting detailing the theme of the Securities market Awareness Campaign was played at the various Workshops.

Investor Website

An investor Website has been placed with a view to make information accessible to investors on line at one place. Investors can log at website: [http:// Sebi.investor.gov.in](http://Sebi.investor.gov.in).

Internet based Response system

A simple and effective Internet based response to Investor complaints has been set up. Investors can lodge their grievances electronically and get an acknowledgment to specified e-mail address of the concerned investor.

Advertisements

Till date over 700 advertisements relating to various aspects of Securities market appeared in 48 different Newspapers/Magazines covering approximately 111 cities in 9 regional languages. Campaign on TV and Radio was also made to educate illiterate investors.

II) REACTIVE APPROACH:

Under this approach, SEBI takes up grievances related to various matters in capital market against the various intermediaries registered with it and get them redressed; taking cases for investigation in respect of issue related and market related matters and completing and appointing the enquiry officer for violation of rules and regulation and taking action in time. SEBI takes up such grievances related to following matters against various intermediaries registered with it. Given below are types of grievances classified into 11 categories for which any person could approach SEBI.

TYPES OF GRIEVANCES

TYPE - I :	Refund Order/ Allotment Advise
TYPE - II :	Non-Receipt of Dividend
TYPE - III :	Non-Receipt of share certificates after transfer
TYPE - IV :	Debentures
TYPE - V :	Non-Receipt of letter of offer for rights
TYPE - VI :	Collective Investment Schemes
TYPE - VII :	Mutual funds/Venture capital funds/Foreign Ventures/Capital Investors/ Foreign Institutional Investors/Portfolio Managers, Custodians.
TYPE - VIII :	Brokers/Securities Lending Intermediaries/Merchant Bankers/Registrars and Transfer agents/Debenture Trustees/Bankers to Issue/Credit Rating Agencies Underwriters/Depository Participants.
TYPE - IX :	Securities Exchanges/Clearing and Settlement Organizations/Depositories
TYPE - X :	Derivative Trading
TYPE - XI :	Corporate Governance /Corporate Restructuring /Substantial Acquisition and Takeovers/Buyback/Delisting/Compliance with Listing conditions

To redress the grievances of Investors, the SEBI may appoint one or more ombudsman/ stipendiary ombudsman (i.e. person to act as ombudsman in respect of a specific matter(s) in a specific territorial jurisdiction.) as per the SEBI Ombudsman/Stipendiary Ombudsman Regulations, 2003. The office of the ombudsmen would be located at the Head office where as Stipendiary ombudsman would be located at the place of specific complaint. The related analytical issues are critically reviewed in the following subsections.

A. Redressal of Investor Grievances

Table -1 shows the number of grievances received and redressed by the SEBI from 1991-92 to 2003-04.

Table-1 : Receipts and Redressal of Investor Grievances

Year	Grievances Received		Grievances Redressed		Cumulative Redressal Rate	Year-wise Redressal Rate
	During the Period	Cumulative	During the Period	Cumulative		
1991-92	18794	8794	4061	4061	21.6	21.6
1992-93	110317	129111	22946	27007	20.9	20.8
1993-94	584662	713773	339517	366524	51.4	58.0
1994-95	516080	1229853	351842	718366	58.4	68.2
1995-96	376478	1606331	315652	1034018	64.4	83.8
1996-97	217394	1823725	431865	1465883	80.4	100.0
1997-98	511507	2335232	676555	2142438	91.7	100.0
1998-99	99132	2434364	127227	2269665	93.2	100.0
1999-00	98605	2532969	146553	2416218	95.4	100.0
2000-01	96913	2629882	85583	2501801	95.1	88.0
2001-02	81600	2711482	70328	2572129	94.9	86.0
2002-03	37434	2748916	38972	2611101	95.0	100.0
2003-04	36744	2785660	21531	2632632	94.5	59.0

Source: Handbook of Statistics 2004, Published by SEBI

Table 1 shows that the number of grievances received are decreasing from year to year whereas the number cases redressed are increasing in the same period which shows the sincere efforts of SEBI in redressing the grievances. The maximum number of grievances received were 5.84 lakhs in 1993-94, whereas the maximum number of grievances attended were 6.76 lakhs in the year 1997-98. SEBI's response to Investors' complaints is 21.6 per cent only in

1991-92 however it went up to 100 per cent in 96-97, 97-98, 98-99, 99-00 and 2002-03 respectively. This indicates the speed and effective rate at which SEBI is attending the grievances year-wise. The over all performance rate is indicated by the cumulative redressal rate which stood at 21.6 in 1991-92, whereas it was 94.5 in 2003-04. This indicates that the overall rate of response in attending the grievances is also increasing since the inception of SEBI.

B. Investigation

Where the SEBI has reasonable ground to believe that any Company or Intermediary involves in any transaction within a manner detrimental to the investors or any person or intermediary violates any of the provisions of the SEBI Act or rules or regulations, SEBI can appoint an investigating authority to investigate the affairs of such intermediary or persons associated and report to SEBI as per Section 11 (C) of the Act. Table -2 shows the cases taken up for investigation and completed from the year 1992-93 to 2003-04.

Table-2: Investigation taken up and completed

Year	Cases taken up for investigation	Cases completed	Percentage of cases completed
1992-93	2	2	100
1993-94	3	3	100
1994-95	2	2	100
1995-96	60	18	30
1996-97	122	55	45
1997-98	53	46	87
1998-99	55	60	100
1999-00	56	57	100
2000-01	68	46	67
2001-02	111	29	26
2002-03	125	106	85
2003-04	121	152	100
Total	778	576	74

Source: Handbook of Statistics 2004, published by SEBI

Table -2 reveals that total cases taken up for investigation from 1992-93 to 2003-04 are 778 of which 576 cases representing a rate of 74 % are completed. This rate is ranging from 26% in 2001-02 to 100 % in the years 92-93, 93-94, 94-95 and 2003-04 respectively. This also shows the sincere reactive approach in attending the cases and completing in time by the SEBI.

C. Nature of Investigation taken up

It is further observed that the nature of investigations taken up by SEBI are relating to different areas of securities market such as price rigging, Insider trading, issue related manipulations and takeovers etc. The point of analysis on this issue is presented in Table -3 from 1998-99 to 2003-04.

Table - 3: Nature of investigation taken up

Nature of the Investigation	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Market manipulation and price rigging	40 (72.72)	47 (83.92)	47 (69.11)	86 (77.47)	95 (76.00)	96 (79.33)
Issue related manipulation	4 (7.54)	2 (3.57)	5 (7.35)	1 (0.90)	2 (1.60)	2 (1.65)
Insider trading	4 (7.54)	3 (5.35)	6 (8.82)	16 (14.41)	13 (10.4)	14 (11.51)
Takeovers	6 (10.90)	1 (1.79)	1 (1.47)	1 (0.90)	9 (7.20)	2 (1.65)
Miscellaneous	1 (1.81)	3 (5.35)	9 (13.23)	7 (6.30)	6 (4.80)	7 (5.98)
Total	55 (100.00)	56 (100.00)	68 (100.00)	111 (100.00)	125 (100.00)	121 (100.00)

Source: Handbook of Statistics 2004, published by SEBI

As seen from the table, it is evident that most of the investigations taken up by the SEBI are against to 'Market manipulation and price rigging' followed by 'Insider trading' and 'Issue related manipulations' respectively. 72.72% of the cases taken up by SEBI in 1998-99, 83.92% of cases in 1999-00 and 79.33% cases in 2003-04 are pertaining to Market Manipulation only which reflects the seriousness of the problem being faced by the investors. However, out the rest, Insider trading is becoming prominent in all the years under study. There were as many as four cases representing 7.54% in 1998-99 taken up which had gone up to 14 cases in 2003-04 representing 11.5% in 2003-04. But, issue related cases taken up by SEBI were in decreasing trend from 1998-99 (7.54 %) to 2003-04 (1.65%). In its endeavor to protect the investors interest, SEBI is not only taking up the cases, but also completing them in time to satisfy the investors.

D. Nature of Investigations Completed

The following Table-4 shows the number of investigations completed by the SEBI, out of the cases taken up during the same period .

Table-4: Nature of Investigations Completed

Nature of Investigations Completed	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Market Manipulation & Price rigging	31 (51.66)	37 (64.01)	27 (58.69)	11 (52.39)	72 (67.92)	122 (80.20)
Issue related manipulation	16 (20.66)	8 (14.03)	8 (17.39)	0 (0.00)	8 (9.57)	3 (1.97)
Insider Trading	4 (6.67)	5 (8.77)	4 (8.69)	6 (28.57)	14 (13.20)	9 (5.92)
Takeovers	6 (10.00)	0 (0.00)	3 (6.52)	1 (4.76)	7 (6.60)	3 (1.97)
Miscellaneous	3 (5.00)	7 (12.28)	4 (8.69)	3 (14.20)	5 (4.71)	15 (9.86)
Total	60 (100)	57 (100)	46 (100)	21 (100)	106 (100)	152 (100)

Source: Handbook of Statistics published by SEBI, 2004.

As shown from the above, it is evident that the prominent cases completed are pertaining to 'Market manipulation and price rigging' followed by 'Issue related manipulations'. In 1998-99, 31 investigations in Market manipulation and price rigging, representing 51.66% were completed, whereas it was 67.92% in 2002-03 and further more in 2003-04 with 122 investigations reflecting 80.2%. Issue related manipulation was another serious issue where SEBI completed more investigations. It is clear from the above two tables that SEBI is doing a good job not only in taking up investigations but also completing the investigations promptly.

E. Appointing an Enquiry Officer

If the SEBI suspects that any Intermediary has violated any provision of the SEBI Regulations 1992, an enquiry in respect of such violation can be adjudicated under Chapter VI-A of SEBI (Procedure for Holding Enquiry and Imposing Penalties by Adjudicating Officer) Rules 1995. These regulations have been amended twice i.e. on 27th November 2003 and 30th December 2003 and issued new regulations as Procedure for holding enquiry by Enquiry Officer and Imposing Penalty (Amendment) Regulations 2003. Under these regulations, an officer of the Board specified by the Chairman or Member on his behalf can be proposed to hold an enquiry and the intermediary is required to submit a written statement to specify whether he desires to be heard, in person before the enquiry officer, within in 21 days.

SEBI has appointed enquiry officers in various cases against different financial intermediaries. Table-5 gives the details of cases where enquiry officer has been appointed, from 1996-97 to 2003-04.

As seen from the Table-5, maximum number of cases where enquiry officer appointed are in case of Stock brokers and sub-brokers in secondary markets followed by merchant bankers in primary markets. SEBI appointed enquiry officer in 58 cases against brokers representing 83% in 1996-97, whereas in 2003-04 there were 272 cases representing 86.64% against whom enquiry was taken Place. It is also interesting to observe that the number of cases in primary market where enquiry officer was appointed are declining from year to year. There were 10 merchant bankers in 1996-97 representing 14% where enquiry officer was appointed, but in 2003-04, it was only three reflecting just one per cent where enquiry was taken place.

Table -5: Details of Cases where Enquiry officer has been appointed

Intermediaries	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Stock Brokers	58 (83.00)	34 (71.19)	65 (71.42)	39 (75.00)	21 (48.83)	136 (88.88)	158 (85.40)	272 (86.64)
Merchant Bankers	10 (14.00)	7 (13.46)	10 (10.98)	6 (11.53)	4 (4.50)	1 (0.65)	4 (2.16)	3 (1.00)
FII	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	1 (0.65)	1 (0.54)	0 (0.00)
Bankers to an Issue	0 (0.00)	2 (3.84)	6 (6.59)	2 (3.84)	11 (25.58)	2 (1.30)	3 (1.62)	2 (0.63)
Sub-brokers	0 (0.00)	0 (0.00)	0 (0.00)	1 (1.92)	1 (2.32)	13 (2.49)	13 (7.02)	32 (10.19)
RTA/STI	2 (3.00)	9 (17.30)	10 (10.93)	4 (7.69)	6 (13.95)	0 (0.00)	6 (3.24)	1 (0.32)
Mutual fund	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	1 (0.32)
Portfolio Manager	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	1 (0.32)
Depository Participant	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	2 (0.00)
TOTAL	70 (100)	52 (100)	91 (100)	52 (100)	43 (100)	153 (100)	185 (100)	314 (100)

Source: Hand book of Statistics 2004, Published of SEBI

F. Action taken

The enquiry officer / Investigating authority, on completion of Investigation, if satisfied that there is a violation of the regulations and after giving a reasonable opportunity of hearing to the persons concerned, may by an order, in the interest of the investors and securities market, issue or take any of the following actions or directions, namely Cancellation of registration,

Suspension, warning issued etc., under the Section 11/11-B, 15 and 24 in Chapter VI-A of SEBI (Procedure for Holding Enquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 as amended in 2003.

Table -6 shows the courses of action taken against various intermediaries from 1996-97 to 2003-04.

Table-6: Action Taken

Action	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Cancellation	NA (0.00)	2 (2.66)	0 (0.00)	4 (3.30)	1 (2.56)	1 (0.70)	11 (4.28)	3 (1.72)
Suspension	NA (0.00)	39 (52.00)	16 (16.5)	30 (24.80)	4 (10.25)	8 (5.60)	42 (16.34)	43 (24.72)
Warning issued	NA (0.00)	9 (12.00)	17 (17.50)	28 (23.20)	9 (23.00)	36 (25.17)	62 (24.12)	22 (12.36)
Directions u/s 11B	NA (0.00)	10 (13.33)	62 (63.91)	58 (47.90)	21 (53.84)	98 (68.53)	140 (54.47)	106 (60.92)
Issues refunded	NA (0.00)	3 (4.00)	2 (2.06)	1 (0.80)	4 (10.25)	0 (0.00)	2 (0.78)	0 (0.00)
Impound of auction/close out proceeds (Rs. 6 core)	NA (0.00)	12 (16.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Total	Na (0.00)	75 (100)	97 (100)	121 (100)	39 (100)	143 (100)	257 (100)	174 (100)

Source: Hand Book of Statistics 2004, published by SEBI. NA: Not available

Table-6 shows that 'Prohibitive directions issued' under Section 11B of SEBI Act are prominent action taken in all the years under the study followed by Warnings and Suspension. Section 11B is the action taken by SEBI for violation of provisions relating to Disclosure practices. In 1997-98, 13.33% of total actions were in respect of violation of disclosure practices whereas it had gone up to 60.92% of total actions taken up in 2003-04. Another common action taken up is Warnings issued to various intermediaries. Suspension of trade and cancellation of registration was also found increasing in all the years under the study. Highest number of suspensions were found in 1997-98 with 39 cases representing 52% whereas it was 24.72% in 2003-04.

CONCLUSION

In its endeavors towards the protection of investors, SEBI has been active in its proactive approach by conducting Investors' awareness /Investors' education programmes in several ways across the country. SEBI is equally active in its reactive approach also by redressing the

investors grievances, conducting investigations and appointing enquiry officers against financial intermediaries and also taking action in number of cases. However, there has been criticism against the style of function and scope of powers with which SEBI is operating and the amount of 'red-tapism' in implementing the enquiry reports. It is also criticized on the ground that the political intervention in its administration is mounting . In spite of its continuous efforts, Securities Markets today are not free from violations and malpractices; Small Investors are not adequately educated or sufficiently protected in primary and secondary markets. Therefore, there is a need to strengthen the hands of SEBI with more and more legal /judicial powers and make it a unique machinery on the lines of SEC (USA) to safeguard the interest of investors.

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MERGED COMPANIES - THEIR PROFITABILITY PERFORMANCE

*V. Bhanu

ABSTRACT

The structural adjustment programmes and the new industrial policy adopted by the Indian government has enabled business houses to undertake the programme of expansion either by entering into a new market or through expansion in an existing market. In this context, it is found that in order to expand and grow companies in India are increasingly resorting to mergers and acquisitions. In this regard this study has identified twelve merged companies and proposes to examine the growth of the merged companies vis-à-vis select one hundred thirty four companies in terms of net fixed assets and paid-up capital for the period 1990-1 -1997-8. The study also examines the trends in profitability of the merged and select companies for the above-mentioned period. Some of the findings are that the number of mergers in the Indian corporate sector has accelerated in the post-1991 period. There was boom in investment in the net fixed assets of both merged and select companies. A good number of public issues were made between 1992-3 and 1995-6 and this resulted in the significant growth of paid-up capital. The merged companies have been more successful and profitability under all the heads examined, were higher for these companies as compared to the select (134) companies.

The corporate sector increasingly resorted to mergers and acquisitions due to significant gains they entail in terms of synergy, economies of scale, better financial and marketing advantages, diversification and reduced earnings volatility, improved inventory management, increase in domestic market share and above all capturing fast growing markets abroad (Kaur 2002) The present study proposes to examine first, the growth of one hundred and thirty four select companies vis-a-vis twelve merged companies in terms of net fixed assets, sales and paid-up capital during the period 1990-91 -1997-98, and second, to examine the trends in profitability of the select companies and the merged companies for the period mentioned above. The select companies (134), with an aggregate paid-up capital of Rs. 53,950.48 crores; net fixed assets of Rs 588,042.2 crores and with a net sales of Rs 1,019,988 crores, accounted for

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22.87 percent, 31.53 per cent and for about 40.5 per cent, of paid-up capital, net fixed assets and net sales of 1948 companies (firms) of the RBI study¹ in 1997-98. The select companies constituted about 6.87 per cent of the RBI study. This study has identified twelve merged companies accounting for 10.43 per cent of net fixed assets, 13.59 per cent of paid-up capital and 16.9 per cent of net sales of the aggregate of 134 companies² in the year 1998. They are India Cement, Ambuja Cement; Novartis India Ltd; Wyeth Liderle Ltd; Hoechst Marion Roussel Ltd; Hindustan Lever Ltd; Vam Organic Chemicals Ltd; Core Health Care Ltd; Dr. Reddy's Laboratories; Wockhardt Ltd; Ranbaxy Ltd and Asea Brown Bovari Ltd. Table 1, shows a progressively increasing share of merged companies in the aggregate (134 select) of companies in terms of net fixed assets, paid-up capital and sales. The financial data of the selected companies have been taken from various volumes of the Official Directory of Bombay Stock Exchange. The analysis is at current prices. This study has used a reasonable number of ratios, so that the overall profitability of a firm can be measured with a fair degree of accuracy. The ratios are earnings before depreciation, interest and tax as a ratio of sales (EBDIT/S); profit after tax to sales (PAT/S); return on capital employed (ROCE); earnings before interest and tax as a percentage of total assets (EBIT/TA) and return on net worth (RONW).

The study is divided into two sections. Size-distribution of merged and select companies in terms of net fixed assets and paid-up capital are analysed in Section one. Section two shows an analysis of growth and profitability of the select and merged companies for the period 1990-91 - 1997-98. The methodology has been drawn from Sahu's study.

SIZE-WISE DISTRIBUTION OF THE MERGED COMPANIES

Beena's study³ of the acquiring firms, involved in the merger process during the 1990s, indicated that though the merged firms constituted a very small segment of the corporate sector as a whole, the size of the firms have increased considerably during the 1990s. In order to analyse the relative size of the merged firms in term of net fixed assets and paid-up capital during the post-reform period, the present study too has categorized the merged companies into six size classes of less than Rs. 75 million; Rs. 75 million to Rs. 150 million; Rs. 150 million to Rs. 300 million; Rs. 300 million to Rs. 600 million; Rs. 600 million to Rs. 1000 million and Rs. 1000 million and above. Tables 2 and 3, presents the size-wise distribution of twelve merged companies in terms of percentage share of net fixed assets and paid-up capital and number.

Table 2, presents size-distribution of merged companies in terms of net fixed assets and reveals a skewed distribution of net fixed assets among twelve merged companies, which were almost equally distributed among all size classes except for the size class of Rs. 150 m to Rs. 300 m. Over the period of study, the companies in the lower size class of less than Rs. 600 million (seven), moved over to higher size class of Rs. 600 m - Rs. 1000 m and Rs. 1000 m &

1 Table 3 and 4 in RBI Bulletin, Oct 1999, p.1082 and 1083.

2 As has been examined in my Major Research Project entitled, 'Capacity Utilisation in Indian Industries' sponsored by UGC, New Delhi. This article is taken from the above-mentioned study.

3 The period of study is 1972-73 to 1994-95.

above. Seven companies were added to the largest size class of 1000 m and above, during the period of the study; suggesting substantial expansion in the size of the companies in the post-reform period. In the year 1991, five companies in the size class of 600 million and above, accounted for 79.9 per cent of net fixed assets, which grew to 100 per cent (eleven companies) in 1997-8. In other words, the medium sized companies (Rs. 150 m to Rs. 600 m) accounted for only 16.5 per cent and the small sized companies (less than Rs. 150 m), for 3.6 per cent of net fixed capital in 1997-8. To conclude, over the period of eight years, there has been a substantial growth in size of the companies, suggesting that capacity build up in the merged companies has been capital intensive.

Table 3, representing size distribution on the basis of paid-up capital, showed that in 1990-91, only one company, Hindustan Lever Ltd, was in the largest size-class of Rs 1000 m and above and accounted for 55.8 per cent of paid-up capital, while five companies with 7.88 per cent share, belonged to the smallest size-class of less than Rs 75 m; three companies (11.39 per cent) were in the size-class of Rs 75 m - Rs 150 m and the balance of three companies with 24.93 per cent share, were in the size-class of Rs. 150 m - Rs 300 m. Over the period of study, only two companies remained in the smallest size class, while all other companies moved over to higher size-class of Rs 150 m - Rs 300 m; Rs 300 m - Rs 600 m and Rs 600 m - Rs 1000 m. In this process the paid-up capital of only Gujarat Ambuja Ltd grew substantially so as to reach Rs 1000 m and above size-class. It will be observed in Appendix 1, that in 1991, 59.7 per cent of companies (80 companies) were small and accounted for 12.27 per cent of paid-up-capital, while only 2.24 per cent of companies (3 companies) in the size class of Rs.1000m & above, accounted for 25.55 per cent of the paid-up-capital. But the scene changed substantially over the years and in 1998 the size class of less than 75 m, with 27.6 per cent of companies, accounted 2.71 per cent of paid-up-capital, indicating a shift in the size of the companies from small size to larger size, as is evident from the year-to-year increase in the number of companies and their share of paid-up-capital. In 1997-8, there were 26 companies in the size class of Rs. 75 m to Rs. 150 m with 5.29 per cent share in the paid-up-capital; 22 companies in the size class of Rs. 150 m - Rs. 300 (8.39 per cent); 23 companies in Rs. 300 m - Rs. 600 m (18.81 per cent); 11 companies in Rs. 600 m - Rs. 1000 m (14.61 per cent) and 15 companies in Rs. 1000 m and above, accounting for fifty per cent of paid-up capital.

TRENDS IN GROWTH AND PROFITABILITY OF THE SELECT AND MERGED COMPANIES

Next, an attempt is made to understand the response of the private corporate sector to various economic reforms measures introduced in India since 1991. This is done by examining the trends in profitability, growth in sales, net fixed assets and paid up capital of the aggregate of select and merged companies for the period 1990-1 to 1997-8.

The trends in the financial performance of the select and merged public limited companies for the period 1990-91-1997-98 are presented in Table 4. There was a boom in

investment in the net fixed assets of both the group of companies in the first three years of the period of study. The average rate of growth was 23.84 and 30.48 percent per annum during the period 1990-91-1997-98, as compared to 15.95 percent per annum in 1985-91⁴. The growth rates during 1991-92 to 1993-94 and 1995-6 for merged companies were higher than the average. The highest growth rate in the fixed assets was at 36.08 percent in 1993-94 for select companies, which dropped to 18.38 per cent in 1994-5, but recovered in 1995-6 but declined, in the later years. Growth in net fixed assets of the merged companies was higher and peaked at 48.8 per cent in 1995-6 but declined later. Thus the merged companies acquired substantial assets in the process of consolidation.

The average growth rate of sales in the select companies was 16.08 percent per annum during 1990-91 - 1997-98, as compared to 16.37 percent per annum during 1985 to 1990⁵, which was marginally lower, while Mathew's study⁶ reports it as 15.7 percent per annum for the period 1985-91. Growth in sales however, was higher than the average during 1994-95 (19.98 percent) and 1995-96 (27.24 percent) and declined in the later years of the period of study.

A good number of public issues were made between 1992-3 and 1995-6 and this resulted in the growth of paid-up-capital. A growth rate of 24.81 per cent and 15.1 per cent (1992-3); 18.12 per cent and 11.28 per cent (1993-4); 26.61 per cent and 37.51 per cent (1994-5) and 17.54 per cent 28.24 per cent (1995-6) in paid-up-capital has been observed in the select and merged companies. However, the accelerating momentum could not be sustained and the growth rate fell to 5.02 per cent in 1996-7, which marginally improved to 7.26 per cent in 1997-8. The merged companies have performed well both in terms of paid-up capital and sales and remained on par with the select companies. In fact the higher growth rates in net fixed assets and paid-up capital in merged companies was due to the mergers mainly taking place in the year 1995 and after. However, the growth in all the three variables slow down during the years 1996-7 and 1997-8 for both the group of companies. It may be concluded from the above analysis that the policy change has had a positive impact on the growth of fixed assets, sales and paid-up-capital of the all the companies including merged companies, though the position weakened during 1996-97 and 1997-98 and the initial tempo could not be sustained.

Performance measured in terms of margin on sales, return on capital employed, total assets and net-worth are also presented in Table 4. The trend in sales margin was very stable and ranged between 14.87 per cent (1996-7) and 18.44 per cent (1990-1). For the select companies it ranged between 16.11 per cent (1997-8) and 19.09 per cent (1991-2). Net profit as a percentage of sales grew from 7.81 per cent in 1990-1 to 15.27 percent in 1994-5 for both the group of companies, but thereafter it sharply declined to 5.04 per cent and 6.48 per cent in 1997-8 for the select vis-à-vis merged companies. The average return on capital employed for the select

4 Financial Performance of Companies - ICICI Portfolio, March 12, 1992 Table 1, p.3

5 Ibid p.3

6 Joseph Mathew, Rupa R Nitsure, L Bhagirathi and Madan Sabnavis (1998), 'India's Economic Reforms: Private Corporate Sector Response', ABAS International Conference on Emerging Economies, at Budapest University of Economic Sciences, July 13-15, 1998. Source: www.google.com

companies was at 14.46 per cent per annum during the period 1990-91 to 1997-98 and was the highest at 17.17 per cent in 1991-2 and fluctuated in the intermittent years and was finally at 10.50 per cent in 1997-8. Fluctuation is also seen in the ROCE of merged companies, but the ratio has been higher for all the years of study. The findings compared very well with those reported by the ICICI study⁷. As per this Study, the average return on capital employed was 15.22 percent per annum, during 1985-86 to 1989-90. This implies that the large build up of the capacity, which took place during the reform period, was not fully utilised. An increasing trend was observed in all profitability ratios (except RONW) during 1993 to 1996. There was a general decline in profitability in 1997 and 1998 (Table 4). Next, all the ratios first peaked in 1992 but dropped in the subsequent years. However they recovered and peaked again in 1996. For merged companies the return on net worth was the highest in 1991 (28.25 per cent), which dropped to 13 per cent 1997-8. It has been observed that the profitability in the merged companies under different heads have either been equal or better than that of the select companies.

Thus, the corporate sector registered a higher growth in net fixed assets and paid-up-capital and marginally less growth in sales during the post-reforms period as compared to the pre-reform period. A higher growth rate in profit ratios was also observed. Higher profits accrued mainly due to the external factors induced by policy changes such as lower interest and tax rates and availability of cheaper funds through capital market, domestic and foreign borrowings.

The important findings of the above analysis are: (1) Significant additions to capacity have taken place during the 1990-1- 1997-8, as several companies moved over to larger size class. (2) The maximum growth was in the highest size class of Rs.1000m and above, which grew both in terms of number of companies and percentage share in fixed assets. (3) Over the period of the study many of the small and medium sized companies grew in size and the maximum gain in terms of share of paid-up-capital was in the largest size class of Rs.1000m & above (15 of the select and ten of the merged companies) suggesting substantial increase in the new issues. (4) The companies in the size class of Rs. 300 m - Rs. 600 m grew in number and percentage share; companies in other size classes increased in number but had a smaller percentage share in paid-up-capital. (5) There has been a substantial increase in the sales of the select companies. But, the average sales per company in the largest size class of Rs.1000m and above, dropped significantly. The increase may be both due to the increase in output and price. The average growth in price was 8 per cent during the period of the study. (6) The growth in gross fixed assets, sales and paid-up capital nearly stagnated in 1996-7 and 1997-8.

CONCLUSION

In terms of financial performance, the merged companies have been more successful during the period of study. The growth rates of Net Fixed Assets, Paid-up Capital and Net Sales, have been higher for the merged companies as compared to the select companies. Even in terms of profitability measured under different heads revealed relatively a better performance.

7 ICICI Study cited above.

However, the results do not indicate improved performance of the companies in the post-merged years. Yet the removal of institutional entry barriers have encouraged a few companies to redefine their product portfolios and reformulate their corporate and business strategies through the takeover process.

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Table 1: Percentage Share of Merged Companies (twelve) in the Select Companies (134)

Years	Net Fixed Assets			Paid-up Capital			Net Sales		
	Select Co (Rs million)	Merged Co (Rs million)	%	Select Co (Rs million)	Merged Co (Rs million)	%	Select (Rs million)	Merged (Rs million)	%
1990-1	132777	9175.4	6.91	20930.5	2509	11.98	361842	35871.3	9.9
1991-2	167032.9	11643	6.97	21831	2647.96	12.13	415505.65	43747.3	10.53
1992-3	215188.8	15857.3	7.4	27247	3047.79	11.19	476143	52394.4	11
1993-4	292822.3	20739.4	7.08	32182.9	3391.52	10.53	549697	68406.7	12.4
1994-5	346645.2	28861.1	8.32	40746.7	4663.39	11.44	659505	80525.1	12.21
1995-6	421686.9	42938.8	10.18	47894.48	5980.28	12.48	839122	126538.9	15.8
1996-7	500672.9	52900.8	10.57	51229.5	6484.78	12.65	933247	143881.6	15.4
1997-8	588042.2	61369.8	10.43	53950.48	7332.91	13.59	1019988	172756.8	16.9

Table - 2: Size (NFA) Distribution of Merged Companies (twelve)

(Period:1990-1 -1997-8)

Size (Rs)	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
1000m & above	three (63.6)	four (66.48)	six (86.23)	seven (86.35)	nine (95.21)	nine (95.89)	nine (96.37)	ten (98.34)
600m - 1000m	two (16.3)	two (15.9)	one (4.12)	three (11.49)	one (2.61)	two (3.92)	two (3.48)	one (1.32)
300m - 600m	three (13.4)	four (15.46)	three (7.23)	one (1.67)	one (1.87)	-	-	-
150m - 300m	one (3.1)	one (1.36)	one (1.81)	-	-	-		one (0.34)
75m - 150m	three (3.6)	one (0.8)	one (0.61)	one (0.49)	one (0.31)	one (0.19)	one (0.16)	-
less than 75m	-	-	-	-	-	-	-	-
Total Number of Co	twelve	twelve	twelve	twelve	twelve	twelve	twelve	twelve
Total (NFA) %	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
NFA in Rs million	9175.4	11643	15857.3	20739.4	28861.1	42938.8	52900.8	61369

**Table - 3: Size (Paid-up Capital) Distribution of Merged Companies
(Period:1990-1 -1997-8)**

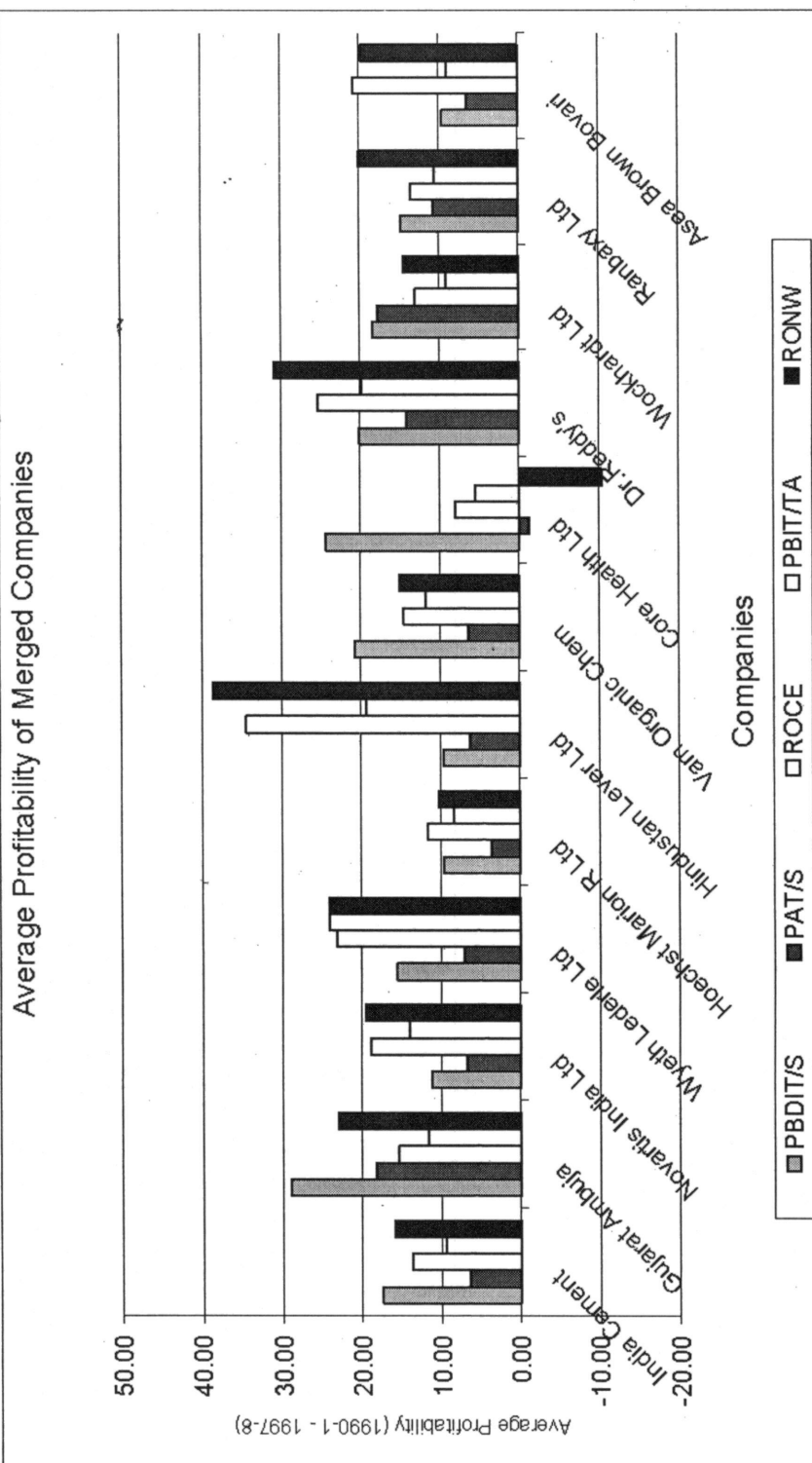
Size (Rs)	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
1000m & above	one (55.8)	one (52.87)	one (45.94)	one (43.35)	one (31.27)	two (50.6)	two (46.68)	two (50.83)
600m - 1000m	-	-	-		one (13.34)	one (10.75)	one (19.87)	two (19.01)
300m - 600m	-	-	-	two (13.19)	five (37.22)	three (24.12)	four (24.16)	four (21.95)
150m - 300m	three (24.93)	four (29.35)	five (38.29)	five (35.07)	three (15.92)	three (12.72)	three (7.64)	two (6.75)
75m - 150m	three (11.39)	three (11.6)	two (7.9)	one (3.39)	-	-	-	-
less than 75m	five (7.88)	four (6.18)	four (7.87)	three (5)	two (2.23)	two (1.78)	two (1.65)	two (1.45)
Total Number of Co	twelve	twelve	twelve	twelve	twelve	twelve	twelve	twelve
Total (PUC) %	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
PUC in Rs. Million	2,509	2,648	3,048	3,392	4,663	5,980	6,485	7,333

Note: Percentage share of each size-class in total net fixed assets of twelve companies are in parentheses.

Table 4: Performance of the Select Companies and Merged Companies

(Period:1990-1 -1997-8)

	(%)							
Growth Rate/ratio	1990-1	1991-2	1992-3	1993-4	1994-5	1995-6	1996-7	1997-8
AverageGrowth of NFA								
Select Co(134)		25.8	28.83	36.08	18.38	21.65	18.73	17.45
Merged Co (12)		26.89	28.83	30.8	39.1	48.8	23.2	16
AverageGrowth in Sales								
Select Co (134)		14.83	14.59	15.45	19.98	27.24	11.22	9.29
Merged Co (12)		21.96	19.77	30.56	17.71	57.14	13.71	20.1
Average Growth in PUC								
Select Co (134)		4.3	24.81	18.12	26.61	17.54	5.02	7.26
Merged Co (12)		5.54	15.1	11.28	37.51	28.24	8.43	13.08
EBDIT to Sales (average)								
Select Co (134)	18.05	19.09	17.1	17.42	17.51	17.87	16.63	16.11
Merged Co (12)	18.44	18.15	18.05	16.07	16.93	17.59	14.87	15.7
PAT to Sales (average)								
Select Co (134)	7.81	8.17	7.68	9.03	9.99	11.09	7.18	5.04
Merged Co (12)	8.34	8.05	9.12	10.07	15.27	10.93	5.71	6.48
Return on CEmp (average)								
Select Co (134)	15.97	17.17	14.93	14.3	15.46	15.71	11.68	10.5
Merged Co (12)	19.81	20	19.77	18.3	19.11	15.6	16.3	15.06
EBIT to TotalAssets (ave)								
Select Co (134)	6.93	7.08	5.57	6.04	7.21	8.24	5.07	4.02
Merged Co (12)	15	15.5	14.6	14	10.55	12.11	11.17	10.61
Return on Net Worth (aver)								
Select Co (134)	20.24	19.99	13.26	11.18	15.08	13.21	10.2	8.02
Merged Co (12)	28.25	27.13	23.6	19.73	21.23	17.16	15.67	13



REGULATION OF CORPORATE DISCLOSURE PRACTICES IN INDIA

*Subhash Chander

ABSTRACT

The Subject of 'corporate disclosure' has increasingly gained significant during the recent years. This has been because of various compelling factors, such as - the expansion and growth of the company form of organisation; shift in the emphasis from the concept of 'shareholders' to Stakeholders and increase in their information needs; the enactment and amendments in the disclosure laws in various countries; professionalisation of management; emergence of accounting as a recognised profession; and the pronouncements on disclosure made by various professional accounting bodies in India and abroad.

The concept of accounting as an information system has gained wide acceptance (Snaveley, 1967, p. 223). It is the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by the users of information (AAA, 1966, p. 1). It is a service activity and its function is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions (APB, 1970, p. 6). Its ultimate aim is to provide information that is potentially useful for making economic decisions and which, if provided, will enhance social welfare (AAA, 1975, as quoted in Glautier & Underdown, 1985, p.3). Thus, the end objective of accounting is to produce and report the quantifiable financial data to the interested groups to be used by them in their respective decisions.

CONCEPT OF DISCLOSURE

Disclosure is the movement of information from the private domain (i.e. inside information) into the public domain (AAA, 1977, p. 19). It is the process through which an entity communicates with the outside world (Gyan Chandra, 1974, p. 733). It means the

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communication of material and relevant facts concerning financial position and the results of operations of the reporting concern to various users (Meigs, Johnson & Meigs, 1977, p. 493). It emerges from these definitions that disclosure means reporting of quantitative and qualitative information of financial and non-financial nature regarding the reporting entity to outsiders for the purpose of their decision-making.

FACTORS REGULATING CORPORATE DISCLOSURE IN INDIA

The major objective of regulating the corporate disclosure practices is to check the window dressing in the financial statements, to make them comparable, more informative and hence useful; and safeguarding the interest of the investors and other users. Corporate disclosure in India is governed by the following five major factors: I. Law; II. Pronouncements of the Institute of Chartered Accountants of India; III. Stock exchange regulators; IV. Information needs of users; and V. Managements' preferences. These factors taken together constitute the corporate disclosure environment in India.

I. DISCLOSURE AND THE LAW

In India, the Companies Act governs the disclosure of information in the annual reports by the companies. Keeping into consideration the growing needs of the users of information and the increasing complexities of business, the law has been amended from time to time.

Companies Act, 1956

On the basis of the recommendations of the Bhabha Committee, the Companies Act of 1956 was passed. It recommended a standard form for preparing balance sheet and a schedule relating to the contents of the profit and loss account. Sections 210, 211(1), 211(2), 211(6), 212, 216, 217, 227(1A), 227(2), 227(3), 227(4A), 619 and 641(1) of the Act contain various provisions relating to disclosure.

Although the Act was amended in 1962, 1963, 1964, 1965, 1966, 1967 and 1969, but they brought about no changes so far as the matters connected with disclosure are concerned. However, the Companies (Amendment) Act, 1973 required the disclosure of the quantity and value of different items of inventory, sales and information about licensed capacity, installed capacity and utilized capacity.

Sachar Committee Recommendations on Disclosure

A High Powered Expert Committee on Companies and MRTP Acts (1978), popularly known as Sachar Committee, gave certain recommendations for improving the disclosure of information in the balance sheet, profit and loss account and the directors' report so that the annual report may provide useful information to the shareholders and other users. The

Committee recommended that the balance sheet and profit & loss account should be prepared in vertical form and suggested a form for preparing balance sheet in this format.

The Committee was of the view that the directors' report should be broad-based and recommended the inclusion of the following items in it:

- I. Amount of deposits received from the public during the year, total repayments during the year and outstanding with a break up of dues within one or two year;
- II. Brief particulars of prosecutions which resulted in a fine of Rs. 1000 or more in any one case, or in imprisonment of any of the directors or officers of the company;
- III. Particulars of unclaimed and unpaid dividends;
- IV. Details of investments in corporate bodies, firms or joint ventures which have not yielded any return during the year and reasons thereof, if the investments exceed 5 percent of the company's paid up capital and free reserves;]
- V. Particulars of material liability and matters adversely affecting the profit/loss, asset and liability position since the closing of the year to the date of adoption of accounts by the directors;
- VI. Statement of unprovided liabilities and commitments during the year and reasons thereof;
- VII. Details about the company's social activities and the future plans for the same;
- VIII. Statement indicating the loss suffered by the company in any division of the activities, which accounts for not less than 10 percent of the total turnover of the company;

THE COMPANIES (AMENDMENT) ACT, 1988

The amendments of 1988 brought significant changes in the provisions on disclosure contained in the Companies Act 1956. According to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, every company shall, in the report of its Board of Directors, disclose particulars with respect to:

- A. Conservation of energy
- B. Technology Absorption
- C. Foreign Exchange Earnings and Outgo

Recommendations of the Working Group (1996)

The Union Finance Minister had announced in his budget speech of July 1996 that a working Group would be set up to rewrite the " Companies Act, 1956. Therefore in August 1996, A Working Group was constituted, which submitted its report in February 1997. The report specifies that the quality of financial disclosures is fundamental to corporate transparency and it offers long term shareholders' support. Some of the important financial and non-financial disclosures recommended by the Working Group are:

A. Financial Disclosures

- Details of each director's remuneration and commission to be given in the Directors' Report
- Provision of important information on the performance of various business segments
- A statement showing the end use of the funds raised from the capital market
- Disclosure of the debt exposure of the company
- EPS as well as cash EPS should be disclosed in the annual report
- An informative and user friendly cash flow statement to be designed in consultation with ICAI to become part of an annual report

B. Non-Financial Disclosures

- Comprehensive report on the relatives of the directors
- Maintaining a register disclosing interests of the directors in any contract/arrangement of the company
- Directors' shareholding
- Details of loans to the directors

Consequently ICAI came out with Accounting Standards on "Segment Reporting" and "Earnings Per Share" and the companies also started giving the non-financial disclosures in their annual reports.

Companies (Amendment) Act. 1999

This Act introduced the following two sections related to the compliance of the accounting standards by the companies:

1. **Section 210A:** Recognising the significance of the compliance with the accounting standards issued by the ICAI, the government introduced section 210 A through Companies Amendment Act, 1999. As per this section the centre government, may by notification in the Official Gazette, constitute an Advisory Committee to be called the National Advisory Committee on Accounting Standards to advise the centre government on the formulation of and laying down of accounting standards for adoption by companies under the Companies Act.
2. **Section 211(3A), (3B) and (3C):** As per the provisions of this section every profit and loss account and balance sheet of a company shall comply with the accounting standards. In case the financial statements do not comply with the accounting standards, such companies should disclose :

- i. the deviation from the accounting standards;
- ii. the reasons for such deviations; and
- iii. the financial effect, if any, arising due to such deviations.

Section (3C) provides that the accounting standards for the provisions of Section (3A) and (3B) means the standards issued by ICAI, as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. Further this section says that the Standards specified by ICAI shall be deemed to be the Accounting Standards until these are prescribed by the Central Government.

The introduction of these two sections has provided legal backing to the accounting standards issued by ICAI.

Companies (Amendment) Act. 2000

The Companies (Amendment) Act 2000 introduced Section 292A making it mandatory for every company having a paid up capital of not less than Rs 5 crores to constitute an Audit Committee for better corporate governance. The Composition and the details of the functioning of this committee should be given in the annual report.

II. DISCLOSURE AND ICAI

Having recognised the fact that different accounting and reporting practices are followed by the corporate sector in India, ICAI constituted the Accounting Standards Board (ASB) in April 1977. The basic objective of ASB is to harmonise the diverse accounting policies and practices being followed by companies in India keeping in view the international developments in the field of accounting. To achieve this objective ASB has undertaken to formulate and popularise the accounting standards and to persuade the concerned parties to adopt them in the preparation and presentation of the financial statements. ASB has issued 29 accounting standards till now. Though some of the accounting standards issued by ICAI were initially recommendatory in nature, but now all the standards are mandatory.

ICAI requires that while discharging their attest function, it will be the duty of the members of the institute to examine whether these accounting standards have been followed in the preparation of financial statements covered by their audit. In the event of any deviation from these standards, it will be their duty to make adequate disclosures/qualifications in their audit reports so that the users of financial statements may be made aware of such deviations. However, while making a disclosure/qualification in the audit report, the auditor should consider the materiality of the relevant items.

Besides these accounting standards, the institute has also issued some exposure drafts, guidance notes and expert opinions on various controversial issues, in accounting and reporting. The adoption of these shall make the financial statements comparable and more relevant to their users.

With a view to promote better standards, recognise and encourage excellence in the presentation of information in the annual reports, the Institute of Chartered Accountants of India has been holding an annual competition for the "ICAI Awards for Excellence in Financial Reporting" (earlier known as 'Competition for the Best Presented Accounts'). This competition is held for three categories of organisations as follows:

- Category I: Non-financial public and private sector enterprises (other than those covered by Category III)
- Category II: Financial Institutions in public, private and co-operative sector, such as, banks, insurance companies, NBFCs, etc.
- Category III: Not-for-Profit Organisations including companies registered under section 25 of the Companies Act, 1956, educational and research institutions, and trusts.

The institute widely circulates the criterion, on the basis of which the awards are presented, amongst various organisations. It awards one shield and two copper plaques for the first category and one shield and one plaque each for the second and third categories. By holding such competitions, ICAP motivates the companies and other organisations to disclose the relevant and useful information in the published accounts so as to make them comprehensive, informative and useful to investors and other users.

The Institute also organises a number of seminars, workshops and conferences covering different aspects of disclosure every year. These programmes are specifically conducted for the members of the institute and the officials working in different organisations, who are related to the preparation of the corporate annual reports one way or the other.

ICAI is playing a very constructive role in regulating the corporate disclosure practices in India. However, it is lagging far behind its counterparts in other countries i.e. AICPA, ICAEW, CICA, IASC etc. Still it has to go a long way to stand at par with them in regulating the corporate disclosure practices.

III. DISCLOSURE AND THE STOCK EXCHANGE REGULATIONS

The stock exchanges also have significant bearing on the disclosure of information. They can prescribe the information to be disclosed in the annual reports. For example the companies, such as, Infosys, Satyam, Dr Reddy's Lab, Mastek and Wipro recast their financial statements as per US GAAP and present this information in their annual report as these companies are listed on NYSE/NASDAQ and The Securities and Exchange Commission (SEC) requires the compliance and disclosure with such GAAP.

The Government of India established the Securities and Exchange Board of India (SEBI) on the pattern of SEC of USA. SEBI was constituted on April 12, 1988 to promote orderly and healthy development of the securities market and to provide adequate investor protection. One of the specific objectives of SEBI is to provide a high degree of protection to the rights of investors and their interests through adequate, accurate, and authentic information and its disclosure on a continuous basis.

SEBI has issued Guidelines for Disclosure and Investor Protection from time to time. SEBI requires that the information furnished by the companies going to public for collecting funds should be transparent and lays down norms for disclosure of such information. The regulations prescribe the information to be disclosed by the companies in their offer documents while raising funds from the public.

The notable contribution of SEBI in promoting healthy corporate disclosure in the country has been the introduction of Clauses 32 and 49 in the listing requirements at a stock exchange. As per clause 32 all the listed companies are required to give the Cash Flow Statement (as prescribed by AS-3) in their annual reports. Keeping pace with the international practices on corporate governance, SEBI very recently introduced clause 49 to the listing agreement, which requires the listed companies to give a very detailed information on the structure and functioning of the Board of Directors and its various committees like, Audit Committee, Compensation Committee, Investors' Committee, Investors Grievance committee and Management Discussion and Analysis. Such information helps the investors in evaluating the quality of management of the different companies.

IV. INFORMATION NEEDS OF USERS

Moreover, with the liberalization of the economy and opening up of the capital market "to the foreign investors, the Indian companies have now to cater to the information needs of such investors also. Investors today have a wide choice of capital markets to invest in. Consequently, the global investor must have access to information about the performance of any company, in any market that he or she chooses to invest in. However differences in language, accounting practices, and reporting requirements in various countries render performance reports rather investor-unfriendly. Today, the strength of a global company lies in its ability to access high quality capital at the lowest cost from a global pool of investors. Such companies study the needs of global investors and publish financial information in a language and form understood by their existing as well as prospective investors (Annual Report of Infosys 2002-03). Having, recognized this urgency, some companies in India have started giving separate information for the foreign investors in their annual reports voluntarily.

Empirical research has shown that the different user-groups have different information needs (For details see Baker and Haslem-1973; Buzby-1974; Gyan Chandra-1975; Chenhal and Juchau -1977; Benjamin and Stanga - 1977; Lee & Tweedie - 1977; McNally, LeeHock and Hasseldine - 1982; Sharma and Prashar- 1991; Vasal - 1997; Singh - 1999). So while designing their annual reports, the companies must give due weightage to the information needs of the users.

V. MANAGEMENT PREFERENCES

Which information is to be disclosed in an annual report, ultimately depends on the management preferences and beliefs regarding disclosure. A conservative management may be reluctant to disclose greater information, whereas an open-minded organisation may opt

for liberal disclosure policies. A study conducted by Gyan Chandra and Greenball (1977) has revealed that managements are usually reluctant to disclose greater information in annual reports. A similar study conducted in India by Vasal (1997) has also revealed that there is a poor alignment between the informational preferences of the companies on the one hand and the users of the annual reports on the other.

In India most of the organisations, especially in the private sector, are conservative and hence do not favour expanded disclosure in annual reports. They disclose only that information which is made mandatory by the Companies Act, ICAI and SEBI.

CONCLUSION

Regulation of corporate disclosure is of utmost significance in an economy. It is so because regulation checks the malpractices and window-dressing in financial statements and makes them more informative, comparable and hence more useful to the investors and other users.

As it has been discussed in this paper, corporate disclosure in India is being regulated by law (The Companies Act, 1956), ICAI, and of late by SEBI. Besides these, information needs of users and the management preferences are the other two very significant factors that have great influence on the quality and quantum of disclosure to be made in the annual reports.

Empirical research has shown that majority of the companies in India disclose the information which they are required to disclose under some statute or regulation, but they are reluctant to disclose information voluntarily (See Shankar - 1972; Das Gupta - 1977; Singh & Gupta -1977; Singh & Bhargava - 1978; Seshan & Gujrati - 1980; Jawahar Lal -1985; ICAI - 1985; Garg - 1986; Chander - 1992; Vasal - 1997; and Singh - 1999). However, it may be pertinent to mention here that the companies, such as, Infosys, Satyam, Wipro, Tata Steels, HLL, Godrej Consumer Products, Dr Reddy's Lab, Sonata, Kochi Refineries etc. do take into consideration the information needs of the investors while designing their annual reports (See the annual reports of these companies for the year 2002-03 for details.

It may be concluded that though the Companies Act 1956, ICAI and SEBI have prescribed the disclosure of information by the companies in their annual reports, what is desired is self regulation of disclosure by the companies in India.

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PRE AND POST MERGER FINANCIAL PERFORMANCE OF SELECTED COMPANIES

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ABSTRACT

This paper studies the impact of mergers on corporate performance. It compares the pre- and post merger operating performance of the corporations involved in merger to identify their financial characteristics. Empirical research on share price performance suggests that acquiring firm generally earns positive returns prior to announcement, but less than the market portfolio in the post merger period. The present study has been aimed at examining M&A activity in India during the post liberalisations period in general and analysis of the pre and post merger operating performance of the acquiring firm. The paper has also tested hypothesis on significant association between profits and M&A activity. The paper examines the increase in share holders value due to M&A activity and growth in EPS.

Indian Corporate Sector has experienced a major restructuring through mergers and acquisitions with changes, brought by the Industrial Policy Resolution of June 1991. During the period 1980, mergers were only 120 which increased to 250 during 1990 valued Rs. 16,043 Crores which further increased to 1500 mergers valued Rs. 58,00 Crores. Companies irrespective of size are scouting for opportunities within India and also in abroad. According to data presented by India Advisory Partners, an M&A advisory firm, there were a total of 49 overseas acquisitions by Indian companies in 2003 as opposed to 28 in 2002. The total value of the overseas acquisition deals in 2003 stood at Rs. 8,049 Crore whereas Rs. 941 Crores in 2002. The overseas acquisitions are increasing, as the Capital availability become easier, easing of regulatory norms such as RBI norms.

Empirical research on share price performance suggests that acquiring firm generally earns positive returns prior to announcement, but less than the market portfolio in the post-merger period. Ravebscraft and Scherer (1987) by examining the target line of business

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performance, says that acquisition activity lowers profitability and that part of this was due to the regression to norm from unsustainably high pre-merger performance. Cosh et al. (1998) says that size was significantly different for the acquirers and the acquired firms.

Corporate M&A activity in India would increase with the country's global linkages that would force the industry here to consolidate the highly fragmented structure common across segments on one side and on the other the increased competition has made it essential for Indian corporate to focus on core business and divest non-core ventures. Increasing pressure on margins has necessitated higher volumes of business leading to consolidation of capacities. In addition, financial institutions have started supporting M&A activity more freely now. At present the Indian Companies that are scouting for opportunities are Mahindra and Mahindra, Sumi Motherson a Delhi-based auto major, Dr. Reddy's Laboratories, Piramal Enterprise, Ranbaxy Laboratories Limited, Infosys, Wipro, Indian Oil, ONGC, Raymond, Videocon etc.

OBJECTIVE OF THE STUDY

The study has been aimed at examining the M&A activity in India during the post liberalization period in general and analyses of the pre and post-merger operating performance of the acquiring firm. Another objective is to study the impact of takeovers on the share-price of the acquiring firms.

HYPOTHESES

The study assumes that there is no impact of M&A on market price of shares of the acquiring firm and there won't be any significant association between enhancement of profits and M&A activity.

DATA DESCRIPTION

The sample consists of 4 firms engaged in a merger over a period of 1998 to 2002. The firms were selected such that data were available for the pre-merger period (two years) and post-merger (two to three years) for the new entity. Prowess, CMIE database was used as the base for collecting the data. The mergers selected are -

1. Reliance Petroleum Limited (RPL) merged with Reliance Industries Limited (RIL) on 1st April 2001.
2. Times Bank merged with HDFC Bank on 26th February 2000.
3. Tulsipur Sugar Company Limited merged with Balrampur Chini Mills Limited on February 2000.
4. Bank of Madura merged with ICICI Bank 10th March 2001.

Reliance Petroleum Limited (RPL) merged with Reliance Industries Limited (RIL)

RIL is the country's largest private sector company in terms of profits, net worth and assets and RPL is the largest in the private sector in terms of sales. The merger of RPL with RIL represents the largest ever merger in India, creating the country's largest private sector company on all financial parameters, including sales, assets, net worth, cash profits and net profits. The merger has created India's only world scale, fully integrated Energy Company, with operations in oil and gas exploration and production, refining and marketing, petrochemicals, power and textiles.

RIL got the best rankings by Business World, Business Today and ET 500 surveys. Its market capitalization is Rs. 75000 crores and with high turnover of Rs. 74642 crores for the financial year 2003-04. Its net profit is Rs. 5146 that is increased by 28 per cent from previous year. RIL stock has appreciated by 361 per cent over five year period, 80 per cent over two years and 62 per cent in 2003-04.

Reliance operates India's largest and world's largest oil refinery at Jamnagar. RIL also enjoys the highest refining margins amongst all Indian Refineries. The level of backward integration is partly responsible for Reliance's profitability. On the Petroleum marketing front RIL have 1500 retail outlets (overall approvals 5800). The total foreign investment in RIL vaults upto 26 per cent. The current value of FII holding in Reliance is Rs. 10962 crores. It had AAA ranking by both S&P and CRISIL.

Table 1: Merger of Reliance Industries Ltd.

(Rs. In Crores)

Particulars	PRE-MERGER			POST-MERGER		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Gross turnover	14553	20301	28008	57126	65078	74642
Gross Fixed Assets	22088	24662	25868	47193	50710	55023
Net Profit	1704	2403	2646	3243	4003	5416
Market Value	131.30	332.05	401.30	311.25	285.15	586.15

Statement Showing Trend Percentages of Reliance Industries Limited

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Gross fixed assets	100	111	117	214	230	249
Investments	100	141	154	139	172	315
Inventories	100	129	163	353	533	513
Sundry debtors	100	184	248	596	656	666
Sundry creditors	100	86	126	194	275	338
Sales	100	139	192	393	447	513

RIL's Gross Turnover for the year ended 31st March 2002 increased to Rs. 57,126 Crores against Rs. 28008 Crores due to merge of RPL with RIL. The Net Profit of RIL was showing an increasing trend year by year. RIL Net Profit for the year ended 31st March 2002 increased to Rs. 3243 Crores against Rs. 2646 Crores. This is because of RPL merge and change in the method of calculating Depreciation. The Net Profit increased by 28 percent in 2003-04 over its previous year. RIL before merging with RPL, the Gross Fixed Assets is Rs. 25,868 Crores & after merge it has almost doubled to Rs. 47,193 Crores. RIL acquired Fixed Assets worth of Rs. 19,352.22 Crores from RPL, purchased new Fixed Assets of worth Rs. 2266.70 Crores and leased assets worth Rs. 29.62 Crores & Sold Assets of worth 277.21 Crores which has increased the RIL Gross Fixed Assets. The share price of Reliance Industries Limited was showing a remarkable increase due to its growth in profits, expansion strategies and also the debt-equity ratio is very low. All these had effect on share price. The share price is showing a record high of Rs. 586.15 on 5.3.2004 as its profits were increased by 28 per cent in the year 2003-04.

Tulsipur Sugars Merged with Balrampur Chini Mills Ltd.

Balrampur Chini Mills (BCML), the UP based manufacturer and British India Corporation set up marketer of cane sugar and its by-products in 1933 as Balrampur Sugar Factory. But the company was incorporated on 1975. It came into the fold of Saraogi family in 1957. Mr. KN Saraogi took over the control of the company in 1975 after a split in the family. Now Vivek Saraogi and Meenakshi Saraogi manage the company. Currently the promoters holding is stood around 47%. Based in eastern UP, Balrampur Chini Mills is the largest of the 42 sugar factories in east UP and also country's more efficient sugar company. Aided by well-planned capacity expansion projects and the acquisition of existing companies, Balrampur has managed to build up a sizeable crushing capacity over recent years. The company has acquired Bhaban Sugar Mills Limited (BSML) in 1990 and modernized & expanded the crushing capacity from 2500 TCD to 350 TCD in 1991-92. Later the erstwhile BSML was merged with BCML in 1995. In the year 1999, BCML has taken 71% stake in Tulsipur sugars and consequently merged with it in 2000. With this two acquisitions and completion of expansion cum modernization plans the aggregate crushing capacity of the company stood at 25000 TCD (Balrampur 11000 TCD; Babhanan - 8000 TCD; Tulsipur - 6000 TCD) during 2001-02.

Table 2

(Rs. In Crores)

Particulars	PRE-MERGER			POST-MERGER		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Gross Sales	297	393	613	549	668	856
Gross Fixed Assets	286	420	459	492	599	747
PAT	43	23	48	47	30	62
Market Value	89.00	95.50	98.50	122.30	110.30	305.90

Statement Showing Trend Percentages of Balarampur Chini Mills Limited

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Gross fixed assets	100	145	159	166	193	258
Current Assets	100	140	135	147	157	226
Inventories	100	137	130	137	145	203
Long-term Borrowings	100	144	99	58	115	250
Current Liabilities	100	129	160	195	207	245
Sales	100	132	206	185	225	288

Balrampur Gross Turnover for the year ended 31st March 2000 increased to Rs. 393 Crores against Rs. 297 Crores, this shows an increase of 32% in Sales. From Rs. 393 Crores, the Company raised it turnover to Rs. 613 Crores for the year ended 31st March 2001. Sales for the year ended 31st March 2002 came down to Rs. 549 Crores & increased to Rs. 668 Crores for the year ended 31st March, 2003. As on 31st March 2004 the Gross Sales of Balrampur Chini Mills Limited was Rs. 856 Crores.

In the Financial year 2000-2001, BCML earned a Profit of Rs. 104 Crores by increasing the turnover keeping other things like Cost of Production, Expenditure constant. After merger the profits were decreased due to the factors like over production of sugar in domestic market. In the year 2003-04 the profits were increased to Rs. 131 Crores from Rs. 73 Crores of the preceding year.

Net Profit grew at 43.3% during last 5 years mainly due to cyclical nature of the business. In FY00 however, the profits dropped by 46% YOY to Rs. 231 mn mainly on account of market factors like unregulated imports at very low prices, overproduction of sugar in the domestic market leading to depressed prices of sugar in the market.

Share price of the Company is showing ups and downs with a low of Rs. 88.6 on 2.9.1999 and a high of Rs. 428.55 on 4.5.2004. The share price is dependent on so many factors like profits, sales, economy, interest rates and inflation. It shows slightly higher before merger but afterwards it starts declining. Again in 2003-04 the share price shows a remarkable increase since the profits and sales are grown tremendously. Moreover company started a new project with a total outlay of Rs. 130 crores from November, 2003.

HDFC Bank - Times Bank Limited

In the transactional banking business, the HDFC bank consolidated its position as one of the leaders in cash management services the total value of throughputs (cheque collections, Disbursements, etc.) in excess of Rs. 110,000 Crores during 2000-01. The bank also maintained its position as the leading provider of cash settlement services to various leading stock exchanges in the country.

The bank has expanded its retail loan products to include car loans, personal loans and consumer durable loans and has extended these offerings to a larger number of cities. Due to the amalgamation of Times Bank limited with the Bank effective 26th February, 2000 the Profit & Loss Account for the year ended 31 March, 2000 reflects the merged Bank's figures from the date i.e., the stand-alone HDFC Bank revenues expenses and profit till 25th February, 2000 and those of the merged HDFC bank from 26th February, 200 to 31st March 2000.

HDFC has 3.1 million retail accounts growing 50 percent annually. Its net profit grew by 31.45 percent in 2003-04 amounted to Rs. 509 crores and having NPAs at 0.37 percent only. HDFC Bank gets linked to SBI's 2000 Strong ATM network and having its own of 850 ATMs. The main success of HDFC Bank lies in its strategic management, technology, risk management and also the employees with international work exposure.

Table 3

(Rs. In Crores)

Particulars	PRE-MERGER			POST-MERGER		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Deposits	2915	8428	11658	17654	22376	30409
Interest Income	376	680	1259	1703	2014	2549
Profit After Tax	82	120	210	297	387	509
Investments	1929	5753	7145	12005	13388	19266
Gross Fixed Assets	172	340	448	601	854	1061
Market Value per Share	69.15	257.20	228.35	236.00	234.55	378.75

Statement Showing Trend Percentages of HDFC Bank

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Interest Income	100	161	322	433	464	633
Investments	100	298	370	622	694	598
Deposits	100	289	400	606	768	1043
Cash & Bank	100	300	567	716	642	692
Land & Buildings	100	204	255	301	380	494
Reserves & Surplus	100	366	490	1202	1418	1734

For the year ended 31st March, 2000 HDFC Bank Limited increased its Interest income by 80.85% when compared to the previous year. In the year 2000-2001 the Interest income became almost double and reached Rs. 1259 Crores due to merge of Times Bank limited in HDFC Bank. In the subsequent years the interest income has gone up. As of 31st March, 2004 HDFC's interest income is 2549 Crores which has an increase of 26.56 percent over its previous year.

The Deposits of HDFC Bank for the year ended 31st March 2001 was increased by 49% over previous year. This tremendous increase in deposits is due to merge of Times Bank Limited in the same year. Further there was an increase in Term Deposits, Saving Deposits and Demand Deposits every year which has given raise to reach deposits of Rs. 30,409 Crores for the year ended 31st March, 2004.

Gross Fixed Assets are doubled in the year 1999-2000 due to the merger of Times Bank. From them onwards assets are increasing consistently which stood at Rs. 1,061 Crores in the year 2003-04 showing an increase of 24 percent over its previous year.

HDFC Bank giving shareholders a higher market value on its share. These shows that how company is growing. Quality credit, quality deposits and quality earnings are the motto of HDFC Bank that reflects on its share price. The Share Price is increased at the rate of 61.5 per cent alone in the year 2003-04 when compared to its previous year.

Bank of Madura Merged with ICICI Bank

The Reserve Bank of India has, under Section 44A of the Banking Regulation Act, 1949, approved the merger of Bank of Madura Limited with ICICI Bank Limited effective March 10, 2001. With this merger ICICI Bank Limited will become one of the largest private sector banks in India with combined assets of Rs. 17,327 crores and total deposits of Rs. 13,460 crores as at December 31, 2000. The merged entity will have a large customer base of over 3 million and a network of more than 350 branches and 450 ATM centres spread across about 100 cities in India.

Considerable synergies are expected to accrue from the combination of ICICI Bank and Bank of Madura as they bring together complementary business strengths which would enhance product portfolio, distribution network and brand image. The merged entity will have around 2.6 million customer accounts and an extensive network of about 350 branches spread across India, giving it the critical mass in an intensely competitive banking arena. The expanded customer base and distribution network of the merged entity would provide considerable cross-selling opportunities enhancing the universal banking strategy of ICICI Bank. The enlarged distribution network also offers scope to enhance fee income particularly in core areas like cash management services, a traditional strong point of both banks and payment and collection services.

Bank of Madura has a number of branches in upcoming semi-urban and rural areas and has developed robust micro-credit systems which combined with the strong brand image of ICICI Bank can be successfully leveraged to tap rural markets. The merger also offers larger amount of low cost deposits and possibility of reorienting assets profile to enable better spreads for the merged entity. Bank of Madura is a profitable and well-capitalised private sector bank, in operation for 57 years with a national network of 263 branches including presence in each of the top 30 banking centres in the country. The Bank has fostered an environment akin to new private sector banks with a progressive employee base and technology driven operations in major branches. It has among the lowest cost of deposits at 7.3% and a high return on equity of

21.3%. As on September 30, 2000, the Bank had total assets of Rs. 39.88 billion and deposits of Rs 33.95 billion. In India, the Bank's equity shares are listed on the Stock Exchanges at Mumbai and Chennai and the National Stock Exchange.

ICICI Bank is a leading technology-oriented private sector bank, promoted by ICICI Limited (NYSE: 1C). ICICI Bank had total assets of Rs. 120.63 billion and deposits of Rs. 97.28 billion as on September 30, 2000. The Bank's capital adequacy as on September 30, 2000 stood at 17.59 %. The Bank's network of branches and extension counters presently covers 106 locations across India. ICICI Bank is India's largest ATM provider with 366 ATMs. In India, the equity shares of ICICI Bank are listed on the Stock Exchanges at Mumbai, Calcutta, Delhi, Chennai, Vadodara and the National Stock Exchange. ICICI Bank's American Depositary Shares (ADS) are listed on the New York Stock Exchange. The focus of both banks on developing a knowledge-oriented employee base with a strong focus on technology will facilitate the process of post merger integration. ICICI Bank, the second bank in the ET 500 list, is also the second largest bank in the country. It has achieved its present size after the amalgamation with ICICI and its own subsidiaries in 2002. Post merger, Bank had a number of sticky assets and issues to deal with, having a burden of NPAs and high cost of funds. This Bank has managed successfully till date with increasing deposits. The Banks deposits stood at Rs. 68,108 crores and the operating profit per employee is 0.24 crores. Technology is the key success factor of this Bank. The Bank floated a public issue of Rs. 2500 crores, which was received quite well and over subscribed by 5.8 times. The addition of share capital would aid the Bank's aggressive business growth over the next 2-3 years.

Table 4

(Rs. In Crores)

Particulars	PRE-MERGER		POST-MERGER		
	1999-00	2000-01	2001-02	2002-03	2003-04
Gross Fixed Assets	315	590	4494	4813	5090
Profit After Tax	105.42	161.23	258.37	1212.68	1640.31
Market value Per Share	211.65	198.70	111.70	135.35	317.35
Deposits	986	16378	32085	48169	68108
Investments	4417	8187	35891	35462	42743
Reserves and Surplus	953	1092	5636	6321	7394

Statement Showing Trend Percentages of ICICI Bank

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
Interest Income	100	161			
Income	100	140	260	1118	1104
Investments	100	185	812	803	968
Deposits	100	166	325	488	690
Cash & Bank	100	171	246	677	749
Equity Dividend	100	178	178	1858	2198
Reserves & Surplus	100	115	592	663	776

Gross Fixed Assets are almost eight times more in its merger period i.e. 2001-02. The growth of assets are only 5.5 per cent in the year 2003-04 over its previous period but it was 13 per cent when compared to 2001-02. A tremendous raise in Gross Fixed Assets at the time of merger and this raise in fixed assets are around 661 per cent when compared to 2000-01 and this shows that merger leads to increase in the size of the company.

The Profit after Tax is increasing at a faster rate. The Profits are increased by 60 per cent in the year 2001-02 due to the increase in deposits and also business growth with the merger of Bank of Madura Limited. The Profits for the year 2003-04 stood at Rs. 1640.31 crores that was increased by 35 percent over its previous year.

The share price of ICICI Bank slightly decreased after merger but with tremendous growth in deposits, interest income and profits consistently made the share price moves up.

ICICI Bank deposits have been growing fast, primarily because of its focus on retail products and a multi-channel approach and also due to the merger with Bank of Madura Limited. The Banks deposits for the year 2003-04 were Rs. 68,108 crores showing an increase of 41 per cent when compared to the previous year.

The treasury income of the bank has been jumping by leaps. The investments grew by 440 per cent when compared to the year 2000-01 i.e. before merger. ICICI Bank raised its investments from Rs. 8187 crores in the year 2000-01 to Rs. 42743 crores for the year 2003-04. This reflects the growth in the business.

MAIN FINDINGS

The following are some of the findings of the study

1. Merger increases the shareholders value in all the four companies. The basic motto of wealth maximization is achieved through the higher dividends, market value and increased EPS.
2. The EPS of all four companies grown by 100 per cent when we compare with pre-merger performance.
3. The Market Value of the shares of the Companies also showing positive trend in the year 2003-04, though there was slight decrease in the pre-merger period. The share price touched its peak for all the four companies in March 2004. The increase in share price for the Companies at an average of 62 per cent after merger.
4. The growth in Gross Profit Margin percentage for the year 2003-04 stood at 34% when compared to the previous year.
5. Total Debt to Equity Ratio reveals that there is no burden on shareholders with respect to equity since it shows an increase of only 20 per cent.
6. The Current Ratio of all the four Companies are under the norm of 2:1.

7. Earnings Retention Ratio for the four Companies shows higher percentage resembles that the business growing and they have opportunities for expansion programs to improve the business.
8. The Gross Fixed Assets of all the four Companies shows a tremendous increase. All the Companies Gross Fixed Assets grown at a rate of 100 to 500 percent after the merger. This shows that merger has its effect on the acquiring firm with its improvement in size, profits etc.

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LIQUIDITY Vs. PROFITABILITY

*Santimoy Patra

ABSTRACT

The impact of liquidity on profitability is analysed in this paper considering the case of Tata Iron & Steel Company Limited.

Liquidity and profitability are the two important dimensions in determining the soundness of an enterprise.

Liquidity means ability of a firm to meet its current obligations when they become due for payment. It has two aspects - quantitative and qualitative. Quantitative aspect implies the quantum of current assets a firm possesses irrespective of making any difference between various types of current assets such as inventories, cash and so on. Qualitative aspect refers the quality of current assets in terms of their realisation into cash considering time dimension involved in maturing different components of current assets.

Profitability is the capacity of earning profit and the most important measure of performance of a firm. It is generally assumed that there is a negative relationship between liquidity and profitability i.e. higher liquidity results in lower profitability and vice-versa.

Keeping this background in mind, this paper has made a humble effort to examine the relationship between liquidity and profitability of TATA IRON & STEEL COMPANY (TISCO) LTD.

OBJECTIVES OF THE STUDY

The study covers the following objectives :

- a) to examine the impact of liquidity on profitability between RoI and each of the selected liquidity ratios,
- b) to assess the joint effect of the above ratios upon the profitability.

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RESEARCH DESIGN AND METHODOLOGY

i) Collection of data

The data of TISCO Ltd. used in this study have been collected from secondary sources i.e. published Annual Reports of the company. The study covers a period of ten years from 1990-91 to 1999-2000.

ii) Method of Analysis

The study has been made by converting the collected data into relative measures such as ratios, percentages rather than absolute one. For analysing the data statistical techniques like Karl Pearson's correlation analysis, multiple correlation analysis and multiple regression analysis have also been used as required in appropriate places. For testing liquidity, Current Ratio (CR), Acid Test Ratio (ATR), Current Assets to Total Assets Ratio (CATAR), Working Capital Turnover Ratio (WCTR), Inventory Turnover Ratio (ITR), Receivable Turnover Ratio (RTR) and Cash Turnover Ratio (CTR) have been computed. Different measures of profitability are there, but for the purpose of our study, Return on Investment (ROI) ratio has been selected as it is the best measure of profitability and the most suitable formula to establish a relationship between liquidity and profitability. In order to assess the closeness of association between liquidity and profitability, simple correlation analysis, multiple correlation analysis and multiple regression analysis have been used. The 't' test has also been used to judge whether the calculated co-efficients of correlation and regression are significant or not.

Table-1

Simple Correlation Analysis between Selected Liquidity Ratios and Profitability Ratio, ROI.

Year	C.R.	ATR	CATAR	WCTR	ITR	RTR	CTR	ROI
1990-1991	1.36	0.87	0.35	6.66	4.89	7.52	92.63	0.091
1991-1992	1.40	0.86	0.35	5.71	4.20	8.65	148.03	0.077
1992-1993	1.61	1.00	0.31	4.31	4.34	5.96	60.65	0.025
1993-1994	1.53	1.09	0.29	4.96	6.04	4.64	75.95	0.030
1994-1995	1.54	1.11	3.05	5.41	6.78	4.82	115.56	0.045
1995-1996	1.99	1.47	0.35	3.49	6.67	4.91	46.68	0.075
1996-1997	1.85	1.44	0.35	3.82	7.91	4.54	50.83	0.067
1997-1998	1.99	1.53	0.32	3.59	7.72	4.87	5.20	0.041
1998-1999	1.79	1.37	0.28	4.14	7.74	4.64	37.40	0.033
1999-2000	1.65	1.28	0.25	5.40	9.02	5.46	92.34	0.046
Correlation Co-efficient (r)	(-) 0.185	(-) 0.199	(-) 0.123	0.363	(-) 0.238	0.567	0.345	-
t Value of (r)	0.53	0.57	0.35	1.10*	0.69	1.95*	1.04*	-

*Significant at 0.5 level of significance

Source : Computed from the Annual Reports of TISCO Ltd.

Table - 2: Correlation Matrix

	CR	ATR	CATAR	WCTR	ITR	RTR	CTR	ROI
CR	1.00	-	-	-	-	-	-	-
ATR	0.96	1.00	-	-	-	-	-	-
CATAR	(-) 0.20	(-) 0.13	1.00	-	-	-	-	-
WCTR	(-) 0.92	(-) 0.83	0.22	1.00	-	-	-	-
ITR	0.62	0.81	0.05	(-) 0.41	1.00	-	-	-
RTR	(-) 0.69	(-) 0.77	(-) 0.19	0.68	(-) 0.71	1.00	-	-
CTR	(-) 0.83	(-) 0.79	0.37	0.79	(-) 0.46	0.67	1.00	-
ROI	(-) 0.19	(-) 0.20	(-) 0.12	0.36	(-) 0.24	0.57	0.35	1.00

Source : Computed

Table - 3: Multiple Regression Analysis
 (ROI = b₀+b₁ CATAR + b₂ ITR + b₃ RTR + b₄ CTR)

Variable	Regression Co-efficient	Standard error of Regression Co-effecient	't' value	Sig t
Constant	(-) 5.863	0.093	(-) 0.633	0.554
CATAR	(-) 2.416	0.001	(-) 0.201	0.848
ITR	4.877	0.007	0.692	0.520
RTR	1.525	0.012	1.247	0.268
CTR	8.691	0.000	0.244	0.817

Multiple R = 0.619

R² = 0.383Adj. R² = (-) 0.111

FINDINGS OF THE STUDY

Simple Correlation Analysis

In Table 1 selected liquidity ratios and profitability ratio, ROI of TISCO Ltd. have been computed over the period of ten years. The correlation co-efficient between the liquidity ratios and ROI has been calculated and also presented in this table. It is evident from the table that the correlation co-efficient between current ratio and ROI is (-) 0.185. It reveals that there is a negative correlation between the two variables. However, the value is not found to be significant even at 0.5 level. Secondly, the co-efficient of correlation between ROI and acid test ratio is (-)

0.199. It indicates that there is also a negative correlation between ROI and acid test ratio of the company. The value is also insignificant at 0.5 level. Both these two ratios, current ratio and acid test ratio conform with the assumption that greater the amount of investment in current assets and liquid assets, lower is the profitability. Thirdly, the correlation co-efficient between CATAR and ROI is (-) 0.123. It shows that there is a negative correlation between these variables. The value here is not significant at 0.5 level. As current assets are less profit generating assets in comparison with fixed assets, explained earlier on, increase in the proportion of investment in current assets to total assets decreases profitability. The result of correlation co-efficient between CATAR and ROI proves this negative association. Fourthly, the co-efficient of correlation between working capital turnover ratio and profitability ratio is (+) 0.363 which is found to be significant at 0.5 level. It implies that there is a positive correlation between these two variables. It is of general view that greater the working capital turnover, lower is the relative investment in net current assets and greater is the profitability. The computed value of correlation co-efficient between ROI and WCTR conforms with the general view. Fifthly, the co-efficient of correlation between ITR and ROI is (-) 0.238 which is not found to be significant even at 0.5 level. It indicates that there is a negative correlation between these two variables. It contradicts with the common supposition that larger the turnover of inventory, greater is the profitability. The data of TISCO Ltd. in respect of ITR could not provide any evidence in favour of this hypothesis. Lastly, correlation co-efficients between ROI and RTR and between ROI and CTR are (+) 0.567 and (+) 0.345 respectively. It indicates that there are positive correlation between these variables. The values are found to be significant at 0.5 level. Both these two turnover ratios conform with the principle that higher turnover decreases unnecessary accumulation of current assets or liquid assets and increases profitability of the company.

Multiple correlation and Regression analysis

In order to study the joint influence of the liquidity ratios on profitability of the company, multiple correlation and multiple regression techniques have been applied which are presented in table 3. In this analysis liquidity ratios viz. CATAR, ITR, RTR and CTR have been taken as the explanatory variable and ROI has been used as dependent variable.

For the purpose of selection of variables used in this study, the correlation matrix showing the co-efficient of correlation between the explanatory variables has been presented in Table 2. It is evident from this table that there is a high degree of correlation between CR and ATR (+) 0.959, between CR and WCTR (-) 0.924. So current ratio, acid test ratio and working capital turnover ratio have been omitted for the analysis. Thus regression model used in this study is $ROI = b_0 + b_1 \text{ CATAR} + b_2 \text{ ITR} + b_3 \text{ RTR} + b_4 \text{ CTR}$ where b_0 , b_1 , b_2 , b_3 , and b_4 are the parameters to be estimated. Table 3 shows the regression co-efficients of ROI and CATAR, ITR, RTR and CTR indicating the depth of relationship between the dependent variable and all the independent variables taken together and the impact of these independent variables on the profitability of the company. The table reflects that when CATAR increased by one unit, the

ROI was decreased by 2.416 units. Then for one unit increase in the ITR, profitability of the company increased by 4.877 units. Again when RTR increased by one unit, ROI was increased by 1.525 units. Again, for one unit increase in the CTR, ROI of the company increased by 8.691 units, though all these variables are statistically insignificant.

The multiple correlation co-efficient of ROI on CATAR, ITR, RTR and CTR is 0.619. It indicates that profitability of the company was influenced by CATAR, ITR, RTR, and CTR. The value of R² indicates that the four independent variables CATAR, ITR, RTR and CTR contributed 38 percent of the variations in the profitability of TISCO Ltd.

CONCLUSION

The study of the impact of liquidity ratios on profitability showed both negative and positive association. Out of seven liquidity ratios selected for this study, four ratios namely current ratio, acid test ratio, current assets to total assets ratio, inventory turnover ratio showed negative correlation with profitability ratio. However, these correlation co-efficients were not statistically significant. The remaining three ratios namely working capital turnover ratio, receivable turnover ratio and cash turnover ratio have shown positive association with the profitability ratio, all of which are statistically significant at 50% level of significance. The result of all the correlation co-efficients are as desirable except correlation co-efficient between inventory turnover ratio and ROI. However this undesirable sign between ITR and ROI is not supported by the multiple regression analysis, which shows the positive association between these two variables.

In multiple regression analysis four ratios viz. current assets to total assets ratio, inventory turnover ratio, receivable turnover ratio and cash turnover ratio were taken into consideration. Out of four regression co-efficient of ROI line, only one co-efficient which was associated with current assets to total assets ratio showed negative influence on profitability and other three co-efficients showed positive influence on profitability conforming the accepted views. Thus multiple regression analysis showed the impact of liquidity on profitability according to our expectancy. It can, therefore, be inferred from this study that profitability of the company was influenced by its liquidity. So, the hypothesis that there is an adverse effect of liquidity on profitability is true in case of TISCO Ltd. Now regarding profitability of the company under study, though there is no standard norm of profitability which depends upon the management policy of the company, still it appears to be too little. There should be scope for increasing profitability which depends upon many factors including liquidity. TISCO Ltd. should take care of all these factors.

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APPLICABILITY OF AS AND TIME GAP BETWEEN AS AND IAS

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ABSTRACT

The present paper makes a critical analysis of applicability of AS and time gap between AS and IAS. The study has also identified reasons for such gap.

During development of accountancy various postulates, concepts, principles and assumptions were framed. 'Accounting Principles' has proven to be an extraordinary elusive term so a new term 'Standard' is used. Generally standards refers to widely accepted norms which are widely accepted and adopted by accountants at the time of recording and reporting (he business so that there is harmony in recording and reporting of Annual Report and Accounts. It is known as 'Harmonization of Accounting Standards'. This term can be defined as, "Continuous process of ensuring that the Generally Accepted Accounting Principles (GAAP) are formulated, aligned and updated to international best practices (GAAPs in other countries) with suitable modifications and fine tuning considering the domestic conditions." It was most needed for an easier and more meaningful comparison of performance of two or more companies of different countries. "Harmonization of multiple and diverse national GAAP is huge and daunting task by itself. But, it is the order of the day."

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

International Accounting Standards Committee (IASC) was founded on June 29, 1973 for harmonization of Accounting Standards. The objectives of IASC, is set out in its constitution. It was framed to formulate International Accounting Standards (IAS) and to promote there worldwide acceptance and observance. "The members of IASC have undertaken an obligation to support the standard promulgated by IASC and to propagate them in their respective countries." Till date IASC issued 41 IAS out of which eight IAS (IAS 3 to IAS 6, IAS 9, IAS 13, IAS 15, IAS 25) are withdrawn by this time.

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INDIAN ACCOUNTING STANDARDS (AS)

In April 1977, The Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standard Board (ASB). It was a result of recognizing the need to harmonize the diverse accounting policies and practices in India keeping in view the international development in the field of accounting. Till date ASB has issued 29 Accounting Standards out of which one AS i.e. AS 8 is withdrawn after new AS 26.

ASB also issued many guidelines time to time. For example, 'A Framework for the Preparation and Presentation of Financial Statement was issued in July, 2000.' The Central Government has u/s 211 of the Companies Act, made all the standards issued by the ASB mandatory. The council decided that AS 3 will be mandatory in nature in respect of accounting periods commencing on or after 1.4.2001. In future standards will be approved by the Central Government.

As the basic object of this study is to find time gap between formulation of AS for corresponding IAS, list of 41 IAS and 29 AS is not mentioned in the paper.

APPLICABILITY OF ACCOUNTING STANDARDS

From a time it was felt that Accounting Standards must be simplified or its simplified version should be issued for small corporations or private companies as requirement of mandatory AS for such companies is just dogmatism. Till recently, all AS were mandatory for the following :

- (i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises those are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India.
- (ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

The Council, at its 236th meeting considered the matter relating to applicability of AS to Small and Medium Sized Enterprises (SMEs). The council framed the following scheme which came in force in respect of accounting periods commencing on or after 1.4.2004.

(Refer The Chartered Accountant, Nov., 2003)

1. ALL ENTERPRISES ARE CLASSIFIED IN THREE CATEGORIES AS FOLLOWS

Level I: These enterprises are required to comply fully with all AS. Any enterprise which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

- (i) Enterprises whose equity or debts securities are listed whether in India or outside India.
- (ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of director's resolution in this regard.

- (iii) Banks including cooperative banks.
- (iv) Financial institutions.
- (v) Enterprises carrying on insurance business.
- (vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.
- (vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.
- (viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level II: Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises :

- (i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.
- (ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.
- (iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level III: Enterprises which are not covered under Level I and Level II are considered as Level III enterprises :

2. PROVISIONS REGARDING APPLICABILITY OF AS FOR SMES ARE AS FOLLOWS

SMEs includes enterprises of Level II and Level III. It was decided that no relaxation should be given to these enterprises in respect of recognition and measurement principles. Relaxations are provided with regard to disclosure requirements only. Accordingly all the 29 AS are classified in following 6 groups :

- (M) Mandatory for all SMEs : 17 Accounting Standards i.e. AS not covered in the following categories A to E are mandatory for all the SMEs i.e. Levels II and III enterprises.
- (A) AS not applicable to Level II and Level III enterprises in their entirety : 4 Accounting Standards i.e. AS 3, AS 17, AS 18 and AS 24 are not applicable for SMEs i.e. Levels II and III enterprises.

- (B) AS not applicable to Level II and Level III enterprises since the relevant Regulators require compliance with them only by certain Level I enterprises : 3 Accounting Standards i.e. AS 21, AS 23 and AS 27 are not applicable for SMEs i.e. Levels II and III enterprises.
- (C) AS in respect of which relaxations from certain disclosure requirements have been given to Level II and Level III enterprises : 3 Accounting Standards i.e. AS 19, AS 20 and AS 29 are included in this group details of which are as follows :
- (i) **AS 19, Leases:** Paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37 (a), (f) and (g); and 46 (b) (d) and (e), of As 19 are not applicable to Level II and Level III enterprises.
 - (ii) **AS 20, Earnings, Per Share:** Provisions regarding disclosure of diluted earnings per share and information required by paragraph 48 of AS 20 are not applicable to Level II and Level III enterprises.
 - (iii) **AS 29, Provisions, Contingent Liabilities and Contingent Assets:** Here a distinction is made between Level II and Level III enterprises. Both, paragraphs 66 and 67 are not applicable for Level III enterprises while only paragraph 67 is not applicable for Level II enterprises.
- (D) Applicability of AS 28 is deferred for Level II and Level III enterprises: This AS will be applicable on SMEs in phased manner as follows :
- (i) For Level II Enterprises applicable from 1.4.2006.
 - (ii) For Level III Enterprises applicable from 1.4.2008.
- (E) AS which can not be applicable mandatorily : At present AS 25, Interim Financial Reporting, does not require any enterprise to present interim financial report. But, however, SEBI requires it for Level I enterprises. So, it applies only when quarterly and half yearly data are published in compliance of other Rules and Regulations. As Rules and Regulations of SEBI are not applicable on Level II and Level III enterprises, AS 25 cannot be mandatory for SMEs. 3. Other provisions in this regard are as follows :
- (i) If an enterprise is enjoying relaxations/exemptions regarding AS, it should disclose this fact in Annual Report and Accounts published by it.
 - (ii) Whenever an enterprise, previously qualified for relaxations/exemptions acquires status of Level I in any year, provisions of all accounting standards will be mandatory for such enterprise from the current year. However, the corresponding previous period figures need not be disclosed.
 - (iii) Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption/relaxation available to Level II enterprises, until the enterprise ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

TIME GAP IN ISSUING AS FOR CORRESPONDING IAS

In India, ICAI is issuing AS only if it is required in the current scenario that too are adopted after some changes depending upon prevailing practices and circumstances. Obviously, there may be some delay in issuing AS for corresponding IAS. But, regarding some IAS corresponding AS was issued even after 20 to 22 years. However, there may be some genuine reasons for the same. In the present paper time gap in issuing each AS is computed to find average time gap and causes of abnormal time gap is analysed. AS for corresponding IAS, year of issue and time gap is shown in Table 1

Table 1

Table Showing Delay in Indian Accounting Standard (AS) Compared to Corresponding IAS

Indian Accounting Standard		International Accounting Standard		Delay (Years)
S.No.	Year	S.No.	Year	
AS 1	1979	IAS 1	1975	4
AS 2	1981	IAS 2	1975	6
AS 3	1981	IAS 7	1977	4
AS 4-	1982	IAS 10	1978	4
AS 5	1982	IAS 8	1978	4
AS 6	1982	IAS 4*	1976	6
AS 7	1983	IAS 11	1979	4
AS 8*	1985	IAS 9*	1978	7
AS 9	1985	IAS 18	1982	3
AS 10	1985	IAS 16	1982	3
AS 11	1989	IAS 21	1983	6
AS 12	1991	IAS 20	1983	8
AS 13	1995	IAS 25*, 40	1986	9
AS 14	1995	IAS 22	1983	12
AS 15	1995	IAS 19	1983	12
AS 16	2000	IAS 23	1984	16
AS 17	2001	IAS 14	1981	20
AS 18	2001	IAS 24	1984	17
AS 19	2001	IAS 17	1982	19
AS 20	2001	IAS 33	1998	3
AS 21	2001	IAS 27	1989	12

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AS 22	2001	IAS 12	1979	22
AS 23	2001	IAS 28	1989	12
AS 24	2002	IAS 35	1999	3
AS 25	2002	IAS 34	1998	4
AS 26	2002	IAS 38	1999	3
AS 27	2002	IAS 31	1990	12
AS 28	2002	IAS 36	1999	3
AS 29	2003	IAS 37	1999	4
Average Delay				8.34

*Refers As and IAS withdrawn by the corresponding authority.

REASONS FOR THIS TIME GAP

There are many reasons for this average delay of 8.34 years. Main reasons are summarised as follows :

1. It is very difficult to consider interest of different competing groups as standard setter is supposed to consider competing preference of various interested groups such as management, accountants, auditors, investors, competitors Government etc. which is main cause of time gap.
2. Political interface is also proving a hinderance in setting standards. IAS 17 on lease was framed in 1982 but corresponding AS 19 was framed in 2001 as this standard allows depreciation to lessee while in The Income Tax Act, 1961 depreciation is allowed to lesser. However, necessary change in Income Tax Act is still pending. Just to mention another example IAS 12 regarding Accounting for Taxes on Income was issued in 1979. ICAI issued Exposure Draft for corresponding IAS in 1987 (See Chartered Accountant, March 1987, pp. 756-60) but its AS was issued in 2001, that two came in force with effect from 1.4.2001 and 1.4.2002 in special cases and from 1.4.2003 for all enterprises. (See Chartered Accountant, June 2001, pp. 40-46).
3. Another difficult arises due to voluntary nature of the work of the Board members. "Since they are required to work part time and since no remuneration is paid to them, their loyalty will be to their firms and to their client organizations. This sort of arrangement has the potential danger of the Board members basing their decisions on the interests of their clients."⁵
4. One more difficulty arises due to inherent nature of accounting standards as all AS are interrelated. Due to this reason if any AS is issued or earlier AS is revised then it will require some changes in other AS also. For example AS 16 on Borrowing Costs and AS 19 on leases has changed paragraph 15.1 and 33 of AS 10 on Accounting for Fixed Assets.

'Accounting Standards (AS) 19, Leases, has come into effect in respect of assets leased during accounting periods commencing on or after 1.4.2001. AS 19 also applies to assets acquired on hire purchase during accounting periods commencing on or after 1.4.2001. Accordingly, paragraphs 15.1 and 33 of Accounting Standards (AS) 10, Accounting for Fixed Assets, which deal with assets acquired on hire purchase terms, are not applicable in respect of assets acquired on hire purchase during accounting periods commencing on or after 1.4.2001.'

[The Chartered Accountant (Student Edition) Jan. 2002]

However, it is observed that time gap between latest six AS i.e. AS 24 to AS 29 and corresponding IAS is reduced to the extent of three to four years except in case of AS 27 which shows that ICAI is very serious about issuing corresponding IAS in time.

LIMITATION OF THE PRESENT STUDY

Though Indian AS are based on IAS but it is not a reproduction of IAS. It is modified according to Indian circumstances. But, some times there is some lapses in Indian AS so it is revised time and again. Though some aspects are better covered in AS compared to IAS. Thus, there is some gap in contents of AS and corresponding IAS. Study of such gap requires peer to peer comparison among each AS, IAS and corresponding SFAS (US GAAP). It is a different aspect of study which is not covered in the present paper due to paucity of space.

SUGGESTIONS

1. ICAI has shown its inclination to issue AS corresponding to IAS 32 and IAS 41 at an early date. So, Exposure Draft for the same should be issued at an early date so that there is no delay in issuing AS for these two corresponding IAS.
2. The Income Tax Act 1962 has empowered the Central Government to prescribe Accounting Standard but so far it has constituted a rehash of AS prescribed by ICAI. One can wonder about the purpose and value of this effort so, such provisions should be abolished.
3. Till date many AS, IAS and GAAP are issued so there is a big burden on accountants world wide. It is serving purpose of harmonization but at the same time there is a need of convergence of accounting standards.

FSA OF SELECTED GROUP OF COMPANIES

**Sandip K. Bhatt*

ABSTRACT

The paper makes an attempt to analyse the financial performance of Elecon group of companies with the help of basic tools of Financial Statement Analysis (FSA).

In the present decade, the analysis of financial statement of business has generated a wide divergence of view among the thinkers and the management experts. The analysis of financial statement is very crucial function for the financial manager. He has to find out the profitability. The study primarily aims -

1. To examine the liquidity position of unit.
2. To analyse and interpret the activity of units.
3. To analyse the financial position of units.
4. To make suggestion for improvement of financial soundness of units.
5. To assess the capital structure and examine its relationship with profitability.
6. To appraise effectiveness of the working capital management.
7. To analyse the investment pattern and utilization of the fixed assets.
8. To suggest measures to improve financial performance of the selected Gear lined manufacturing industries in India.

Ratios are well known and most widely used tool of financial analysis. The profitability of Elecon Group of Companies has been analysed from the point of view of financial management and shareholders. Profitability can be measured in terms of different components of profit and loss account and balance sheet.

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ANALYSIS FROM THE VIEW POINT OF FINANCIAL MANAGER

A financial manager is very much interested to locate and pinpoint the causes that are responsible for low or high profitability. The financial manager should continuously evaluate the efficiency of its Elecon group of industry. From the point of view of financial manager, the following ratios are considered:

1. Gross Profit Ratio

This ratio expresses the relationship of gross profit to net sales or turnover. Gross profit is the excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling and distribution and financing charges. Gross profit ratio is expressed as follows:

$$\text{Gross profit ratio} = \frac{\text{Gross Profit} \times 100}{\text{Net sales}}$$

Gross Profit = Net sales – Cost of goods sold

Net Sales = Sales – Sales return

This ratio is important to determine general profitability.

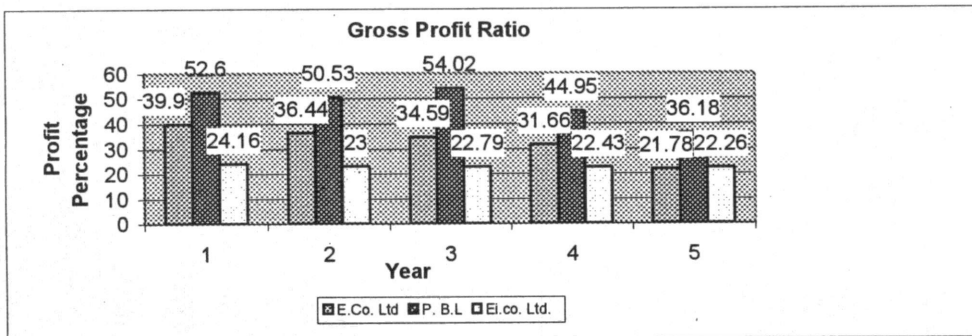
Table - 1

Year	Elecon Eng. Co. Ltd. Gross Profit Ratio	Power Build Division Gross Profit Ratio	Eimco Elecon Gross Profit Ratio
1998	39.90	52.60	24.16
1999	36.44	50.53	23.00
2000	34.59	54.02	22.79
2001	31.66	44.95	22.43
2002	21.78	36.18	22.26

*Source: Annual Report.

The above table shows G. P. Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 34.276, Power Build Division is 47.656 & Eimco Elecon Ltd is 22.928.

In the absence of any classification some of the Expenses have been considered as Indirect expenses. Expenses which are considered as Direct are Material Consumed, Freight Inward, Labour Charges, Packing and Forwarding.



2. Operating Profit Ratio

This ratio indicates the relationship between operating profit and net sales in the form of percentage. Operating profit arrived at by adjusting all non-operating expenses and incomes in net profit in other words; we can say profits before interest and taxes. A high ratio tells us the affective and efficient operation of the business. It is calculated as below:

$$\text{Operating Profit Ratio} = \text{Operating Profit (EBIT)} \times 100$$

Table - 2

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	8.82	6.82	20.17
1999	9.57	24.78	19.79
2000	5.14	4.90	19.56
2001	3.84	11.44	19.13
2002	3.30	7.65	17.56

3. Return on Total Assets

This ratio is very useful to the management. It shows, how much a business can earn on its total assets. Sometimes, it is called 'Productivity of the Total Assets'. It can be computed as below:

$$\text{Return on Total Assets} : \frac{\text{Profit before Tax, Interest \& Depreciation}}{\text{Total Assets}}$$

The objective of the return on total assets is to find out how effectively the funds have been used. This ratio shows that how the total assets are utilized by management. A researcher can know the productivity of the total assets.

Table - 3

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	10.50	10.02	19.07
1999	14.73	17.63	21.56
2000	9.06	5.36	23.38
2001	7.90	3.94	20.93
2002	6.67	6.44	19.31

In case Power Build Division, it is assumed that share of the assets of Partnership Firm has been included in the figures of total assets given in the Balance sheet. Loss from which has been included. The above table shows Return on total assets Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 9.84, Power Build Division is 8.678. Eimco Elecon Ltd is 20.85.

On this is very important ratio. This ratio shows return on gross fixed assets. How the management effectively utilizes the assets can be judged on the basis of this ratio. If this ratio is high, it indicates a good rate of return on gross fixed assets. Return means earning before tax and interest and gross fixed assets means value of fixed assets before depreciation this can be calculated as follows:

ANALYSIS OF THE PROFITABILITY FROM THE VIEW OF SHAREHOLDER

The owners have permanent stake in the enterprise and as such they have to share the prosperity of market by higher profitability and adversity marked by losses. For this analysis, following ratio are calculated:

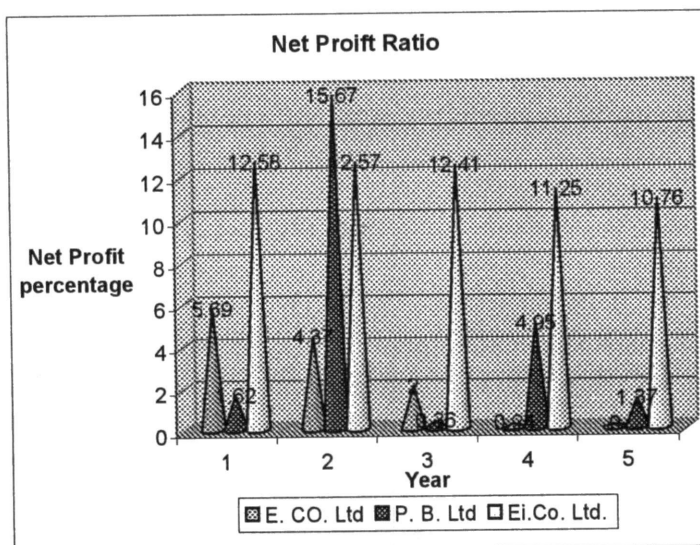
1. Net Profit Ratio

One of the component of return on capital employed is the net profit ratio. It indicates the net margin earned in a sale of Rs. 100. Net profit is arrived at from gross profit after deducting administration, selling and distribution expenses; non-operating incomes; such as dividends received and non-operating expenses are ignored, since they do not affect efficiency of operations. It is calculated as under:

$$\text{Net Profit Ratio: } \frac{\text{Operating Profit} \times 100}{\text{Sales}}$$

Table - 4

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	5.69	1.62	12.58
1999	4.37	15.67	12.57
2000	2.00	0.36	12.41
2001	0.24	4.95	11.25
2002	0.00	1.37	10.76



Fluctuation in Net Profit is due to high variance of Indirect expenses for different years.

The above table shows N. P. Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 2.46, Power Build Division is 4.79% & Eimco Elecon Ltd is 11.914.

2. Return on Owner's Equity

The ratio of return on owner's equity is a valuable measure for judging the profitability of an organization. This ratio helps the shareholders of a company to know the return on investment in terms of profit shareholders are always in knowing as to what return they earned on their invested capital. Anthony and Reece opine that this ratio reflects that how much the firm has earned on the funds invested by the Shareholders. (Either directly or through retained earnings.) This ratio is expressed in the percentage form of net profit earned to the owner's equity. The formula for the derivation of this ratio is:

$$\text{Return on Owner's Equity: } \frac{\text{Net Profit after Tax} \times 100}{\text{Owner's Equity}}$$

Table - 5

Year	Elecon Eng. Co. Ltd.	Power Build Division	Eimco Elecon
1998	160.96	42.01	104.02
1999	152.69	436.34	134.76
2000	60.27	9.85	144.48
2001	6.05	148.05	143.48
2002	0.00	44.75	145.56

Source: Annual Report.

The above table shows Return on owners equity Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 75.994, Power Build Division is 136.128 & Eimco Elecon Ltd is 134.46.

ANALYSIS OF PERFORMANCE

Activity ratios are concerned with measuring the efficiency in assets management. Sometimes, these ratios are also called efficiency ratios or assets utilization ratios. The efficiency with which the assets are used would be reflected in the speed and rapidity with which assets are converted into sales. The greater the rate of turnover or conversion, the more efficient the utilization management, other things being equal. For this reason, such ratios are also designed as turnover ratios.

FIXED ASSETS TURNOVER RATIO

The fixed assets turnover ratio measures the efficiency with which the firm is utilizing its investment in fixed assets. It also indicates the adequacy of sales in relation to the investment in fixed assets. The fixed assets turnover ratio is sales divided by fixed assets less depreciation and can be expressed as:

$$\text{Fixed Assets Turnover Ratio: } \frac{\text{Net sales}}{\text{Gross Fixed Assets Less Depreciation}}$$

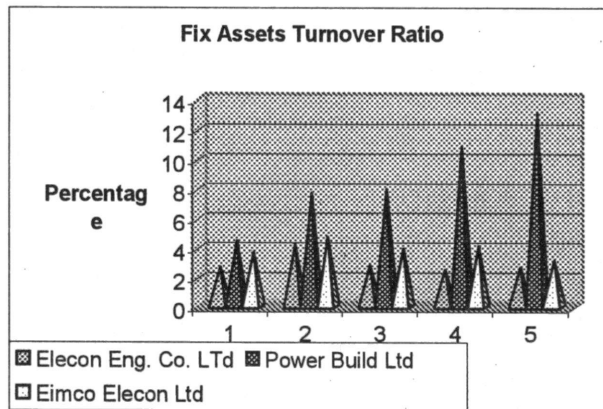
Generally a high fixed assets turnover indicates efficient utilization of fixed assets in generating sales while low ratio indicates inefficient management and utilization of fixed assets. It also indicates that the company has an excessive investment in fixed assets in comparison of the volume sales. To obtain fixed assets turnover ratio sales are divided by the depreciated value of fixed assets, not the market value. Thus a firm, whose plant and machinery

has considerably depreciated, may show a higher fixed assets turnover ratio than firm, which purchased plant and machinery recently.

Table - 6

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	2.68	4.46	3.67
1999	4.20	7.74	4.73
2000	2.84	7.97	3.94
2001	2.54	10.85	4.13
2002	2.69	13.08	3.15

Source: Annual Report.



The above table shows Fixed Assets Turnover Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 2.984, Power Build Division is 8.796 & Eimco Elecon Ltd is 3.924.

2. CAPITAL EMPLOYED TURNOVER RATIO

This ratio explains the relationship between net sales to capital employed. This ratio refers over all profitability of a firm and also refers efficiency of management. This ratio can be worked out as below:

$$\text{Capital Turnover ratio} : \frac{\text{Net Sales}}{\text{Capital employed}}$$

Thus capital turnover ratio, however defined, measures the efficiency of a firm in managing and utilizing its capital, the higher the turnover ratio, the more efficient the management and utilization of available capital. The capital turnover ratio of Elecon Group of companies is as under:

Table - 7

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	1.75	1.61	0.84
1999	2.29	1.22	1.17
2000	1.57	1.13	0.92
2001	1.22	1.01	1.00
2002	0.21	1.04	1.02

The above table shows Capital Turnover Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 1.406 Power Build Division is 1.21 & Eimco Elecon Ltd. is 0.99.

Note : cash credit and bank overdraft has been considered as long term since the same has been renewed over the years.

ANALYSIS OF LIQUIDITY POSITION

1. CURRENT RATIO

This ratio is also known as the working capital ratio. It is the ratio of total current assets to current liabilities and is calculated by dividing the current assets by current liabilities.

Generally 2:1 ratio is considered ideal for a concern. If the current assets are two times of the current liabilities, there will be no adverse effect on the business operations when the payment of liabilities is made. In fact a ratio much higher than 2:1 may be unsatisfactory from the angle of profitability, though satisfactory from the point of view of short-term solvency.

Table - 8

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	1.68	1.72	5.95
1999	1.80	2.09	5.68
2000	2.22	2.21	6.25
2001	2.28	2.36	5.50
2002	2.09	2.33	7.48

[Note: Cash credit and term loan has been considered as long term liabilities since its nature of renewal yearly.]

The above table shows Current Assets Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 2.016, Power Build Division is 2.144 & Eimco Elecon Ltd is 6.232.

2. Quick Ratio - Acid Test Ratio:

This ratio is also known Liquid ratio. Though the current ratio is the measurement of short-term financial solvency but it does not measure the quality of current assets. Thus Acid Test ratio may investigate an additional analysis of the quality of current assets. This ratio is calculated as under:

$$\text{Liquidity Ratio: } \frac{\text{Liquid Assets}}{\text{Liquid liability}}$$

The main difference in current ratio and liquid ratio is on account of inventories and therefore a comparison of two ratios leads to important conclusion regarding inventory holding up.

Table - 9

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	1.30	1.56	3.87
1999	1.41	1.87	3.84
2000	1.64	1.89	4.13
2001	1.64	1.96	3.24
2002	1.43	1.91	4.45

The above table shows Liquidity Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 1.486, Power Build Division is 1.84 & Eimco Elecon Ltd is 3.906.

Note: Stock in trade of finished goods has been considered as quick assets on the assumption that the same is salable in near future.

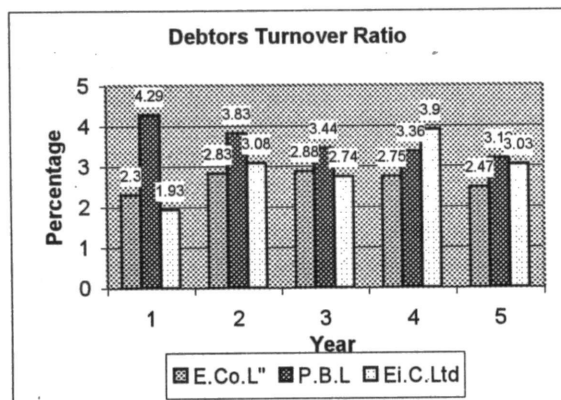
3. DEBTOR TURNOVER RATIO

These days some amount of sales always locked up in the form of book debts. Efficient credit control and prompt collection of amounts due will mean lower investments in book debts. This ratio measures the net credit sales of a firm to the recorded trade debtors thereby indicating the rate at which cash is generated by turnover of receivable or debtors. This ratio is calculated as:

$$\text{Debtors Turnover Ratio: } \frac{\text{Net Sales}}{\text{Average debtors}}$$

Table - 10

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	2.30	4.29	1.93
1999	2.83	3.83	3.08
2000	2.88	3.44	2.74
2001	2.75	3.36	3.90
2002	2.47	3.19	3.03



source: Annual Report.

The above table shows Debtors Turnover Ratio of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 2.644, Power Build Division is 3.62 & Eimco Elecon Ltd is 2.936.

Note: All sales has been considered as credit sales. Average balance of debtors have been considered for ratio calculation.

4. AVERAGE COLLECTION PERIOD

Average collection period is a tool to aid in the analysis of company's credit policy and the quality of debtors more clearly.

$$\text{Average Collection Period: } \frac{\text{Debtors} \times \text{Day in a year [365]}}{\text{Net Credit Sales}}$$

[After deducting weekly holidays and other holidays. Generally total working days of a factory are about 300, but in practice number of working days can be taken as 365.]

The average collection period ratio measures the quality of debtors, since it indicates the rapidity or slowness of their collect ability. The shorter or smaller the average collection period, the better the quality of debtors, as a short collection period implies the prompt payments

by debtors. The average collection period should be compared against the Arm's credit terms and policy to judge its credit and collection efficiency higher the ratio for the terms of credit is not good for concern point of view and also indicates that management have failed to adopt a sound policy in this regard. A conventional role, average collection period of 30 days in considered to be satisfactory in a manufacturing industry like Elecon Company.

Table - 11

Year	Elecon Eng. Co. Ltd.	Power Build Division.	Eimco Elecon
1998	158.80	85.04	189.48
1999	128.83	111.58	118.36
2000	126.95	98.25	133.15
2001	132.95	128.09	93.59
2002	148.06	111.66	120.52

The above table shows Average Collection Period of three companies like Elecon Eng, co. Ltd., Power Build Division & Eimco Elecon Ltd from the 1997-98 to 2001-2002. The Average gross profit of Elecon Eng, co. Ltd. is 139.118, Power Build Division is 106.926 & Eimco Elecon Ltd is 131.02.

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ENVIRONMENTAL AUDIT

*Ashok Kumar Mishra

ABSTRACT

Environmental Audit is the need of the hour. This audit will report hazards which are not yet disclosed.

In recent years most of the developing countries, including India, concern for environmental is widely expressed. Various countries of the world are trying to achieve the high growth rate as soon as possible which present the environmental problem in front of them. Even third world countries facing environmental problems at two levels –

- (i) Impact of high growth oriented development on environment which includes the activities such as construction of large irrigation projects, adoption of modem, input intension, technologies for agricultural growth, rapid industrialisation etc.
- (ii) direct impact of the improved standards of living through different lifestyle on environment involves a fluent lifestyles which draw heavily of the natural resources.

In order to check this problem various pollution control measures can be adopted. Generally pollution control strategy can be divided into two category i.e. reactive as well as preventive strategy.

Reactive approach constitutes the meeting of statutory obligation which is regulated by government. Such strategy leads to the transformation of pollutants from one phase to another and does not provide any sound solution in the long run.

Preventive approach follows the phrase "Prevention is better than cure" and arises a need for critical self examination and one of the important tool for pollution control through this approach is "Environment Audit".

Environmental Audit is not 'an alone a single concept. Even it is an important constituents of environmental accounting.

ENVIRONMENTAL ACCOUNTING

ENVIRONMENTAL REPORTING

ENVIRONMENTAL AUDIT

Before I concentrate on environmental audit let's discuss about environmental accounting and environmental reporting in brief.

"Environmental accounting involves developing sustainability performance indicators from both an environmental and a social perspective and plotting progress against these indicators."¹

In other words environmental accounting includes the policy statement which have been converted into measurable performance target for auditing and reporting.

As for as "Environmental Reporting" is concern it meaning reveals by its name i.e. reporting of environmental performances on the basis of material use, every consumption, nonproduct output and pollutant releases.

The following statement express the zist of environmental reporting:

"Environmental reporting on be a powerful mechanism for both improving environmental performance and at the same time getting public acceptance and recognition. Performance measurement and information disclosure are a concrete demonstration that a company is taking its environmental challenges seriously. It is also the basis for setting targets for how performance will be improved and allowing for thus to be monitored publically".²

The second important constituent of environmental accounting is "environmental audit".

"Environmental Auditing may be defined as the process of examining the records and physical production facilities of an industrial undertaking to identity the extent of compliance of environmental laws and regulations by that undertakings, to verify the efficacy of the system established to ensure compliance, to underline the risks and pollution hazards not yet covered by the regulatory bodies, to report lapses and suggest remedies".³

Thus, by environmental audit companies will get aware of the extent of pollution of soil, air and water by an industrial unit through discharge of dangerous fumes and dust or wastes and will also suggest remedial measures to be undertaken of makes the management aware about the risk associated with the operations of the company causing harm to the environment.

There are various pollution hazards which can be analysed in the following way:

- (a) Known pollution hazards which or covered by laws and regulation;
- (b) Known pollution hazards for which there are no laws and regulation;
- (c) Pollution hazards which can be identified with the assistance of present level of knowledge and resource but endeavour has not yet been taken for their identification;

(d) Pollution hazards which cannot be identified with the present level of knowledge.

Environmental audit attempts to resolve the threats of pollution related laws and regulations faced by a manufacturing unit in the following ways:

- (i) By testing the efficacy of the system which ensure compliance with the applicable pollution related rules and regulation and generating records.
- (ii) To check whether the unit has the necessary environmental related permits or licence, whether it is submitting the required reports to the authority on time, disposing hazardous waste properly i.e. within a tolerable limit prescribed by the authority.
- (iii) If it is found that unit is violating pollution related rules and regulations then reporting into the management suggesting remedial measures.

Environmental audit also covers the reporting of hazards which are not yet covered under the present pollution control rules but which cause harm to the people as well as environment and suggesting remedial measures for them.

Even in our country (India) various steps have been taken in this regard. Various legislative policies and programmes have been evolved in India for environmental protection and conservation of natural resources.

The Ministry of Environment and Forests, Government of India issued a notification.

On Environmental statement on 28th April, 1992 which was further amended in 2nd April 1993. As per this notification, person(s) carrying on an industry, operation of process requiring consent under sec. 25 of the water (preservation and control of pollution) Act. 1974 or under sec. 21 of the Air (prevention and control of pollution) Act, 1981 or both or authorisation under the Hazardous waste (Management and Handling) Rules, 1986 shall submit and Environmental statement for the financial year ending the 31st March in the Form-V to the concerned State Pollution Control Board on or before the 31st day of May every year beginning 1993.⁴

Since the environmental reports provide necessary information on environmental issues, they are highly desirable to employees, shareholders, directors authorities and the public.

Thus, if Environmental Auditing be implemented properly it will provide the following benefits to all the parties of the business.

"Introduction of Environmental Auditing in a company shows its responsibility and positive attitude towards pollution hazards which, ultimately improves the public image of the company".⁵

It helps in identifying the problems attach with the pollutants.

It evaluates the position of company in compliance with legal and regulatory framework of environmental protection.

It reduce cost by controlling wastes through improved technologies and ensures cost effective compliance with laws, regulations, standards and company policy etc.

To conclude, it can be say that the success of Environmental Audit depends on the flexibility i.e. it should be flexible enough to suit the specific needs of the company. There should be a well defined procedure for it and its report should also be descriptive in nature.

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INDIAN ACCOUNTING EDUCATION AND RESEARCH - WHERE WE ARE, WHERE WE WANT TO GO

*A. Vijayakumar

ABSTRACT

The last two decades of the 20th century have contributed to the Indian economy two major changes - growth in information technology and liberalization of the economy. The common objective of these two changes is that once they are on the road of development and they will contribute to grow. The business activities have expanded and they are expected to grow either by entrepreneurial activities or due to takeovers, mergers and consolidations. The rivals of yesterday have joint hands for their mutual benefits and for the benefits of their investors. Being a language of the business, accounting needs to be intoned with the events as and when happened in an environment. The existing global environment needs a lot of change in the accounting system. It is the dire need of the hour to bring about a number of changes in accounting education which incorporates relevant techniques and methods in accounting education and research. To undertake the responsibility in changed business scenario, the requirement of professionally trained personnel especially accounting personnel is going to be enhanced and the nature of training imparted should also change.

Presently, three types of institution conduct accounting teaching in India. First type includes the college and universities where undergraduate and postgraduate students are trained in accounting. The basic input given to them from financial accounting, cost accounting, tax accounting and management accounting. The 'how' of accounting is emphasized more at undergraduate level and 'why' of accounting is taught at postgraduate level. But the practical training and proper orientation towards business is lacking which do not make them job ready after coming from the universities and colleges. The second type of institutes ICAI, ICWAI, and ICSI that are providing training in specialized areas. All the institutes are professional in their approach relying on distance learning and self study. The traditional lecture method has

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been deliberately discarded. The third type of institution where accounting is taught is the management educating university departments. The training aims at developing managerial skill to occupy the executive positions in corporate sector and for that accounting are taught as a core subject. Many new teaching technologies have been adopted and practical training is given in industry, but this training is hardly in accounting area.

With this background in mind an attempt has been made in this proper to analyze the present status of accounting education and research, backlog of accounting education and research and suggest measures to improve the future scene of accounting education and research in India.

THE BACKLOG OF ACCOUNTING EDUCATION AND RESEARCH

Accounting educators have entered 21st century with a backlog of certain issues of 20th century. The experiences suggest that accounting education and research has suffered from the following backlog.

1. **ABSENCE OF TOTAL APPROACH:** The teaching and training in accounting education have not been viewed in a total systematic approach. The branches of accounting have not been dealt with in their proper sequence, keeping in view the de-fragmented approach.
2. **LACK OF CO-ORDINATION:** There is a lack of co-ordination among various courses of accounting taught at different levels, say at school , colleges, institutes and university level.
3. **LACK OF PRACTICAL APPLICABILITY:** The teaching and training of accounting has been devoid of its practical applicability. It is a comment that what is taught has hardly any relevance to the field of practical applicability. Each and every employee has to train himself afresh on the job.
4. **NO UPDATING:** There is natural resistance to change resulting in to lack of updating of course content, undermining the capacity adapt to the fast changing world. For example, computer has changed the world scenario and made the teaching and training of accounting more skill oriented and less knowledge oriented.
5. **AD-HOC APPROACH:** Looking at the teaching and training programmes of accounting at different levels, during different times, one finds hardly a thread of logic to justify the behaviour of the persons concerned. The decisions have been influenced by ad-hoc approach for satisfying the immediate need and sometimes these have been erratic.
6. **UNPLANNED ACCOUNTING RESEARCH:** Most of the accounting researchers in accounting are unplanned. There is no single agency at national level or at state level to chart-out plan for research to be conducted based on national priority and produce research of useful applicability.

7. **POOR QUALITY OF ACCOUNTING DATA FOR RESEARCH:** Accounting information is basically internal in nature. These are hardly shared in full measure and whatever is shared with researchers is doubtful to be correct. Due to this limitation, the researches in accounting suffered lot.
8. **ACCOUNTING RESEARCH - A NON-PRIORITY SECTOR:** Accounting research has been a non-priority sector for the Government in India. This made research a non-priority sector for the researchers and even research institutions. Accounting is the last choice for research in commerce as compared to other specializations. Lack of proper facilities, non-availability of funds, and lack of qualified supervisors are the causing factors for the less interest in the accounting researches.
9. **OTHER BACKLOGS:** The following are the other backlogs which affect present accounting education and research.
 - Lack of sufficient qualified instructors
 - Lack of standard accounting text book in local language
 - Shortage of Professional accounting schools
 - Lack of low status of profession
 - Inadequate public understanding of the role of accounting
 - Lack of complete relevance of present accounting practices to the local environment
 - Lack of professional accounting societies
 - Low status of professional ethic.

MEASURES FOR IMPROVING THE PRESENT SITUATION

The job of future accountants will hardly remain as it is today. These accountants will not simply remain the score keeper but at times will have to work as consultants. With the help of accounting information as a tool, these consultants will diagnose the problem of sickness earlier and will suggest measures for their redressal. For this, the accounting professionals will have to reorient themselves in changing economic environment and fast moving information technology. To build a strong base to cater to these requirements the following measures are suggested for improving the situation.

1. Accounting teaching institutions will have to create proper infrastructure to train these people in the use of modern information technology. Proper computer facility along with the component teachers will have to be created.
2. At the post-graduate level, this is the time to change the courses so that these majors in accounting should be of help as consultant in accounting for merger, takeover and liquidation turnaround. Practical training in accounting should be provided to at least the postgraduates and teaching technology should include case study method.

3. Traditional classification of accounting is no more relevant due to the advent of computerized MIS, Decision support system, Export system etc. The out-molded model of segmented accounting teaching and learning based on numerical problem solutions, black board, tuition/ coaching must be replaced by conceptual knowledge linked with computer software. Accounting education needs this basic change in its approach to teaching, learning and practice.
4. Accounting specialists have been found to lack in communication skills and organization behaviour. They will require thorough training in both these areas. Accounting specialists for global market must have working knowledge of international economics, international finance, I.T, e-commerce, e-business also.
5. There is established of meaningful of relationship between universities and statutory professional institutes of CA's, ICWAI's and CS's. All must shed their ego and work for a meaningful partnership in national interest
6. Universities may be encouraged to establish separate departments of accounting with specialized bachelor and master degree in accounting. Funding of school of accounting and departments of accounting should be shared responsibility of the UGC, Professional institutes, State Governments, Industry and people interested in accounting. International funding may also be tapped.
7. Leading accounting firms and corporate must liberally donate funds for the creation of chairs in accounting at select schools/ departments of accounting.
8. Development of global accounting norms is urgent need of the hour. We must seize this opportunity by developing global curriculum in accounting. This requires an urgent research effort to have an international comparative study of accounting.
9. There is a dire need to set-up a single agency at national level or state -level to chart-out plan for research in accounting to be conducted based on national priority.
10. Universities need to drive the growth of software accounting education, skills so that any student seeking a carrier in accounting would give an arm and a leg to learn these techniques. What business today requires is a huge talent of pool of qualified and trained financial accounting software packages professionals to run the Industry.
11. More emphasis is give to internet accounting, Technology accounting, network for accounting education and training, social Accounting, value-added accounting, environment accounting, scrip rating tax structure, pollution audit and tax burden accounting etc.,
12. There is an urgent need to educate the businessmen about the role and benefits of accounting at the same time proper training, up gradation of knowledge and development of programmes should also be made compulsory for accounting teachers

13. Professional bodies of accounting education should arrange orientation programmes, workshops and seminars for these teachers so that they can give project in practical work in accounting.
14. The Institute of chartered Accountant of India should take initiative to invite. The researchers, professionals and eminent academicians for celebrations on latest accounting tools and techniques and those areas of accounting which are yet to be developed to maintained the standard of accounting education at the international level.

CONCLUSION

An accountant sitting in front of a small table, opening a large bound book and writing with a foundation pen or a ball pen is gone out of the days. A modern accountant sits in a revolving chair, in front of a computer monitor and a key board, logs himself in and keeps himself responding to beeps that's conventional accountant has no place now a days is a fact. Accounts are not maintained in the books but on chips, measured not in words but in bytes, written not in ink but with a stylus inside the computer on the monitor board, secured not in lock and key but the use of passwords and chippers. The new millennium will bring tremendous challenges to the Accounting professionals. In order to meet these challenges, the curriculum of accounting and research should be prepared in such away that the students get more interest in going through the same and they can utilize it in practical life Implementing the above mentioned measures will go a long way in restructuring accounting education and research on more advanced lines in our country.

SURVIVAL STRATEGIES FOR INDIAN PHARMACEUTICAL INDUSTRY IN PRODUCT PATENT REGIME

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ABSTRACT

On 1st January 2005, India ushered into a new era of Patent regime. Indian pharmaceutical industry, largest in the developing world is composed of 20,000 companies, out of which more than 19,600 companies are medium and small-scale industries. Its core advantages are the low cost of production of bulk drugs, strong competencies in process development and reengineering of drugs, and a rich pool of scientists and technologists who can convert processes into world class products. This knowledge-intensive industry is under severe pressure due to miniscule number of patents in its name. To combat the challenges posed by product patent regime, the industry will have to develop as a leading research center with a low cost and high-quality supplier of pharmaceuticals. Under this background, an attempt has been made in this paper to discuss.

The Indian Pharmaceutical sector, a sunshine sector fulfils almost 95% of India's pharmaceuticals needs. The industry size have increased from mere Rs 4 billion in 1970-71 to Rs 226 billion in 2004, at a CAGR of 13.7% per annum. Globally India ranks at 4th in terms of volume and 13th in terms of value. Some important facts about the industry for year 2003-04 are shown in Table-1

Table- 1: Indian Pharmaceutical Industry: Fact Sheet

Exports	Rs. 141 billion - Over 65 countries
Capital Investment	Rs. 45 billion

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Future Market Size	McKinsey Projection 2010-U.S. \$ 25 Bn.	
Bulk Drugs Production	Rs. 78 billion. Over 400 Bulk drugs manufactured	
Share of World Pharma Market	1.0% in value, 8% in volume terms.	
Global Ranking	Volume terms - 4th, Value terms - 13th	
Number of Generic Brands	Over 60,000 in 60 therapeutic categories	
R&D Expenditure	Rs. 6.6 billion, about 2% of sales (However, some research based companies are spending over 6% of sales on R&D)	
Number of Units	About 20,000 out of which around 300 units in the organized sector	
Employment	Direct - 5,00,000	Indirect - 24,00,000
OTC Market	Approx. Rs. 35 billion, Growth 18-20%	
Top 10 Brands* *based on retail sales	1. Corex (Pfizer), 2. Voveran (Novartis), 3. Becosules (Pfizer), 4. Taxim(Alkem), 5. Human Mixtard(Lily), 6. Althrocin (Alembic), 7. Sporidex (Ranbaxy), 8. Asthalin (Cipla), 9. Betnesol (Astra- Zeneca), 10. Cifran (Ranbaxy).	

PATENT REGIME IN INDIA

Patent grants the inventor of a new product, or process, an exclusive right for a definite period for the manufacturing, use, or sale of that inventing. (Hill, 2004) Pharma Industry basically deals with two types of Patents:

1. **Process Patent:** It is given to a particular process of making a product and not the product. Process protection, however allows for more than one producer for the same product using different processes resulting into competitive pricing.
2. **Product Patent:** It is granted to a particular product. The protection of a product patent rewards the patent holder for its invention and permits high pricing. This means that no other than the Patent holder can make the product for a particular period.

Rationale behind product patent lies in enabling pioneering firms lead time to recoup sunk cost on R&D, which can not be recovered by mere realization of marginal cost. (Singh, 2005)

In India, the Indian Patent Act, 1970, governs system of patent. System of patent got a 'U' turn in the year 1995 when Indian government signed on GATT agreement, thereby accepting the Product Patent from year 2005. The important Amendments to the Indian Patent Act, 1970 were introduced by the Patent (Amendment) Act, 1999. Further it was modified with Patent Amendment Act, 2002. To comply with the provisions of the TRIPS agreement, the government has promulgated an ordinance which came into operation from January 1st, 2005.

IMPACT OF PRODUCT PATENT REGIME ON PHARMA INDUSTRY

Indian Pharmaceutical Industry has started facing the heat of the product patent regime. Some of the potential impacts of the new system are presented here.

1. No reverse engineering

With product patenting, a company which invents a drug will be awarded the patent and no other company can come out with similar versions of the drug using different manufacturing processes. Thus, with product patents, the period of patent (20 years) provides a security to the manufacturer, poses a serious threat to other players by delaying their entry with a generic drug.

2. Impact on Drug prices

Prices of new drugs are tending to be high under the new product patent regime, as patent regime provides monopoly right to the inventor. Although GATT agreement provided a grace period of 10 years to the developing countries so that domestic industry could find its footing. Nonetheless, according to another provision, the drugs invented after 1995 shall also obtain the benefits of product patent after getting approval from domestic patent authority. Prices of these drugs are surely going to rise after this approval. After the approval, other pharma companies marketing these drugs shall be compelled to withdraw their molecules.

However there may not be much impact on the price of other existing formulations in India due to presence of abundant small players and fierce generic competitions.

Table 2 compares present price of Indian medicines under process patent regime with other countries that have adopted product patents.

Table-2: Comparison of price of medicines of various countries

Drug	Dosage Pack	Price in India (Rs.)	Price in Pakistan (Rs.)	Price in USA(Rs.)
Ranitidine Tabs. 300mg.	Strip of 10's	18	242	1111
Diclofenac Tabs. 50mg.	Strip of 10's	6	56	350
Ciprofloxacin 500mg.	Strip of 10's	40	500	1140

Source: www.pharmainfo.net

3. Decline of Medium & Small Scale Companies

Industry, particularly the medium and small scale companies will face the brunt of patent regime over a period of a decade. These companies are purely generic companies totally depended upon reverse engineering. It will create difficulties for companies to survive under the new patent system. Similar phenomenon has been observed in China, when they adopted

Good Manufacturing Practices (GMP) in pharmaceutical sector and number of companies declined from 6000 to 600. (Singh, 2003)

4. Rise of Elicit Medicines

The exorbitant prices of patented drugs, may lead to illegal manufacturing of same drugs by some manufacturers. Due to heavy price differential, poor Indian customers may be forced to buy these medicines, known as elicit medicines. At one end, this will severely affect the profitability of patent holder company, while at other end there is no one responsible for quality and contents of the elicit medicine. This may lead to some serious outcomes like adverse reaction or no action of drug in critical conditioned patients. According to WHO estimates in 2003, nearly 35% of the drugs in the market are elicit drugs. Market size of those products is estimated to be about Rs. 3,000cr.

STRATEGIES

In order to combat the forthcoming challenges of new patent regime, Indian pharma companies have started gearing up. Companies are exploring various possibilities for long term survival and growth. Though crux of survival lies in the development of new molecule Indian companies are exploring different routes for sailing. Some of these strategies are discussed below:

1. Generics

High cost of healthcare in developed countries like Europe & U.S. is a big concern for the government and insurance companies and, they are looking for low-priced alternative drugs. Again molecules worth \$44 billion are going off patent by 2009. These changes in environment are unfolding a vast generic opportunities before Indian pharma industry. (Kumar, 2004)

Although generic market is highly competitive and offers low margin, the Indian companies can have an edge if they launch their products in segments like injectibles, technology-intensive drugs and drugs in new dosage form, where competition is low. Many Indian companies have totally transformed the existing drugs and have come up with a successful product. Ranbaxy came out with Cipro-OD (once-a-day), in new dosage form, Lupin's Suprax in paediatric segment, and Ranbaxy's Metformin in the syrup form are some example of innovation in generic market.

Bio Generics (Generic Biological)

Bio Generics are the copies of biologicals or drugs derived from cells of living organism. Unlike chemical generic, competition in Bio Generics is less intense because recombinant biotechnology is far tougher ballgame. Developing the technology in biological and making it commercially viable needs time, resources and patience. Biotech sector is a sunshine sector in future too. Around 20 % of global pipeline of drugs under development are biotech drugs.

Biological worth over \$15 billion will go off-patent in next 3 years. (Kamath, 2004) Therefore companies, which can afford to invest in biotechnology, should leverage this opportunity. Companies like Wockhardt and Biocon have invested huge money in becoming biotech companies, and they are proved quite successful.

2. Innovation

During the preparation phase to face product patent, companies' investment in R&D has increased from a 1% to 4-5% for developing new or analog molecules. Dr. Reddy's and Ranbaxy have invested between 8-10 per cent of last year revenue in the R&D. Other players like Lupin, Wockhardt, Glenmark, Torrent Pharma, Unichem, Ipca and Cipla too are making considerable investments in R&D. Companies are also tying up with government universities and research labs to screen chemical or natural compounds. Because of R & D focus, Biocon India became the first Indian company to manufacture and export enzymes to USA and Europe. It has developed innovative and effective biomolecules in diabetology, oncology, cardiology and other therapeutic segments. To boost the R & D efforts of companies, Indian government too has announced many incentives like tax holidays, rationalizing the duty structure and permission of foreign direct investments through automatic routes to facilitate the capital flow for the research.

3. Contract Research & Manufacturing

Cost of establishing a full fledged Contract Research Organisation (CRO) in India is Rs. 9.2-11.5 crore. (E & Y estimates) Another upside for India is enough number of patients for diseases that are of top concern for pharma companies like HIV, Cancer and Diabetes (20 % of world's Diabetic population). Division of Max India has setup a technical collaboration with Harvard Medical International for managing clinical trials at 30 medical institutes around the country. Nicholas Piramal also signed a contract of 115 crore with US based Advanced Medical Optics (a leader in ophthalmology related product) for manufacturing of neutralizing tablets, form fills, and seal solution products. (Prasad, 2004)

Contract manufacturing is another big opportunity, and in India it's estimated to touch \$900 mn by 2010. The estimate of addressable opportunity globally for India is more than \$ 10 billion annually (Gombar, 2004). To move up the value chain, these centers can also move towards conducting clinical trials. Multinationals pharma major Smith Kline Beecham is putting up a manufacturing unit in Haryana with investment of at a cost of Rs.2.5 bn. Similarly Merck Ag, Germany has opened a subsidiary-Merck KGaA India Private Limited for product development and large scale manufacturing, which incidentally is the first R&D investment of the German-based company outside its own country. Hyderabad-based, Rs 259-crore Divi's Laboratories is distinct since it has been set up purely as a research and development company to undertake research on process development, particularly for advanced intermediates for discovery compounds of clients. Novartis has two projects underway in India, one at Dr. Reddy's for a diabetes molecule and the other at Torrent Pharma for an age-breaker, a novel drug for dealing with metabolic disorders relating to hypertension and cardiovascular illness. (Jayakar, 2004)

4. Bulk Manufacturing

Indian pharma companies have created deep impression while supplying bulk drugs or Active Pharmaceutical Ingredients (APIs) to the world market. It is the model that has existed for three decades and is likely to remain the most preferred model for Indian pharma companies of all types, big and small because it fetches healthy net margins of 15-20%.

SMS pharmaceuticals reduce the 12-step ranitidine manufacturing process to 3 and made the product more efficiently and far cheaper than others in the world resulting price fall from Rs.1500 - 2000 per Kg. to Rs. 500- 600 per Kg.

5. Mergers, Acquisition And Collaboration

The rising global competition and the resulting downsizing have intensified the necessity for collaborative arrangements among pharma firms. Collaboration is well suited for activities such as new product development, improving a product design for manufacturing using competencies within the supply chain network, improving logistics costs across supply chain network, reducing time to market for new product introduction and reducing the manufacturing cycle time for designed products. Ranbaxy has collaborated with Cipla while Glaxo has agreements with Hoechst Marion Rousell companies. Some of the other acquisitions made by Indian pharmaceutical companies are given below:

Table-4: Mergers & Acquisition by Indian companies

Indian Company	Acquired Companies
Dr. Reddy's Labs	US based Trigenesis Therapeutics,
Wockhardt	German Firm Esparma GmbH, CP Pharma, Wallis Laboratories
Torrent Pharmaceuticals	German generics Company
Glenmark	Klinger of Brazil
Zydus Cadila	Alpharma of France
Ranbaxy	Generic division of Aventis

(Sahad, 2004)

6. In-Licensing

Unlike drugs that are copied and sold by many competitors, in-licensed products often sell on the basis of a brand name. The import tag not just lends a premium, but also helps companies to maintain prices unlike generic drugs, for which prices crash once competition rises. For instance, Shelcal's prices have increased over the years while Ranbaxy's ace antibiotic Cifran's prices have dropped.

Indian firms will have to capitalize on the opportunity to obtain the license to produce drugs, as global pharma companies that do not have any significant stake in the Indian market will not hesitate to give license to Indian firms. However, MNCs with subsidiaries in India are likely to introduce patented drugs only through their subsidiaries.

The Mumbai based Rs.234 crore Elder is specialised in in-licensing branded products. It has a portfolio of 25 in-licensed products from 22 foreign companies accounting for 60% of its revenues. It has just launched lip care products from Blistex of US. (Singh, 2003)

7. Clinical Trials

The government should establish ethical, regulatory and scientific framework for undertaking clinical research in a country that ensures the highest standards for protection of human subjects and simultaneously promotes good clinical practices. Eli Lilly's R & D facility at Gurgaon with 17 clinical trials (10 of them global) is the largest in Asia and second largest outside the US. (Dubey, 2003) According to Vidur Kaushik, CEO SRL Ranbaxy, In the world pharma industry, it takes about \$ 900 Million (Rs. 4140 crore) and 10-15 years to get a new drug to market. About two third of this amount (2700 core) is spent on testing the drug to prove its efficacy and safety through an elaborate process of clinical trial. By directing clinical trial to India, a company can half the cost and time because of world class services. (Gombar, 2004)

8. Niche Marketing

For survival in the present fiercely competitive market, some Indian companies have also also started adopting this route by orchestrating their strategies to operate in highly specialized market niches, according to therapeutic segments, geography or customer segments. This makes them super specialists in their areas where the net margins are as high as 20-40%.

Serum International operates in a niche area - vaccines. With cGMP certification and World Health Organization (WHO) approved facilities, Serum exports to 135 countries. Its product portfolio includes vaccines for measles, tetanus, dual antigen, diphtheria and pertussis, viral vaccines and snake anti-venom serum. Recently, it got the approval to supply hepatitis B vaccines to WHO organizations around the world. Due to the WHO tie-up, today one out of every two children in the world is vaccinated by Serum's vaccines.

CONCLUSION

While Indian pharma companies are working day in and out to come out of this battle of Patent regime, government should also play an active role in terms of conducive environment, simple legislative measures and building of strong infrastructure. Infrastructure wise India ranks 41 in a group of 42 countries surveyed. (Gopalkrishnan, 2002) This needs serious concern and attention of government for vibrant growth of Indian pharmaceutical sector in India. Regulatory measures also need modifications to cater to changing market conditions. Government should promote clusters for pharma researches and incentives must be declared for the same. Various State governments should also take a lead for promotion of R & D in India. Strategies mentioned above are generic ones and does not imply that they will produce results for each company. Companies should select one or more strategies according to their strength, weakness and environmental conditions.

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BOOK REVIEWS

Financial Policy and Management Accounting

**Author : Bhabatosh Banerjee, Prentice Hall of India Private Limited, New Delhi,
7th Edition, 2005, Price Rs. 350/-, Pages 830.**

This book has been a combination of two subjects merged into a single volume with a completely revised, updated and reorganized version. Both disciplines- financial management and management accounting are closely interrelated but become complex subjects in recent years. This book contains two sections broadly covering 14 chapters. Chapter 1 discusses the introductory framework of financial accounting and management accounting while some basic concepts of finance like future value, present value, compounding periods, effective interest rate, money doubting have been discussed working capital management issues, forecasting implications of working capital requirements, financing current assets, inventory management issues, management of debtors and cash management concepts, changes in financial position including concepts of funds flow statements and cash flow statements etc. are discussed in subsequent four chapters. The impact of AS-3 on the cash flow analysis, cost of capital, analysis of leverages, capital structure theories & planning have been also supported with numerous exercises in the text. Chapter 10 discusses dividend policies and divided theories with Indian perspective. Chapter 11 provides an overview of management control systems. Chapter 12 highlights the concept of investment decisions and Indian practices in investment decisions. Chapter 13 deals with cost concepts and management decisions relating to profitable product mix, outsourcing, activity planning etc. Finally, chapter 14 examines risk management issues covered in two sections. Section II of chapter 14 primarily deals with financial derivatives-hedging risk, futures, forwards and their implications. In this edition concepts and theories have been explained in a very lucid manner with due weightage being given to Indian practices. Apart from an appendix, answers to exercises (chapterwise) have also been provided in this text. All chapters contain illustrations and worked-out problems supported with exercises. Written in a very simple language, illustrative style, the book generates a fresh perspective on financial policy and management accounting issues. This book will not only be useful to the undergraduates and post-graduate students of Commerce and Management streams but the students of ICWA, CA and MBA programmes will also be benefited. This book can also serve as an excellent reference for practising accountants, academicians and researchers.

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Accounting and Analysis: The Indian Experience

**(Global Data Services of India Ltd. - A wholly owned subsidiary of CRISIL, Pune)
2nd Edition, 2004, Pages 332.**

Accounting and its analysis is regarded as a difficult subject but students, practitioners/ readers will find that it is not the case with this book. This publication makes an attempt to bridge the gap between emerging concepts of corporate accounting and practice. This book has got 19

sections/chapters. Topics like - Employee Stock Option Scheme, Mergers and Demergers, Deferred Tax, Operating Income vs. Other Income, Receivable and Provision for Doubtful Debts, Preference Shares have been discussed and duly explained with inter-company and intra-industry comparisons. Last three sections provide detailed overview and financial statements of three companies - Escorts Ltd., Deepak Fertilizers and Petrochemicals Corp. Ltd. and Associated Cement Companies Ltd. In this edition company wise data of last 2 years (year ending March 2003 and 2004) have been provided. This publication is very useful for practicing professionals, students and teachers dealing in the world of corporate accounting. The language of the book is very clear, simple and includes references and updated information.

Prof. D. Prabhakar Rao

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Cost Accounting

Author : Jawaharlal, Tata McGraw Hill, New Delhi, Third Edition, 2004.

Cost Accounting has not only emerged as an important subject of study but has also emerged as an important tool of management control. In a fiercely competitive economy, there is an all round thrust on cost reduction and cost control. The present book by Jawaharlal is a noteworthy contribution in the field of Cost Accounting. Written in a very simple and lucid manner, the book covers a wide range of topics relevant to the field of Cost Accounting, which includes, inter alia, i.e., Basic Nature and Concepts of Cost Accounting, Elements of Cost, Costing Methods and Accounting Systems, Cost Analysis for Planning and some Specialised Topics on Cost Accounting. The Book provides over 350 solved examples, more than 200 numerical problems with answers and about 300 theory and self-evaluation questions. The book is useful for the students of the professional courses i.e. C.A, I.C.N.A., C.S., C.F.A. and MBA. It is also equally useful for the researchers, academicians, practicing professionals, policy makers and analyst. The strength of the book is the author's capacity to deal with the complex issues of Cost Accounting in a very simple and straightforward manner. It is an outstanding piece of a scholarly work under the banner of TATA McGRAW Hill Publishing Company Limited.

Dr. Deepak Gupta

Reader, Pt. JNIBM, Vikram University Ujjain

Accounting and Finance for Bankers

C. Jeevanandam (2005) New Delhi: Sultan Chand & Sons, Price Rs.160/-

Banker's main business is borrow and lend the money for which banker's must be clear about the basics of accounting and finance. The book under reference given by C. Jeevanandam gives the solution for that. It has two sections. Section one is focused on the basics of mathematics and finance for bankers, which covers interest rate and annuity, bond evaluation and capital budgeting. Section two consists of six parts, is focused on basics of accounting for bankers. In which book keeping mechanics i.e. nature and purpose of accounting, accounting process, processing non-cash transaction etc. are focused. Further final accounts and specific transactions i.e. contract accounts, account current, depreciation accounting, accounting for leases and hire purchase and instalment-purchase accounts also targeted. All the aspects of partnership accounts are also explained in an easy way. Company accounts is covered with the special reference to final account of banking companies. Lastly, special topics i.e. accounting in computerised environment, consignment accounts and joint venture accounts is also covered. Each part of the book consists with ample of solved and

unsolved practical problems. Around 365 objective type questions are special feature of this book, which is worthwhile to meets the requirements for the preparation of the Junior Associate Examination (JAIIB of Indian Institute of Banking & Finance) and the students at undergraduate level.

Rishi Dubey

Reader, Prestige Institute of Management, Dewas

International Marketing

**Author : Rakesh Mohan Joshi, Oxford University Press, New Delhi,
1st Edition, 2005, Price Rs. 325/-, Pages 750.**

This book has been written in response to a long standing need keeping in mind the requirements of comprehensive text on international marketing. The author has had close look at the recent developments in the world economy which have certainly led to the emergence of international marketing as one of the key areas of marketing. This book contains 17 chapters covering in-depth analysis of international markets specifically based on Indian and "developing countries" perspectives. Chapter 1 tries to explain the concept and evolutionary processes of global and international marketing. Chapter 2 provides trends of world trade as well as examines India's foreign trade and international trade patterns. Chapter 3 attempts to describe the structure and functioning of WTO and it's influence on international marketing.

Different international economic institutions and regional trading agreements, the concept & process of international marketing research tools and techniques involved in segmentation/selection of international markets. Modes of entry in the international markets discussions on product decisions, new product launching and various dimensions of international product strategies etc. are discussed in subsequent five chapters.

International brand building strategies have been discussed with examples in Chapter 9. Pricing decisions/approaches, concepts like Counter trade, Dumping, Transfer pricing and a Grey marketing have been given due weightage in this Book. It also examines the concept of international logistic concept of international marketing mix, implications of export-import policy in international marketing. Risk management, forfeiting, export factoring, pre-shipment and post-shipment credits, export documentation and export transaction procedures, export promotion and institutional setup for export promotion in Indian perspective etc. in subsequent chapters. Finally, the emerging issues in international marketing like - product proliferation, shortening PLC, emergence of knowledge economy, customer sophistication, impact of information and communication technology, E-readiness etc are also discussed.

Pedagogical features of this book include - review questions provided at the end of each chapter, useful examples as well as case studies of leading world class organizations like Gillette, Cipla, Indian Oil Corporation. Another distinguishing features of the book include - attached CD containing select forms of trade transactions, annexures containing key data etc. The language of the book is very clear and hast got logical structures. This book is not only going to meet the requirements of MBA students but also very useful for international marketing practitioners, researchers and academicians.

Dr. D. Mehta

Senior Lecturer, Pt. JNIBM, Vikram University, Ujjain

XXVIII ALL INDIA ACCOUNTING CONFERENCE AT HYDERABAD

XXVIII All India Accounting Conference will be held at Hyderabad at FAPCCI House, Red Hills, Hyderabad during December 10-11, 2005.

The topics are as follows:

International Seminar: Accounting Education and Research in the Universities of India and Abroad with Prof. D. Obul Reddy as Chairman

Technical Session I: Accounting for Knowledge Capital with Prof. Bhabatosh Banerjee as Chairman

Technical Session II: Strategic Cost Management with Prof B. C. Sanjeevaiah as chairman

Technical Session III: Convergence of Accounting Standards with Prof. D. Himachalam as Chairman

All papers will have blind review before accepting them for presentation at Conference. Hence members are requested not to write their names and identity on the text of the paper but to give details of the author on the title paper only.

The soft copy and the hard copy should reach the Conference Secretary on or before November 10, 2005.

Details of the Delegation fee: Rs. 500 for Members of IAA, RDA, IAARF
Rs. 700 for non-members
Rs. 400 for accompanying persons
\$ 100 for Foreign Delegates (However, non-Member Delegates from neighboring countries of India need to pay Rs. 1,500 only)

Last date for Registration without late fee: **November 10, 2005**. Delegates will get Conference material with a kit.

Last Date for Registration with an additional late fee of Rs. 200 is November 30, 2005.

As the Hyderabad is one of Cosmopolitan Cities with a population of more than 70 lakh population with good tourism attraction especially during the month of December, no guarantee of accommodation can be given unless advance information is given. Hotel accommodation, at the request of the members, would be provided at the cost of the host for 3 days i.e. 9th evening to 11th evening only.

Conference Secretary
Prof. K.V.Achalapathi
Head Department of Commerce, Osmania University
and Branch Secretary, IAA, Hyderabad Chapter.
mobile: 9866339600

INDIAN ACCOUNTING ASSOCIATION

Annual General Meeting Notice

The annual meeting of the IAA General House is tentatively scheduled to be held at 12.30 p.m. at the Venue of 28th IAA Annual Conference, Hyderabad, on 11th Dec., 2005, to transact the following agenda:

1. Consideration of the minutes of AGM meeting held at Bhubaneswar
2. Consideration of the Accounts of the Association
3. Topics for the next IAA Annual Conference
4. Election as per the Constitution
5. And any other item with the permission of the Chair.

All the members are requested to attend the meeting

(D. PRABHAKARA RAO)
General Secretary, IAA

Executive Meeting Notice

A meeting of the IAA Executive Committee is tentatively scheduled to be held at the Venue of 28th IAA Annual Conference, Hyderabad, on 10th Dec., 2005, at 8.30 p.m., to transact the following agenda.

1. Consideration of the minutes of EC meeting held at Bhubaneswar
2. Nomination EC members to constitute panel nominating the Jr. Vice President.
3. Consideration of the election of the members on vacancies as per rules.
4. Co-option of members to EC.
5. And any other item with the permission of the Chair.

All the Executive Members are requested to attend the meeting.

Dr. D. Prabhakara Rao
General Secretary, Indian Accounting Association
Faculty of Commerce & Management Studies
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Mobile: 09440131863, Email: dprabhakararao@gmail.com

58th All India Commerce Conference

(Dec. 27-29, 2005)

- Topics •
- VAT and New Perspectives in Tax Policy
 - Marketing Innovations - A Paradigm Shift
 - Emerging Trends in Service Sector
 - Impact of Globalisation on Indian Entrepreneurship
 - Commerce Education: Integrating with Emerging Technology
- Papers be sent upto **31-10-2005**

Conference Secretary
Dr. M.B. Shukla

Professor, Head and Dean, Faculty of Commerce, M.G. Kashi Vidyapeeth, Varanasi
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