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Role of CFO in the Economic Turnaround

The Associated Chambers of Commerce and Industry of India

MESSAGE FROM

VINOD RAI

I.A.S (Retd.)

FORMER COMPTROLLER & AUDITOR GENERAL OF INDIA

I am happy to associate with the Round table proposed by ASSOCHAM for CFO's with the agenda for an Economic Turnaround. It is indeed very timely and, at this time more than ever before, the role of CFO's is going to be very critical. The country is poised at a very critical juncture, where rapid and inclusive economic development has become a total necessity. This is the time when C F O's have to play the role of supporters of ideas and innovations as the situation requires out of the box thinking and innovative initiatives. A new risk tolerance culture has to be encouraged with the requisite moderations and caveats. In times of sluggish demand and tight money, after the economy has witnessed high volatility, the challenges are huge. Nevertheless, I am very confident that with the excellent endowment of finance professionals that we have, the challenges will be squarely faced and the Economy will soon be knocking on the doors of double digit growth.

I wish the conference the best of deliberations and congratulate ASSOCHAM on the initiative.

Vinod Rai
Former Comptroller & Auditor General of India

MESSAGE FROM

D S Rawat

General Secretary,

ASSOCHAM

In recent years, the role of the CFO has undergone a sea-change. Traditionally being viewed as a financial boss, the role of the CFO has expanded multi-fold and evolved to be a strategic partner and advisor to the CEO. In fact, in a survey report, an overwhelming percentage of CFOs reported that CEOs expect them to be more pro-active participants in shaping the strategy of their organizations.

CFOs, are expected to serve as the financial authority in the organization, ensuring the integrity of fiscal data and modeling transparency and accountability. The CFO is as much a part of governance and oversight as the Chief Executive Officer (CEO), playing a fundamental role in the development and critique of strategic choices. The CFO is now expected to be a key player in the stakeholder's education and communication and is clearly seen as a leader and team builder who sets the finance agenda for the organization, supports the CEO directly and provides timely advice to the board of directors as well. The significant role-based transformation, which is well underway, is best-evidenced by the "CEO-in-Waiting" status that many CFOs now hold. The broad issues facing the modern day CFOs have been exhaustively covered in our Study Report prepared in close association with our Knowledge Partners M/s Resurgent India Ltd. The team of Resurgent India has done full justice with the topic and I am sure the deliberations in the Roundtable shall through some light on the strategies to counter the issues affecting the bottom-line.

I wish the Roundtable a great success.

D S RAWAT

MESSAGE FROM

Jyoti Prakash Gadia

Managing Director,

RESURGENT INDIA

Over the past few decades, the role of a Corporate CFO has evolved from merely number crunching responsibilities to a big picture thinker involved in nearly every facet of the company. Today the critical competence, for effectively managing a CFOs role is to keep a balance between number orientation and strategic mindset. In this dynamic environment, it has become necessary for a CFO to understand how any change in the environment could affect his organization and what strategies does he need to devise to face the same. A CFO is required to keep pace with the industry changes and regulations constantly being updated in the economy.

The major economic concerns for a CFO have been identified as slowdown in the domestic economy followed by inflation, rupee depreciation and government's attitude and ability to bring about economic reforms as these factors have a direct impact on the financial status of the Company. With India being one of the emerging economies for Foreign Direct Investment, key regulations in this sector also play a vital role for them. CFOs have realized that continuous tapping of economy followed by corporate governance and cost control are the most critical issues for them. Despite the many risks and challenges, they are required to design strategies to overcome the problems by focusing on key important areas like Revenue growth, Value Enhancement, Cost management and at the same time increasing operational capabilities.

With the new changes coming up from April 2015 such as Companies Act 2013, Direct Tax Code (DTC), International Financial Reporting Standards (IFRS), General Anti Avoidance Rule (GAAR), Land Acquisition Reforms etc. the roles of CFOs will be affected in many different ways.

Jyoti P Gadia
Managing Director
Resurgent India Limited

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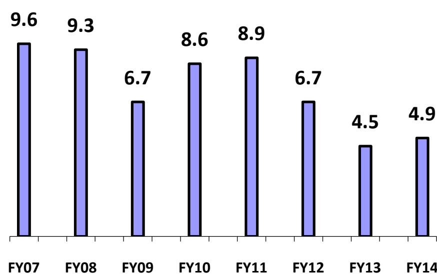
Economic Turn-around

India's economy has grown very rapidly in recent years. Since 1991 it has been among the top 10% of the world's countries in terms of economic growth. The Indian economy operates on a delicate balance of state intervention and free market principles. The primary challenge for India is to sustain this growth while spreading its benefits more widely. This requires continuous effort as international experience shows that growth slows down unless reforms are pushed through when growth is high.

India's GDP Growth Rate

By 2035 the third largest economy of the world in terms of purchasing power India would be the third largest economy of the world after US and China overall, as predicted by Goldman Sachs, the Global Investment Bank[1]. It will grow to 60 per cent of the size of the US economy. This booming economy of today has to still pass through many phases before it can achieve the current milestone of 9 per cent Gross Domestic Product , GDP as set by Indian Government.

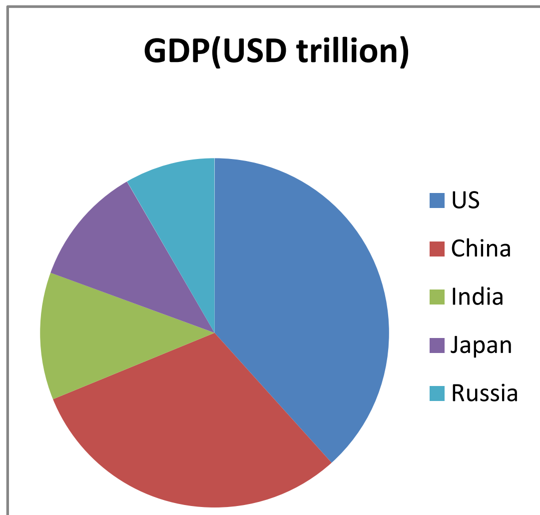
GDP growth (%)



Source: RBI

India's economic growth was at its highest at 9.6 per cent during Financial Year, FY 06-07 followed by marginal decline at 9.3 per cent in the subsequent year[2]. Although, India's GDP grew at 8.9 per cent in FY 10–11 post the Economic Recession of FY 08-09 the tenth largest Economy in terms of Nominal GDP has been experiencing downward trend in the GDP growth rate over the years. GDP growth

[2] Indian express

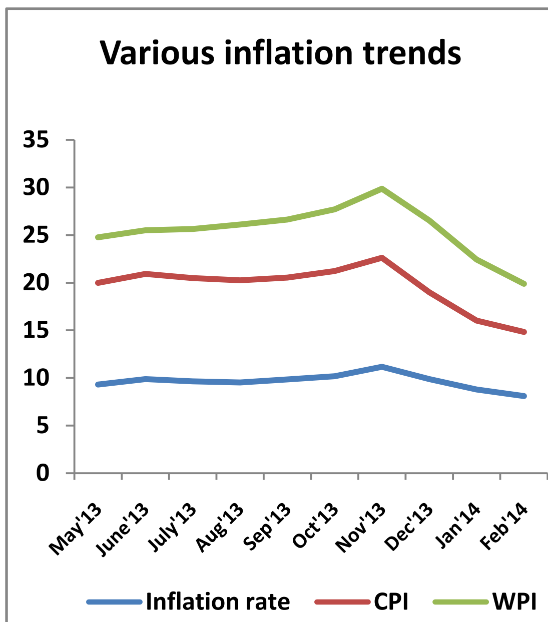


Source: Trading Economics

rose marginally to 4.8 per cent during the quarter through Mar 2013, from about 4.7 per cent in the previous quarter recording lowest at 4.5 per cent in the FY 12-13. The projected GDP for the FY 13-14 is estimated to be at 4.9 per cent increasing marginally by 0.4 per cent.

Gradual economic recovery is expected in FY 14-15. The World Bank forecasted a 6.7 per cent growth rate for India by next fiscal as exports and private investment are projected to strengthen and provide a boost to growth. However as per RBI, GDP for FY14 will marginally fall short of 5 per cent and the growth in FY 14-15 is likely to be between 5 per cent and 6 per cent.

India's economy is the third largest economy in the world in terms of GDP lying ahead of developed nations like Germany, Japan and Russia.



Source : TOI

India's Inflation Trend

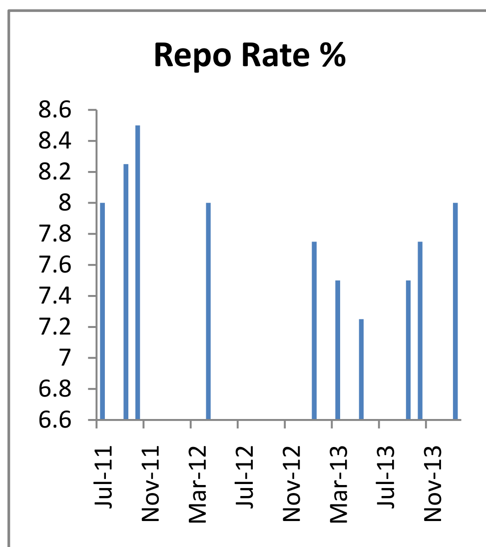
The wholesale inflation declined to a five-month low in Dec 2013 on lower food inflation. WPI-based inflation stood at 6.16 per cent from 7.52 per cent a month ago. This was the first time since May 2013 that headline inflation has declined from the previous month. The index for Oct 2013 was revised upwards to 7.24 per cent from the earlier reading of 7 per cent. Primary article inflation decreased to 10.78 per cent y-o-y from 15.92 per cent in Nov 2013. Food prices were at 13.68 per cent y-o-y last month, lower than an annual rise of 19.93 per cent in Nov 2013. Fuel group prices declined to 10.98 per cent in Dec 2013 from 11.08 per cent in Nov 2013. While manufactured products inflation remained flat at 2.64 per cent in Dec 2013. The inflation rate in India was recorded at 8.10 percent in Feb 2014. Inflation Rate in India averaged 9.76 Percent from 2012 until 2014, reaching an

all time high of 11.16 percent in Nov 2013 and a record low of 7.55 percent in Jan 2012.

The Patel panel report, released on Jan 21, 2014 indicates a "glide path" for disinflation, with two targets. Inflation based on the consumer price index (CPI) should fall to below 8 per cent by Jan 2015 and below 6 per cent by Jan 2016. (CPI inflation was 9.87 per cent in Dec 2013 while inflation based on the wholesale price index, or WPI, was 6.2 percent.[3]

MACROECONOMIC POLICIES

The Fiscal expansionary response in India which continued since FY 08-09 to arrest the growth decline resulted in high fiscal deficits. This accompanied by continued Euro Zone crisis and gloomy economic trends in major economies contributed adversely, impacting India's exports negatively. The elevated levels of crude prices and high levels of gold imports led to the widening of trade gap and Current Account Deficit. Macroeconomic analysis of India during the years FY 10-11 and FY 11-12 therefore showed a trend of rising current account deficit, sticky inflation, falling savings rates, falling investments and even consumption. The fiscal deficit for FY 13-14 was at 4.6 per cent of GDP. The fiscal deficit, which is the gap between expenditure and revenue, was at 4.9 per cent of GDP in the previous FY 12-13. Indian Government met the target, despite lower-than-budgeted tax revenue growth, partly through non-tax revenues – such as dividends from public-sector enterprises and fees from telecom airwave auction and partly through reduction in certain expenditures.



Source: Infoline

[3] PPT

The major challenges for Reserve Bank of India have been:

- To Strike the right balance between growth and Price Stability
- Ease the liquidity crunch prevailing in the Economy, and
- To keep the Inflation Rate within acceptable limits

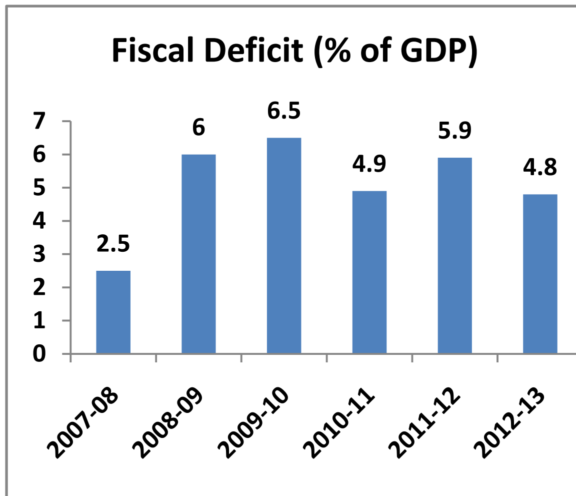
The Cash Reserve Ratio (CRR) which was last increased to 6 per cent from 5.75 per cent in Apr 2010 has been following a downward trend post 2010[4]. In Mar 2014, RBI announced that the CRR and Statutory Liquidity Ratio remains fixed at 4 per cent and 23 per cent respectively. This ensured that the Money Supply in the economy will remain constant and also provided necessary support to Indian Rupee.

Hike in the repo rate will increase the short term money market rates i.e. rates of call money and CBLO rates.

However, to control the rising inflation rates and to make it more expensive for the Banks to borrow money, RBI increased the Repo rate to 8 per cent from 7.75 per cent (constant since Mar 2013) in Jan 2014. The Reverse Repo Rate and MSF was also increased to 7 per cent from 6.75 per cent and 9 per cent from 8.75 per cent (constant since March 2013) respectively in Feb 2014. Hike in the repo rate will increase the short term money market rates i.e. rates of call money and CBLO rates. This will also push up the yield of Government bonds across the board which alternatively will put pressure on the treasury yields of the banks in the ongoing quarter.

[4] RBI

Foreign Direct Investment & Foreign Institutional Investors



Source: RBI

Driven by the government's recent reform measures, India's net foreign direct investment inflows recorded over 50 per cent growth during the April-July quarter of 2013. Net FDI inflows rose to USD 8.2 billion during the period April-July 2013 from USD 5.4 billion during the corresponding period of the previous year. FDI inflows stood highest at around USD 198 billion in FY 09-13 periods as against about 77 billion in FY2004-08, about USD 21 billion in FY 99-03 and around USD 10 billion in FY 94-98. India needs around USD 1 trillion between 12-13 and 16-17, the 12th Five Year Plan period, to fund infrastructure growth covering sectors such as ports, airports and highways.[5]

Increase in net FDI inflows is attributed to the recent reforms undertaken by the Government where FDI norms were relaxed and various sectors of the economy were opened up for foreign investors. Despite effects of global economic crisis, the country's foreign investments recorded a healthy growth in post – Lehman period (FY 09-13) as the volumes of FDI and FII inflows rose sharply.

Year	Gross Purchase (Cr)	Gross Sale (Cr)	Net Investment (Cr)	Cumulative Investment ($ Mn)
2013	7,94,231.7	6,81,264.7	1,12,968.7	20,037.3
2012	6,69,184.4	5,40,823.9	1,28,360.7	24,372.2
2011	6,11,055.6	6,13,770.8	-2,714.2	-357.8
2010	7,66,283.2	6,33,017.1	1,33,266.8	29,361.8

Source: Trading Economics

Services (USD 1.80 billion), pharmaceuticals (USD 1.26 billion), automobiles (USD 1 billion), construction development (USD 966 million), telecommunications, computer software and hardware, chemicals and power were among the sectors that attracted foreign investment in 2013. FDI into manufacturing is growing. It jumped from just 21 per cent of total FDI in 08-09 to 36 per cent in 12-13.

[5] Zee news

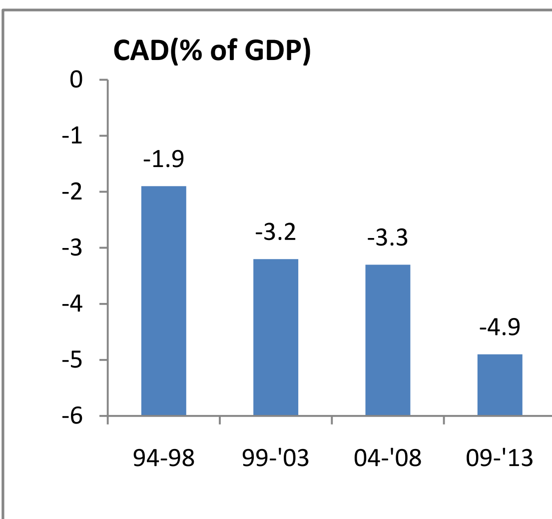
India's FDI investment reduce in Q2 of FY'14

Overall foreign inflows into the country have declined to USD 18.79 billion during the first 10 months of 2013-14 from USD 19.10 billion in April-January 2013[6]. FDI into financial services saw a decline from 20 per cent to 15 per cent of total FDI. FDI in the services sector declined by about 61 percent year-on-year to USD 1.8 billion during Apr-Jan.[7]

FDI inflows have also declined in sectors including construction development and hotel and tourism.

Foreign direct investment into the country declined by about 38 per cent (Y-o-Y) to USD 2.91 billion in Sep 2012 as per the department of industrial policy and promotion. In Sep 2012, the country had attracted foreign investment worth USD 4.67 billion. During the Apr-Sep period of 2013-14 fiscal, FDI has thus dipped by 11 per cent to USD 11.37 billion from USD 12.84 billion in the first half of 2012-13. Decline in FDI in sectors like telecom, services and metallurgical industries have lowered the inflows.

Until Mar 2014, foreign institutional investors (FIIs) have pumped in USD 1.3 billion in Indian markets[8]. Investor preference has shifted to cyclical stocks such as those in the capital goods, infrastructure and real estate, banking and consumer durables sectors. The latest current account deficit data have seen foreign investors buy Indian equities more from a rupee perspective, adding beta stocks such as capital goods and consumer durables to their portfolio.



Source: Zee News

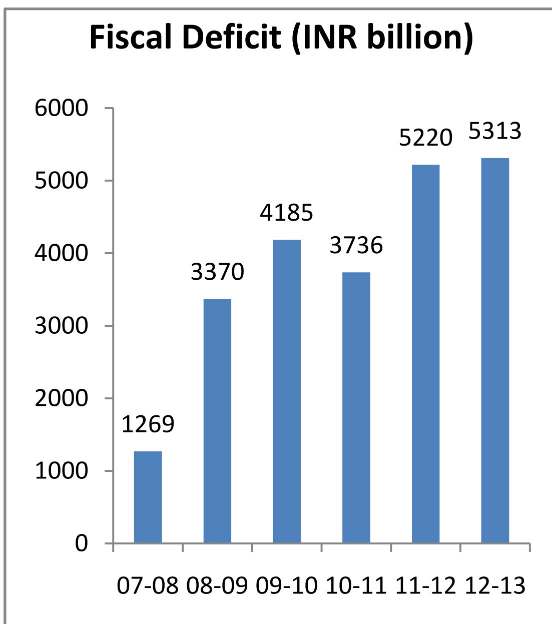
[6] Dan news

[7] Zee news

[8] Business standard

TRADE-DEFICIT

India's exports stood at USD 26.3 billion in Dec 13 compared with USD 25.5 billion in the same month of 2012 recording a weak growth of 3.49 per cent. Petroleum exports, which contribute significantly to the country's trade basket, declined 16 per cent last month because of decline in export orders. Imports also declined by 15.25 per cent to USD 36.4 billion in Dec'13, because of decline in gold and silver shipments. Higher reduction in imports compared to exports resulted in trade deficit of USD 10.1 billion in Dec'13. India recorded a trade deficit of 8,130.20 USD Million in February of 2014[9]. Balance of Trade in India averaged -1,809.03 USD Million from 1957 until 2014, reaching an all time high of 258.90 USD Million in March of 1977 and a record low of -20,210.90 USD Million in Oct 2012. India had been recording sustained trade deficits due to low exports base and high imports of coal and oil for its energy needs. Gold and silver imports declined 71.4 per cent to USD 1.63 billion in February mainly due to restrictions imposed by the government on inbound shipments of the yellow metal to narrow the current account deficit.



Source: Trading Economics

As per RBI, the Current Account deficit was USD 4.2 billion for the quarter Oct- Dec 2013, compared with USD 5.2 billion for the prior quarter. The shortfall was equivalent to 0.9 percent of gross domestic product. The government increased taxes on gold imports in the world's second-biggest user of the metal three times last year to help pare a trade imbalance that has weighed on the rupee.

Fiscal deficit for the period Apr-Feb 13-14 was INR 5,99,299 Crores which was 114.3% of the target for the fiscal, whereas the fiscal deficit for April-Feb 12-13 period

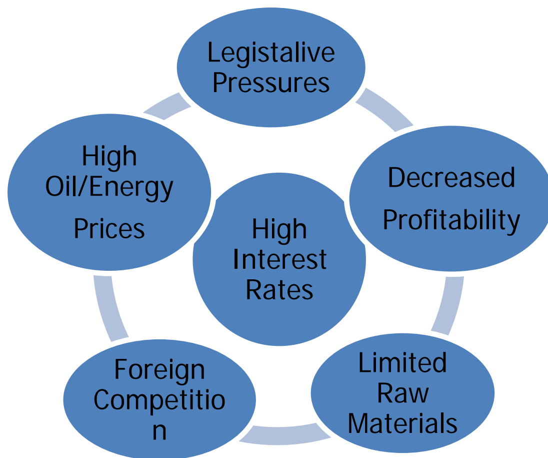
[9] Trading economics

accounted for 97.4 per cent of the budget estimates for the fiscal. Under this scenario it will be a difficult task for the government to meet the target for combating the deficit and this becomes perhaps more difficult under the current political instability.

Manufacturing Sector Growth Rate

As per the study by global management consulting firm McKinsey & Company, India's manufacturing industry could touch US$ 1 trillion by 2025. The two reasons for this possible development could be the rising demand in the country and the penchant for establishing low-cost plants in India by multinational companies (MNCs). Up to 90 million domestic jobs could be generated by that time, with the sector producing about 25–30 per cent of India's gross domestic product (GDP). The country's rapidly expanding economy gives both domestic entrepreneurs and international player's opportunities to invest and grow.

Manufacturing output is seen declining 0.2 per cent in 13-14 compared with 1.1 per cent growth the previous year, dragging down the overall economy. [10] Various reasons that led to this decline are:



Source: CSO

Central Statistics Office

Manufacturing Sector being a highly capital intensive sector required large scale investment. The high interest rates charged by Banks as interests discouraged the investors.

[10] Business today

Various Legislative and regulatory practices imposed by Indian Government.

Indian manufacturers could not compete with the global technologically advances, large scale Foreign Competitors etc.

With Limited Raw materials and increasing import prices domestic manufacturers did not find the sector profitable.

Manufacturing output is seen declining 0.2 per cent in 13-14 compared with 1.1 per cent growth in 12-13

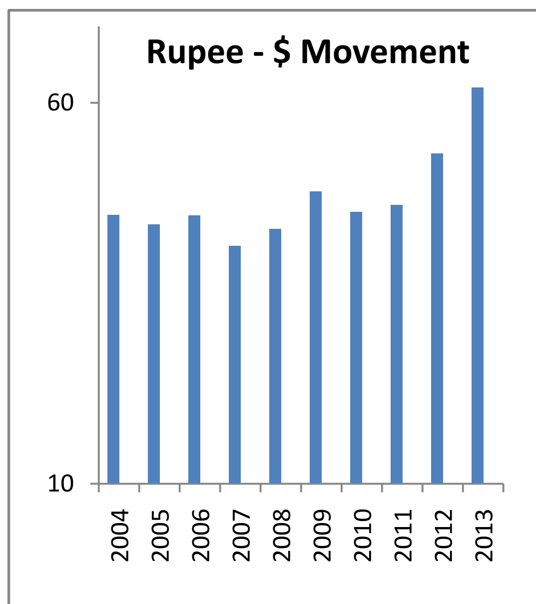
The Manufacturing sector is the second largest employing sector with 22% workforce in India after service sector at 26%. Post industrial revolution Indian economy shifted from agrarian to service economy. With 28% contribution of manufacturing sector in Indian Economy, the government has realized the importance of this sector to the country's industrial development and has taken a number of steps to further enhance the industry. [11]

With Increased Hi-tech exports and overseas mobile phone and automobile companies setting up manufacturing plants in India, country's manufacturing industry is expected to get a boost. Hi-tech exports from India have been witnessing a compound annual growth rate (CAGR) of 27 per cent during the period 2007–2013, with exports touching USD 21.9 billion, a significant increase from the USD 8.1 billion in 2007. The electronic goods and pharmaceuticals sectors dominate exports of high-tech products, with the share of electronics almost doubling during the 2007–2013 period.

[11] Hindustan times

Rupee Movement

The Indian currency has witnessed many geopolitical and economic developments affecting its movement in the last 66 years. The Indian rupee, which was on a par with the has depreciated by more than 65 times in the past 66 years. The currency has witnessed huge volatility in the past two years. This volatility became severe during May-June 2013 affecting major macro-economic data, including growth, inflation, trade and investment.



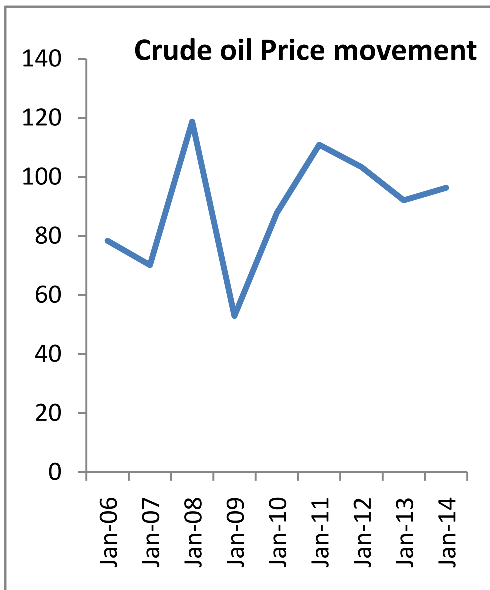
Source: The Hindu

Indian Currency which was moving between 41.2 and 48.4 between 2004 and 2011 crossed the 40's mark in the year 2012 with 53.34.

However, the rupee touched its historic record low of below 65 (intraday) against the dollar in the month of Aug 2013. The first quarter of FY 14 however saw an increase in the value with Indian Rupee closing at 60.23 in April 2014.

Causes of Rupee Decline

- Rising Current Account deficit resulting in speculative as well as actual demand for US Dollar and other convertible currencies.
- Low Forex reserves prohibit RBI to intervene in the currency market.
- Foreign Investors pulling out from Indian Market.
- Increased dependence on Foreign Borrowings.
- Indication of US to withdraw or ease the foreign stimulus package by putting brakes on funds in order to recover from the Financial Crises of 2008.
- RBI's imposing temporary restrictions on capital flows within the country.

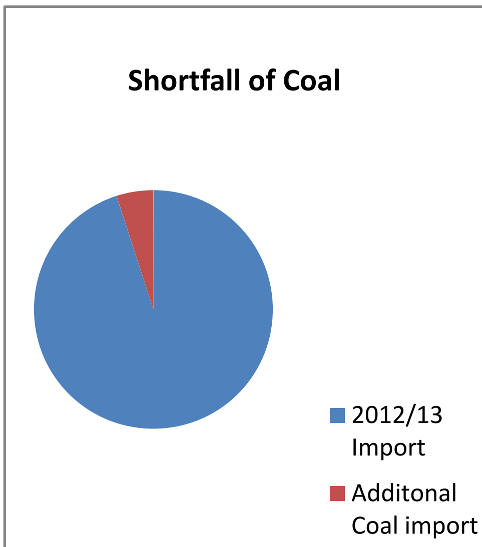


Source: Macro Trends

Price rise on Essential Commodities

Crude Oil

Crude Oil market is highly dependent on the worldwide demand and supply. With increase in supply of oil and demand getting lower, the price of crude oil decreases, and same goes for the inverse meaning low supply increases demand and causing increase in prices. The factors that determines the price of crude oil are Supply, Speculation, Foreign markets, Consumption and Government Regulations.



Source: Market Realist

New Changes in Reforms

The elimination of multiple tax structure at central and State levels would make the manufacturing sector viable and globally competitive.

Goods and Services Tax (GST)

The proposed Goods and Services Tax (GST) would reduce manufacturing cost and benefit end-customers. The elimination of multiple tax structure at central and State levels would make the sector viable and globally competitive. The GST will be a dual tax with both central and state GST component levied on the same base. There will be no distinction between goods and services for tax purpose with a common legislation applicable to both. [12]

Implication of GST

- On Export and Imports- GST will be payable by the Importer on a self declaration basis. Place of supply rules will determine which state will have the authority to get the tax. However, the taxes so paid will be available as Input Tax Credit and therefore it would be revenue neutral. Exports, however, will be zero rated, meaning exporters of goods and services need not pay GST on their exports. GST paid by them on the procurement of goods and services will be refunded.
- On Pharmaceutical Industry- The most visible and immediate impact of GST appears to be the proposed discontinuance of Central Sales Tax (CST) levy. CST currently is a cost to Pharmaceutical manufacturers whenever they procure raw materials from outside their state and if sale is on inter-state basis. This is on account of the fact that CST paid in purchases cannot be set off against the local value added tax (VAT) liability of manufacturer/ dealer. With the abolition of multiple taxes,

[12] Gst India online

loss of credit of tax paid, compliance and litigation cost it will surely benefit the Pharmaceutical Industry.

- On Auto Industry- The imminent introduction of the goods and service tax (GST) replacing central excise duty, service tax, state value added tax (VAT) and central sales tax (CST) would change the way business is done today.
- On Logistics Sector- The GST will standardize rates across the nation, allowing many corporations to move away from having warehouses in different states and adhere to each state tax code and employ logistics companies to manage distribution and supply chain.

BPT puts the level of tax on foreign companies at par with local Indian businesses.

Direct Tax Code (DTC)

With the imposition of a uniform corporate tax under DTC foreign companies will now be subject to a 30 percent tax on profits and resident companies at 33.2 percent on profits. Domestic companies will also be liable for a dividend distribution tax (DDT) of 15 percent. While foreign companies are not required to pay this, they may be subject to a 15 percent tax on their Branch Profits Tax (BPT) on permanent establishments or immovable property in India. BPT puts the level of tax on foreign companies at par with local Indian businesses. Whether a company pays more tax or less will also depend on the minimum alternate tax (MAT). MAT is applicable to companies that do not show book profits liable to tax, as they claim a range of exemptions on account of being in capital intensive industries. The DTC has increased the MAT rate from 18 to 20 percent. DTC has made the law that it is the government's right to impose capital gains tax on offshore acquisitions in cases where the acquired

company holds more than 50 percent of its assets in India.[13]

General Anti Avoidance Rule (GAAR)

The prospective targets of the GAAR rule are enterprises and investors who had set up shell companies in Mauritius to route investments into India.

Introduction of GAAR will be deferred by two years to income arising from April 1, 2015 (Indian Financial Year 2015-16). GAAR would not apply on Investments made before August 30, 2010. The prospective targets of this rule were enterprises and investors who had set up shell companies in Mauritius to route investments into India. A tax-friendly treaty between India and Mauritius encouraged both Indian and multinational firms to set up subsidiaries in Mauritius, solely for the purpose of investing in India, without having any core business interest in Mauritius. GAAR will also not apply if the tax benefit arising from the transaction is below INR 30 million (approx USD 0.55 million). By introducing the General Anti Avoidance Rule (GAAR), most of the foreign Investors investing in India by means of avoidance of tax rather than doing genuine business, tax authorities have the power to disregard such transactions and hence include the earning in the assesses income.

However, the provision of GAAR shall not apply to:

- An arrangement where the tax benefit arising to all the parties to the arrangement in the relevant assessment year does not exceed INR 30 million in aggregate.
- A Foreign Institutional Investor (FII):
  - Who is an assessee under the Act.

[13] Financier world

- Who has not taken benefit of an agreement referred to in Section 90 or Section 90A of the Income Tax Act.
- Who has invested in listed securities, or unlisted securities, with the prior permission of the competent authority, in accordance with the Securities Exchange Board of India (Foreign Institutional Investor) Regulations, 1995 and such other regulations, as may be applicable, in relation to such investments directly or indirectly, in a FII.

IFRS seeks to have one comparable reporting standard throughout the world

• Any income accruing or arising to, or deemed to accrue or arise to, or received or deemed to be received by, any person from transfer of investment made before August 30, 2010.

International Financial Reporting Standards (IFRS)

India will begin to adopt International Financial Reporting Standards from FY 15. Implementation of IFRS will be done in a phased manner. In the first phase, it will be implemented at companies that have a net worth of over Rs 1,000 Cr. The second phase will begin from April 1, 2016 with a net worth of over Rs 500 Cr but less than Rs 1,000 Cr. Other listed companies may apply Ind-AS from April 1, 2017. Over 130 Countries and Indian Companies like Wipro, Infosys Technologies, Automakers like M&M and Tata Motors, Bombay Dyeing, Dr. Reddy's Laboratories have already adopted IFRS. These Companies having business abroad prepare accounts using IFRS as under .

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Phase	Date	Coverage
Phase 1	April 1, 2015	Companies which are part of NSE Index – Nifty 50 Companies which are part of BSE Sensex – BSE 30 1. Companies whose shares or other securities are listed on a stock exchange outside India 2. Companies, whether listed or not, having a net worth of more than INR1,000 crore
Phase 2	April 1 , 2016	Companies not covered in Phase 1 and having net worth exceeding INR 500 crore. Includes both Listed and Unlisted companies.
Phase 3	April 1 , 2017	Listed companies not covered in the earlier phases

Under the Companies Act, 2013, firms having a net worth of at least INR500 Cr or a minimum turnover of INR 1,000 Cr or a net profit of INR 5 Cr are required to make CSR spend.

Impact on Indian Companies

- The new accounting standards will ensure transparency and uniformity.
- Implementation would strengthen the confidence of stakeholders in the Companies' financial statements, which, in turn, will bring value to the Corporates.
- All events which can have impact on companies' finances have to be accounted.
- It will have stringent Income recognition rule.
- Banks and Real Estate will also be affected.

Corporate Social Responsibility (CSR)

Implementation of CSR would strengthen confidence amongst shareholders bringing in value for Corporate.

The new Companies law, effective from April 1 2014, requires entities with sizeable business to set aside at least two per cent of their three-year average annual net profit towards CSR Activities. In the new revised draft Direct Tax Code Bill (DTC), the Finance Ministry has observed that allowing deduction for CSR expenditure would imply the government would be contributing one third of this expenditure as revenue foregone and CSR spend in backward regions cannot be given tax exemption.

Under the Companies Act, 2013, firms having a net worth of at least INR500 Cr or a minimum turnover of INR 1,000 Cr or a net profit of INR 5 Cr are required to make CSR spend.

Things coming under CSR ambit would be-

o Livelihood enhancement and rural development projects, promoting healthcare, working towards

protection of national heritage, art and culture, including restoration of buildings and sites of historical importance and works of art, setting up public libraries, promotion and development of traditional arts and handicrafts

- Measures for the benefit of armed forces veterans, war widows and their dependents, setting up homes and hostels for women and orphans, setting up of old age homes, day care centre's and such other facilities for senior citizens

- Ensuring ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water.

- Reducing inequalities faced by socially and economically backward groups.

ECB can be taken out through:

****Automatic Route***

****Approval Route***

External Commercial Borrowings (ECB)

On Sep 4, 2013 RBI allowed Indian companies to borrow funds also from foreign shareholders for financing their general corporate purposes. Certain conditions still have to be fulfilled and the loan must be applied for by the Indian company with the RBI under the so called Approval Route (Circular No. 31 A.P. (DIR Series), dated Sep 4, 2013).

ECBs can be taken up under two routes:

- Under the Automatic Route, the Indian company can apply with its local Indian bank for a permission to avail an ECB if certain parameters (interest rate / maturity) are met.

- Under the Approval Route, the Indian company has to ask the RBI for a specific permission to avail an ECB especially if certain parameters are proposed to be exceeded.

Impact on Industry

Positive Impacts:

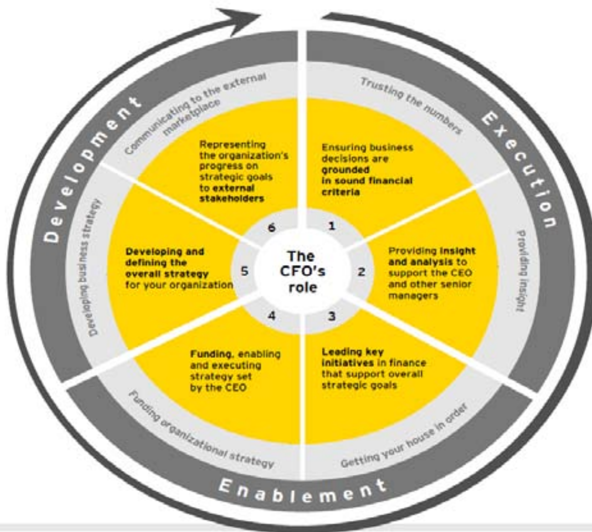
- ***Huge sum of money can be raised.***
- ***No credit Rating required***
- ***Lesser Interest Rates***
- ***Foreign Exchange***

- Huge Sum of money can be raised.
- No Credit Rating is required for fund raising.
- Lesser Interest rates
- Funds in Foreign Currency

Apart from the Positive impacts, ECB poses some disadvantages for Indian Industry as well.

- Companies into ECB require hedging of Foreign Exchange.
- Funds raised through ECB cannot be used for Working Capital requirements or general corporate purposes.

Evolving role of CFO



Source: EY

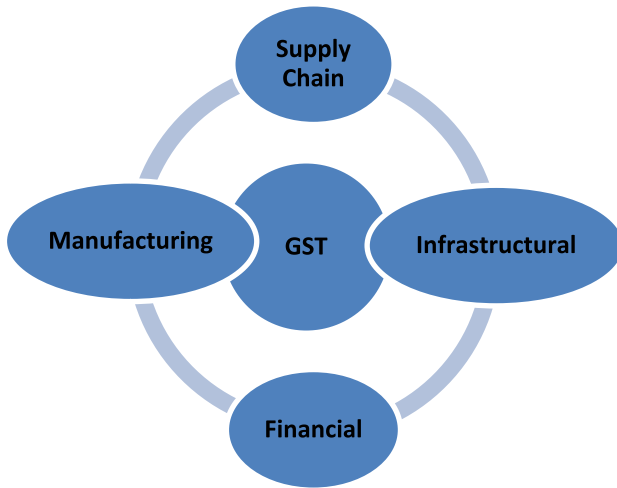
Today's CFO is responsible for mergers and acquisitions, gauging the impact of government policies, investor relations and also needs to partner with the chief executive officer (CEO) for bottom-line management. While managing these functions, he also has to manage minority shareholders. He traverses his role when he looks at risk management, cost cutting, corporate governance and building an institution for sustainability. As a result of this increased visibility, the CFOs role is becoming more strategic, supporting business units to achieve superior performance through better decision-making.

A CFOs job can be broken down into three major components:

1. The Controllers duties- Presenting and reporting accurate and timely historical financial information of the company to stakeholders
2. The Treasury duties – The CFO is also responsible for the company's capital structure and its present financial condition so he or she must decide how to invest the company's money, taking into consideration risk and liquidity.
3. Economic strategy and forecasting- A CFOs is required to do economic forecasting and modeling to ensure the company's success in the future. 14

With The Implementation of GST, DTC, IFRS, GAAR etc. the role of CFO in the organization will also be updated. CFOs have to look beyond the traditional functional areas such as mergers and acquisitions and financing and become a brand for their companies.

[14] investopedia



Source: CFO Connect

CFO and Goods & Services Tax (GST)

The Key amendment with the implementation of GST will be that rather than taxing the sale and purchase of goods the bill seeks to tax the supply of goods and services. With India choosing the dual GST route, the Central and State Governments will concurrently levy GST on supplies of goods and services.

For CFO this would mean that in case of goods sold from Maharashtra to Delhi, the goods will be taxed and GST will be payable in Delhi unlike Maharashtra (as in the case of current regime). This would result in revenue loss for the producing state and revenue gain for the consuming state. CFO has to revise the tax structure for manufacturing and withdraw all the exemptions or conversions of deferrals for excise and value added tax exemptions which are currently being availed.

GST will affect the cash flows by:

- Higher input taxes and higher cash locked up and liquidated only when the production and distribution cycles are completed.
- Tax consequences on transactions not taxable such as stock transfers.
- Replacing exemptions by refund schemes.

This would cause direct financial impact on the company.

CFOs of companies dealing with Petroleum(Crude), Diesel, Petrol, natural gas, aviation turbine fuel, Real-estate and liquor for human consumption have to deal with the

significant credit losses as GST will not be levied on these commodities and Credit on taxes will not be available for them. [15]

CFO and Direct Tax Code (DTC)

MAT on book profits bears no relation to income causing hardships to subsidiaries, capital intensive investments and offers challenges for claiming tax credit.

With the draft DTC shifting the base for levy of Minimum Alternate Tax (MAT) from book profits to gross assets and the Revised Discussion Draft (RDD) proposing to continue with book profits as base, there exists uncertainty for the CFOs. If the base of MAT is decided to be book profit and rate of tax at 2 per cent of the value of gross assets (0.25 per cent in case of banking) as proposed – it would raise many concerns for the CFO. MAT on book profits bears no relation to income causing hardships to tier subsidiaries, capital intensive or leveraged investments and offers challenges for claiming tax credit in the home country. CFOs operating in Special Economic Zones (SEZ) sector have to also take care of the fact whether MAT will be extended over these sectors or not. CFOs of Insurance companies have to change the method for taxing their Surplus. Rather than existing 12.5 per cent on the actuarial surplus, the DTC will tax surplus in the shareholders account. Income in the policyholders' surplus account will be exempted and will be taxable only in the event or transfer into the shareholder's surplus account. [16]

Another note of change for the CFOs of foreign companies will be that with the introduction of Branch Profit Tax, it will replace the existing (Higher 40 percent plus surcharge) rate of taxation, and will pay the same rate as the domestic companies i.e. 30 per cent plus surcharge and an additional 10 per cent on the branch profit tax, which is

[15] Cfo connect

[16] Cfo connect

equal to the DDT. CFOs of Non Profit Organizations (NPO) will tax the surpluses (profit) at 15 per cent under DTC. Also under the new TDS rule for receipts from non-equity-oriented mutual funds and insurance products, DTC will compute liabilities on an actual basis as against the higher of actual or notional followed currently.

CFO and General Anti Avoidance Rule (GAAR)

For availing the Benefit of the General Anti Avoidance Rule (GAAR) the CFOs have to make sure that entities would avail tax benefit of at-least INR 3Crores.

For availing the Benefit of the General Anti Avoidance Rule (GAAR) the CFOs have to make sure that entities would avail tax benefit of at-least INR 3 Crores. They should also note that GAAR would apply to only those foreign institutional investors (FIIs) who have claimed benefits under any Double Tax Agreement (DTAA). Investments made by a non-resident by way of offshore derivative instruments or P-Notes through FIIs, will not be covered by GAAR provision.

CFOs dealing with FII's have to take care of the fact that the surcharge for foreign companies is being raised from 2 to 5per cent, concessional tax rate remains 15per cent on dividend paid by a foreign subsidiary of an Indian company and the presentation of a withholding tax of 20per cent on profit distribution to shareholders from buyback of shares as per the Union Budget 13-14. Another caution for CFOs would be that Investments made before August 30, 2010, will not be scrutinized under GAAR, adding the provisions will apply to assesses that obtain tax benefits on or after April 1, 2015. CFOs also need to evaluate tax returns for the last three to five years and examine the reasons why their company's tax rate is below the standard rate set out in the Finance Act and therefore evaluate whether the

steps taken to achieve the tax saving would be acceptable under the GAAR regime or not. [17]

[18] Implications for CFO-

- Ensure that tax functions have the right skills and capabilities
- Adopt a global approach to tax planning and the management of risk and controversy
- Respond to the growing global challenge of resource nationalism
- Ensure best practice on transfer pricing
- Adopt a proactive approach to aligning tax planning and risk management with strategic decision-making-

Implementation of IFRS would benefit the Corporate Management as the change will allow the opportunity to raise capital via lower interest rates while lowering risk and the cost of doing business

CFO and International Financial Reporting Standards (IFRS)

IFRS- International standards that have been issued by the International Accounting Standards Board (IASB) , which also includes interpretations of the International Accounting Standards(IAS) , IFRS Interpretations Committee(IFRIC) and Standing Interpretations Committee(SIC).

IND AS- Converged accounting standards which are in line with IFRS as issued by the IASB but subject to certain differences as notified by the MCA. Presently there are 35 converged accounting standards with 13 identified differences. The IND AS will be applicable to the entities in a phased manner at a future date as notified by the MCA.

[17] Tpa

[18] EY

Indian GAAP- Accounting standards that are applicable to companies registered in India and will continue to apply till the MCA notifies for convergence with IND AS. However, companies which are not falling in the phases of implementation of IND AS will have the option to continue with Indian GAAP. [19]

Impact on CFOs- with the Implementation of IFRS and GAAP there would be additional costs involved which would not be embraced by the CFOs. There are specifically two areas that would be directly impacted: a company's financial reporting and its internal control systems.

Cost of Hedging
Cost of Transactions
Margin Requirements
Fixed reserves as payment for physical margin.

Another cost involved in the transition and change to the IFRS is the public's perception of the integrity of the new converged set of standards. The SEC reporting requirements will also have to be adjusted to reflect changes of the converged system. The CFOs would also take care of the fact that implementation of IFRS would benefit the Corporate Management as the change will allow the opportunity to raise capital via lower interest rates while lowering risk and the cost of doing business. [20]

CFO and Forex Exposure

It is important for CFOs to understand the importance of Forex Exposure. Apart from Transparency, Forex Exposure enables various benefits over Banks.

- In terms of cost of Hedging- The spread in banks is 3 to 4 paisa, whereas in the exchange, it is just a quarter paisa making the exchange 8 to 10 times cheaper than

[19] cfoconnect

[20] Investopedia

In FY 13, the net non-performing assets (NPAs) of banks had gone up by 51 per cent to INR 92,825 Cr.

banks. The Banks might also quote higher rates for small exporters or importers.

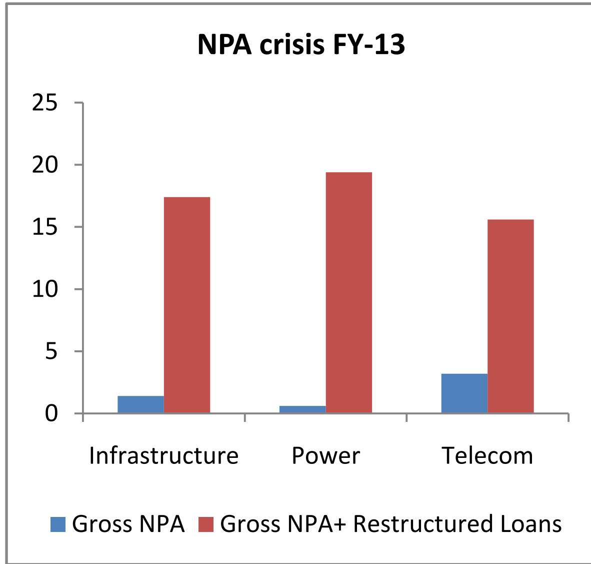
- Cost of Transaction- Broking firms charge a brokerage of INR 1,000 for INR 1 crore. The exchange cost is around INR 300-400. So the total cost comes to around INR 1300-1400 per transaction whereas in case of a bank, if a bank takes a spread of four paisa for a USD 2Million transaction, it charges INR 8000 for the transaction making it six times higher.

- Margin Requirement- In the exchange, margin requirement for the dollar is 8 per cent, and for non-dollar, it is 3-4 per cent. But with the banks, the margin for non-dollar currencies is almost double — 8-10 per cent.

- In Exchange, stocks or any fixed deposit can be used for payment of physical margin. They provide Opportunity of earning interests on fixed deposit and also using that as guarantee.

Change in RBI Policies for Non Performing Assets (NPA's)

Under the new regime kicked off from Apr 1, 2014 Reserve Bank of India (RBI) has proposed that lenders can finance 50 per cent of the outstanding loan value. RBI has also proposed to allow takeover of existing loans by new financiers at 60 per cent or more of the loan value. According to CRISIL, the gross NPAs of banks are slated to increase from 3.3 per cent to 4 per cent from Mar 2013 to Mar 2014. RBI also stated in its report that with the present conditions continuing, the gross NPAs (non-performing assets) in the system will rise to 4.6 per cent(INR 2.29 trillion) from 4.2 per cent(INR 1.67 trillion) in the time frame of Sep 2013 to Sep 2014.



Source: Equity Master

The new framework had called for an early formation of a lenders' committee to design a plan for a resolution. The Committee will offer incentives for lenders who will agree collectively and quickly to the new restructuring plan. However, it will attract accelerated provisioning if no agreement can be reached. The framework allows independent evaluation of large value restructuring proposals to seek improvements in the current debt restructuring process. This would ensure fair sharing of losses (and future possible upsides) between promoters and creditors and enable better functioning of asset reconstruction companies. The new framework would encourage sector-specific companies and private equity firms to play lead role in stressed assets market by offering liberal regulatory treatment provided for asset sales. As per the new provision lenders can spread capital loss over two years, provided the loss is fully disclosed and leveraged buyouts will be allowed for specialized entities for acquisition of 'stressed companies'. [21]

Impact on CFO-

CFOs need to understand that LBO's are not easy for listed companies because of a whole lot of norms laid down by the capital markets regulators.

[22]It is important for CFO to understand that specifying a timeframe can put additional pressure on banks while negotiating with borrowers. With the new norms, RBI's is advocating leveraged buyouts (LBOs). CFOs need to understand that LBO's are not easy for listed companies because of a whole lot of norms laid down by the capital markets regulators. A buyout would mean buying the promoter and public stake.

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[21] Business standard

[22] Livemint

Hence, CFO needs to ensure that promoters inject some equity or transfer some portion of their equity to the lenders Else promoters transfer their holdings to a security trustee enabling quick change in management control as per lenders wish.

Change in Companies Act and its impact on CFO

All the existing companies have to align their financial year as per the new law

- As per Companies Act 2013, the financial year of a company would be ending on 31 March every year with a time period of exact 12 months which has been changed from 15 months to 18 months after getting permission from registrar, under Companies Act 1956.
- Companies which are holding or subsidiary of companies requiring consolidation outside India and incorporated outside India have to apply to tribunal in-case they want to follow a different period as financial year. Although Indian company with foreign subsidiary may not be able to adopt different financial year.
- The Companies Act 2013 is consistent with Income tax Act for following time period of 1 April to 31 March as their Previous Year and there is no need to prepare separate tax financial statements.

National Financial Reporting Authority will act as regulator for members registered under the CA Act. The Companies Act, 2013 also requires that no other institute or body will initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated an investigation, only the accounting standards issued by them will be used and NFRA have the authority to debar either the concerned member or the entire firm from practicing as a member of the ICAI.

- AS 3 will be followed as format for preparation of cash flow statement and till the time applicability of AS 3 is amended, companies which are currently required to prepare cash flow statement will continue to do so even if

they do not meet Companies Act, 2013 criteria for the preparation of cash flow statements.

- The CFOs are required to attest the financial statements to certify to the board that the financial statements are free of material misstatements in both listed and non-listed companies.
- The Companies Act, 2013 requires companies with one or more subsidiaries to place their audited financial statements of each subsidiary on its website, if any. However, it is not mandatory for unlisted companies.
- All unlisted and private companies, with subsidiaries will need to prepare CFS complied with notified AS. Companies currently preparing CFS only according to IFRS will have to mandatorily prepare Indian GAAP CFS, and may choose to continue preparing IFRS CFS on a voluntary basis or stop preparing the same.
- Under the Companies Act, 2013, an auditor will be appointed for term of 5 years and companies will need to take approval from the Central Government and pass a special resolution at the general meeting to remove the auditor during this term.
- The Companies Act, 2013 requires related party transactions to be approved by a special resolution at the general meeting, if the transaction is not in the ordinary course of business.[23]

Daily obstructions faced by the CFO

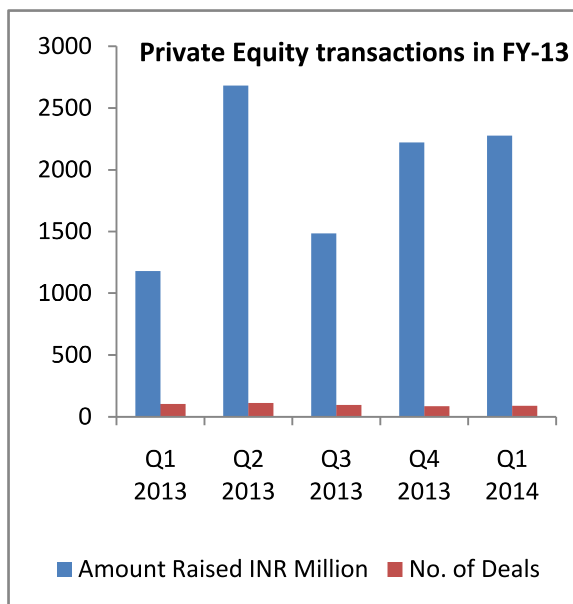
- CFO, the Key Managerial Personnel as defined by Companies Act 2013 performs various functions in the organization. He/ she needs to interact effectively with other parts of the company, ensure there is sufficient cash flow for operations, and proactively manages cash flows in a leveraged environment. CFO acts as the link between all departments in the Organization (Research &

[23] EY

IPO Market Statistics

Year	No of issues	Amount Raised (INR Crore)
2007	100	34179.1
2008	37	16904.4
2009	20	19544
2010	64	37534.7
2011	37	5966.3
2012	25	6937.9
2013 (Nov)	35	1601.8

Source: India Prime Base



Source: Venture Intelligence

Development , Sales , Manufacturing and Production) and allocates the funds required for each task . Fund Raising are done through:

- Private Placement
- Private Equity
- Debt
- QIIP
- Equity Funding
- Public Issue

As per Research Firm Venture Intelligence, the Private Equity deals fell from $14.8 billion in 2011 to $10.2 billion in 2012 with the number of deals, increasing from 531 to 551 over this period, highlighting a fall in average deal size. Similarly, new investments by private equity firms into Indian companies fell to $7.5 billion across 384 deals in 2013. The investors found it difficult to make money on their old investments made during the boom period between 2006 and 2009. With India's economy slowing down, many of the companies that private equity firms own have not grown as hoped by firms. The lesser availability of buyers for these companies, made it harder for private equity firms to get out of their investments. As a result, many have exited by listing the companies they own on the stock exchange.

Land Acquisition Policies

Under the new law – The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 replacing the Land Acquisition Act of 1894 government agencies need to get the consent of 70 percent of land owners in case of public-private partnership projects, and mandates effective rehabilitation and resettlement measures. The new Act also proposes that up to four times the market value should be paid to

farmers and landowners for land acquired in rural areas and two times the market value in urban areas. This requirement for paying more compensation, land prices getting higher than market rates and states demanding more than the circle rate as compensation, has damaged the investment prospects in the country

Conclusion

The role of CFO in the organization has evolved from merely managing finance related issues to being a mix of a Strategist, a Decision maker, a Financier, a Talent Manager and C-suite advisor. He needs support from the whole organization in order to achieve the targets. As a result a CFO needs to interact with every department making him act as a link between them and the CEO. The role of CFO is not restricted to performing specific laid down functions. CFOs jobs and duties is dependent on the kind of organization and industry he is operating in and with the continuous growing complexities within the environment, CFOs need to allocate their time strategically between internal and external stakeholders.

The global economies are struggling to regain their stance post the Financial Crises of 08 – 09. As a result, CFOs and other Finance chiefs are facing very different challenges from the ones they have encountered before. After 2008, CFOs have to struggle with many external uncertainties where any change in the economy can have a serious impact on the company. As a result, he is required to have a sharp focus on forecasting and capital allocation. India, the only emerging economy, which managed to avoid the negative impact of the global financial crisis until 2011 compared to other BRICS nations losing 3-4% of their GDP growth rates, also began to slowdown after 2011 with declining growth rates , rising inflation trends and rupee depreciating in the Foreign exchange market.

The introduction of new reforms and policies such as Goods and Service tax (GST), Direct Tax Code (DTC), General Anti Avoidance Rule (GAAR), International Financial Reporting Standards (IFRS) , Companies Act 2013, New Land Acquisition Rule attempts to deal with the current gaps in the financial policies in order to make the

governance more transparent and swift with anticipation resulting in increased foreign investment and a better economic environment. Each of these policies and reforms will impact CFOs in their day to day working, long term as well as medium term strategic decision making in the company. This will involve regular and diligent compliance to newer and existing authorities/ regulators and change in various rules. This is expected to lead to opening up of various avenues for capital raising as well as newer investment opportunities.

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About ASSOCHAM

THE KNOWLEDGE ARCHITECT OF CORPORATE INDIA

Evolution of Value Creator

ASSOCHAM initiated its endeavor of value creation for Indian industry in 1920. Having in its fold more than 400 Chambers and Trade Associations, and serving more than 4,00,000 members from all over India. It has witnessed upswings as well as upheavals of Indian Economy, and contributed significantly by playing a catalytic role in shaping up the Trade, Commerce and Industrial environment of the country. Today, ASSOCHAM has emerged as the fountainhead of Knowledge for Indian industry, which is all set to redefine the dynamics of growth and development in the technology driven cyber age of 'Knowledge Based Economy'. ASSOCHAM is seen as a forceful, proactive, forward looking institution equipping itself to meet the aspirations of corporate India in the new world of business. ASSOCHAM is working towards creating a conducive environment of India business to compete globally. ASSOCHAM derives its strength from its Promoter Chambers and other Industry/Regional Chambers/Associations spread all over the country.

VISION

Empower Indian enterprise by inculcating knowledge that will be the catalyst of growth in the barrier less technology driven global market and help them upscale, align and emerge as formidable player in respective business segments.

MISSION

As a representative organ of Corporate India, ASSOCHAM articulates the genuine, legitimate needs and interests of its members. Its mission is to impact the policy and legislative environment so as to foster balanced economic, industrial and social development. We believe education, IT, BT, Health, Corporate Social responsibility and environment to be the critical success factors.

MEMBERS – OUR STRENGTH

ASSOCHAM represents the interests of more than 4,00,000 direct and indirect members across the country. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a Chamber with a difference. Currently, ASSOCHAM has more than 100 National Councils covering the entire gamut of economic activities in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Corporate Social Responsibility, Environment & Safety, HR & Labour Affairs, Corporate Governance, Information Technology, Biotechnology, Telecom, Banking & Finance, Company Law, Corporate Finance, Economic and International Affairs, Mergers & Acquisitions, Tourism, Civil Aviation, Infrastructure, Energy & Power, Education, Legal Reforms, Real Estate and Rural Development, Competency Building & Skill Development to mention a few.

INSIGHT INTO 'NEW BUSINESS MODELS'

ASSOCHAM has been a significant contributory factor in the emergence of new-age Indian Corporate, characterized by a new mindset and global ambition for dominating the international business. The Chamber has addressed itself to the key areas like India as Investment Destination, Achieving International Competitiveness, Promoting International Trade, Corporate Strategies for Enhancing Stakeholders Value, Government Policies in sustaining India's Development, Infrastructure Development for enhancing India's Competitiveness, Building Indian MNCs, Role of Financial Sector the Catalyst for India's Transformation.

ASSOCHAM derives its strengths from the following Promoter Chambers: Bombay Chamber of Commerce & Industry, Mumbai; Cochin Chambers of Commerce & Industry, Cochin: Indian Merchant's Chamber, Mumbai; The Madras Chamber of Commerce and Industry, Chennai; PHD Chamber of Commerce and Industry, New Delhi and has over 4 Lakh Direct / Indirect members. Together, we can make a significant difference to the burden that our nation carries and bring in a bright, new tomorrow for our nation.

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About Resurgent India

Equity I Debt I Advisory

Resurgent India is a full service investment bank providing customized solutions in the areas of debt, equity and advisory. We offer independent advice on capital raising, mergers and acquisition, business and financial restructuring, valuation, business planning and achieving operational excellence to our clients.

Our strength lies in our outstanding team, sector expertise, superior execution capabilities and a strong professional network. We have served clients across key industry sectors including Infrastructure & Energy, Consumer Products & Services, Real Estate, Metals & Industrial Products, Healthcare & Pharmaceuticals, Telecom, Media and Technology.

In the short period since our inception, we have grown to a 100 people team with a pan-India presence through our offices in New Delhi, Kolkata, Mumbai, and Bangalore. Resurgent is part of the Golden Group, which includes Ginesys (an emerging software solutions company specializing in the retail industry) and SNC Associates (a full service accounting firm, specializing in taxation, auditing, management consultancy and outsourcing).

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