WIRC BULLETIN

Chief Editor: CMA Kailash Ratanlal Gandhi

Vol. 47 No. 6 June 2019 Pages 12 Price: Rs. 5/- RNI No. 22703/72

CMAs : Decision Makers

In this Issue....

WESTERN INDIA REGIONAL COUNCIL

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

Rohit Chambers, Janmabhoomi Marg, Fort, Mumbai 400 001.

Tel.: 2204 3406 / 2204 3416 / 2284 1138 • Fax : 2287 0763 E-mail : wirc@icmai.in • **Website : www.icmai-wirc.in**

From the Desk of Editor

"I think that to one in sympathy with nature, each season, in turn, seems the loveliest." - Mark Twain

As we move towards the monsoon season, we look that all seasons comes with their equal share of opportunity and adversity. Such is the profession life of CMAs where opportunity beckons in every threat and we have to tap it to our best of our abilities.

WIRC organized 5 CEPs and one workshop in the month of May 2019 and it was done in locations of WIRC Office at Thane SMFC, Borivali SMFC and WIRC Office. Further, we did it at New Shri Bhagubhai Mafatlal Polytechnic in topics like SOP–Designing and Audit.

WIRC conducted in association with IP Foundation on 10th May, 2019 for the 1st time in WIRC Office and we hope to have more such programmes for mutual interest in the coming days.

The materials of the CEP and Workshops are uploaded in the Resources section of the WIRC website and we request the members to browse and download for their professional development.

With deep sorrow and profound grief we mourn the death of CMA B.S. Ramaswamy, Past Chairman of WIRC who left for heavenly abode on 9th May 2019. We pray for his soul to rest in peace.

We hope the Bulletin served the objectives and we had done justice in our endeavour for professional development and informing the various news and events of the Chapters under WIRC during last 4 years of the present Council. We request your suggestions for further development in this foray and request all to share your thoughts to WIRC by emailing to wirc.admin@icmai.in.

Jai Hind.

Editor

India Equity Investment - A Perspective

CMA Dhiraj Sachdev
E.mail : dhiraj.sachdev@rohagroup.com

We expect India equity **market to continue to climb wall of worries of** US-China Trade issues to domestic slow-down fears. With major uncertainty out from an **election** verdict of a stable & decisive govt, the market is expected to rally on hopes of reforms to accelerate growth. Though, long term structural issues will take time - whether it pertains to public sector bank mergers to privatisation initiatives.

India Macro variables have turned positive in the form of benign inflation (that is likely to be sustained for some time and would persist - RBIs own estimate of inflation is sub 4% over the next 12 months) and with a low growth data of the recent past, we do expect RBI to act sensibly and continue to be in a rate cutting cycle mode. Prior to June policy, 50 bps interest rate cut was initiated by RBI this year and we expect more to come over the course of this year to revive domestic slowdown to an extent.

Cement volumes and prices are showing encouraging trends and with more focus on improving farm/rural income, any slow down in autos and consumption demand should reverse. **Infrastructure** order book is also showing good momentum across urban infrastructure, transportation and hydro-carbo segments and with higher execution cycle, earnings in this segment should witness reasonable growth. **Auto sector** on the other hand has slowed down considerably after many years and is a cause for worry. We do hope this to be a temporary phenomenon and lower interest rates, normal monsoon and festive season demand in 2H along-with pre-buying ahead of BS VI norms, should help revive autos to an extent.

Mid-small cap space especially had seen excessive bit of correction last year and we see a lot of stock specific investment opportunity. The *rally* is still polarised across large and few midcaps and still not spread fully to small cap side of the market. We expect the rally to be even more broad-based going forward.

Besides, the Global outlook indicates that developed markets will slow down while emerging markets will *stabilise*. So, emerging markets will take the *lead* in driving global growth. Besides, the US is no longer talking about increasing rates. On the other hand, slower growth or recession fears in US is one again renewing hope of a Fed rate cut in US. Consequently, in search of higher yield in a low-return world we could witness greater FII flows from developed to emerging markets including India.

The corporate earnings growth for Nifty is driven largely by financials - on the back of normalised earnings of corporate banks which are coming off a low base of provisioning in 4qfy18. Excluding financials, earnings growth for nifty is flattish or single de-growth - weak earnings has come from **autos, metals and telecom,** given the sharp margin compression, offset partially by higher growth of **cement and utilities** and stable performance by IT, **OMC and Capital Goods**. Going forward, we expect close to 18-20% growth in net profits of the Nifty-50 Index for FY2020 and FY2021 with the financial sector accounting for a large portion of incremental profits due to normalisation of profits of banking sector post peaking of NPAs in FY18-19.

Global crude price, barring any risk of short term geo-political spike, is also reflecting a subdued trend going forward, which is positive. Crude, despite geo-politics and sanctions, expect to be range bound to bearish as supply balance and availability of alternatives will act as an automatic mechanism to contain oil prices. With fuel price deregulation over time, the impact of higher oil prices has been increasingly passed on to the consumer instead of it being absorbed. So one need not worry too much and expect oil to be lower going forward. This should largely help oil importing country like India in terms of CAD (current account deficit).

Risk in the near to medium term for markets include global economic slowdown being aggravated by escalation of trade war between China and the US and if it gets stretched into a full-fledged economic war.

Expectations from Modi 2.0

We have following under-mentioned expectation from the newly elected Modi government on economic front -

Expect govt to continue to pursue economic reforms.

Resolve structural issues like nbfc liquidity crisis (though RBI will play an important role here).

Carry forward to address long term structural issues of psu banks via mergers and recapitalisation.

Our wish list is on the following two aspects -

Should implement Privatisation in a big way to have fiscal bandwidth

Needs to work hard on land & labour reforms

Overall, the **focus should remain on public infrastructure** expenditure such as roads, railways, and rural-urban infrastructure. Expedited government spending (which has been lagging in recent months) could arrest any incremental weakening of demand. The focus should shift to the next set of reforms aimed at improving efficiency, productivity, and job opportunities. Reforms in agriculture, financial sector, infrastructure, labour, land, and public finances are essential to achieve sustainable high growth.

Several businesses and companies offer exciting opportunities for long term equity investors as under -

Consumer business - Investment opportunity exists in certain companies in the food processing, jewellery retailing, liquor, TV broadcasting and consumer lighting. Relative under-penetration, migration of informal to formal economy, changing demographic profile provides exciting and scalable opportunities for these companies to grow and prosper.

Agriculture business - Companies that produce farm equipment, ***tractors, and seeds including global crop protection companies are expected to do well.*** Even today, only 1/3rd of Indian farmers are aware of usage of crop protection products like herbicides, pesticides and penetration has a long way to go. Besides, government focus to improve farm income augurs well for this sector in the long run. ***Sugar and ethanol theme*** appear to have positive outlook given higher ethanol blending programme which will accelerate earnings of sugar millers, though the core sugar business has its share of volatility. Companies in **Speciality chemicals business** given continued business shift from China due to pollution control norms also are on a sustainable positive growth path. Besides, we like few **infrastructure** and **engineering businesses** like ***civil & road construction, machine tools, bearings, pumps and pipes,*** etc. This is largely due to govt's thrust on infrastructure and housing besides expected revival in private sector capex. Govt. capex continues to intensify across roads, railways, highways, defence, etc.

Investment can also be selectively made in **private banks** and **Select NBFC** (non-banking financial services) such as in gold and micro finance with no asset liability or ALM mismatch. India is a capital starved and under banked economy and credit to GDP ratio is pretty low. So there is huge growth opportunity for many retail finance products. NBFCs have been playing an **important role in bridging** the gap between organised and unroganised lending and are considered an important pillar of the economy (size of NBFC sector in terms of loan size is close to 30 lac crore in 1Hfy19). The business model of this space is not permanently damaged in terms of their reach/unbanked territory and niche verticals. Corporate banks with improving NPA profile including NBFCs where asset quality is intact and where valuations are at attractive sub **1.5-2x** adjusted book values look attractive. PSU banks as a category given attractive valuations and strong franchise can be a dark horse amidst much of indiscriminate lending and loan loss provisions behind.

Gold finance companies enjoy competitive advantage over banks and money lenders due to domain knowledge and connectivity. Penetration of organized gold mortgage financing is still only about 4% and there is room to grow. Besides, shorter duration products delink business from gold price fluctuations or volatility.

Auto barring tractors have definitely seen slowdown last quarter as it is largely credit financed, and NBFC slowed down disbursements. Besides, weak auto numbers were led by factors such as higher ***insurance*** costs and manufacturers increasing prices of vehicles that met higher ***safety*** standards. However, with ***liquidity issue getting normalised*** with NBFCs, ***agri and rural push*** and ***lower interest*** rates, we see current slowdown as temporary and not structural. Select auto ancillary companies with global client relationship, cost and engineering competence and increasing scale are better placed in the current context of domestic slow-down.

Technology companies broadly have witnessed single to low double digit growth and with dollar appreciation behind, we are not too excited. We have seen pressure on margins in most cases. Also, **excessively priced consumer** companies valued at 50-60x earnings or **real estate** companies facing excessive unsold inventory situation in select locations do not merit investment opportunity on a relative basis as compared to other sectors. **Metals** (given global slowdown to trade war risks) and **oil refining business** on expected earnings decline can be avoided for now.

Overall, we remain positive on long term India's growth story. From being a $1000 per capita during the global financial crisis, we are at $2000 per capita 10 years later, with an economy size of $2.5 trillion in GDP. With several structural reforms including GST, the stage is set for an earnings recovery and solid growth over the next 3-5 years. This would mean several companies can create serious wealth for Investors over time.

Happy Investing !

WIRC ACTIVITIES

Workshop

Workshop on "Marketing of Professional Services" was organised by WIRC on 18th May 2019 at WIRC Office. CMA V R Kedia, CMA Kishore Bhatia, CMA Poonam Shah & CMA Sukrut Mehta were the speakers.

CEPs

- WIRC in association with IP Foundation conducted CEP on "Insolvency and Bankruptcy Code, 2016" on 10th May 2019 at WIRC Office. IP Snehal Kamdar and Adv. Rajan Agarwal were the speakers.
- CEP on "IND-AS 115 and 116" was organised by WIRC at Thane SMFC on 12th May 2019. CMA Sudip Bhattacharya was the speaker.
- CEP on "SOP: Designing and Audit" was organised by WIRC at New Shri Bhagubhai Mafatlal Polytechnic, Vile Parle, Mumbai on 24th May 2019. CMA Rashmi Mudgal, was the speaker.
- CEP on "Reverse Charge Mechanism under Section 9 (3) and 9(4) of CGST Act and also services covered under Section 9 (5)" was organised by WIRC at Borivli SMFC on 25th May 2019. Mr. Sumit Jhunjhunwala was the speaker.
- CEP on "Management Consulting as a Career and A New Revenue Opportunity" was organised by WIRC on 31st May 2019 at WIRC Office. CMA Anuj Bhargava was the speaker.

Unicorn Valuation

CMA Pradnya Chandorkar B.Com., FCMA
Chandorkar.pradnya@gmail.com • Mobile: +91 99228 67455

In finance, "unicorn" is a term that describes a privately-owned startup with a valuation of over $1 billion. The term was introduced by venture capital investor Aileen Lee (founder of Cowboy Ventures) in 2013 to describe rare tech startups that were valued at more than $1 billion.

Valuation of Unicorns

The valuation of unicorns is derived from valuations developed by venture capitalists and investors who participated in the financing rounds of the companies. Since all unicorns are startups, their value is primarily based on their growth potential and expected development. The unicorns' valuation is not strongly related to their actual financial performance or other fundamental data. Note that despite their abnormally high valuations, many of the companies have yet to generate any profits.

Valuing unicorns is a sophisticated process that involves the consideration of various factors and the development of long-term forecasts.

Reasons for the Abnormally High Valuation of Unicorns

The unicorns' abnormal valuations are typically justified by the following reasons:

1. Innovations

Innovations in technologies allow the faster growth of startups. By leveraging the new technologies, unicorn startups manage to reach their customers faster and shorten the time required.

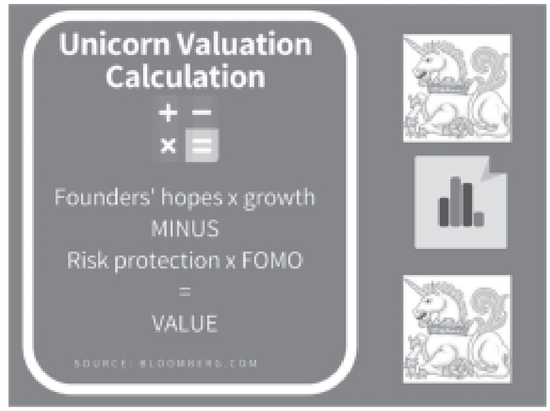
2. Fast-growth strategy

Nowadays, venture capitalists primarily rely on fast-growth strategies for a startup's development. Such strategies encourage investing large amounts of money in every round of financing, in order to capture the biggest possible market share as soon as possible, as well as to prevent the emergence of major rivals in the marketplace. Therefore, a unicorn company's valuation skyrockets every next round of financing.

3. Buyouts

Currently, many promising startups do not meet the requirements for an IPO. Instead, tech giants such as Facebook or Google acquire many startups to diversify their business and to prevent potential major competitors from arising in the marketplace. Large companies benefit from the deals because they are able to acquire developed technologies instead of building something similar from scratch. The intense competition among the tech giants causes them to offer a significant premium that boosts the valuation of target companies, creating unicorns.

The article goes on to give the equation, essentially pinning a valuation to four factors:



1) What the founders think their company is worth, largely based on competitors.
2) Actual revenue growth or potential thereof.
3) Protection clauses for investors in case things head south
4) Straight-up FOMO (fear of missing out). And they're being serious.

According to the New York Times by CB Insights, a firm that tracks venture capital and startups, there are 326 private companies around the world valued at $1B.These companies are collectively worth nearly $1.1T and have raised a combined total of over $271B.

The US leads in share of unicorns (48%), China, in second place, (28%) Third and fourth place go to the UK (5%) and India (4%)

2018 saw the making of the largest number of unicorns in a single year in India. The most notable names among these were - Udaan, for being the fastest to enter the unicorn club; OYO, for its international expansion spree; Zomato, for gaining profitability; and Fresh works, for its new launches all around the year.

The year gone by gave the Indian startup ecosystem many crucial milestones and things to celebrate. With deep-pocketed investors such as SoftBank, Alibaba, and Naspers, among others, being bullish on Indian startups

BYJU'S is currently the fourth most-valued unicorn in India after Paytm, Ola, and OYO

Today, Uber and its peers are called "decacorns," meaning they exceed $10 billion in valuation.

These startups which made it to the unicorn club and are now moving towards expansion and profitability serve as an inspiration to Indian entrepreneurs wishing to start their own ventures. Besides, the big-ticket funding they have garnered bore well for the Indian startup ecosystem at large.

Going forward, in 2020, the ecosystem will be looking towards these companies as pillars of success showing a guiding light to the upcoming generation of entrepreneurs.

Leveraging Integrated Reporting for transforming Corporate Reporting

CMA (Dr.) S. K. Gupta
Contact : 9810162341 • E-mail : sunilkumar@clcindia.com

The corporate annual report is undergoing its biggest transformation since, well, the dawn of corporate reporting. Today's annual report must address the drive for greater transparency, investors' increasing demands for a comprehensive view of value creation and a broad set of stakeholders' interests in an organization's performance and prospects over the longer term. For the publicly traded company, the integrated annual report is rapidly emerging as the reporting approach to address this evolving trend

Integrated reporting (IR) is a process based on integrated thinking that results in a report by an organization about value creation over time. It connects different parts of the organization and through collaboration and integrated thinking incorporates any issue that the organization faces or which has an impact on its longevity. Analysis of an organizations performance has traditionally tended to look at risk from a financial perspective only. Integrated reporting aims to look at all aspects of risk such as mega trends, economic, social and environmental changes, and also seeks opportunities that arise from this holistic perspective. It should inform investors and stakeholders on all material issues affecting the organization in a concise manner to enable quicker decision making with all impacts considered. This will result in a more resilient organization that is more demonstrably sustainable. An integrated report is a concise communication about how an organizations strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

Genesis of Integrated Reporting

To understand the need of the 21st century, in 2009, The Prince of Wales together with various UN representatives including The Prince's Accounting for Sustainability Project International Federation of Accountants (IFAC) and the Global Reporting Initiative (GRI) established the International Integrated Reporting Committee (IIRC). The role of IIRC was to oversee the creation of a globally accepted Integrated Reporting framework. Thereafter, in November 2011, the Committee was renamed the International Integrated Reporting Council

The Integrated Reporting aims to reduce the gap between current reporting and information needs of investors and other stakeholders through the introduction of the concept of Integrated Reporting (IR). There are now over 750 participants in the IR networks worldwide, with, for example, 180 businesses currently practicing IR in Japan alone. More than 1,000 businesses globally are using it to communicate with their investors and there is increasing interest in IR by pioneers in the public sector. Regulators in countries such as Japan, India and the UK are among those taking a greater interest in IR as a route towards achieving more cohesive reporting and promoting financial stability, with the European Commission labeling IR as 'a step-ahead'.

Integrated reporting is a concept that has been created to better articulate the broader range of measures that contribute to long-term value and the role organizations play in society. Central to this is the proposition that value is increasingly shaped by factors additional to financial performance, such as reliance on the environment, social reputation, human capital skills and others. The economy is facing a new value paradigm. These changes, however, are not reflected in the way we measure or report value. Traditional corporate reporting models have failed to adapt to an uncertain economy and account for the increase in intangible assets. Traditional metrics for measuring value and economic progress no longer provide a complete picture.

An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long-term. An integrated report is a holistic and integrated representation of the organization's performance in terms of its finance and its sustainability

Integrated reporting is a management and communication tool for understanding and measuring how organizations create value now and in the future. The goal is not to provide more information, but better information. It's the information that investors are increasingly looking for. Conceptually, integrated reporting would build on the existing financial reporting model to present additional information about a company's strategy, governance, and performance. It is aimed at providing a complete picture of a company, including how it demonstrates stewardship and how it creates and sustains value.

Reporting for the 21st century

Integrated reporting is, in part, an outgrowth of the view that today's corporate reporting will not meet the evolving information needs of stakeholders in the global capital markets. There have been major changes in the way business is conducted, how businesses create value, and the context in which they operate. These changes are interdependent and reflect trends in globalization, heightened expectations of corporate transparency and accountability, resource scarcity, and environmental concerns, among others. Integrated reporting (IR) is the latest development in a long line of proposed reporting innovations that have sought to improve the usefulness of corporate reporting

Integrated reporting would prompt companies to think about their reporting in an integrated manner. This would include, for example, considering the relationships between a company's various operating and functional units, the financial and non-financial capitals that a company uses and affects, and the relevance of those factors in demonstrating how value is created.

Integrated reporting is more than creating a comprehensive annual report. It can be used as an effective governance tool for performance-oriented management. Integrated reporting is more than combining existing disclosures into a single report. Elements of both financial reporting and sustainability reporting would be included in an integrated report if the information is relevant to how an organization creates and sustains value. This would require assessing the connectivity and interdependencies between the organization's business model, the context in which the organization operates, and the resources and relationships on which it relies and that it affects.

Rather than the traditional approach of thinking in silos, integrated thinking involves greater collaboration between organizational members, from different functions and backgrounds, to achieve strategic objectives. This process ensures that management connects internal and external information on relevant capitals to identify issues that are material to value creation over the short, medium and longer term. It creates the potential to significantly alter investor and company mindsets on how companies operate. This creates a shift in focus from meeting short-term financial goals, to developing a long-term business strategy, which not only makes a commitment to social and environmental issues, but also to sustainable businesses and society.

Integrated Reporting : What and How ?

An integrated report explains how an organization creates value over time. Value is not created by or within an organization alone. It is:

- Influenced by the external environment
- Created through relationships with stakeholders
- Dependent on various resources.

  An integrated report therefore aims to provide insight about:

- The external environment that affects an organization
- The resources and the relationships used and affected by the organization, which are referred to collectively in the IR framework as the capitals and categorized as financial, manufactured, intellectual, human, social and relationship, and natural
- How the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

IR - Guiding Principles

The following Guiding Principles underpin the preparation of an integrated report, informing the content of the report and how information is presented:

- **Strategic focus and future orientation:** An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals
- **Connectivity of information:** An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time
- **Stakeholder relationships:** An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests
- **Materiality:** An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.
- **Conciseness:** An integrated report should be concise
- **Reliability and completeness:** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error
- **Consistency and comparability:** The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

IR - Content Elements

An integrated report includes eight Content elements that are fundamentally linked to each other and are not mutually exclusive:

- **Organizational overview and external environment:** What does the organization do and what are the circumstances under which it operates?
- **Governance:** How does the organization's governance structure support its ability to create value in the short, medium and long term?
- **Business model:** What is the organization's business model?
- **Risks and opportunities:** What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?
- **Strategy and resource allocation:** Where does the organization want to go and how does it intend to get there?
- **Performance:** To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- **Outlook:** What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- **Basis of presentation:** How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Implementing Integrated Reporting

Following are the steps involved in implementing Reporting :

Step 1: Establish a steering group and facilitate a culture of Integrated Reporting

- Identify who within your organization should guide the project, this will typically involve finance, board members, sustainability lead etc. (it is critical you have the key involvement of finance this should not be a sustainability/environment team led initiative). You will need key individuals with a comprehensive knowledge of the organization from cross disciplinary functions.
- Form a steering group including external representation - Challenge yourself and the ongoing readability of your report through use of a 'critical friend' (whether external consultant, stakeholder panel or internal employee group). It can be particularly useful to take such advice from the start when completing your organization analysis.

Step 2 : Define your report's objectives and scope.

To help de-fine the objectives and scope of your report, your team should consider a number of questions, including: Who is your audience? What are your goals for the report? What is your desired takeaway? What content and structure will best meet your objectives and result in the desired takeaway?

Step 3 : Build Stakeholder relationship and identify material issues

- Identify your stakeholder groups both internally and externally (different areas of your organization, customers, investors etc.) Engage with your stakeholders to determine the material issues and risks your organization faces. A good place to start here is to ask all steering group members to concisely describe how the organization creates value, what is the business model and what are the organizations top 5 material issues.
- The priority of these issues will differ from one stakeholder group to another and you will need to determine the overall organizational priorities. Clearly define the business model - you may be surprised at how long this can take and how much this may need to be modified to meet your future needs as an organization.
- Integrated reporting should not be an academic exercise but create value for your business, focus measurement on what is material for your business, enhance the quality of your decision-making, bring different parts of your business together and drive the move to full consideration of all impacts of your decisions, not just the financial bottom line. Look at where you are as an organization and where you want to be in the future. Identify how you create value and how you measure this

Step 4 : Develop your organization vision and strategy

- Look at your organizations vision statement. Does it incorporate sustainability? Does it reflect integrated thinking as a vision for your organization?
- In the last step you asked the steering group to define the business model, this may have needed work to revise it, make it clear and ensure that this is the business model you should be working towards for the future and that it covers all aspects of your business. As mentioned this may take longer than you think so allocate sufficient time to this

Step 5 : Collect the data

- The baseline will be your collection of data for your first integrated report – This will include financial data, impact data such as CO2 emissions, energy usage etc. Make sure you have mapped out what the data requirements are, look to your KPI's and ensure you have a reporting framework in place.
- As you collate the information you will without a doubt some across gaps in thinking, note these as they will be helpful when you look to your improvement plan.
- Set clear timescales for data collection. Data collection can be difficult when you are measuring non financial KPI's, think creatively about how you can measure these and what they mean to your organization.

Step 6 : Write the report

The extent to which integrated thinking is developed will be apparent from the way the report is written. For example – it is no good stating those internal and external factors that are material to your business if you do not refer to them, or explain what you are doing about them, in the rest of the report.

Step 7 : Communicate how you create value

- Whether your integrated report is part of a range of reports your organization offers or embedded in the annual report you will need to communicate the outcome to your stakeholders and a wider audience
- The report should inform all investor presentations and updates on the organizations progress, make sure it is championed by your senior staff and board in particular. Targets set should be clearly communicated within the report and details of how these will be measured going forward stated When subsequent reports are issued a comparison of achievements should be made to show progress Think of innovative ways to share your message

The way forward

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Adding integrated reporting to management's agenda and to board strategy sessions may help companies determine how to meet these evolving expectations. The integrated reporting concepts may provide companies a useful framework when considering how to best disclose environmental, social, and governance matters that they have decided to report. Companies may also improve their access to capital, achieve greater influence internationally and achieve strategic business benefits from integrated thinking. ■

If Investment Banking not right for you, when to quit?

CMA (Dr.) Subir Kumar Banerjee

E-mail : subirkumar.banerjee@gmail.com

As one of the top career choices for new professionals, investment banking tends to tempt many. The allure of a six-figure salary in your early 20s and being immersed in Wall Street culture can be enticing when you're fresh out of CMA,CA and Business School. Investment banking is an exciting and lucrative career, but it isn't right for everyone. You may have a desire to earn over $100,000 a year as a first-year analyst in New York City, but you need to remember is that investment banking is not just high-paying, but a high-stakes, high-pressure job. This guide will help you assess if investment banking is a good fit for you.

What is Investment Banking ?

First and foremost, please note that investment banking is different from traditional or commercial banking . So investment banking doesn't take your deposits like the way banks (like State Bank of India, HDFC bank, Barclays, JP Morgan Chase Bank, HSBC etc.) do. Neither do they provide loans to clients like commercial banks. So let's see what investment banks actually do?

Let us first take an analogy of a property broker in order to understand Investment Banking in an easier way.

A property broker's job is primarily two folds –

1. Help buyers find clients and interested sellers to buy the flat, negotiate the lowest price, do the supporting paper work, ensure that the title is clear
2. Help sellers find the clients and interested buyers to sell their flat, negotiate the highest price, do the paper work, get the registration done etc

So how does property broker's earn – commissions (maybe 1% to 10% of the transaction value).

Now in this context think about Investment Bankers as "Financial brokers". Investment Bankers help companies raise capital for projects, expansion etc and companies may look at various channels like Initial Public Offerings (IPOs), Follow-on Public Offering (FPO), Private Placements etc. In addition, Investment Banking job also includes Mergers and Acquisition Activities where they play the role of Financial Brokers and help companies find suitable acquisition targets or suitable buyers for their companies.

So how does Investment Bankers earn – obviously commissions (maybe 1% to 10% of the transaction value)? The above analogy is very simplified and in technical terms, Investment Banking involves the following

1. Equity Research
2. Raising Capital through IPO, FPO, Private Placements, Bond Placements
3. Underwriting and Market Making activities
4. Mergers and Acquisitions
5. Restructuring and reorganization
6. Pitch Book Preparation ((why you should sell your company to ABC Corp. at Rs.240/share),
7. Sales and Trading

Why You are not a fit candidate for investment banking Job

But even if you possess the rare combination of education, experience and enthusiasm that could land you a coveted investment banking gig at a reputed firm, below are eight reasons why this may not be the right path for you.

1. You Look for a Work-Life Balance

Investment banks are notorious for their demanding hours, with 100-hour work weeks being the norm for entry-level investment banking analysts. Nevertheless, in a competitive culture where putting in extra-long hours is regarded as a badge of honour, a 9-to-5 routine is pretty much unheard of. If you strive for a work-life balance, investment banking is not the field for you.

2. You yield Under Stress

Here's a typical work day for an investment banking analyst: the analyst works frantically into the night and wee hours of the morning to complete a pitch book, rushes home in the morning to shower and change, and then heads straight back to the office for the meeting.In such high-pressure situations where there are multiple competing deadlines, the ability to not just cope, but thrive under pressure, is extremely important. If you can not handle such situations, you may need to consider a less stressful field than investment banking.

3. No leniency for errors

As an investment banking analyst, you would be expected to learn your job quickly and perform to a very high standard. You would have to ensure the responsibilities are completed on time paying close attention to detail as there would be no room for mistakes. If you feel that you can not do it. This job is not for you.

4. You Have a Relaxed Approach to Life

If you don't believe in getting needlessly stressed about anything

— and that includes not getting stressed about work — investment banking is not the career for you. If you're not OK with working tirelessly without complaint, no matter how massive the task, this field is not for you.

5. You Possess a Rebellious Streak

You speak your mind and have a somewhat rebellious streak that prevents you from following orders without question. This may not be welcomed by your investment banking superiors, who are used to unquestioning obedience from their subordinates.

6. You Do Not Have the Right Skill Set

You managed to bluff your way through several rounds of interviews and a test or two on financial modeling, but you are far from being a wizard at Excel. Time management is also not your forte, and you have been guilty of procrastination on a few occasions. This means that investment banking is not for you.

7. You Do Not Want to Be a Career Investment Banker

Perhaps, you do not wish to spend the next 10 years climbing the investment banking ladder. The thought of preparing endless pitch books and presentations for at least the next two years as an investment banking analyst — all for the reward of becoming an investment banking associate — is not one you find very appealing.

8. Money Isn't Everything

While this is not meant to imply that all investment bankers only care about money, the ability to eventually make a lot of it is one of the primary motivators for those who are able to ride out the harsh working conditions. If making money isn't a key driver for you, look to another career.

The Bottom Line

If you possess even one of the above traits, investment banking may be a poor career choice for you. But there are plenty of other choices that will be suitable for you — careers that won't come at the expense of your social life or sanity. Conduct an honest self assessment to find a more fulfilling and rewarding career path.

If Somehow You are In investment banking,When To Quit?

Investment bankers do consider leaving their jobs for various reasons which you could have already learnt from the above discussions in the article. Although there is nothing wrong in quitting what matters is quitting graciously at the right time for the right reason.

Quit because you are having bad day at work?

No, never quit because of this reason. You will have plenty of those in investment banking. It is very normal to have a bad day when your decisions fail or you somehow do not deliver up to the expectations. It is better to learn from such situations give it some time and see if there is an improvement. If it doesn't then go for it!

Do you see yourself as an investment banker for the rest of your life?

Let's consider a situation that you have spent approximately 2 years in this profession. Observing the Managing Directors at your firm (who make millions, delegate the work and leave the office at 6pm) and think that you want to be that person then this is one indication that perhaps you would want to continue as a banker.

Have you spent enough time to exit investment banking?

You need to make yourself marketable enough before you decide to quit investment banking. It is hence always recommended that you must finish at least two years before you quit. It is better to gain anywhere between 2 and 5 years' experience as anything less than 2 would be tagged 'lack of experience' and more than 5 as 'too experienced'.

Does quitting mean you are failing?

You might feel as a banker that you have urge to quit because you are unable to handle the job well. And you continue working hard day in day out but never satisfied. Don't think that you have failed when you decide to quit. You have learnt a great deal in the times you have survived and it is more like working out what you want to do with your life rather than continuing something which you don't believe in.

Money is no longer a motivation

We know that you would be paid really well as an investment banker. But there could be a point where you realize that money no longer motivates you to stay as an investment banker especially if you are not enjoying the kind of work you are doing. You could consider a quit if you think you can earn something less but take up a job which is not as demanding as investment banking.

It is always better to think what is important to you and what you wish to do ahead that will decide your decision to move on with something else but investment banking. Ensure you have planned what next? Once you have decided to call it quits.

Conclusion

We can say that investment banking is an industry which can provides loads of opportunities to learn, but you will have to find ways to survive with all that aspects we have discussed. You would surely earn enough but discovering time to spend it is the hard part. The life as an investment banker is going to be hectic but those who wish to live through dedication, competition, risks and perform well then investment banking is the right choice for them.

Hope this article provided you with necessary insights of an Investment Banker's life

References

1. https://www.michaelpage.com/advice/career-advice/growing-your-career/9-things-you-should-know-about-investment-banking
2. https://news.efinancialcareers.com/cn-en/271190/incoming-investment-banking-analyst-building-your-network
3. https://corporatefinanceinstitute.com/resources/careers/jobs/investment-banking-fit/
4. https://corporatefinanceinstitute.com/resources/careers/jobs/what-do-investment-bankers-do/
5. https://www.wallstreetprep.com/knowledge/about-investment-banking/
6. https://www.wallstreetmojo.com/what-is-investment-banking/
7. https://tradinginsider.fr/2015/10/the-most-and-least-stressful-jobs-in-banking-and-finance/
8. https://www.investopedia.com/articles/investing/082415/7-reasons-investment-banking-not-you.asp

Classification of Cost Elements into Variable & Fixed

CMA Rajesh Kapadia

Management is often required to classify Cost Elements into Variable & Fixed for Contribution Analysis & Other Management Uses.

Main features of Cost Elements either to be classified as Variable Cost Elements or Fixed Cost Elements are as mentioned below :

1) Variable Cost : It remains same per Unit of Production irrespective of Volume of Production or Capacity Utilisation.

   It has got linear relationship with Volume of Production

2) Fixed Cost : It totality it remains same for a given period irrespective of Volume of Production or Capacity Utilisation.

   However, Cost per Unit of Production decreases with increase in Production Volume and increases with decrease in Production Volume.

   No Linear Relationship with Volume of Production.

Following should also be kept in view before classifying Cost Elements into Variable or Fixed :

1) Direct cost / Prime cost is not the same thing as variable cost.
2) Traceability need not be the same thing as Variability.

Cost Elements as mentioned in Annnexure 1 can be classified into Variable & Fixed as mentioned below :

1) Raw Material Cost - It has got linear relationship with Production Volume. Hence it should be treated as Variable Cost.

2) Electricity Purchased from Out Side - Units consumed has relationship with Production Volume though not linear.

   Kwh Per MT of Production depends upon Capacity Utilisation.

   With respect to Value part, Fixed Demand Charges will be Fixed in Nature but it will be of very negligible value in relation to Total Bill Value.

   So, for all practical convenience, Electricity Purchased from Out Side should be treated as Variable Cost.

3) Electricity from DG Set - Units consumed has relationship with Production Volume though not linear.

   Moreover, as Diesel is a major Cost Element, its Per Kwh Cost should be treated as Variable Cost though it has other Fixed Elements like Direct Employee Cost, Consumable Store, Repairs, Insurance & Depreciation.

4) Steam Units consumed has got linear relationship with Production Volume.

   Moreover, as Gas/Coal is a major Cost Element (may be around 80 % to 85 % of total Steam Cost), Steam Cost should be treated as Variable Cost.

5) Cooling Water - Units consumed has got linear relationship with Production Volume.

   Moreover, as Electricity is a Major Cost Component (may be more than 75 % to 80 % of total Cooling Water Cost), it should be treated as Variable Cost.

6) Compressed Air - Units consumed has got linear relationship with Production Volume. Moreover, as Electricity is a Major Cost Component (may be more than 75 % to 80 % of total Operating Cost), it should be treated as Variable Cost.

7) Natural Gas for Process - It has got linear relationship with Production Volume. Hence it should be treated as Variable Cost.

8) Job Work Charges - It has got linear relationship with Production Volume. Hence it should be treated as Variable Cost.

9) Packing Material Consumed - It has got linear relationship with Quantity of Product Packed. Hence it should be treated as Variable Cost.

10) Consumable Stores - Its incurrence depends upon aging of Plant & Machinery. As It has no linear relationship with Production Volume, it is always advisable to treat it as Fixed Cost although it is neither Variable nor Fixed in nature.

11) Repaires - It is required to keep Plant & Machinery in good condition.

    As It has no linear relationship with Production Volume, it is always advisable to treat it as Fixed Cost although it is neither Variable nor Fixed in nature.

12) Direct Employee Cost - As it is period cost, it should be treated as Fixed Cost.

13) Insurance - As it is period cost, it should be treated as Fixed Cost.

14) Depreciation - As it is period cost, it should be treated as Fixed Cost.

15) Overheads - As It has no linear relationship with Production Volume, it is always advisable to treat it as Fixed Cost.

ANNEXURE 1

Sr.No	Cost Elements	Traceability to Product	Behaviour	To be classified as variable or fixed
1	Raw Materials	Direct	Variable	Variable
2	Electricity - Out Side Purchases	Direct	Variable	Variable
3	Electricity From Dg Set	Direct	Variable	Variable
4	Steam	Direct	Variable	Variable
5	Cooling Water	Direct	Variable	Variable
6	Compressed Air	Direct	Variable	Variable
7	Natural Gas For Process	Direct	Variable	Variable
8	Job Work Charges	Direct	Variable	Variable
9	Packing Material Consumed	Direct	Variable	Variable
10	Consumable Stores	Direct / Indirect	Semi Variable	Fixed
11	Repaires	Indirect / Indirect	Semi Variable	Fixed
12	Direct Employee Cost	Direct / Indirect	Fixed	Fixed
13	Insurance	Direct / Indirect	Fixed	Fixed
14	Depreciation	Direct / Indirect	Fixed	Fixed
15	Overheads	Indirect	Variable / Semi Variable	Fixed

RNI No. 22703/72 Posted at Mumbai Patrika Channel on 10th of every month. Date of Publication is on 10th of every month.
ISSN 2456-4982
Postal Regn. No. MCS/089/2018-20 WPP License No. MR/TECH/WPP-41/South/2019

To

If undelivered please return to:

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
WESTERN INDIA REGIONAL COUNCIL,
Rohit Chambers, Janmabhoomi Marg, Fort, Mumbai 400 001.

Printed & Published by Kailash Ratanlal Gandhi on behalf of the Western India Regional Council of the Institute of Cost Accountants of India, Printed at M/s. Surekha Press, A 20 Shalimar Industrial Estate, Matunga, Mumbai 400 019. Published at Western India Regional Council of the Institute of Cost Accountants of India, Rohit Chambers, 4th Floor, Janmabhoomi Marg, Mumbai 400 001. Editor: Kailash Ratanlal Gandhi. The views expressed by contributors or reviewers in the Bulletin do not necessarily reflect neither the opinion of the Council nor the Editor.