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Transformation of IND GAAP to IND as (Based on IFRS) its Impact on Financial Statement

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Abstract: On Feb 15, 2015, the ministry of corporate affairs, in consultation with the national advisory committee on accounting standard, notified the companies (Indian Accounting Standards) rule, 2015, laying down the roadmap for the implementation of Indian Accounting standards.

Apart from better disclosure, revised accounting standards will bring financial statement closer to economic reality. It will also ensure comparability between financial statements in line with global standards, and improve the ability of INDIAN companies to access funds abroad. Due to adoption of IND AS, the profitability number would be more volatile because of chances in fair valuation of derivatives and financial instrument (includingequity, debt and foreign currency loan obligation), amortization of goodwill, and reclassification of actual gain / losses. Companies in sectors such as capital goods, infrastructure, retail, IT service and auto ancillary are more likely to be impacted than others on account of revised accounting standards.

Introduction

Globalization and liberalization have brought about significant changes in the attitudes and perceptions of the corporate world. The whole world is a market with global customers and global investors i.e. now everything has become "Glocal" (Global + Local).

Companies are getting listed at stock-exchanges located in different countries. They are also raising capital or making investments abroad. A basic understanding, analysis and interpretation of financial statements of those companies are pre-requisite before making such foreign investments, raising capital abroad etc. But financial statements of those companies abroad will be primarily based on the accounting principles and practices of the respective country. As it is said "Accounting is the language of business", it would be wise and helpful if there is a common language for the whole world to understand the financial statements in an unambiguous and friendly manner.

Accordingly to article published by Indian of Chattered Accountant Of India , this transformation will have impact on various industry-

Real estate sector : • Revenue and expense recognition • Consolidation of special purpose vehicle • Investment property	Entertainment and media : • Revenue recognition method • Guaranteed viewership , compensated by discount rate / free slot
Automobile : • Revenue for free service • Asset of vehicle manufacturer and ancillary for component manufacturer	IT/ITES : • Multiple element contract • Share based payment • Hedge accounting
Pharmaceutical : • Collaborative arrangements • Intangible asset (i.e patent , licenses etc.) and its amortization	Power : • Long term power purchase agreement • Decommissioning cost
Telecom : • Bundled multiple services offering • Accounting for indefeasible right to use • Asset retirement obligation	Oil and gas : • Exploration cost booking • Abandonment / site restoration cost

Accordingly to report publish by ICRA - credit rating agency this transformation will have impact on various industry-

While the adoption of Ind AS would impact the operating metrics of the companies, the extent of the impact is expected to vary for each sector. The accounting standards that would have a higher impact for some of the key sectors are given below.

Telecom: • changes in revenue recognition principles, • capitalization of forex gains/losses on loans, • fair valuation of financial instruments and • consolidation of joint ventures	Infrastructure: • arrangements with Government classified as service concession arrangements, • fair valuation of financial instruments and capitalisation of forex gains/losses on loans
Pharma, Fast Moving Consumer Goods (FMCG) and IT: • fair valuation of financial instruments, • change in accounting of ESOPs and actuarial gains/losses, and • increased amortisation post business combinations	Banking and Finance: • expected credit loss framework to increase credit provisioning requirements, • fair valuation of ESOPs, • fair valuation of financial instruments, • deferment in recognition of fee income, and • actuarial losses/gains

Many sectors will be impacted in different way as stated above , but at the end accounting standards will bring financial statement closer to economic reality. We will Analyze the company's financial statement and highlight the chances in the interpretation , with the help of ratios.

Objectives of the study

1) To study the implementation procedure of IND AS.
2) To study the impact of reporting by Indian companies in the process of transformation to IND AS.

The key accounting areas which have witnessed significant change in the accounting treatment under Ind AS are explained below.

Consolidation

- Ind AS has introduced a concept of de-facto control, wherein consolidation could be done even without majority shareholding rights or not done if minority shareholders have veto rights.
- Accounting for joint ventures will be done via equity method.
- Minority interest will be recorded at fair value
- . Uniform accounting policies will be used among the consolidating entities else appropriate adjustments need to be made.

Valuation of Financial Instruments

- All financial assets and financial liabilities will be initially recognised at fair value and difference from the transaction value will be recognised as profit/loss.
- Subsequently financial assets will be valued at amortised cost or fair value based on nature of asset and changes on account of recording at fair value to be passed either through profit and loss account (categorised as FVTPL) or through other comprehensive income (categorized as FVTOCI).
- For financial liabilities subsequent recording would be either at fair value with changes passed through Profit and Loss account or at amortised cost using the effective interest rate method.
- Classification of instruments into debt or equity would also depend on the structure and underlying substance of the instrument. Compound instruments will be separated into debt and equity component and recognised accordingly.
- All derivative instruments will also be measured at fair value.

Service Concession Arrangement

- This applies to public to private service concession arrangements wherein grantor controls the asset, services rendered and pricing.
- The asset created will not be recognised as property, plant and equipment. Instead it will be recognised either as an intangible asset or a financial asset. Moreover, the revenue is recognised even during the construction phase.
- The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the services. Under the financial asset model, revenue is recognised during the operation phase as interest earned on financial asset basis effective interest rate method.
- The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

Employee Benefits and ESOPs

- ESOPs can be valued only as per the fair value method under Ind AS.
- Actuarial gains or losses on defined benefit obligations are to be routed through the Statement of Other Comprehensive Income instead of Profit and Loss account.
- Subsidiary companies need to account for ESOP benefits provided to its employees by the parent entity on its books.

Property, Plant and Equipment

- Ind AS mandates component accounting. Items of a particular fixed asset that are significant in relation to the total cost of the asset will have to be depreciated separately.
- Under Ind AS, change in the depreciation method will be treated as a change in accounting estimate as opposed to a change in accounting policy. Consequently, change in the depreciation method will not require a retrospective adjustment.
- With respect to revaluation of assets, Ind AS requires the entire class of assets to be revalued. Further, increased charge in the form of depreciation arising on account of revaluation will have to be taken through the Profit and Loss Account (as opposed to an adjustment against the revaluation reserve done earlier).
- Companies will be required to carry out an annual year-end review of useful life, method of depreciation and residual values. If there is any change in useful life/ residual value, the same will be treated as change in estimates and accounting will be done prospectively.

Foreign Currency Fluctuations

- Ind AS requires exchange differences arising on translation/settlement of all foreign monetary items, including long-term foreign currency monetary items, to be recognised as income or expense in Profit and Loss Account for the period in which they arise. It does not give the option to defer/capitalise exchange differences arising on long-term foreign currency monetary items.
- However, companies have an option to continue applying the IGAAP policy for the period ending immediately before the beginning of the first Ind AS financial reporting period. This option is not allowed for any new long-term foreign currency monetary item recognised after the implementation of Ind AS.

Business Combinations

- This standard is applicable under Ind AS as long as in substance the acquisition results in an acquisition of a business.
- Only the purchase method of accounting is permitted. Consequently, assets and liabilities of the acquiree will have to be recorded at its fair value.
- Under Ind AS, the difference between the consideration paid and the value of net assets acquired will have to be suitably apportioned to a number of intangibles that may not have been recognised under IGAAP. The remaining amount will be classified under “goodwill.”
- Under Ind AS, goodwill will not be amortised, and instead will have to be tested for impairment on an annual basis.

Leases

- The application of Ind AS requires entities to examine the terms of an arrangement to determine whether it is, or it contains, a lease. This should be based on the substance of the arrangement and requires an assessment of whether: a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and b) the arrangement conveys a right to use the asset.
- A finance lease is defined as a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are operating leases.

Deferred Taxes

- Ind AS focuses on the balance sheet approach to measure deferred tax liability or asset. It is assumed that assets will be realised and liabilities will be settled at their carrying amounts. If the carrying amounts of assets and liabilities differ from their corresponding tax bases, future tax effects will result from reversals of such book-and tax-basis differences. Accordingly, deferred taxes will be recorded on the resultant temporary difference (as opposed to only timing differences under current IGAAP).

Dividends

- Under Ind AS, a company will recognise a liability for final dividend (including dividend distribution tax) in the period when the dividends are approved by the shareholders.

Research Methodology

This research involved gathering relevant secondary data from different research reports and financials of the company with the motive to find out which are the respective financial indicator which will change (figure) when the company transform from I GAAP method of accounting to IND AS method of accounting.

Data Analysis

HINDUSTAN UNILIVER (HUL)

KEY IND AS STANDARDS WITH AN IMPACT ON HUL

Ind AS 1 :	presentation of financial statement
Ind AS 10 :	Events after Reporting Period
Ind AS12 :	Income Taxes
Ind AS 18 :	Revenue (exposure draft)
Ind AS 19 :	Employee Benefits
Ind AS 28 :	Investment in Associates and Joint Ventures
Ind AS 37 :	Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38 :	Intangible Assets

Ind AS 101 : First-time Adoption of Indian Accounting Standards

Ind AS 102 : Share-based Payment

Ind AS 108 : Operating Segments

Ind AS 109 : Financial Instruments

Ind AS 1 : Presentation of Financial Statements

New Components of Financial Statements

- Statement of Changes in Equity for the year.
- 'Other Comprehensive Income' section in the Statement of Profit and Loss for the year.

Distinction between Financial and Non-Financial assets/ liabilities

Illustrative examples of financial and non-financial assets/ liabilities :

Identified financial assets	Identified non-financial assets	Identified financial liabilities	Identified non-financial liabilities
Investments	Advances for raw material	Security Deposits	Statutory dues
Trade receivables	Capital advances etc.	Trade payables etc.	Advances from customers

IND AS 10- Event after reporting

- The charge to retained earnings amounting to Rs. 2,343.51cr recognised for proposed final dividend and dividend distribution tax under IGAAP is reversed in the opening B/S.
- Significant decrease in % 'Return on Capital Employed' and 'Return on Net Worth' due to increase in capital employed/net worth as at the Balance Sheet date (approx. increase by 63% as on 1.04.2015).

Ind AS 12 – Income tax

- Reduction in deferred tax assets of Rs. 47.83cr with corresponding charge to retained earnings and OCI reserve of Rs. 47.15cr and Rs. 0.68cr respectively consequential to Ind AS adjustments.
- Recognition of additional deferred tax expense of Rs. 4.70cr in the profit and loss and a credit of P/L Rs. 0.34cr in OCI consequential to Ind AS adjustments in JQ'15.

Ind AS 18 – Revenue

- Net revenue increase by Rs. 328.91cr, or 4.06% of JQ'15 'revenue from operations'.
  - Increase in revenue due to excise duty grossing up: Rs. 584.57cr
  - Decrease in revenue due to reclassification from advertising and sales promotion: Rs.255.66cr
- Increase in 'costof materialconsumed' due to inclusion of excise duty.
- Impact on quarterly published results w.r.t excise duty presentation based on SEBI format for Ind AS compliant companies to be assessed.
- No impact on profit.
- GST could also have implications once effective.

IND AS 19- EMPLOYEE BENEFITS

- Reduction in non-current investment by Rs. 350cr due to reclassification of HURB trust as 'plan asset', netted off against the provision for employee benefits.
- Increase in finance cost in JQ'15 due to reclassification of net interest cost of Rs. 3.47cr from employee benefit expense. No impact on profit.
- No impact taken in profit on account of reclassification of actuarial gain/loss to OCI in JQ'15.

IND AS 37 – provisions , contingent liabilities and contingent assets.

- Impact of discounting of long term provisions and other non-current liabilities amounting to Rs.18.70cr and Rs.18.92cr has been reduced from long term provisions and other non-current liabilities respectively and with a corresponding increase in retained earnings.
- Increase in finance cost by Rs. 2.87cr in JQ'15 due to unwinding of discount of the long term provisions and other non-current liabilities.

IND AS 102 : shared based payment

- The reduction in employee compensation cost for the unvested options as on the date of transition based on fair value method amounted to Rs. 2.22cr which has been credited to retained earnings.
- The reduction in employee compensation cost for JQ'15 based on fair value method amounted to Rs. 0.41cr credited to employee benefit expense.

IND AS 109 – Financial Instrument

- The impact of fair valuation of the Company's investments as on the date of transition has resulted again of Rs. 91.99cr credited to retained earnings and Rs. 1.88cr credited to OCI reserve.
- Increase/(decrease) in 'other income' and 'other comprehensive income' by Rs. 14.35cr and Rs. (0.97)cr respectively on account of fair valuation gain/(loss) on the Company's investments for JQ'15

HULDRAFTINDASOPENINGB/SASON1.04.2015(UNAUDITED)

Rs. crores

	Reclass Indian GAAP	Ind AS Adjustments	IND AS
EQUITY AND LIABILITIES			
Equity			
Equity share capital	216.35	-	216.35
Other equity	3,508.43	2,431.66	5,940.09
Non-current liabilities			
Financial liablities - Other financial liabilities	18.05	-	18.05
Long-term provisions	828.59	(365.26)	463.33
Other non-current liabilities	152.07	(18.92)	133.15
Current liabilities			
Financial liablities			
Trade payables	5,252.30	-	5,252.30
Other financial liabilities	206.31	1.74	208.05
Other current liabilities	778.30	-	778.30
Short-term provisions	2,539.14	(2350.84)	188.30
Liabilities for current tax (net)	134.52	-	134.52
Total Equity and Liabilities	13,634.06	(301.62)	13,332.44
ASSETS			
Non-current assets			
Property, plant and equipment	2,435.50	-	2,435.50
Capital work-in-progress	479.01	-	479.01
Intangible assets	22.03	-	22.03
Financial assets			
Non-current investments	654.11	(350.00)	304.11
Long-term loans and advances	179.77	-	179.77
Others	142.24	-	142.24
Deferred tax assets (net)	195.96	(47.83)	148.13
Other non-current assets	9.00	-	9.00
Current assets			
Inventories	2,602.68	-	2,602.68
Financial assets			
Current investments	4,386.09	93.87	4,479.96
Trade receivables	782.94	-	782.94
Cash and cash equivalents	720.73	0.60	721.33
Short-term loans and advances	288.19	-	288.19
Others	94.39	1.74	96.13
Assets for current tax (net)	252.46	-	252.46
Other current assets	379.58	-	379.58
Non-current assets classified as held for sale	9.38	-	9.38
Total Assets	13,634.06	(301.62)	13,332.44

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Key Adjustments

- HURB (management pension and medical benifits) trust investment being netted against provision for employee benifit - IND AS - 19
- Fair value gains recognised on investments - IND AS 109
- reversal of propose devidend and tax thereon (rs.2343.51 cr) IND AS 10
- Consequential impact on IND AS adjustments recognised in other equity. (Rs. 88.15 cr)

HULDRAFTINDASRESTATEDP/L (UNAUDITED)

Rs. crores

	IGAAP	IND AS adjustment	IND AS
Revenue From Operations	8,105.13	328.91	8,434.04
Other Income	108.61	14.35	122.96
TOTAL REVENUE	8,213.74	343.26	8,557.00
EXPENSES			
Cost of materials consumed	2,837.78	584.57	3,422.35
Purchases of stock-in-trade	1,022.24	-	1,022.24
Changes in inventories of finished goods, stock-in-trade and work-in-progress	41.97	-	41.97
Employee benefits expense	363.50	(5.58)	357.92
Finance costs	0.07	6.34	6.41
Depreciation and amortisation expense	74.93	-	74.93
Other expenses	2,333.21	(255.66)	2,077.55
TOTAL EXPENSES	6,673.70	329.67	7,003.37
Profit before exceptional items and tax	1,540.04	13.59	1,553.63
Exceptional Items	9.76	-	9.76
Profit/(loss) before tax	1,549.80	13.59	1,563.39
Tax expense			-
Current tax	(491.49)	-	(491.49)
Deferred tax (charge)/credit	0.83	(4.70)	(3.87)
PROFIT FOR THE PERIOD (A)	1,059.14	8.89	1,068.03
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to Profit or Loss			
Remeasurements of net defined benefit plans		-	-
Income tax relating to items that will not be reclassified to Profit or Loss			
Remeasurements of net defined benefit plans (tax)		-	-
Items that will be reclassified to Profit or Loss			
Debt instruments through other comprehensive income		(0.97)	(0.97)
Income tax relating to items that will be reclassified to Profit or Loss			
Debt instruments through other comprehensive income (tax)		0.34	0.34
OTHER COMPREHENSIVE INCOME FOR THE PERIOD (B)		(0.63)	(0.63)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (A+B)	1,059.14	8.26	1,067.40

Key Adjustments –

- Increase in revenue due to excise duty reclassification to cost of material consumed (Rs.584.57 cr) - IND AS 18
- Reclassification of a portion of 'Advertising and sales promotion ' expenses and netting from revenue. (Rs. 255.66 cr) IND AS 18
- Reclassification of net interest cost on plan liabilities from employee benifits expenses to finance cost - IND AS 19.

ANALYSIS OF GODREJ CONSUMER PRODUCTS LIMITED (GCPL)

KEY IND AS STANDARDS WITH AN IMPACT ON GODREJ CONSUMER PRODUCTS

Ind AS12 :	Income Taxes
Ind AS 18 :	Revenue (exposure draft)
Ind AS 19 :	Employee Benefits
Ind AS 28 :	Investment in Associates and Joint Ventures
Ind AS 109 :	Financial Instruments

Impact on revenue

Ind AS & GCPL	FY16 Standalone			FY16 Consolidated		
	IGAAP	Adj.	Ind AS	IGAAP	Adj.	Ind AS
Trade promotion spends reduced from Revenue		(230)			(516)	
Excise Duty now part of Expenses and not reduced from Revenue		306			306	
Revenue	4,748	76	4,824	8,957	(210)	8,747

Impact on cost of raw materials

Ind AS & GCPL	FY16 Standalone			FY16 Consolidated		
	IGAAP	Adj.	Ind AS	IGAAP	Adj.	Ind AS
Consumer promotion spends included under Cost of Raw **Materials**		15			23	
Cost of Raw Materials	**1,833**	**15**	**1,848**	**3,436**	**23**	**3,459**

Impact on employee expenses

Ind AS & GCPL	FY16 Standalone			FY16 Consolidated		
	IGAAP	Adj.	Ind AS	IGAAP	Adj.	Ind AS
Long term employee incentives to be included under **Employee Expenses** at their present value		(5)			(9)	
Actuarial gains/losses to be included under **Other Comprehensive Income** and no longer part of **Employee Expenses**		(1)			(5)	
Employee Expenses	**338**	**(6)**	**332**	**960**	**(13)**	**947**

Impact on advertising & publicity

Ind AS & GCPL	FY16 Standalone			FY16 Consolidated		
	IGAAP	Adj.	Ind AS	IGAAP	Adj.	Ind AS
Expenses reduced from **Advertisement & Publicity** and reclassified to:						
Revenue		(10)			(172)	
Other expenses		7			(111)	
Cost of Raw materials		(14)			(18)	
Advertisement & Publicity	**510**	**(17)**	**493**	**971**	**(301)**	**670**

Impact on financial cost

Ind AS & GCPL	FY16 Standalone			FY16 Consolidated		
	IGAAP	Adj.	Ind AS	IGAAP	Adj.	Ind AS
Premium on Debentures to be included under **Finance Costs**		18			18	
Finance Cost	**37**	**18**	**55**	**100**	**18**	**118**

FY17 impact and way forward	• Debentures redeemed in FY16 and therefore no costs going forward • Finance costs to go up to the extent of interest unwinding on long term liabilities such as earn outs (mainly Strength of Nature & Canon acquisition), long term employee incentives which have been discounted to present value

All values in INR crore

Impact on Exceptional items

Ind AS & GCPL	FY16 Consolidated		
	IGAAP	Adj.	Ind AS
The agreement with JV partners for Darling & Chile businesses provided for call / put option on the purchase / sale of balance stake. The change in fair value of this call / put option is included under **Exceptional Items**		181	
Dividend paid to non-controlling shareholders		56	
Acquisition related costs to be expensed out		62	
Exceptional Items	**27**	**299**	**326**

FY17 impact and way forward

- Agreements with Darling JV partners amended consequent to the stake increase with the result that future changes in the Fair value of call / put options for the residual stake would need to be adjusted against Reserves with no impact in the P&L / Exceptional Items.
- Dividends paid out to the non-controlling shareholders to be expensed out. However, due to the controlling interest acquired, the minority interest carve out from net profits will cease and dividend payouts also will be insignificant due to stake increases on a y-y basis.

All values in INR crore

Impact on taxes

Ind AS & GCPL	FY16 Standalone			FY16 Consolidated		
	IGAAP	Adj.	Ind AS	IGAAP	Adj.	Ind AS
Deferred Tax on the Good knight and HIT brands classified as having indefinite useful life		27			27	
Deferred Tax on intercompany profit elimination of unsold inventory					(6)	
Taxes	**201**	**27**	**228**	**317**	**21**	**338**

Recast of FY 16 Standalone P & L statement

	Q1			Q2			Q3			Q4		
Particulars	IGAAP	Ind AS adj	Ind AS	IGAAP	Ind AS adj	Ind AS	IGAAP	Ind AS adj	Ind AS	IGAAP	Ind AS adj	Ind AS
Sales	1,094.81	28.51	1,123.32	1,184.93	32.18	1,217.11	1,260.70	9.04	1,269.74	1,207.75	6.32	1,214.07
Other Operating Income	14.94	-	14.94	13.46	-	13.46	17.20	-	17.20	17.78	-	17.78
Total Income from Operations	**1,109.75**	**28.51**	**1,138.26**	**1,198.39**	**32.18**	**1,230.57**	**1,277.90**	**9.04**	**1,286.94**	**1,225.53**	**6.32**	**1,231.85**
Total Expenses (Excluding Depreciation)	929.35	28.35	957.70	948.21	32.31	980.52	1,009.58	9.44	1,019.02	941.52	(0.66)	940.86
EBITDA	**180.40**	**0.15**	**180.56**	**250.18**	**(0.13)**	**250.05**	**268.32**	**(0.40)**	**267.92**	**284.01**	**6.98**	**290.99**
Depreciation and Amortization Expense	10.80	(0.60)	10.20	11.10	(0.66)	10.45	11.99	(0.61)	11.38	13.49	(0.61)	12.88
EBIT	**169.60**	**0.75**	**170.35**	**239.08**	**0.53**	**239.61**	**256.33**	**0.21**	**256.53**	**270.52**	**7.59**	**278.11**
Foreign Exchange Gain / (Loss)	0.05	(0.01)	0.04	(0.35)	0.00	(0.35)	0.04	0.07	0.10	(0.33)	0.01	(0.32)
Finance Cost	10.13	5.94	16.07	10.22	6.27	16.49	8.99	5.42	14.41	7.20	0.09	7.29
Other Income	11.29	3.57	14.86	11.74	3.98	15.72	10.99	2.65	13.64	8.79	1.09	9.88
Exceptional Items Gain / (Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	**170.81**	**(1.62)**	**169.18**	**240.25**	**(1.76)**	**238.49**	**258.37**	**(2.50)**	**255.87**	**271.78**	**8.59**	**280.37**
Tax Expense	35.03	6.31	41.34	50.20	6.64	56.83	55.62	6.64	62.25	60.64	7.47	68.13
Profit After Tax	**135.78**	**(7.94)**	**127.84**	**190.05**	**(8.40)**	**181.65**	**202.75**	**(9.13)**	**193.62**	**211.14**	**1.11**	**212.24**

All values in INR crore

Summary of Adjustments to FY16 P&L Statement

Details of adjustments to Revenue (Consolidated)	Q1	Q2	Q3	Q4	FY16
Trade Promotion net off	(110.78)	(127.79)	(146.22)	(129.81)	(514.59)
Excise Duty	74.68	78.22	80.41	72.91	306.22
Others	1.27	(0.64)	(1.81)	(0.42)	(1.60)
Total	**(34.84)**	**(50.21)**	**(67.62)**	**(57.32)**	**(209.98)**

Details of adjustments to Expenses (Consolidated)	Q1	Q2	Q3	Q4	FY16
COGS (incl. Excise Duty)	80.89	88.16	87.09	73.60	329.74
Employee Expenses	0.66	(0.12)	0.36	(14.37)	(13.47)
A&P Expenses	(74.60)	(86.67)	(79.17)	(60.63)	(301.08)
Other Expense	(42.17)	(50.91)	(74.50)	(70.02)	(237.60)
Total	**(35.23)**	**(49.53)**	**(66.22)**	**(71.43)**	**(222.41)**

Details of adjustments to Revenue (Standalone)	Q1	Q2	Q3	Q4	FY16
Trade Promotion net off	(46.38)	(45.87)	(70.85)	(66.53)	(229.63)
Excise Duty	74.68	78.22	80.41	72.91	306.22
Others	0.21	(0.17)	(0.52)	(0.06)	(0.54)
Total	**28.51**	**32.18**	**9.04**	**6.32**	**76.05**

Details of adjustments to Expenses (Standalone)	Q1	Q2	Q3	Q4	FY16
COGS (incl. Excise Duty)	78.34	86.94	85.51	71.89	322.68
A&P Expenses	(3.07)	(5.31)	(7.30)	(0.88)	(16.56)
Employee Expenses	0.66	(0.12)	0.36	(7.14)	(6.24)
Other Expenses	(47.58)	(49.20)	(69.13)	(64.53)	(230.44)
Total	**28.35**	**32.31**	**9.44**	**(0.66)**	**69.44**

All values in INR crore

RATIO ANALYSIS -HUL

RATIO	FORMULA	I GAAP	IND AS
Net profit ratio	Net profit /sales * 100	1059/8213*100 =12.89	1068/8557*100 =12.48
Operating ratio	COGS+ Operating exp / sales *100	6673/8213*100 =81.24	7003/8557 *100 =81.83
Return on Equity ratio	Net Profit / Equity capital*100	1059/3724 *100 =28.43	1068/6156*100 =17.34
Asset turnover ratio	Sales / total asset	8213/13634 =0.60	8557/13332 =0.64
Current ratio	Current asset : Current liability	9516 : 8910 =1:0.96	7067 : 6561 =1 : 0.92
Quick ratio	Current asset – inventory : current liability	6914:8910 =1 : 1.28	4465: 6561=1: 1.46

1) Net Profit ratio – it measure the relationship between net profit and sales of the business .net profit ratio finds the proportion of revenue that finds its way into profits. A high net profit ratio will ensure positive returns of the business.

   Net profit ratio = net profit /sales * 100

   The amount of net profit as well as the sales , differs when it is calculated adopting I GAAP and IND AS . this change leads to change in interpretation of the ratio. in the case of HUL in the calculation of net profit between both the method is 0.41.
2) Operating ratio – it measure what is the total proportion of cost in the total sales (revenue) , when we calculate by adopting IGAAP the ratio interprets that 81.24 % of sales is the total cost And while calculating using Ind AS the proportion of cost in revenue is 81.83 % .
3) Return on equity ratio – It measure the profitability of equity funds invested in the firm . This ratio reveals how profitably of the owners' fund have been utilized by the firm. It also measure the percentage return generated to equity shareholders . This ratio is computed as NPAT / EQUITY SHAREHOLDER FUNDS *100 . While calculating NPAT and equity shareholder funds under I GAAP , we get that the return to equity shareholder is 28.43 % , and calculating under Ind AS the return to share holder is 17.34 % . there is a massive difference of approx 11 % . such difference can impact the decision making of investor.
4) Asset turnover ratio – This ratio measures the efficiently with which the firm uses its asset , A high asset turnover ratio indicates efficient utilization of asset in generating sales. A firm whose plant and machinery are old may show a higher ASSET turnover ratio than the firm which has purchased them recently. Under I GAAP the asset turnover ratio is 0.60 and under IND AS the ratio is 0.64 .there is not much different when calculated by both the method. So the interpretation pretty much stays the same.
5) Current ratio – It is one of the best known measures of short term solvency. It is most common measure of short term liability. This ratio addresses does the

business have enough current asset to meet the payment schedule of its current debts. A generally acceptable current ratio is 2:1 .under I GAAP its 1 : 0.96 and under IND AS its 1 : 0.92 .

6) Quick ratio – It is sometimes also know as asset test ratio and is one of the best measure of liquidity. The quick ratio is much more conservative measure of short term liability then the current ratio .quick asset consist of only cash and near cash asset. Inventory are deducted from the current asset on the believe that these are not ‘near cash asset’. The quick ratio under I GAAP is much more favorable as it iis1 : 1.28 and under IND AS it is 1 : 1.46 . ratio calculated if considering I GAAP is more favorable to the ideal ratio of 1:1 .

RATIO ANALYSIS –GCPL

RATIO	FORMULA	I GAAP	IND AS
Net profit ratio	Net profit /sales * 100	740/4745*100 = 15.59	715/4823*100 =14.82
Operating profit ratio	EBIT/Sales*100	936/4745*100 =19.72	944/4823*100 =19.57
Operating ratio	COGS+ Operating exp / sales *100	3828/4745*100 =80.67	3906/4823*100 =80.98
Financial expense ratio	Financial exp / Sales * 100	36.54/4745*100 = 0.75	54/4823*100 = 1.11

1) Net Profit ratio – it measure the relationship between net profit and sales of the business .net profit ratio finds the proportion of revenue that finds its way into profits. A high net profit ratio will ensure positive returns of the business.
Net profit ratio = net profit /sales * 100
The amount of net profit as well as the sales , differs when it is calculated adopting I GAAP and IND AS . this change leads to change in interpretation of the ratio. in the case of HUL in the calculation of net profit between both the method is 0.77
2) Operating profit ratio – operating profit is calculated to evaluate operating performance of business .it measures percentage of each sales in rupees that remain after the payment of all the costs and expenses except for Interest and taxes. This ratio is followed closely by analyst because it focuses on operating results.
3) Operating ratio – it measure what is the total proportion of cost in the total sales
(revenue) , when we calculate by adopting IGAAP the ratio interprets that 80.67% of sales is the total cost And while calculating using IND AS the proportion of cost in revenue is 80.98 % the difference is minute.
4) Financial expense ratio – it includes interest paid , bank charges paid etc this ratio helps to the what is the percent of financial cost included in the selling price of the company. company with high debt to equity ratio will have high borrowing cost thus the financial expense of that company will also be high. ratio calculated while following I GAAP is 0.75 % and 1.11 % if IND AS is followed .

Discussion and Summary of Results

Whenever the analysts works on the project of analyzing a company, they take into account various parameter such as industry analysis, business analysis, management analysis and financial analysis. While conducting financial analysis ratio analysis forms a important part of it. From the ratio analysis one can comment on the capital structure of the company, whether the company’s return in above, at par or below the industrial average , liquidity of the company etc .Various particulars from P & L statement and balance sheet are taken into account while calculating ratio. A bit change in the amount of various particular will lead to change in the ratio thus will change the interpretation . From the above ratio analysis it was clear that the transformation from I GAAP to IND AS will change the amount of various particulars such as sales , capital .

Conclusion / Future Outlook

The transformation of I GAAP to IND AS will affect consumer product industry in the following ways :-

- Fair valuation of investments will smoothen earnings while RoEs.
- Ind-AS mandates the use of fair valuation method, which is likely to increase employee cost.
- Impact on companies: Jubilant Food (6.6% of FY15 PAT), ITC (5.5% of FY15 PAT)
  and GCPL (1.3% of FY15 PAT).
- Actuarial loss-led volatility in employee cost will reduce.
- Treasury share elimination will boost EPS and return ratios.
- Netting incentives / discounts from revenue will optically boost margins. grossing up of excise will put pressure on margins.

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employed , operating expense etc as under IND AS the method of calculating and valuating is different When the ratios in the above analysis were calculated under IGAAP as well as IND AS the interpretation was different in both the form.

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