RECENT TRENDS IN CORPORATE REPORTING

by

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The independent entity of the corporation and its ability to raise resources from public at large, without yielding control of operations to the subscribers has paved the way for the megacrops and the perpetual succession and professional control has abolished ownership to create the multinational and transnational corporations which rise above political nationalism and operate in the global economic order.

In this, the most important factor is sharing the information and developments in the corporation and industry, with the investors and others to establish and maintain the corporate democracy.

Corporate reporting is now at the centre stage of reforms in view of the shareholders' education by the companies. Recent developments in corporate financial reporting indicate a greater emphasis on better voluntary disclosures by the companies regarding their performance and state of affairs. This make their balancesheet more transparent than ever before. Briefly, the age of Bikni Reports where in what is revealed is not so interesting as what has been concealed, has been out. Present corporate scenario has witnessed tremendous advancement in the process of re-engineering of annual reports by the companies. This paper seeks to discuss, various issues emerging out of such re-engineering process.

OBJECTIVES OF THE PAPER

The objectives of this paper are:-

1. To outline the new areas of increasing importance in the field of financial reporting.
2. To point out the steps taken by the regulatory statutes and statutory bodies to ensure proper financial disclosures by the corporate entities...; and
3. To illustrate the practical aspects of these developments with reference to annual reports of some major Indian Companies.

Modern Voluntary Disclosures

Many new areas have been included in the annual reports of the major Indian Companies recently. This is the outcome of both voluntary effort on the part of companies to educate the shareholders and to give a better insight of the management, operations, economy and prospects of the corporation. They are explained below:

a) Management Policies & overview of company

The current trend in annual accounts is to impart more transparency by disclosing various corporate and management objectives and policies, profile of the company and analyses of financial conditions and prospects. Some major heads are :

Products and Product range
Area of Specilisation
Customers Profile and Market Stage
Competitors

Future plans and trends
Financial goals
Financial condition and analysis
Government Policy
Risks and Threats

The Excerpts of disclosures given by Asahi India Safety Glass Limited and Deepak Fertilizers and Petro Chemicals Corporation Limited are appended in Exhibit '1'.

Economic Value Added (EVA) : Traditional approaches to measure 'Shareholders Value Creation' have used parameters such as earnings capitalization, market capitalization and present value of future cash flows. Extensive equity research has now established that it is not earnings per share , but value which is important. EVA is a new concept being applied to understand and evaluate financial performance.

EVA is residual income after charging the company for the cost of capital provided by lenders and shareholders. In other words, EVA represents the Value Added to the shareholders by generating operating profits over and above the cost of capital employed in the business.

It is those companies which earn higher returns than cost of capital, that create value. The Companies which earn lower returns than cost of capital are destroyers of shareholder value. Exhibit '2' shows the formula and presentation of EVA trends in a balancesheet.

Brand Value : A balance sheet discloses the financial position of a company which is influenced by the economic sources it controls its financial structure, liquidity and solvency, and its capacity to adapt to changes in the environment. However, it is becoming increasingly clear that intangible assets have a significant role in the growth of a company, so quite often to search for the value quite often leads back to understanding, evaluating and enhancing the intagible assets of the business.

A brand is much more than a trade mark or a logo. It is a trust mark of promise of quality and authenticity that client can rely upon. Brand equity is the value addition provided to a product or compnay by its brand (name). It is the financial presuit that a buyer is willing to pay for the brand over a generic or less worthy brand. It is not created overnight. It is the result of valueless pursuit of quality in manufacturing, selling services, advertising and marketing.

Capitalizing the value of a company's intangible assets on the balance sheet is a recent phenomena. The task of measuring brand value is a complex one. Several models are available for accomplishing this e.g. brand-earnings multiple model, utility cost method, return on capital method, premium profit methods etc. These models are however, still subject of debate among researchers and using such models and data in predicting the future of any company, is risky, and should be adjudged critically.

Exhibit 3 shows the methodology followed by Infosys Technology for valuing its brand value as on March, 31, 1999.

d. Human Resource Accounting : Human resources represent the collective expertise, innovations, leadership, entrepreneurial , professional and managerial skills evolved in the employees of an organisation. The non human asset is reorganized as an asset and is therefore, recorded in the books and reported in the financial statements, whereas the human assets is totally ignored by accountants. The fact that intellectual capital is an important and valuable asset has been validly recognized. Valuation of the same, popularly called as human resources accounting is globally prevailing, though it is a recent development in Indian annual reports.

Exhibit - 4 and 5 Shows the disclosure of human resource valuation in the annual accounts of Imfoys technologies as on March, 31st, 1999.

e. Corporate Governance : In brief, it denotes of voluntary ethical code of business and management of companies. It aims to maximize the effectiveness and accountability of the brand of directors. Corporate Governance deals with terms, procedure, practices and implicit rules that determines a company's ability to take managerial decisions to maximize long term shareholders value and also to take care of all other shareholders in the enterprise. Cadburey Committee England and CII in India has framed certain rules for desirable corporate governance. The Companies in India now have started attempt to voluntary disclose the compliance of such codes. Exhibit 6 is a disclosure on corporate governance by Bajaj Auto Limited in its Annual Report of March 31st, 1999.

f. Segment Reporting : Financial reporting in respect of business and geographical segments is one of the suggested accounting procedures followed in U.S.A. and U.K. A segment report can further be sub-divided into a primary segment report concerning core segment and a secondary segment report concentrating on other important segments. Reporting by recovers the defects of nullifying effect of profitable segments and unprofitable segments. It provide the user of financial information data relating to relative size, profit, contribution and growth trend of diffent business and geographical segments.

g. Other voluntary Disclosures : Other voluntary disclosures under development which are yet to be adopted by Indian Corporates are:

(i) Incorporation of the impact of inflation in the accounting information towards providing a better picture of entity's financial position during inflationary period.

(ii) Corporate social reporting is a new achievement in the public sector enterprises to discharge their social obligations. In India, the Directors' Report discharge this obligation by briefly touching upon the issues related to the social responsibilities. However, recent developments include new financial reporting tools like social income statement, Social Balance Sheet and Corporate Social Report.

(iii) The concept of accounting and disclosure of environmental matter has been rapidly emerging as an important dimension in corporate reports particularly in manufacturing organisation. Ecological Balance Sheets could become a part of the annual reports in the coming century.

RECENT STATUTORY DEVELOPMENTS :

a) **Cash Flow Statement :** A cash flow statement serves the purpose of providing the information of liquidity, viability and financial adaptability of the entity concerned. This statement explains the reason for the changes in cash and cash equivalents detailing out cash flows under major heads. Basically, this statement comprises of two parts. One the traditional cash flow statement and the second being a reconciliation statement between net operating cash flows and net profit disclosed in the Profit and Loss Account. As per amended clause 32 of the listing Agreement listed companies/ whose annual accounts would be approved by shareholders after 31.3.1995 are required to give a cash flow statement in their Annual Report.

b) **Balancesheet abstract and General Business Profile** : Part IV has been added to schedule VI to the Companies Act vide notification dated May 15, 1995. This is an attempt to disclose the summarized financial position, and performance of the company besides the products of the company.

c) **Recent ICAI pronouncements :** Certain ICAI pronouncements of Accounting Standards and guidance note also have an impact on the presentation of accounting information:

i) **AS-1 : Disclosure of significant Accounting Policies:** This standard is mandatory The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of the financial statements. The accounting policies followed vary from enterprise to enterprise. Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated.

ii) **AS-5 :** It has been revised and renamed 'Net Profit or Loss' For The Period, Prior Period Items and Changes in Accounting Policies". Companies have to give a separate disclosure in respect of certain items of income and expenses within profit or loss from ordinary activities, prior period and extra-ordinary items and changes in accounting estimates due to changes in accounting policies.

iii) The ICAI issued revised AS3 'Cash Flow Statements' which supersede AS3 'Changes in Financial Position' issued in June 1981. This is recommendatory in character and is recommended for use by companies listed on a recognised stock exchange and other commercial industrial and business enterprises.

d) Technology Absorption etc. : Pursuant to Section 217 of the Companies Act, the Companies (Disclosure of particulars in the report of Board of Directions) Rules, 1988 now requires an statement in directors report regarding technology absorption, conservation of energy and foreign exchange earnings and outgo.

e) Y2k Compliance : SEBI has recently issued disclosure norms in this respect. It is now mandatory for all listed companies to disclose their preparedness level on Y2K bug in their quarterly and annual reports. Effective from the year ending December 31, 1998 or thereafter Clause 32 and 41 of the listing agreement have also been amended to ensure disclosure of details of

a) Risk to company due to Y2K issue

b) Cost of address Y2K issue

c) Contingency Plans

f) Certain alteration have been made in Part I in Schedule VI requiring separate disclosure of (a) unutilized monies raised by issue indicating the form of investment; and (b) the outstanding dues owned by companies to small scale undertakings for a sum of Rs. 1 Lakh or more which is outstanding for more than 30 days.

g) Quarterly Results: Clause 41 of the listing agreement has been amended to publish results on quarterly basis within one month of the expiry of the period. The sum total of the four quarters should not substantially differ from the audit results of the company. All material non-recurring/ abnormal income/gain and expenditure and effect of all changes in accounting practices affecting the profits materially should be disclosed separately. Additional information like completion of expansion and modernisation programmes, strike, lock-outs, change in management, conversion of debentures into equity shares, and any material development relating to financial matters is to be furnished.

Proposed and suggested Disclosures

i) To give an integrated view of operation of companies under the same management consolidation of group accounts is to be encouraged.

ii) Segment reporting should be given the due recognition.

iii) Related or interested parties transactions should be disclosed .

iv) Statements in respect of assets taken on lease disclosing their description and estimated value.

CONCLUSION

Thus the corporate scenario at present is moving towards the concept of shareholders education, transparency of Balance Sheets and fulfillment of social obligations. Current trends alongwith the appropriate guidance from regulatory authorities can result in substantial developments in the presentation of structured on line information to investors. This reduces the timing difference in the information used by investors and the management. But how far an investor is interested and takes benefit of these developments for himself is still a question-mark that needs to be answered in the days to come.

RECENT TRENDS IN CORPORATE REPORTING

Exhibit-1

SECTION A : DISCLOSURES WITH RESPECT TO CORPORATE AND MANAGEMENT POLICIES

ASAHI INDIA SAFETY GLASS LTD (31.3.1998)

PROFILE:

Our Owners:

Asahi India Safety Glass Ltd (AIS) is a joint venture of Asahi Glass Company Limited, Japan, M/s B.M. Labroo & Associates, New Delhi and Maruti Udyog Limited.

AIS is a widely held Company and its shareholding pattern is as follows.

Public	40%
Asalin Glass Co. Ltd. Japan	24%
B.M. Labroo & Associates	24%
Maruti Udyog Ltd.	12%

Our products and product range:

AIS is the largest manufacturer of automotive safety glass in India. We manufacture automotive safety glass of two types: Laminated and Tempered. Laminated windshields are used practically in all automobiles in the world. So critical is it to passenger safety, that most countries have made its usage mandatory by law. Tempered glass is used for side and rear glasses, providing safety and clarity of vision.

AISs product range includes LAMISAFE-LT, TEMPERLITE-LT,ZONELITE-LT and HEATLITE -LT.

The company is to set to broaden its horizons and meet the new challenges and changes in the market place through new applications. The company has already commenced production and supply of Laminated Architectural Glass for use in construction and housing sector.

Our area of specialisation:

The company has been established with the prime objective of providing international quality safety glass to the rapidly expanding Indian automobile industry.

The technological strength of AIS for thin, sharply bent safety glass is contributing towards the rapid modernization of the automobile industry by ensuring safety, improving aerodynamics, reducing body weight and thereby improving fuel efficiency.

AIS produces glass in accordance with Japan Automotive Standards Organisation (JASO) and Japan Industrial Standards (JIS). It also produces glass in conformance with Economic Commission for Europe (ECE) Regulation 43R.

It is the first Indian Glass Company to get ISO 9002 Certificate through TUV Bayern Sachsen for the production and servicing of automotive safety glass.

AIS is the first Indian Company to produce international quality flush fitting Black Ceramic Printed Glass and Silver Printed Heated Backlite.

AIS has further upgraded its technology to produce automotive tempered glass without tong marks for the first time in the country.

Our customers:

Maurti Udyog Limited (MUL) has been mainstay of AIS. We have been meeting 100 per cent of the safety glass requirement of Maruti-Suzuki for all models of Cars, Vans and Utility Vehicles. During the current financial year, MUL accounted for 67.5 per cent of our total sales.

Other automobile manufactures also rely on AIS for their requirements of world class safety glass. We are sole suppliers to the following:

Clients	Models
Mahindra & Mahindra	Utility Vehicles and LCVs
Daewoo Motors	Cielo Cars and Dyna LCVs
General Motors	Opel Astra Cars
IND Auto	UNO Cars
Honda SIEL	Honda City Cars
Telco	Tata Safari

Besides we are meeting 50-70% of the glass requirement of the following OEMs.

Clients	Models
Telco	Sumo, Estate, Sierra 207, Family, LCVs & Trucks
Ashok Leyland	CARGO Range of LCVs
Eicher Motors	LCVs
Swaraj Mazda	LCSs

Thus, AIS supplies automotive safety glass to almost all vehicle manufactures in the country.

Our new customers:

We will shortly commence supplies for the following new models:

Clients	Models
TELCO	TATA small car
Daewoo Motors	Matiz
Hindstan Motors	Mitsubishi Lancer

Hyundai	Santro
Mercedes Benz	E-Series Cars
Toyota Kirloskar	Toyota Kijang
Ford	Fiesta

Our new Competitors :

Present competition is in the form of indigenous companies using outdated technology with their main focus on Spare Market. M/s. Maharashtra Safety Glass in collaboration with Saint Gobain (French Multinational) is a potential competitor. We are confident that our mass base, early entry, cost competitiveness and commitment to quality will provide us a cutting edge over any new entrant.

New Products

In view of the growing emphasis on housing and construction sector, we have recently ventured into the field of producing Laminated Architectural Glass which gaining wider acceptance due to its various functional advantages like security, sound insulation, protection from harmful ultraviolet rays.

We have developed the capability to offer Laminated Architectural Glass of maximum size of 3000*2000 mm in maximum thickness of 8+8 mm with various tint combinations as per market requirements. We are in the process of supplying our new product to reputed concerns for their prestigious projects like DLF Plaza Tower, Ansal Plaza, Namgayal, Capital Court.

Replacement Market:

Our company enjoys 20 per cent market share in replacement market which is estimated to grow at 11 per cent CAGR.

During 1997-98, replacement market accounted for 11.4 per cent of AISs total sales. We see a great potential in the replacement market stemming from increasing base of vehicular population.

We are the world.........Exports:

Exports, especially of laminated windshields, has now been our key focus area and the export target for laminated windshields has been fixed at 25 per cent of its total production.

AIS started export activities in the year 1991 and presently, we are exporting our products to highly competitive and quality-conscious after market of United Kingdom, Poland, Belgium, France, Germany and Middle East Countries.

Export turn over has grown rapidly from Rs.46 lakhs in 1994-95 to Rs.415 lakhs in 1997-98.

Concerted efforts to boost exports by expanding and developing existing and new markets are likely to witness higher growth in coming years. We plan to meet safety glass requirements of some of the reputed International OEMs and USA after market.

With the time change we will.......

Over the millennium, AIS will be a far stronger entity with a wider product base, well distributed customer profile and a meaningful export presence. On quality front, we aspire to offer better products with contemporary technology. Replacement and exports will provide a defensive flange to OEM business. Our financial strength would also improve as we move forward with debt reduction plan and restrained capital expenditure. The changing face of Indian auto industry with new players offers us interesting opportunities as we have our presence in practically all the segments.

What we can offer to market place........

The corner stone of our philosophy is.....
“Never to Compromise on Quality.
Your safety is our business
Zero Defect.
Customer is King.”

To achieve the avowed objectives, mentioned above, our policy is:

‘To provide stakeholders satisfaction through QCDV’.
The customers, employees, suppliers and society are the stakeholders of our company.

We are committed to their satisfaction.

We must provide value in our activities through world class quality, cost competitiveness and on time delivery.

We, must achieve QCD through teamwork, discipline, respect for humanity, respect for environment and by strict adherence to procedures and systems.

We must constantly upgrade our QCD taragets through, Kaizen and Kairyo.

Self Visualization

“In our own image we wish to be the best quality safety glass manufacturer with constant upgradation, continuous cost competitiveness and to discharge ourselves as a respected corporate citizen.”

Financial goals:

Our company believes that human endeavour cannot be reduced to any single yardstick of measurement. Yet a commercial organisation can survive, prosper and be useful to society only if it is structured on a sound financial platform. We would be guided by two parameters viz, ROCE (Return on Capital Employed) and RONW(Return on Networth) while considering future capital allocation. We have earned on an average 25 per cent ROCE in the last few years. Our target is to pursue 40 per cent which we shall attempt by controlling the denominator (capital employed) and enhancing the numerator (Earnings). In terms of Returns to our owners , we have set to achieve RONW above 30 per cent. The basic criteria is to earn Return in excess of inflation adjusted PLR plus business risk premium.

CAGR 1990-91 to 1997-98	%
Sales	30.5
PBDIT	31.5
PBIT	32.5
PBT	37.5
PAT	35.0
Capital employed	31.5

Pay out Policy:

The company intends to distribute 25 per cent of net profits to shareholders.

Shareholders' philosophy

The world is now virtual borderless financial market resting primarily on the shoulders of shareholders/investors.

We recognize that ultimate owners are shareholders who are silent partners. They deserve not only an investor friendly management but a business, consistently earning above average returns on networth. We shall judge ourselves on the strength of value enhancement of shareholders' wealth over a medium/long-term of period.

Debt Reduction:

We have completed major capital expenditure programme over the last three years. The same was necessary to ensure quality, productivity and competitiveness. Looking forward, capex is tapering -off while cash earnings will be effectively used to reduce debt.

DEEPAK FERTILISERS AND PERTOCHEMICALS CORPORATION LIMITED
(31.3.1998)

Managing a turnaround

It has been six years since we were constrained to withdraw from the dividend list. This annual report brings good tidings of your Company bouncing back to the dividend list. On this occasion, we thought it would be fitting to share the trials and tribulations we went through during this difficult phase beginning 1992.

It is true that necessity is the mother of invention. The tough phase has helped us innovate, tighten, mould and strategies in a manner which has prepared us to face the tougher challenges of recession and global competition that Indian Industry faces today.

The sacrifice, patience and support of each of our shareholders gave us the spirit to fight. The dedicated contributions of each of our employees have given us the strength to fight. Below is the inside story!

The Catastrophe

Within a few months of completion of our diversification programme in 1992, the selective and partial decontrol of fertilizers made our ANP fertilizer business un-remunerative. Added to this was the unfortunate explosion in the Methanol plant forcing its closure. With these events, the earth fell away under our feet. While, the methanol plant converter replacement required over 15 months, changes in the government fertilizer policy were uncertain. The closure of two major plants, representing investments of over Rs.350 crores out of a total investments of over Rs.350 crores out of a total investment of Rs.465 crores, naturally posed the question of the survival of the Company.

The Turnaround:

When the going gets tough................the tough gets going................

With our backs to the wall we decided on a four pronged strategy:

- ✓ Government Policy
- ✓ Methanol plant rehabilitation
- ✓ Production efficiencies
- ✓ Market penetration.

While these topics are available from any text book, converting these concepts into reality was not easy, to say the least.

Government Policy

Our strong representations on grounds of fairness yielded advice from the Government of India (GOI) to the financial institutions to work out a relief package restructuring interest rates and repayment schedules to prevent the Company’s financials from further deterioration.

Today your Company has few parallels in its record of adhering to the relief package commitments and repayments of over Rs.120 crores till date, particularly in the light of the bleak scenario of 1992.

Realising the severely negative impact its fertilizer pricing policy was leading to, the GOI announced and adhoc subsidy scheme which brought partial relief to your Company.

Methanol plant rehabilitation:

With commitment of a rare order, our technical team rehabilitated the Methanol plant in a record time paving the way for the turnaround process to begin. In parallel, our Marketing team was in full gear to take advantage of an upsurge in the Methanol market during 1994-even notching up an impressive export performance at attractive prices.

Production efficiencies:

Beginning with the usual technology snags of postcommissioning in 1992, the figures below (see table1: Capacity utilisation) indicate the outcome of sharp analysis and persistent efforts over the years in assimilation and improvement on the technology front.

Table 1: Capacity Utilisation

Product	1997-98	1996-97	1995-96	1994-95	1993-94
Ammonia	107	111	101	88	72
Methanol	94	92	87	99	15
DNA	97	86	78	57	36
CAN/SNA	118	97	85	75	63
NP	81	70	63	29	04
LDAN	161	155	138	144	94

Market Penetration:

On the sale front for our chemicals and explosives, we began in 1992 by entering into an oversupply market dominated by public sector units. To build up sales by giving discounts and credits would have been obvious and easy, but tough on the bottom line. Our aim became marketing and market development rather than selling alone. Marketing a commodity product with very litter difference in specifications became an added challenge.

Even on the fertilizer front, despite the crippling blows of an unfair GOI policy, target was to find a clear space in the heads and hearts of our dealers and farmers. This, we believed would be of lasting value and would yield good revenues once a fair policy is in place.

The statistics below (see table 2: sales) are proof of what close listening to our customers and delivering value in terms of service for money, can achieve.

Table 2 : Sales

Rs. In lacs

	1997-98	1996-97	1995-96	1994-95	1993-94
Chemicals	13345	12311	12272	13011	4905
Explosive	4897	4210	3310	3086	2028
Fertilisers	22271	12778	11909	4609	149

The average net sales realization over the period has improved by around 40%. Our collection record too has consistently been better than the industry norms. Market segmentation, consistent top-class quality and listening to our customers has become our mantra for marketing.

The bottom line:

With sharp focus on manufacturing, deep penetration in marketing and tight controls on the financials, slowly but surely the bottom line results (See Table 3: Ratio analysis) finally started taking the desired shape.

Table-3: Ratio analysis

	97-98	96-97	95-96	94-95	93-94
Earning per share	6.85	3.90	4.57	4.80	0.11
Cash earning per share	12.90	7.19	7.73	8.65	2.13
Book value per share	34.38	29.21	25.45	21.13	15.78
Current ratio	2.45	1.97	1.50	2.13	1.98
Return on capital	0.19	0.15	0.15	0.14	0.05
Interest coverage	2.59	1.83	1.86	1.69	1.03
Debt/Equity	0.89	1.11	1.39	2.66	4.09

As can be seen from the table on ratio analysis above, today our financial ratios compare very favourably with the industry norms on various operational parameters. Prudent financial management and ploughing back profits into operations have led to considerable improvement in the company's debt equity and interest coverage ratios.

The strategic diversification into a product portfolio of Chemicals, Explosives and Fertilizers have given your company a long-term resilience to face the business cycles in each of the industry segments .

The Managerial process:

In the liberalized environment of today, to rest on death. We have already embarked on a TQM/

bench-marking drive to put your Company on a long-term firm footing. A core top team has in-depth analyzed:

- National and international industry bench-marks on various efficiency measures.
- Medium and long-term Key Success Factors of the industry.
- Customer satisfaction Index covering various expectations of our customers vis-_-vis our competitors.
- Employee satisfaction Index covering various areas of improvements to bring out the best in our employees.

Based on this analysis, eight task forces are working on various strategic thrust areas. Kaizen, House-Keeping and Small Group Activities have been taken up with time bound targets to give impetus to Total Employee Involvement.

A new Performance Management System is under study with the objective of bringing in greater meaning to performance appraisal and career planning in the context of the current demanding business scenario.

The strategic thrust:

As we enter the current year, the political and economic scenery continues to remain uncertain. The financial markets and forex position also continue to indicate pessimism and caution. On the micro-level, substantial drop in methanol prices, hikes in natural gas prices and uncertainty in fertilizer policy are indeed matters of grave concern. To come out ahead in such an environment, our strategic thrust would be :

- To maximize returns from all our current investments with marginal capital expenditures in de-bottlenecking/retrofits; efficiency measures, spin-offs into focussed independent business, etc.
- Develop deeper strengths in our marketing and distribution channels of flower a wider and lasting relationship with our customers.
- Investments into grassroots projects upstream/downstream to our current businesses and build on our core strengths.
- To penetrate further in the agro-input business, keeping in mind our country's intrinsic strengths.

As the world economy becomes more and more a commodity business - whether it be TVs, automobiles or chemicals - having very little product differentiation, the path to survival and success would be in size, efficiencies, one-window services and self-motivated human resources.

This will be our pursuit in the year to come.

Exhibit -2

DISCLOSURE IN RESPECT OF ECONOMIC VALUE ADDED (EVA)

HINDUSTAN LEVER LTD - (31-12-1997)

*EVA = Net Operating Profit after Taxes (NOPAT) - Cost of Capital Employed (COCE), where,

NOPAT = Profits after depreciation and taxes but before interest costs. NOPAT thus represents the total pool of profits available on an un-geared basis to provide a return to lenders and shareholders, and

COCE = Weighted average cost of capital (WACC) (x) Average Capital Employed.

- Cost of debt is taken at the effective rate of interest applicable to an 'AAA' rated company like HLL with an appropriate mix of short, medium and long-term debt, net of taxes. We have considered a pre-tax rate of 14% after taking into account the trends over the years.
- Cost of equity is the return expected by the investors to compensate them for the variability in returns caused by fluctuating earnings and share prices.

Cost of equity = Risk-free return equivalent to yield on long-term Government bonds (taken at 12.5%)

(+)

Market-risk premium (taken at 9%) (x) Beta variant for the company, (taken at 0.8) where the Beta is a relative measure of risk associated with the company's shares as against the market as a whole.

Thus HLL's cost of equity = 12.5% + (9% (x) 0.8) = 19.7%

EVA Trends: 1991 - 1997 (unaudited)

Rs.(Crores)	1991	1992	1993	1994	1995	1996	1997
Cost of Capital Employed (COCE)							
1. AverageDebt	153	169	135	97	110	156	160
2. Average Equity	273	312	359	462	588	815	1127
Average Capital Employed (1+2)	426	481	494	559	698	971	1287

Cost of debt, post-tax %	6.96	6.76	6.76	7.36	7.56	7.88	8.82
Cost of Equity %	19.7	19.7	19.7	19.7	19.7	19.7	19.7
Weighted Average Cost of Capital % (WACC)	15.13	15.15	16.17	17.57	17.79	17.80	18.34
COCE(3) x (6)	64	73	80	98	124	173	236

Economic Value Added (EVA)

8. Profit after tax, before exceptional Items	80	98	127	190	239	413	580
9. Add: Interest, after taxes	10	16	13	15	11	32	21
10. Net Operating Profits after Taxes (NOPAT)	90	114	140	205	250	445	601
11. COCE, as per (7) above	(64)	(73)	(80)	(98)	(124)	(173)	(236)
12. EVA: (10)- (11)	26	41	60	107	126	272	365
13. EVA% Capital Employed : (12) divided by (3)	6.13	8.55	12.24	19.22	18.03	28.01	28.39

INFOSYS Technology Limited (31.3.1999)

Exhibit-3

Determine brand earnings

To do this,

- Determine brand profits by eliminating the non-brand profits from the total profits of the company.
- Restate the historical profits at present-day values.
- Provide for the remuneration of capital to be used for purposes other than promotion of the brand.
- Adjust for taxes.

2. Determine the brand-strength or brand-earning multiple

Brand-strength multiple is a function of a multitude of factors like leadership, stability, market, internationality, trend, support and protection. These factors have been evaluated on a scale of 1 to 100, internally by the Infosys management, based on the information available within the company.

3. Compute the brand value by multiplying the brand earnings with the multiple dervied in step 2 above.

The computation is as follows:

(In Rupees)

	1998-99	1997-98	1996-97
PBIT	155,85,53,560	65,86,33,079	39,54,12,934
Less: non-brand income	3,46,24,650	2,43,75,414	4,13,37,138
Adjusted Profit	152,39,28,910	63,42,57,665	35,40,75,796
Inflation compound factor at 8%	1.000	1.087	1.181
Present value of profits for the brand	152,39,28,910	68,94,38,082	41,81,63,515
Weightage factor	3	2	1
Weighted profits	457,17,86,731	137,88,76,163	41,81,63,515
Three-year average weighted Profits	106,14,71,068		
Remuneration of capital (5%of average capital employed)	12,27,08,050		
Brand-related profits	93,87,63,018		
Tax at 35%	32,85,67,056		
Brand earnings	61,01,95,962		
Multiple applied	28.30		
Brand value	1726,90,00,000		

Assumptions:

1. Total revenue excluding the other income after adjusting for cost of earning such income is brand revenue, since this is an exercise to determine the brand value of Infosys as a company and not for any of its products and services.
2. Inflation is assumed at 8% per annum
3. 5% of the average capital employed is used for purposes other than promotion of the brand
4. Tax rate is at 35%
5. The earnings multiple is based on the ranking of Infosys against the industry average based on certain parameters (Exercise undertaken internally and based on available information).
6. The figures above are based on Indian GAAP financial statements

Thus, it is interesting to note that while Infosys has a market capitalization of Rs.9,672.80 crore as on March 31, 1999, the value of “Infosys” brand alone is estimated at Rs.1,726.90 crore.

INFOSYS Technology Limited (21.3.1999)

Exhibit 4

Human Resources Accounting

The Lev & Schwartz model has been used by Infosys to compute the value of the human resources as at March 31, 1999. The evaluation is based on the present value of the future earnings of the employees and on the following assumptions:

1. Employee compensation includes all direct and indirect benefits earned both in India and abroad
2. The incremental earnings based on group/age have been considered.
3. The future earnings have been discounted at 25.32% (previous year - 26.95%) this rate being the cost of capital for Infosys. Beta has been assumed at 1.48 based on average beta for software stocks in the US.

As of March 31	1999		1998	
	No. of Employees	Value of Human Resources (Rs. In Laks)	No. of Employees	Value of Human Resources (Rs. In Laks)
Production	2,854	769,84.25	1,755	397,31.09
Support-Technical *	389	71,68.97	472	59,67.22
Others	523	104,16.52	378	52,02.38
	3,766	945,69.74	2,605	509,00.69

* Note: Support-technical includes trainees, employees in R&D activities and support personnel allocated to production.

Number of Employees	3,766	2,605
Value of human resources	945,69,74	509,00.69
Total Revenue	512,73.84	260,36.57
Software Revenue	508,89.12	257,65.73
Employee Cost	166,05.64	93,72.65
Value-Added	374,11.49	185,79.12
Net profit excluding extraordinary income	132,91.54	60,36.33
Total revenue/Human Resources Value(ratio)	0.54	0.51
Total software revenue/Human resources value (ratio)	0.54	0.51
Value-added Human resources value	0.40	0.37
Value of human resources per employee	25.11	19.54
Employee Cost/Human resources value (%)	17.56%	18.41%
Return of human resources value (%)	14.05%	11.86%

Recent Trends in Corporate Reporting
Part - II

by

Akshay Gupta
Chartered Accountant

Exhibit-5

BALANCE SHEET (INCLUDING INTANGIBLE ASSETS) AS AT MARCH 31, 1999

In Rs

SOURCES OF FUNDS	
SHAREHOLDS FUNDS	
Share Capital	33,06,95,500
Reserves and Surplus	
Share premium Account	319,99,15,445
Capital reserves	2672,59,74,000
Other reserves	221,37,00,303
	3247,02,85,248
APPLICATION OF FUNDS	
FIXED ASSETS	
Tangible assets - at cost	168,92,38,345
Less Depreciation	83,09,14,934
Net block	85,83,23,411
Add: Capital work in progress	14,88,35,800
	100,71,59,211
Intangible assets	
Brand equity	1726,90,00,000
Human resources	945,69,74,000
INVESTMENTS	75,48,469
CURRENT ASSETS, LOANS AND ADVANCES	
Accounts receivable	84,51,88,425
Cash and bank balances	405,04,82,999
Loans and Advances	68,35,96,522
	557,92,67,946
Less Current Liabilities	42,83,42,481
Provisions	42,13,21,897
Net current assets	472,96,03,568
	3247,02,85,248

Notes:

1. This balance sheet is provided for the purpose of information only. The management accepts no responsibility for any direct, indirect or consequential losses or damages suffered by any person relying on the same.
2. Capital reserves include the value of “Infosys” brand and human resources.
3. The figures above are based on Indian GAAP financial statements.

Exhibit-6

CORPORATE GOVERNANCE

Good corporate governance relates to systems of supervision and monitoring that maximise long term shareholder value of a company, and also addresses the interests of all other stakeholders in the enterprise. Although corporate governance varies across countries, there is a growing consensus about the need for four key elements. These are:

- ***Transparency*** **- a commitment that the business is managed along transparent lines.**
- ***Fairness*****- to all stakeholders in the company, but especially to minority shareholders.**
- ***Disclosure*** **- of all relevant financial and non-financial information in an easily understood manner.**
- ***Supervision*** **- of the company's activities by a professionally competent and independent board of directors.**

Good corporate governance deals with building trust with customers, suppliers, creditors and diverse investors-trust that the company will be manage properly, will successfully perpetuate its businesses, will protect and enhance the capital of its investors, and will increase corporate value for its shareholders.

Bajaj Auto has believed in these principles since its inception and has always discharged its fiduciary obligations towards its shareholders. During the last two years, we have gone further by steadily increasing the levels of disclosure in our annual reports-disclosures that go beyond the statutes.

We have accelerated the trend this year. For instance, we have checked our corporate governance performance against the code prepared by the Confederation of Indian Industry (CII, Desirable Corporate Governance: A code, April 1988). In fact, this chapter and the next contain more voluntary disclosures than are suggested by the CII code.

BOARD OF DIRECTORS

Composition of the Board : There is an international consensus that at least a third-and preferably the majority- of a company's board should consist of professionally competent non-executive directors. As table 1 shows, the board of Bajaj Auto meets this requirement.

Ceiling on directorships : Moreover many internationally accepted codes of corporate governance suggest that the members of the board should not hold too many outside directorships - as it could affect their quality of supervision in each company. None of the directors of Bajaj Auto hold directorships in more than eight listed companies. This is below the ceiling of 10 suggested in the CII code.

Table 1: Composition of Baja Auto's board of directors

Director	Executive/non-Executive/independent*	Directorships Held**
Rajul Bajaj	Executive, Chairman and Managing Director	5
D.S. Mulla	Non-executive, Independent	6
J.P. Poddar***	Non-Executive	
Viren J Shah	Non-Executive	2
Kantikumar R Podar	Non-Executive, Independent	7
Atul C Kirloskar	Non-Executive, Independent	8
Shekhar Bajaj	Non-Executive,	4
Madhur Bajaj	Executive, President	4
D.J. Balaji Rao	Non-Executive, Independent	2
D.S. Mehta	Executive	8
J.N. Godren	Non-Executive, Independent	4
S.H. Khan	Non-executive, Independent	2

* An independent director is (i) not a former executive and has not professional relationship with the company , (ii) not a large customer and/or vendor to the company, (iii) not a close relative of the promoter/or any executive directors, (iv) not holding a significant stake, and (v) not a nominee of any large shareholder and /or creditor. ** includes only listed companies. ***J.P. Poddar passed away on 2nd September, 1998.

Director's interest in the company : Table 2 gives full details of remuneration paid to each director on the board of Bajaj Auto. It also gives the relationships of the directors (where applicable), and their business interests with either Bajaj Auto or its directors (where material). During 1998-99, the company did not advance any loans to any of the directors.

Table 2: Relationship of Directors, their Business interests, and remuneration paid

Director	Relationship with other directors	Business relationship with the company, if any	Remuneration paid/payable during 1998-99 (in Rs)			
			Sittings Fees	Salary & Perks	Commi-ssion	Total
Rahul Bajaj	Cousin of Shekhar and Madhur Bajaj	Not applicable	—	2,179,427	1,200,000	3,379,427
D.S. Mulla	None	None	14,000	—	140,000	154,000

J.P. Poddar*	Uncle of Rahul Bajaj, Shekhar Bajaj and Madhir Bajaj	None	6,000	—	60,000	66,000
Viren J Shah	None	Joint venture with Bajaj family in Mukand	6,000	—	60,000	66,000
Kantikumar R. Podar	None	None	4,000	—	40,000	44,000
Atul C Kriloskar	None	None	4,000	—	40,000	44,000
Shekhar Bajaj	Cousin of Rahul Bajaj and brother of Madhur Bajaj	Director of a vendor company	8,000	—	80,000	88,000
Madhur Bajaj	Cousin of Rahul Bajaj and brother of Shekhar Bajaj	Not applicable	—	1,419,821	480,000	1,899.821
D.J.Balaji Rao	None	None	14,000	—	140,000	154,000
D.S. Mehta	None	None	—	11,55,702	—	1155,702
J.N. Godrej	None	Director of vendor company	2,000	—	20,000	22,000
S.H. Khan	None	None	2,000	—	20,000	22,000

Three relatives of directors are employed by the company. Rajiv Bajaj, sone of Rahul Bajaj, is Vice-President (Products) of the company, and was Rs.1,016,028 as salary and perquisites for the year 1998-99. Sanjiv Bajaj, son of Rajul Bajaj is General Manger (corporate finance) and was paid Rs.669,334 as salary and perquisites for the year. Neelima Bajaj, daughter of Madhur Bajaj, joined as Assistant Manager (Marketing Services) from 1 December 1998. She was paid Rs.37,631 **as salary and perquisites for 1998-99.**

Attendance record of the directors : It is important for shareholders to know the attendance record of their directors. Table 3 gives the data.

Table 3: Attendance of directors at board meetings

Director	Number of Meetings	
	Held	Attended
Rahul Bajaj	5	5
D.S. Mulla	5	5
J.P. Poddar*	2	2
Viren J Shah	5	3
Kantikumar R Podar	5	2
Atul C Kirloskar	5	2
Shekhar Bajaj	5	4
Madhur Bajaj	5	5
D.J. Balaji Rao	5	5
D.S. Mehta	5	5
J.N. Godrej **	3	1
S.H. Khan**	1	1

* I.P. Poddar passed away on 2nd September, 1998.

** J.N. Godrej joined the board on 27th October, 1998. S.H. Khan joined the board on 22 March, 1999.

Audit Committee. The board of Bajaj Auto has a three-member audit committee, consisting only of non-executive directors,. The Chairman of the Audit Committee is D.S. Mulla, initially the committee consisted of D.S. Mulla , D.J. Balaji Rao and J.P. Poddar. After Mr. Poddar's death, his place has been taken by J.N. Godrej.

The audit committee met twice in the year, once on 13 May, 1988 and then on 27 October, 1998. During these meetings the committee was briefed on Bajaj Autos interanl audit procedures, perpetual inventory audits, outstandings with dealers,debit balances with vendors and the unaudited quarterly results for 30 September, 1998.

FINANCIAL DISCLOSURES

Debt profile: Indian corporate laws require far more disclosure on long-and short-term debt than most developing and many developed countries. These are given in detail as schedules 3 and 4 to Bajaj Auto's balancesheet. Table 4 is synopsized statement of the company's debts. Bajaj Auto carries no foreign currency debt.

Table 4: Debt exposure of Bajaj Auto (Rs.Millions)

	Amount Outstanding			Repayment
	As on 31st March, 1998	As on 31st March, 1999	Interest*	
LONG TERM				
Secured				
16% Non-convertible Debentures	148	Nil	16%	Redeemed on 31, December, 1998
Unsecured				
Sales tax deferral liability under :				
SICOM Incentive scheme	2,202	2,996	Interest free	Repayable on May 1, every year from 2002 to 2015
Fixed Deposits	105	90	12%, 13%	Repayable three years from date of receipt
Total Long Term	2,455	3,086		
SHORT TERM SECURED				
Cash Credit	127	411	12.24% to 16.25%	Repayable on demand
Total Short Term	127	411		
GRAND TOTAL	**2,582**	**3,497**		

* including interest tax.

Contingent Liabilities : Details are highlighted in schedule 14 of the balance sheet and profit and loss account as notes forming part of the accounts.

Foreign Currency risk : Bajaj Auto's foreign exchange risk arises mainly out of its import of raw materials, components and capital goods and its export of products in 198-99, the company's total foreign exchange outflow was Rs.2,621 million, and its earning was Rs.1,647 million., In Bajaj Auto, foreign exchange risk is treated as a cost centre and monitored on a daily basis., Under normal circumstances, it chooses an appropriate mix of foreign currency covers to minimise volatility. During periods of what the company considers excess volatility, it follows the principle of natural hedge between imports and exports. Bajaj Auto has a team of officers monitoring the movement of various currencies. This is done in real time through an on-line Knight Ridders Screen.

Interest rate risk. The only long term debt of Bajaj Auto is an incentive received from the Government of Maharashtra for setting up units in backward areas. This is structured as an interest-free sales tax deferral. From the interest cost point of view, therefore, Bajaj Auto is a debt-free company and, on that account, carries no interest rate risk.

Y2K Risk. Bajaj Auto considered Y2K readiness of all its systems as a major issue, and has set-up a Year 2000 Project Office to coordinate and address the various necessary tasks. It has Y2K project plan, and all the necessary actions are targeted to be completed by June 1999. The risks areas have been identified as (i) IT hardware (ii)IT software (iii) IT applications(iv) non-IT micro-processor based plant and equipment (v) Depots, dealers and consignee agencies, (vi) vendors, and (vii) banks and other utility services.

While an outside consultant was employed to conduct quality reviews of the plans, procedures, actions and timetable, the task of ensuring Y2K compliance has been entrusted to functional heads. In all cases, the Y2K inventory and assessment have been completed. In most cases, remedial actions have already been taken. In some, remedial actions will be completed by June 1999. The company has also begun a contingency planning exercise in the event of any unforeseen problem, especially with outside agencies such as banks and utility companies, The estimated direct cost of the Y2K project is about Rs.5 million.

CORPORATE GOVERNANCE DISCLOSURES-CII RECOMMENDATIONS

In April 1998, Confederation of Indian Industry (CII) took the initiative to improve corporate governance by publishing Desirable Corporate Governance. A Code, Rahul Bajaj, the Chairman and Managing Director of Bajaj Auto chaired CII's corporate governance task force, and played a key role in preparing the code. Bajaj Auto adheres to most of the recommendations made by the CII code.

RECOMMENDATION 1

The full board should meet a minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half a day's discussion.

Bajaj Auto' s board met 5 times during last year-in May, July and October of 1998, and January and March of 1999. The executive directors meet more frequently to review and decide operational matters. The agenda items before each board meeting normally involve discussion of two to three hours.

RECOMMENDATION 2

The company should have professionally competent and acclaimed non-executive directors, who should constitute at least 30% of the board, if the Chairman is a non-executive director, or at least 50% of the board, if the Chairman and Managing Director is the same person.

Eight of the 11 directors of Baja Auto’s board are non-executive directors (Mr. J.P. Poddar passed away in September, 1998). The details are given in Table 1 above . Of the eight non-executive directors, six are independent in a strict sense of the term - i.e. they are (i) not former executives and have no professional relationship with the company (ii) no large customers of and/or vendors to the company, (iii) not close relatives of the promoter and/or any executive directors, (iv) not holding a significant stage, and (v) not nominees of any large shareholder/creditor. This definition of ‘independence’ goes beyond the CII code, and is in line with the best practices recommended by pension funds in the USA and U.S. Thus Bajaj Auto’s board has a majority of non-executive directors, and also of independent directors.

RECOMMENDATION 3

No single person should hold directorships in more than 10 listed companies. This ceiling excludes directorship in subsidiaries where the group has over 50% equity stake or associate companies where the group has over 25% but no more than 50% equity stake.

None of the directors of Bajaj Auto hold 10 or more directorships in listed companies. Table 1 above gives the details.

RECOMMENDATION 4

For non-executive directors to play an important role in maximizing long-term shareholder value, they need to become active participants in boards, not passive advisors; and have clearly defined responsibilities within the board. They should know how to read a balance sheet, profit and loss account, cash flow statements and financial ratios and have some knowledge of various company laws. This, of course, excludes those who are invited to join the board as experts in other field such as science and technology.

The non-executive directors on the board have specialized experience as businessmen, industrialists, engineers and bankers. All the directors including non-executive directors are proficient with financial statements and have a sound understanding of various provisions of corporate laws. They play an active role in the board meetings.

RECOMMEDATION 5

Sufficient sitting fees should be paid to non-executive directors to induce serious efforts by them. In addition, to secure better effort from non-executive directors, companies should pay a commission over and above the sitting fees for use of their professional inputs. An appropriate mix of commission and stock option should be considered to align a non-executive director towards keeping an eye on short-term profits as well as longer term shareholder value.

Bajaj Auto recognises that the government’s stipulated maximum sitting fee of Rs.2,000/- per director per meeting attended is not a proper remuneration for their time. Therefore, it has been paying commissions amounting to Rs.20,000/- for every board of audit committee meeting attended.

Details are given in Table 2 above. The company, however, does not operate any stock option scheme at present.

RECOMMENDATION 6

While re-appointing members of the board, companies should give the attendance record of the concerned directors, As a general practice,. One should not re-appoint non-executive directors who have not attended even one half of meetings.

The attendance record is given in Table 3 above.

RECOMMENDATION 7

In the interests of good corporate governance, certain key information, must be placed before the board and must form part of the agenda papers. This include annual operating plans, budgets, internal audit reports, litigation , safety and pollution problems, if any loan defaults, appointment and removal of senior management personnel and labour problems.

All such information is regularly placed before the board together with detailed explanatory notes on each subject.

RECOMMENDATION 8

Listed companies with a turnover of over Rs.1 billion or a paid-up capital of Rs.200 million, whichever is less, should set up an Audit Committee. This committee should consists of at least three members, all drawn from the company's non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law.

Bajaj Auto has formally had an audit committee since 1987. It was reconstituted in 1998-99. The details have been given earlier in this chapter.

RECOMMENDATION 9

Listed public companies should give data on high and low monthly averages of share prices in all the stock exchanges where the company I listed for the reporting year. Greater detail on business segments, upto 10% of turnover, giving share in sales revenue, review of operations and analysis of markets and future prospects should be provided.

Data on high and low monthly average share prices as well as the movement of daily share prices compared to BSE-200 index are given in the following chapter, entitled shareholder information. Review of operations, segment-wise details, analysis of markets and future prospects have been highlighted in the chapter on Management's Review of the Business.

RECOMMENDATION 10

Consolidation of group accounts should be optional and subject to financial institutions allowing companies to leverage on the basis of the group's assets and the income tax department using the group concept to assess corporate income tax.

Although consolidation is not mandatory, we have carried out an exercise that among other things, consolidates the accounts according to US GAAP and IAS. The resultant shareholders' equity and net income have been reconciled with those prepared under Indian Generally Accepted Accounting Standards (Indian GAAS). The results have been reviewed by KPMG Peat Marwick, and are presented in a separate chapter entitled Reconciliation of Accounts under US GAAP and IAS.

RECOMMENDATION 11

Major Indian Stock Exchanges should gradually insist upon a compliance certificate, signed by the CEO, CFO and Company Secretary.

At this point, it is not company-level issue.

RECOMMENDATION 12

For all companies with a paid up capital of Rs.200 million or more, the quality and quantity of disclosure that accompanies a GDR issue should be the norm for any domestic issue.

Bajaj Auto has not had equity or rights offer since 1965, if it does, the company shall provide disclosures that will be comparable with any GDR issue.

RECOMMENDTION 13

Government must allow far greater funding to the corporate sector against the security of shares and other paper.

Not a company level issue.

RECOMMENDATION 14

It would be desirable for financial institutions as pure creditors to re-write their covenants to eliminate having nominee directors except in the event of serious and systematic debt default and in case of the debtor company not providing six monthly or quarterly operational data to the concerned financial institutions.

Not a company level issue

RECOMMENDATION 15

If the company goes to more than one credit rating agency, then it must divulge in the prospectus and issue document the ratings of all agencies that did such an exercise, together with a statement showing where the company stands relative to higher and lower credit ranking.

Bajaj Auto has not approached multiple credit rate agencies, its non-convertible debentures, fixed deposits and commercial papers have been rated by CRISIL. The ratings were respectively AAA, FAAA and P1+ which indicated the highest degree of certainty regarding timely payment of financial obligations.

RECOMMENDATION 16

Companies that default on fixed deposits should not be permitted to accept further deposits and make inter-corporate loans or investments and declare dividends until the default is made good.

Bajaj Auto has never defaulted on any fixed deposits.

RECOMMENDATION 17

Reduction in number of nominee directors on the board by the financial institutions, where their individual shareholding is 5% or less or total financial institution holding is under 10% of equity capital.

Not a company level issue

In addition to these recommendations, the CII code touches upon other disclosures relating to sole selling agents and certain accounting policies. These are addressed below:

1. Bajaj Auto has not appointed any sole selling agent in India, However, for certain export markets, sole distributors have been appointed on principal-to-principal basis. None of the directors or their relations have any interests in these distributorships.

2. There are no material differences in fixed assets and long term liabilities between the end of the financial year and the date of the Director's Report.

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