

Shifting From Indian GAAP To Ind AS: A Study On Automobile Companies In India

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Abstract

Because of the convergence of International Financial Reporting Standards (IFRS) and Indian Generally Accepted Accounting Principles (IGAAP) and the implementation of Indian Accounting Standards, a new age of financial reporting began in India in 2016. Since the financial year 2016-17, Ind AS has been the new Indian GAAP for all Indian corporations. Because of the challenges of first-time adoption and transitional issues, the Ministry of Corporate Affairs has made Ind AS mandatory in phases based on the net worth and listing status of the companies. Phase I begins in 2016-17 and covers public and unlisted enterprises with a net value of Rs. 500 crores or more on March 31, 2014 or March 31, 2015. Phase II begins in 2017-18 and covers public and unlisted enterprises with a net value of less than 500 crores but more than 250 crores as of March 31, 2014, March 31, 2015, or March 31, 2016. From the financial year 2018-19, all enterprises that are not covered by phase I or phase II will be forced to apply Ind AS. The researcher evaluates the impact of Ind AS implementation on the financial profitability of Phase I firms in the Automobile sector that are listed on the BSE S&P500 Companies in this study.

Key Words: IFRS, IGAAP, Ind AS, Automobile Sector, Adoption, Financial Statement.

Introduction

The International Financial Reporting Standards (IFRS) were developed by international accounting organisations in response to the demand for one and universal accounting standards in today's globalised economic world. India used to adopt Indian GAAP, which differs from IFRS primarily in three areas: fair valuation, substance over legal form, and a focus on the balance sheet. As a result, India merged IFRS and IGAAP and adopted Ind AS, or the converged form of IFRS, also known as the Indian version of IFRS. As of February 16, 2015 ([https://cag.gov.in/.../Chapter 8 Impact of Implementation of Indian Accounting S...](https://cag.gov.in/.../Chapter%208%20Impact%20of%20Implementation%20of%20Indian%20Accounting%20Standards%20(Ind%20AS)%20through%20the%20Companies%20(Indian%20Accounting%20Standards)%20Rules,%202015)), the MCA had issued 41 Indian Accounting Standards (Ind AS) through the Companies (Indian Accounting Standards) Rules, 2015

(<https://cag.gov.in/.../Chapter 8 Impact of Implementation of Indian Accounting S...>). The Ministry of Corporate Affairs published a roadmap for the progressive adoption of Ind AS, which will begin in the financial year 2016-17. Ind AS is implemented in four stages, depending on a company's financial value and listing status. Phase I began on April 1, 2016, and included all publicly traded and unlisted enterprises with a net value of Rs. 500 crores or more for the previous three financial years. Phase II, which began on April 1, 2017, included companies that were listed or were in the process of being listed and had a net value of less than Rs. 500 crores but more than Rs. 250 crores in any of the previous four financial years. All banks, NBFCs, and insurance businesses with a net worth of Rs. 500 crores or more for the previous three financial years are included in Phase III, which began on April 1, 2018. Phase IV, which began on April 1, 2019, included all NBFCs with a net worth of less than 500 crores but more than 250 crores for the previous three financial years.

Need for the Study

The influence of Ind AS adoption on the financial statements of Indian Automobile firms is examined in this study. The Automobile sector was chosen by the researcher because it is a critical sector in the country's growth and development, as well as one of the most valuable sectors on the BSE listing in terms of market capitalization. Because there are various discrepancies between earlier Indian GAAP and current Ind AS, the adoption of Ind AS will have an influence on Indian firms' net profit and financial situation. As a result, the researcher has conducted this research to determine the influence of Ind AS adoption on the financial profitability of enterprises in India's Automobile sector.

Review of Literature

Though few studies have been undertaken to examine the impact of Ind AS implementation on company profitability in India, PwC, CRISIL, and EY have conducted several practical impact analyses, which are reviewed and mentioned here.

CRISIL (2016) conducted a study on "Ind AS Impact" and observed financial statements changing, but no substantial rating or criteria changes were anticipated because the fundamentals remained same. They also believe that the improved requirements will improve financial reporting quality. They also identified some changes in standards that would have an impact on the financial statements of most companies, such as Revenue Recognition Norms, Fair Valuation of Assets, Proposed Dividends and Deferred Tax Assets, Reclassification of Actuarial Gains and Losses, Employee Based Share Payments, and so on.

Ernst and Young (2016) tried to understand the experience of Indian companies in transitioning to Ind AS conducted a review of the financial results of 60 companies in BSE's top 100 list that are covered in phase 1 of the Ind AS roadmap and found that the impact of Ind AS on companies

reflects a mixed trend. They also observed that companies need more time to be ready for detailed Ind AS reporting

According to **Protiviti (2016)** the manufacturing and information technology sectors had the most accounting adjustments under Ind-AS, followed by telecommunications, mining/metals, and the energy sectors, a risk-consulting and internal audit firm, which looked at the first-quarter results of around 125 companies. Protiviti (2016) "Decoding the Ind AS Impact for Indian Companies" is available at www.protivitiglobal.in. It is also stated that on average, 50% of companies have made around 10 adjustments to the reported profit for the quarter ended June 30, 2015.

According to **Shyam, Ashutosh (2016)**, shifting to Ind AS will have a significant influence on the computation of revenue, operational profit, net profit, and net worth of listed firms. Analysts predict that the new standards will boost revenues by 4-5 percent but lowering overall EBITDA by 2-3 percent.

PWC (2016) found that taxes, revenue recognition, operating segments, financial instruments (including derivatives), and leases (including embedded leases) are the top five areas that would have a significant impact on financial statements following the adoption of Ind AS in a survey conducted in February 2016.

According to **Goyal (2018)**, the impact of IND AS will differ by industry and company. Every aspect of the business will be covered, including reported sales, expenses, assets, liabilities, and equity. The IND AS mandates fair valuation of assets and financial instruments to ensure that the book value and fair value of assets and financial instruments are comparable. The strenuous effort involved in estimating the fair value of assets presents a hurdle for corporations.

ICAI (2018) observed that Ind AS implementation provided better insights into the financial affairs of the companies, and Ind AS based financial statements reflected the underlying economics of the transactions/events in a transparent and unbiased manner.

Objectives

The study is based on the broad objective of impact assessment of Ind AS adoption on the financial statement of companies in Automobile sector in India. The present study has been conducted to fulfill the following specific objectives.

1. To estimate the impact of Ind AS adoption on the Revenue and Expenses of the Companies in Automobile sector in India.
2. To estimate the impact of Ind AS adoption on the Net Profit of the Companies in Automobile sector in India.

Methodology

All secondary sources were used in this investigation. The Automobile industry was chosen since it is one of India's most important contributors to national GDP. Following that, five top-ranked businesses in the Automobile category were chosen based on market capitalization. Following

that, the annual reports of the companies were gathered for two consecutive years, 2015-16 and 2016-17, in order to acquire financial data under IGAAP and Ind AS for the financial year 2015-16 for analysis and comparison.

Scope of the Study

The research paper is based on five of India's largest Automobile businesses. The influence of Ind AS adoption on Total Revenue, Total Expenses, Net Profit, Total Assets, Total Liabilities, and Financial Position, as well as their relative changes, is examined in this article. 'Revenue' refers to total revenue, which includes revenue from operations as well as other income, but excludes any unusual items. And 'Expenses' refers to the total of all expenses for the year, including tax expenses. Profit after taxes but before unusual items is referred to as net profit. Total Assets and Total Liabilities represent the sum of all assets and liabilities on the Balance Sheet. The gap between total assets and total liabilities is referred to as financial position.

Profile of selected Companies

Automobile Sector is one of the important sectors of Indian economy contributing to national GDP to a great extent. India is expected to be the world's third-largest Automobile market in terms of volume by 2026. The industry currently manufactures 26 million vehicles, of which 4.7 million are exported. India holds a strong position in the international heavy vehicles arena as it is the largest tractor manufacturer, second-largest bus manufacturer and third largest heavy trucks manufacturer in the world. In April-March 2020, overall Automobile exports registered a growth of 2.95%. The profiles of the selected companies are presented below:

Table 1: Sample Automobile Sector Companies

Automobile Companies	Market Capitalization (Rs. Cr.)	Ind AS Adoption Status
Maruti Suzuki India Limited	207791.81	Adopted Ind AS in 2016-17
Bajaj Automobile Limited	73732.16	Adopted Ind AS in 2016-17
Eicher Motors Limited	59956.69	Adopted Ind AS in 2016-17
Hero MotoCorp Limited	56220.77	Adopted Ind AS in 2016-17
Tata Motors Limited	35384.46	Adopted Ind AS in 2016-17

Source: Annual Reports of Respective Companies.

Maruti Suzuki India Limited

Maruti Suzuki India Limited (BSE : 532500 NSE: MARUTI) is a public limited company incorporated and domiciled in India, listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The address of its registered office is #1, Nelson Mandela Road, Vasant Kunj, New Delhi - 110070. The Company is a subsidiary of Suzuki Motor Corporation, Japan.

Maruti Suzuki India Limited, formerly known as Maruti Udyog Limited, is an Automobile manufacturer in India. It is a 56.21% owned subsidiary of the Japanese Automobile manufacturer Suzuki Motor Corporation. (Source: Annual Reports of Maruti Suzuki India Ltd.)

Bajaj Automobile Limited

Bajaj Automobile Ltd. is a company limited by shares, incorporated and domiciled in India. (BSE: 532977 NSE: BAJAJ-AUTOMOBILE) Headquartered in Pune, Maharashtra, Bajaj Automobile was established on 29 November 1945 as M/s Bachraj Trading Corporation Private Limited. It initially imported and sold two- and three-wheelers in India. In 1959, it obtained a license from the Government of India to manufacture two-wheelers and three-wheelers and obtained Licence from Piaggio to manufacture Vespa Brand Scooters in India. It became a public limited company in 1960. The Company is engaged in the business of development, manufacturing and distribution of Automobiles such as motorcycles, commercial vehicles etc. and parts thereof. (Source: Annual Reports of Bajaj Automobile Ltd.)

Eicher Motors Limited

Eicher Motors Limited (EML) is a leading player in the Indian Automobile motive space. It operates in three distinct business verticals - motorcycles, commercial vehicles and personal utility vehicles. Eicher Motors Ltd (BSE: 505200 NSE: EICHERMOT) founded in 1948 by Vikram Lal Headquartered in New Delhi, India. EML owns the iconic Royal Enfield motorcycle business, which leads the premium motorcycle segment in India. Royal Enfield is the oldest motorcycle brand in continuous production world-wide, Royal Enfield has witnessed a huge surge in demand in the recent past and is charting its course to be the leading player in the mid-sized motorcycle segment globally. (Source: Annual Reports of Eicher Motors Ltd.)

Hero MotoCorp Limited

Hero MotoCorp Limited (NSE: HEROMOTOCO BSE: 500182) is a public company domiciled & incorporated under the provisions of the Companies Act, 1956 on January 19, 1984. The company is an Indian motorcycle and scooter manufacturer based in New Delhi, India. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The shares of the Company are listed on two stock exchanges in India i.e. National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The Company is engaged in the manufacturing and selling of motorised two-wheelers, spare parts and related services. The Company is a leading two wheeler manufacturer and has a dominant presence in domestic market. Hero MotoCorp (formerly Hero Honda) Limited is the world's largest manufacturer of two-wheelers. (Source: Annual Reports of Hero MotoCorp Ltd.)

Tata Motors Limited

Tata Motors Limited (BSE: 500570 NSE: TATAMOTORS), Indian multinational Automobile motive manufacturing company headquartered in Mumbai, India. It is a part of Tata Group, an Indian conglomerate. Its products include passenger cars, trucks, vans, coaches, buses, sports cars, construction equipment and military vehicles. Tata Motors Limited (TML), a \$42 billion organisation, is India's largest Automobile company and is a leading global manufacturer of cars, utility vehicles, buses, trucks and defence vehicles. Incorporated in India in the year 1945, Tata Motors is a part of the over \$100 billion Tata Group founded by Jamsedji Tata in 1868. Recognised for its world-class quality, originality, engineering and design excellence, the Company is on the path of shaping the future of mobility in India. (Source: Annual Reports of Tata Motors Ltd.)

Analysis and Findings

Impact of Ind AS Adoption on Revenue and Expenses of Automobile sector companies

The following table presents data for Revenue and Expenses under IGAAP as well as Ind AS and their relative percentage changes for the financial year 2015-16. Here, %Change is calculated by using the formula –

$$\% \text{Change} = (\text{Ind AS} - \text{IGAAP}) / \text{IGAAP} \times 100$$

Table No. 2: Impact of Ind AS Adoption on Revenues and Expenses of Automobile Sector

Automobile Companies	Revenue			Expenses		
	IGAAP (Rs. in	Ind AS (Rs. in	% Change	IGAAP (Rs. In	Ind AS (Rs. In	% Change
Maruti Suzuki	58208.2	66515.6	14.27	53636.8	61151.3	14.01
Bajaj Automobile	23600.86	24956.79	5.75	19948.45	21027.12	5.41
Eichers Motors	6366.27	7267.35	14.15	5136.42	5958.13	16.00
Tata Motors	44502.74	48785.92	9.62	43905.3	48576.38	10.64
Hero MotoCorp	28990.42	31123.31	7.36	25858.05	27963.12	8.14

Source: Annual Reports, 2015-16 and 2016-17.

From the above table it is observed that Ind AS adoption has positive impact on the revenue of all the companies (100%) in the Automobile sector. And it is also found that Ind AS adoption has positive impact on the amounts of expenses of all the companies (100%) in the Automobile sector.

Automobile Sector – Impact on Net Profit

The following table presents data for Net Profit of all the selected companies under Automobile Sector as per both IGAAP and Ind AS. Net Profit under IGAAP has been collected from annual reports 2015-16 and Net Profit under Ind AS has been collected from 2016-17 annual reports of respective companies. The %Change in Net Profit is calculated by using the formula –

$\% \text{Change in Net Profit} = (\text{Net Profit under Ind AS} - \text{Net Profit under IGAAP}) / \text{Net Profit under IGAAP} \times 100$

Table No. 3: Impact of Ind AS Adoption on Net Profit of Automobile Sector

Automobile Companies	Net Profit		% Change in Net Profit
	IGAAP (Rs. In Cr.)	Ind AS (Rs. In Cr.)	
Maruti Suzuki	4571.4	5364.3	17.34
Bajaj Automobile	3652.41	3929.67	7.59
Eichers Motors	1229.85	1309.22	6.45
Tata Motors	234.23	(62.30)	-126.60
Hero MotoCorp	3132.37	3160.19	0.89

Source: Annual Reports, 2015-16 and 2016-17.

From the table it is found that in majority of cases (i.e. 80%) of the companies in the Automobile sector Ind AS adoption has positive impact on the net profit of the companies in the Automobile sector. In case of Tata Motors there was a net profit of 234.23 Crores for the financial year 2015-16 under IGAAP whereas net profit changed to a net loss of 62.30 Crores under Ind AS and the reason behind this is charging of ‘Foreign Exchange Loss’ to P/L under Ind AS. In case of Tata Motors they had a foreign exchange loss of 222.91 Crores for F.Y. 2015-16 which were not charged to P/L as an expense under IGAAP rather it was treated as an exceptional item in the P/L Statement.

Table No. 4: Impact of Changes in Revenue and Expenses on the Net Profit of Automobile Sector

Automobile Companies	% Change in Revenue	% Change in Expenses	% Change in Net Profit
Maruti Suzuki	14.27	14.01	17.34
Bajaj Automobile	5.75	5.41	7.59

Eichers Motors	14.15	16.00	6.45
Tata Motors	9.62	10.64	-126.60
Hero MotoCorp	7.36	8.14	0.89
Average	10.23	10.84	-18.866

Source: Based on Table No. 4.18 and 4.19.

From the above table it is found that the average %changes in revenue and expenses of all the select companies in the Automobile sector are 10.23% and 10.84% respectively. But the table also depicts that the average %changes in the net profit of the Automobile sector companies is -18.866%, which is because of an exceptional case of Tata Motors.

Figure 1: Diagram showing consistency of changes in Revenue of Select Companies in Automobile Sector Due to Ind AS Adoption

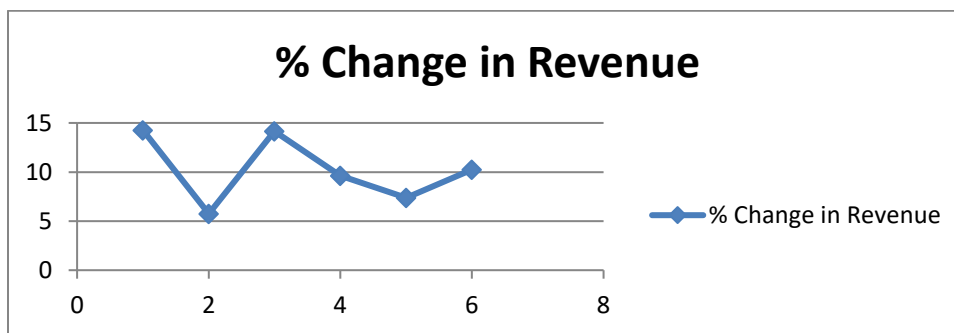


Figure 2: Diagram showing consistency of changes in Expenses of Select Companies in Automobile Sector Due to Ind AS Adoption

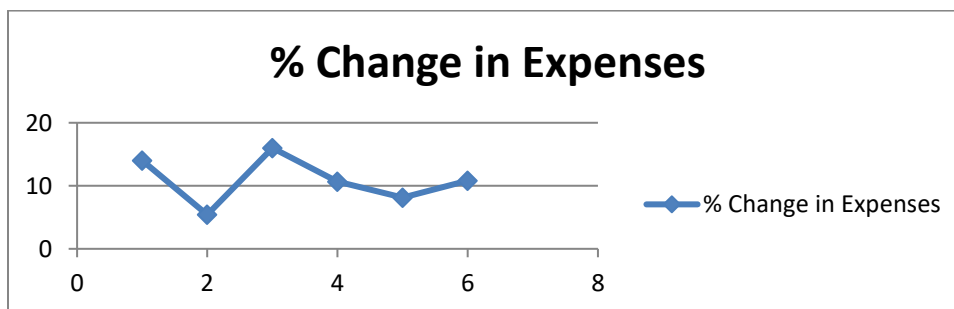
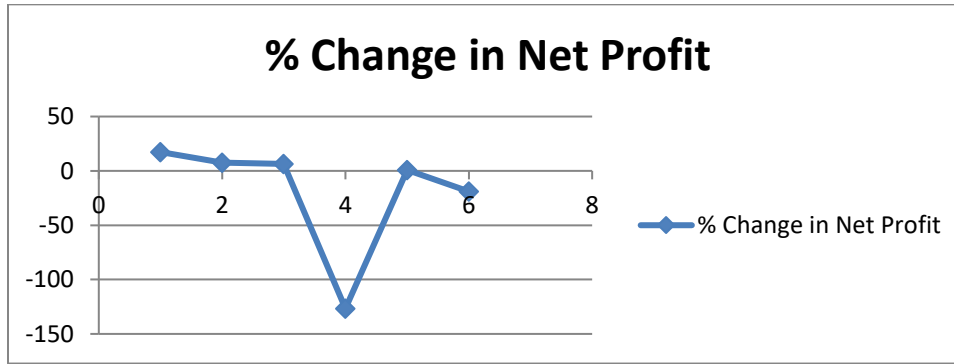


Figure 3: Diagram showing consistency of changes in Net Profit of Select Companies in Automobile Sector Due to Ind AS Adoption



Conclusion

Ind AS is one of the most significant accounting revolutions. Ind AS is a new set of accounting standards developed by the ICAI to address the demand for global standards in contemporary global times by combining IFRS and Indian GAAP. Because Ind AS is a convergent form, there are certain discrepancies in valuation and presentation of financial data of reporting corporations between prior Indian GAAP and current Ind AS. The purpose of this study was to determine the influence of Ind AS implementation on the profitability of enterprises in the automobile industry. According to the findings, the implementation of Ind AS has a positive influence on revenues and expenses, but a negative impact on the enterprises' net profit. Finally, it can be concluded that the eventual impact of Ind AS adoption on the profitability of automobile firms is unfavourable, but not worrisome.

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