

# Impact of Ind AS Adoption on the Financial Position of Companies in Pharmaceutical and Health Care Sector



Amrita Dutta, Ratan Borman, Subit Dutta

**Abstract:** A new era of financial reporting started in India from 2016 because of the convergence of International Financial Reporting Standards with Indian GAAP and adoption of Indian Accounting Standards. Ind AS has become the new Indian GAAP for all the companies in India from the financial year 2016-17. The Ministry of Corporate Affairs realizing the difficulties in first time adoption and transitional issues, phase-wise the adoption of Ind AS has been made mandatory on the basis of the net worth and listing status of the companies. Phase I starts from 2016-17 covering listed or unlisted companies, those have net worth Rs. 500 Crores or above on 31<sup>st</sup> March, 2014 or 2015. Phase II starts from 2017-18 covering listed or unlisted companies which have net worth Rs. 250 Crores or above but less than Rs. 500 Crores on 31<sup>st</sup> March, 2014 or 2015 or 2016. Under phase III all the companies which are not covered under phase I or phase II will be mandatorily required to apply Ind AS from FY 2018-19. In this study the researcher has assessed the impact of Ind AS adoption on the Phase I companies in Pharmaceutical and Health Care sector which are listed in BSE Top 500 Companies.

**Key Words:** IFRS, IGAAP, Ind AS, Pharmaceutical and Health Care Sector, Financial Position.

## I. INTRODUCTION

Due to the need for one and universal accounting standards in the present globalised business environment, the International Financial Reporting Standards have been framed by the international accounting bodies. India was previously following Indian GAAP but Indian GAAP is different from IFRS mainly in three aspects, i.e. (i) fair valuation, (ii) substance over legal form and (iii) emphasis on the Balance Sheet. So, India converged IFRS and IGAAP and adopted Ind AS, i.e., the converged form of IFRS or Indian version of IFRS.

The Ministry of Corporate Affairs notified 41 Indian Accounting Standards (Ind AS) through Companies (Indian Accounting Standards) Rules, 2015 (16 February 2015) and Companies (Indian Accounting Standards) (Amendment) Rules, 2016 (30 March 2016) in pursuance of the provisions of Section 133 read with Section 469 of the Companies Act, 2013. ([https://cag.gov.in/.../Chapter\\_8\\_Impact\\_of\\_Implementation\\_of\\_Indian\\_Accounting\\_S...](https://cag.gov.in/.../Chapter_8_Impact_of_Implementation_of_Indian_Accounting_S...)). The Ministry of Corporate Affairs (MCA) in its notification has issued a roadmap for implementation of Ind AS in a phased manner which would be starting from the financial year 2016-17. There are four phases of implementation of Ind AS based on the net worth and listing status of companies.

Phase I started from 1<sup>st</sup> April, 2016 including all listed or unlisted companies, those have their net worth Rs. 500 Crores or above for previous three financial years.

Phase II started from 1<sup>st</sup> April, 2017 including listed or in the process of being listed companies which have net worth Rs. 250 Crores or above but less than Rs. 500 Crores for any of the previous four financial years. Phase III started from 1<sup>st</sup> April, 2018 including all Banks, NBFCs and Insurance companies whose net worth is Rs. 500 Crores or more for previous three financial years. Phase IV started from 1<sup>st</sup> April, 2019 including all NBFCs having their net worth Rs. 250 Crores or more but less than Rs. 500 Crores for past three financial years.

## Financial Position

Financial position of a company can be estimated by looking at its owner's equity, assets and liabilities which is presented in its Balance Sheet. As Ind AS does not affect the owner's equity, in the present paper the researcher considered only assets and liabilities to find out the impact of Ind AS adoption on the financial position of the company.

## II. NEED FOR THE STUDY

This study examines the impact of Ind AS adoption on the financial position of Pharmaceutical and Health Care sector companies in India. The researcher has selected Pharmaceutical and Health Care sector because it is one of the important sectors in the country's growth and development and it is the second top most sector in BSE listing (after Banks) according to market capitalization. Although there are some differences between earlier Indian GAAP and present Ind AS, the adoption of Ind AS would have impact on the financial position of companies in India. Therefore the researcher has undertaken the present work to estimate the impact of Ind AS adoption on the financial position of companies in Pharmaceutical and Health Care sector in India.

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### III. REVIEW OF LITERATURE

Though there are few studies assessing the impact of Ind AS adoption on the profitability of companies in India, PwC, CRISIL, EY have conducted some practical impact analysis which are reviewed and listed below.

**CRISIL (2016)** made a study on “Ind AS Impact” and have witnessed financial statements to experience changes, but no major rating or criteria changes forecasted since fundamentals remain the same. They also opined that the revised standards would improve the quality of financial reporting. They also identified some changes in standards which would affect the financial statements of majority of 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 etc.

**Ernst and Young (2016)** tried to recognize the experience of Indian companies in transitioning to Ind AS. They also carried out a review of the financial results of 60 companies, who are in BSE's top 100 list and also covered in phase 1 of the Ind AS roadmap and found that the impact of Ind AS on companies replicates a mixed trend. They also viewed that the companies need more time to be all set for detailed Ind AS reporting.

**Protiviti (2016)** conducted a study on the first three months results of the FY 2017 of around 125 companies and found that the highest number of accounting adjustments under Ind-AS are to be made by the manufacturing and information technology sectors, followed by telecommunications, mining/metals and the energy sectors. It is also mentioned that on an average around 10 adjustments to the reported profit for the quarter ended June 30, 2015 have been made by the sample companies.

**Shyam, Ashutosh (2016)** opined that the transition to Ind AS will have a sizeable impact on the working out of operating profit, net profit, revenue, and net worth of the listed companies. It is also mentioned that sectors like telecoms, oil & gas, metals, and real estate are likely to be impacted most. According to analyst estimates, the new norms might bring 4-5% increase in revenues, while decrease in overall EBITDA may be seen by 2-3%.

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

**Goyal (2018)** stated that the impact of IND AS might be vary for industry to industry and for company to company. Ind AS will cover every area including reported expenses, revenues, assets, liabilities and equity. The IND AS requires fair valuation of assets and financial instruments for bringing transparency between their book value and fair value. Here the challenge for the corporates is the hectic work involved in computing the fair value of assets.

**ICAI (2018)** in their study found that implementation of Ind AS provided better insights into the financial affairs of the companies and financial statements based on Ind AS reflected the underlying economics of the transactions or events in an unbiased manner and would be more transparent for the stakeholders. Implementation of IND AS has also improved the comparability and benchmarking of the financials of Indian Companies with Global Peers and

thereby accessibility of Indian Companies may be easier to Global Capital Markets.

### OBJECTIVES

This study has been undertaken to fulfill the following objectives:

1. To estimate the impact of Ind AS adoption on the financial position of Companies in Pharmaceutical and Health Care sector.
2. To make a comparison among the companies in Pharmaceutical and Health Care sector regarding Ind AS impact on the financial position of companies. .

### IV. METHODOLOGY

For the present study all the secondary sources have been used. The Pharmaceutical and Health Care Sector has been selected by the researcher because it is considered as one of the important sectors in the economy of India. After that five top ranked companies in Pharmaceutical and Health Care sector have been selected on the basis of market capitalization. Subsequently the annual reports of the companies for two consecutive years 2015-16 and 2016-17 have been collected to gather financial data under IGAAP as well as Ind AS for the financial year 2015-16 for the analysis and comparison purpose.

### V. SCOPE OF THE STUDY

The paper attempts to observe the impact of Ind AS adoption on the financial position of companies in Pharmaceutical and Health Care Sector. Impact on financial position has been analysed by looking at the changes made in assets and liabilities of the companies because of adoption of Ind AS in the financial year 2015-16. The study covers two consecutive financial years, i.e. 2015-16 and 2016-17.

### VI. PROFILE OF COMPANIES

#### Sun Pharmaceuticals

Sun Pharmaceuticals Ltd. is the India's largest (by market capitalization) and the world's 5th largest specialty generic pharmaceutical company. It was established by Mr. Dilip Shanghvi in 1983 in Vapi of Gujarat with five products to treat psychiatry ailments. Today, it is the largest chronic prescription company in India and a market leader in psychiatry, cardiology, orthopedics, ophthalmology, gastroenterology, neurology, and nephrology. Ind AS has been adopted by this company in the financial year 2016-17. (<https://www.brandindiapharma.in/pharmaceutical-companies-india/sun-pharma>)

#### Aurobindo Pharma

In 1986 P. V. Ramprasad Reddy and K. Nityananda Reddy founded Aurobindo Pharma. Its headquarter is situated in HITEC City, Hyderabad of Karnataka. The company commenced its operations in 1988-89 with a single unit that manufactured semi-synthetic penicillin (SSP) at Pondicherry. The company became a public company in 1992 and in 1995 they have listed their shares in the Indian stock exchanges.

Aurobindo Pharma exports to over 125 countries across the globe with more than 70 percent of its revenues derived out of international operations. Ind AS has been adopted by this company in the financial year 2016-17. (<https://www.ibef.org/industry/pharmaceutical-india/showcase/aurobindo-pharma>)

**Cipla Limited**

Cipla Limited is an Indian multinational pharmaceutical and biotechnology company. Its headquarter is situated in Mumbai of Maharashtra. This company has been founded by Khawaja Abdul Hamied on August 17, 1935. The Company manufactures over 200 generic and complex APIs. Ind AS has been adopted by this company in the financial year 2016-17. (<https://in.reuters.com/finance/stocks/company-profile/CPLFY.PK>)

**Dr. Reddy's Laboratories Limited**

Dr. Reddy's Laboratories Limited is an Indian multinational pharmaceutical company. It is situated in Hyderabad of Telangana. In 1984 this company was founded by Anji Reddy.

The Company operates in three segments: Global Generics, Pharmaceutical Services and Active Ingredients (PSAI), and

Proprietary Products. Ind AS has been adopted by this company in the financial year 2016-17. (<https://in.reuters.com/finance/stocks/company-profile/REDY.NS>)

**Lupin Ltd.**

In 1968 Dr. Desh Bandhu Gupta (an Associate Professor) founded Lupin Ltd. It is a multinational based pharmaceutical company and situated in Mumbai of Maharashtra. On the basis of the revenue, this company was ranked as the third largest pharmaceutical company in India. This multinational company is not only listed on Bombay Stock Exchange (BSE) but also listed in National Stock Exchange (NSE), including S&P Bombay Stock Exchange Sensitive Index (S&P BSE SENSEX). Ind AS has been adopted by this company in the financial year 2016-17. (<https://www.brandindiapharma.in/pharmaceutical-companies-india/lupin-limited>)

**VII. FINDINGS AND ANALYSIS**

The following table presents data for Assets and Liabilities under IGAAP as well as Ind AS and their relative percentage changes for the financial year 2015-16.

**Table No. 1 Impact of Ind AS Adoption on Assets and Liabilities (Rs. in Crores)**

Companies	Assets			Liabilities		
	IGAAP	Ind AS	% Change	IGAAP	Ind AS	% Change
Sun Pharma	34,189.93	34,266.46	0.22	12,706.17	12,375.76	-2.6
Cipla Ltd.	16019.46	15239.05	-4.87	3680.17	3253.17	-11.6
Aurobindo Pharma	11932.9	12565.56	5.3	5122.38	5699.71	11.27
Dr. Reddy's	17557.6	17585.2	0.16	5952.2	5506.8	-7.48
Lupin Ltd.	14216.9	14236.14	0.14	2624.26	2323.07	-11.48

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

From the above table it is found that among five selected companies except Cipla Ltd., in all other cases there are positive changes in assets valuation due to Ind AS adoption,

though the positive changes are not significant enough except the case of Aurobindo Pharma (5.30%). In case of valuation of liabilities, except Aurobindo Pharma in all other cases there are negative changes and the negative changes are significant enough for those selected companies.

**Table No. 2. Impact of Ind AS Adoption on the Financial Position of Companies**

Companies	% Change in Assets (A)	% Change in Liabilities (B)	Net changes (A-B)	Impact on Financial Position
Sun Pharma	0.22	-2.60	2.82	Positive
Cipla Ltd.	-4.87	-11.60	6.73	Positive

<b>Aurobindo Pharma</b>	5.30	11.27	-5.97	Negative
<b>Dr. Reddy's</b>	0.16	-7.48	7.64	Positive
<b>Lupin Ltd.</b>	0.14	-11.48	11.61	Positive

Source: Based on Table 1

From the above table it is clear that in all cases, except Aurobindo Pharma (-5.97%), there are positive impact on the financial position of the selected companies. In case of Lupin Ltd. the positive impact of Ind AS on financial position is the highest (i.e. 11.61%) followed by Dr. Reddy (7.64%). From the analysis it can also be interpreted that the net changes in the financial position of the companies is significant enough.

### VIII. CONCLUSION

As we all know that for satisfying the need for single and homogenized accounting standards India adopted Ind AS and MCA issued a roadmap prescribing Indian companies to adopt Ind AS mandatorily from financial year 2016-17 onwards. Though companies in India are adopting Ind AS under pressure of MCA and other accounting standards setting authorities they are facing lot of challenges while doing so. Some of the challenges are lack of expertise, confusion in the mind of stakeholders, fear of impact on profitability and financial position of the companies etc. This study is done to explore the seriousness of impact of Ind AS adoption on the financial position of the companies and it is found that there is nothing to be worried about while going for Ind AS adoption; because besides providing advantages like access to global capital markets, modified and updated accounting standards Ind ASs are positively affecting the financial position of the reporting companies also. In conclude it can be suggested that the companies in India and their stakeholders should happily welcome Ind AS as the new reporting standards of the companies.

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**Dr. Subit Dutta**, is currently serving as Assistant Professor (Stage II) in the Department of Commerce, Assam University Diphu Campus, Diphu, Karbi Angling, Assam, India. Dr. Dutta has teaching experience of more than 9 years both at post graduate level and research experience of more than 8 years. He is a recognized research supervisor of Assam University and two scholars with PhD degree and five scholars with MPhil degree have been awarded until now. Currently, there are three scholars under PhD programme and one scholar under MPhil degree have been pursuing their research under his supervision. He has 25 publications both national and international to his credit besides participation in 50 national and international seminars. He is the life member of North East India Commerce and Management Association and Life Member of Indian Commerce Association.



**Mrs. Amrita Dutta**, is a research scholar and pursuing her research work under the guidance of Professor Ratan Borman, Professor and Head, Department of Commerce, Assam University Diphu Campus, Diphu, Karbi Angling, Assam, India. Mrs. Dutta was the Gold Medalist of 2014 in M. com and completed her Master of Commerce from the same institute by securing first class first position. She has also secured first class first position in B. Com. She has 5 publications both national and international to her credit besides participation in 10 national and international seminars. Mrs. Dutta has achieved Arun Kumar Chandra Award for being topper among the Commerce graduates in Gurucharan College under Assam University, Silchar in 2012. She has also qualified NE-SLET in the year 2015 securing first position in the North Eastern Region and UGC-NET in the year 2018 under General Category.