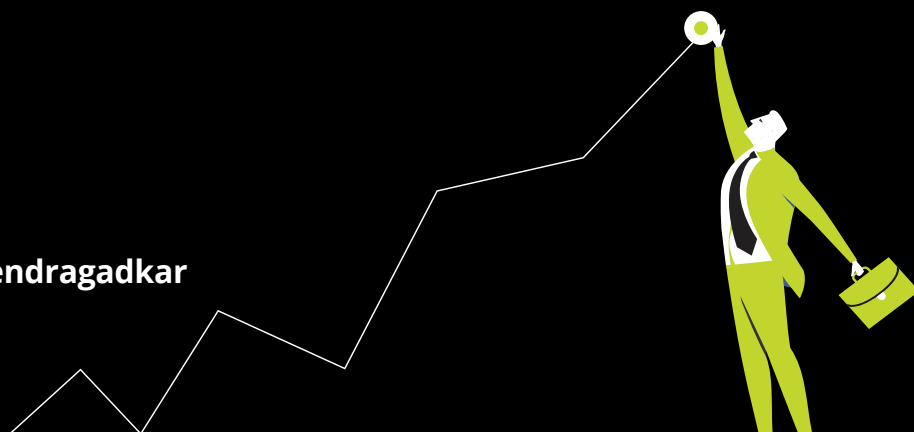




# CFO Speaks



**Mr. Abhijit Gajendragadkar**  
CFO  
Voltas Ltd.



## 1. Has the current depressed state of the real estate market impacted your Unitary Cooling Solutions business and what steps are you taking to manage this? What are your strategies for business diversification?

### Real Estate Impact:

Our market universe for AC business could be described as the existing stock of housing in the country and new housing construction. The existing households is a bigger driver of AC demand, particularly since the current AC penetration in India is very low at around 4% and with rising affluence this penetration is gradually increasing. Increasing summer temperatures is also a driver for growth.

In our Projects business we have, over the last few years, consciously focused on Government projects. Private sector investment in the country has been very subdued over the last three years. Some of the private sectors projects under implementation are also incomplete due to a combination of regulatory and funding issues. On the other hand, there are opportunities for growth in Project business as the Government plans for a strong infrastructure push through urban transportation, healthcare and rural electrification.

### Business diversification:

As part of our strategy for product diversification, we have last year signed a Joint Venture agreement for

consumer durables such as refrigerators, Washing Machines with Arçelik A.S., part of the Koç group, and will enter the consumer durables market in India, under the brand name Voltas-Beko (Beko is the global brand of Arçelik A.S). The products are expected to be launched in the second half of this year and we expect to be a strong player in this business in the years ahead.

## 2. What changes have you made in supply chain post GST implementation and do you witness cost saving as an outcome of it?

As you are aware, multiple taxes prevalent during the old tax regime including VAT, CST, Excise Duty, local body taxes etc. have all been subsumed into one common tax applicable across the country in a unified manner. Some of the taxes which in the earlier regime were a cost to the business, are now available for setoffs. The harmonization of taxes provides an opportunity to consolidate inventory at a cluster warehouse level and thereby move away from an older model of a warehouse in each state. This opportunity for consolidation needs to be carefully balanced in the light of consumer requests for quick, nearly same day deliveries particularly during the peak demand seasons. In the longer term, once the ongoing GST implementation issues are settled, we expect a savings in transportation and logistics costs.

In the projects business, the challenge has been ensuring conversion of multiple ongoing contracts which



iii. **Re-evaluating business models.** Market place is constantly changing and Finance plays a lead role in evaluating existing business models and fine tuning these. For example, the finance team is actively working with business on make v/s buy decisions. We re-evaluated many business process in India post GST implementation and in UAE post VAT implementations.

**6. In the current scenario, what do you think should be CFO's prime focus?**

**"CFOs role could be best described as an on-going balance between creating value on one hand, and on the other, protecting value."**

i. The overall long term growth trend for Indian economy points to continued growth. In such

growth phases, CFOs should partner with business in creating value for the Company. As part of the partnership, it is expected that CFOs participate in strategy development, validation and implementation. At the same time, CFOs need to assess risks and ensure appropriate risk mitigation strategies are also factored in whilst implementing growth strategies.

ii. Compliance and control are an integral part of CFO's responsibilities. These responsibilities have become ever more complex, particularly since these deal with ever changing accounting, tax and regulatory changes. We have seen lot of legislative changes in the last few years; for example, GST, INDAS, changes in Companies Act. Finance team led by the CFO has championed the change effort.



# Expert Views

## Integrated Reporting

### The Integrated Reporting Premise

In India, the spotlight has been turned on 'integrated reporting' by the Securities and Exchange Board of India (SEBI) by means of its circular in February 2017, stating that 'integrated reporting' may be adopted on a voluntary basis from the financial year 2017-18 by top 500 companies which are required to prepare the Business Responsibility Report (BRR). The BRR, it so seems, is a precursor, albeit a very cursory one, to integrated reporting (IR). Leading companies in India are now taking efforts towards integrated reporting with a view of achieving the objectives of IR in letter, and in spirit.

Globally, the IR journey began when there was felt a need for a framework to bring together the diverse but currently disconnected strands of reporting into a coherent, integrated whole, and demonstrate an organization's ability to create value now and in the future. The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs; created to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. The IIRC has developed an International Integrated Reporting Framework to facilitate the evolution of integrated reporting over the coming decades. Its vision for IR is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.

Ironically integrated reporting is not so much about reporting at all. It's about integrated thinking, responsible business behaviors and innovation. Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates and how it creates and sustains value.

An Integrated Report is intended to be an organization's primary reporting vehicle.

### Stakeholders and emerging expectations

The world of stakeholders has widened in sheer numbers and at the same time shrunk through instant connectivity. Investors, the community, the government, the country, the world economies, the macro and micro ecosystems –

are all stakeholders in some measure or the other. Anyone with the power to make or affect an investment decision would be a stakeholder.

Stakeholder expectations about corporate communication essentially include; transparency, conciseness and relevance, focus on short, medium and long term value creation, insight into interdependencies of various resources etc.

How a business makes money today must be a function of how its interests are aligned and integrated with those of the society.

### Fundamental concepts and principles

The purpose of the IR framework is to establish 'Guiding Principles and Content Elements' that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.

An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals" in this Framework. The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. They are categorized in the Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital.

An integrated report prepared in accordance with the IR framework needs to adhere to guiding principles such as; strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, and consistency and comparability. It also needs to consider the content elements prescribed by the framework, which are - organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook and basis of presentation.

### The essence of IR

IR is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. Integrated Thinking is an active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects.

Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

**What's in it for us – the benefits of IR**

Integrated reporting and the consequent transparency in corporate communication brings with it a broad range of business benefits, ranging from richer access to capital markets and identification of cost savings to an increase in employee engagement.

For stakeholders, the information reported through an integrated report is better aligned with their needs and expectations resulting in higher levels of trust in the management. There is greater engagement with investors and other stakeholders, including employees, which in improves attraction and retention of skills.

For the management, the integrated reporting process and the resultant integrated thinking leads to enhanced risk management and better identification of opportunities.

Even resource allocation decisions of managements tend to be better when they are a result of integrated thinking. Cost reductions, lower cost of capital, better access to capital are direct benefits that affect the financial and operational position of any company.

**Marketplace view**

Globally, several large organizations have taken integrated reporting as a reason to revisit their strategies, their public communications, their interactions with investors and employees and also their operations. To some entities that are yet in the early stages of IR implementation, it is still only a means of communicating their value creation story to the world. In India, SEBI has provided IR with an impetus despite it being a voluntary requirement.

The overall view however is that integrated reporting when implemented in its true sense results in development of a common language and improved collaboration across different functions within the organization in its journey of value creation.



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