FINANCIAL REPORTING PRACTICES OF INDIAN AUTO SECTOR UNDER THE CHANGING CORPORATE LAW REGIME

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ABSTRACT-Financial reporting is essentially required by all countries now a days to govern its corporate sector. In India, earlier Company Act 1956, now Company Act 2013 is the governing act for companies. In addition to this, many rules and amendments were also issued over the past few years. The present paper sought to study the disclosure requirements of Large Cap, Mid Cap and Small Cap companies of Auto Sector listed on Bombay Stock Exchange of India. The sample taken regarding Auto sector consisted of Auto component and Automobile sector. The disclosure score was calculated on the basis of Index prepared on the basis of regulatory framework and review of literature. Independent sample t-test and One-Way ANOVA were applied to test whether there was significant difference between the disclosure practices of these three market capitalizations. The study found that there was difference in the reporting environment of Large Cap, Mid Cap and Small Cap companies.

KEYWORDS: Financial Reporting, Large Cap, Mid Cap, Small Cap, Bombay Stock Exchange.

INTRODUCTION

Precision in information is vital for making rational decisions.

Manoj Goswami (2008).

This piece of information is vital in ever changing business scenarios. The changes in the global scenario have lead to numerous changes in the corporate reporting structure of the companies. Now, Companies are required to disclose more in order to ensure full transparency to its shareholders as well as stakeholders.

The issue of these reporting practices is an international scenario and organisations like **Financial Accounting Standards Board (FASB**) are undertaking keen interest in bringing effective, coordinated and less redundant disclosures in financial statement. The mission of setting up FASB is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards." (www.accountingfoundation.org/strategicplan)

Company financial reporting is a total communication system involving the company as issuer (preparer); the investors and creditors as primary users, other external users; the accounting profession as measurers and auditors; and the company law regulatory or administrative authorities (**Jain, S.K., 2013**). The basic aim of financial reporting is imparting the accounting information of the company, but in addition to this, it also includes disclosing of other information like Human resource information, Marketing information, Production information, Information related to Board as well as the investor related information. So, in addition to accounting, it provides a bulk of information to the interested parties. The major source of disclosing this information is Annual Reports of the organisation. Although there are other sources of information also prevalent that included Interim reports, abridged reports, general purpose and special purpose reports, but annual reports are the major source of conveying the annual results and reports of the organisation. With the introduction of new act i.e. Company Act 2013, many changes have come across. The act introduced many new laws and rules with regard to disclosure requirements. However, there can also be items of disclosures that would have been found redundant overtime. FASB has aimed to introduce items for better disclosure and abolish items that are redundant these days.

REVIEW OF LITERATURE

The following studies have been reviewed for the purpose of achieving the objectives of the paper:

Elliot et al. (2018) studied two experiments to test a new theory that investors value the firms that use high quality financial reporting. He further examined the participants reward or penalty regarding firm's financial reporting quality within more and less explicit conditions. The author found that investors believes in firms use of high or low quality financial reporting and they become willing to pay more or less in order to own the shares of those firms. The results also indicated that the investors perceive greater value in extended version of audit reports which are well understood. They focused on information that credibly revealed reporting quality and became willing to act on the inherent value of financial reporting quality.

Mutairi et.al. (2017) studied the attitude of the students towards the adoption of International Financial Reporting Standards (IFRS) in Kuwait. For the purpose of the study, a questionnaire was formed and distributed among 350 students. Most of the respondents were not working while studying; so their knowledge about IFRS was restricted only to what they studied in college. The results indicated that most of the students knew nothing about IFRS before taking the accounting course. The majority of students were not aware that it was mandatory for Kuwait companies to adopt IFRS. The students were willing to take IFRS as an

elective subject rather than compulsory subject. The students believed that IFRS was of great importance in accounting measures and disclosures.

Dumitru et.al. (2017) studied the corporate reporting practices of Poland and Romania with reference to new non-financial reporting European directive. The study contained a sample of 40 non-financial listed companies i.e 20 each from Poland and Romania. The companies were judged on the basis of five categories that included: Business model, Risks and policies related to CSR issues, Environmental impacts, Social and employees, Ethics and combined. The results showed that the scores of Romanian Companies were higher than Polish companies. The reason can be that there were no mandatory Non-financial requirements in Polish countries. The study also found that the number of companies audited by Big Four firms were higher in Poland than in Romania. The results also revealed that overall disclosure quality was low in both the countries.

Armstrong et.al. (2016) studied the role of financial reporting and transparency in Corporate Governance. The study was conducted on a large sample and not specific to any particular industry. The authors studied the role of financial reporting in resolving the agency conflicts through the extensive review on corporate governance. The authors were of the view that financial reporting helps to bring consensus between managers, outside directors and shareholders. The authors believed that with the proper governance structure and flow of information, the problem of agency conflicts can be resolved. The authors also found that in the financial sector, the role of governance was due to internal as well as some external monitoring mechanisms like regulators. The author concluded that these organisations can partly substitute their internal mechanisms for serving the interests of shareholders as well as stakeholders.

Sindhu (2014) examined the corporate cyber reporting practices of Indian and International companies. The author took a sample of 100 companies out of which 50 companies were International companies taken from Fortune 500 companies and another 50 were Indian companies taken from PROWESS Database. The index for the purpose of study was prepared on the bases of weights that were calculated on the basis of questionnaire distributed to a sample of 250 respondents that included academicians, company directors, and stock brokers. The author found out that there was not much variation in the average weights assigned to simple and weighted index. The author further concluded that the multinational companies were socially sensitive in present than they were in the past.

Mahajan (2014) studied the disclosure practices of 48 banks constituting 27 public banks and 21 private banks. The study was conducted for a period of 5 years i.e. from 2005-06 to 2009-10. The author identified 274 items for preparing the disclosure index out of which 104 items were mandatory in nature and rest voluntary. The study used content analysis technique to convert qualitative data into quantitative data. The findings of the study were that only 20 items in case of public sector banks and 17 items in case of private sector banks showed 100% disclosure.12 items in public sector banks and 6 items in private sector bank were not at all disclosed during the period of five years.

Khichi (2013) studied that International Financial reporting Standards (IFRS) in comparison to Indian Generally Accepted Accounting Principles (IGAAP). It found that there were several changes in principles of accounting in IFRS as compared to GAAP. Although IFRS are principal based standards but they provide choices to reduce consistency. Indian Institute of Chartered Accountants (ICAI) has to ensure compliance with IFRS. The author said that the transition from IGAAP to IFRS was inevitable and a positive development in order to make capital markets competitive. The author also analysed the difference between two different financial statements of the same transaction by applying ratio analysis. The results concluded that there was significant positive impact in case of liquidity ratios and price earnings ratio whereas, there was no significant impact in case of capital structure ratios and operating profit ratio as well as Earning per share.

Monalisa (2011) examined the corporate governance and earnings management practices in 207 sample companies. The period of study was 2005-06 to 2009-10. The study also attempted to study the impact of selected corporate governance mechanisms on earnings management. These mechanisms included board structure, audit committee characteristics, ownership pattern and capital structure. The results found that companies engage in activities of earnings management but there extent could differ and manufacturing sector was engaged more in earnings management than service sector. The author also signaled that earnings management can be regarded as agency cost. The study concluded that there was a significant relationship between corporate governance mechanisms and earnings management s corporate governance assisted in mitigating earnings management.

Diksha (2009) studied the framework of corporate governance of the selected companies. An index was prepared on the basis of Standard and Poor's, Investment Information and Credit Rating Agency of India Limited , Institutional shareholder services, National Foundation for Corporate Governance, German Corporate Governance Scorecard ,Indonesian Corporate Governance Scorecard, Guidelines given by World Council for Corporate Governance and Securities and exchange Board of India. After preparing the index, the weights was provided to the different elements on the basis of Questionnaires, The author found out that there was no difference in the scores calculated on the basis of Simple with comparison to weighted Index. The author further took into account various attributes like Price Earning Ratio, Return on equity and Tobin's Q and measured that they have no effect on Board Size and Board Independence for the periods taken into study.

Kant (2002) analysed the relationship between corporate disclosure, quality of governance and shareholders' value. The sample constituted of 100 companies taken from Business Today. The study was conducted for 2 years period i.e. for 1995-96 and 1999-2000. A total of 275 items were identified against 5 categories. The results of the study showed that out of 47 companies whose scores were available, 42 companies had shown improvement. Companies with higher values of attributes, higher profit after tax and higher market capitalization resulted in higher level of disclosures.

OBJECTIVES OF THE STUDY

The objective of the study was to compare the disclosure practices of large, mid and small cap companies in Indian Auto sector.

RESEARCH METHODOLOGY

Sample size

The sample consisted of large and mid cap companies in Auto Component and Automobile sector listed on S&P BSE Large Cap, S&P BSE Mid Cap and S&P BSE Small Cao index. So, a total of 22 companies were selected out of which 9 belonged to Large Cap, 4 belonged to Mid Cap and 9 belonged to Small Cap index of BSE. The names of these companies were as follows:

Table 1. Names of the sampled companies

S. No.	Large Cap
1	Motherson Sumi Systems Limited
2	Bosch Ltd.
3	Tata Motors
4	Maruti Suzuki India Ltd.
5	Bajaj Auto Ltd.
6	Mahindra & Mahindra Ltd.
7	Eicher Motors Ltd.
8	Hero Moto Corp Ltd.
9	Tata Mtr Dvr

S.No.	Mid Cap
1	Amara Raja Batteries Ltd.
2	Exide Industries Ltd.
3	MRF Ltd.
4	Ashok Leyland Ltd.

S. No.	Small Cap
1.	Apollo Tyres Ltd.
2	Ceat Ltd.
3	Jamna Auto Industries Ltd.
4	JK Tyre & Industries Ltd.
5	BEML Ltd.
6	Force Motors Ltd.
7	TRF Limited
8	TVS Motor Company Ltd.
9	Titagarh Wagons Ltd.

Period of the study

The study was undertaken for a period of one year i.e. for the financial year 2016-17.

Research Design

The study is descriptive as well as exploratory in nature. A corporate disclosure index was prepared to check the disclosure scores of the company. This index was prepared on the basis of requirements under Company Act 1956, Company Act 2013, Revised Clause 49, Company (Appointment and Qualification of Director Rules) 2014, Company (Accounts) Rules 2014, Company (Appointment and Remuneration of Managerial Personnel) Rules 2014, Companies (Corporate Social Responsibility Policy) Rules, 2014, Regulation 25(7) of SEBI(Listing Obligation & Disclosure Regulations) 2015 and few voluntary items in the basis of review of literature. So, a total of 207 items were prepared to check the level of disclosures among this sector. A score of 1 was awarded for disclosure of a particular item and Zero for non-disclosure. So, the maximum score a company could get was 207.

DATA ANALYSIS AND INTERPRETATION

Data was collected with the help of disclosure index that was prepared on the basis on various laws and regulations as well with the help of review of literature. The elements considered in the index were divided into various categories. These categories were: Corporate Overview, Statutory Reports, Accounting and Financial Information, Human Resource Information, Investor related information. Marketing Information, Production Information, Board related Information, Sustainability related Information and new provisions as per Company Act 2013. A total of 207 items were identified and the following score is obtained.

The following table depicts the total score obtained by the Large Cap Companies:

Table 2. Total Score of S&P BSE Large Cap Companies

S.No.	Large Cap	Disclosure Score
1	Motherson Sumi Systems Limited	181
2	Bosch Ltd.	188
3	Tata Motors	195
4	Maruti Suzuki India Ltd.	179
5	Bajaj Auto Ltd.	182
6	Mahindra & Mahindra Ltd.	194
7	Eicher Motors Ltd.	193
8	Hero Moto Corp Ltd.	190
9	Tata Mtr Dvr	195

The following table shows the disclosure score obtained by Mid Cap Companies:

Table 3. Total Score of S&P BSE Mid Cap Companies

S.No.	Mid Cap	Disclosure Score
1	Amara Raja Batteries Ltd.	177
2	Exide Industries Ltd.	189
3	MRF Ltd.	163
4	Ashok Leyland Ltd.	175

The total scores of Small Cap Companies are as follows:

Table 4: Total Score of S&P BSE Small Cap Companies

S.No.	Small Cap	Disclosure Score
1	Apollo Tyres Ltd.	176
2	Ceat Ltd.	176
3	Jamna Auto Industries Ltd.	164
4	JK Tyre & Industries Ltd.	173
5	BEML Ltd.	160
6	Force Motors Ltd.	161
7	TRF Limited	162
8	TVS Motor Company Ltd.	172
9	Titagarh Wagons Ltd.	163

H_{01}: *There is no significant difference between disclosure score of Large Cap Companies and Mid Cap Companies for the year 2016-17.*

By applying **independent sample t-test**, the p-value came out to be 0.042. As the p-value is less than 0.05, hence, the null hypothesis is **rejected**. Therefore, it can be said that there is significant difference between disclosure scores of Large Cap Companies and Mid Cap Companies. The major reason for this variation could be that Larger Companies not only disclosed mandatory but voluntary information also. Whereas, mid cap companies mostly focused on mandatory fields.

H_{02}: *There is no significant difference between disclosure score of Large Cap Companies and Small Cap Companies for the year 2016-17.*

By applying **independent sample t-test**, the p-value came out to be 0.000. As the p-value is less than 0.05, hence, the null hypothesis is **rejected**. Therefore, it can be said that there is significant difference between disclosure scores of Large Cap Companies and Small Cap Companies. The reason could be that small cap companies disclosed very little voluntary information and in case of mandatory information also, there were many items that were mandatory for large cap only and not so for small cap companies.

H_{03}: *There is no significant difference between disclosure score of Mid Cap Companies and Small Cap Companies for the year 2016-17.*

By applying **independent sample t-test**, the p-value came out to be 0.101. As the p-value is more than 0.05, hence, the null hypothesis is **accepted**. Therefore, it can be said that there is no significant difference between disclosure scores of Mid Cap Companies and Small Cap Companies. The reason for this could be that the mandatory provisions for Mid Cap and Small Cap companies were mostly similar. Therefore, there disclosure scores did not result in significant differences.

H_{04}: *There is no significant difference between disclosure score of Large Cap Companies, Mid Cap Companies and Small Cap Companies for the year 2016-17.*

By applying **One-Way ANOVA,** the p-value came out to be 0.000. As the p-value is less than 0.05, hence, the null hypothesis is **rejected**. Therefore, it can be said that there is significant difference between disclosure scores of Large Cap Companies, Mid Cap Companies and Small Cap Companies. The major reason for this variation can be that there are recent provisions which are mandatory for the Large Cap companies like business responsibility reports to disclose but not so for Mid Cap and Small Cap Companies. The difference is also there due to presence of some voluntary items in the index which were mostly disclosed by the large cap and not so by mid and small cap companies. Hence, the results found that there was significant difference between these three market capitalizations.

RECOMMENDATIONS AND SUGGESTIONS

The study mainly focused on studying the financial reporting practices of Auto Sector in India. There were many laws and amendments done in past regarding disclosures by the companies but with the advent of company act 2013 many new provisions were added. There were new regulations added out of which some were mandatory for all type of companies and some were not. The study found that there was significant difference found between disclosure score of large cap companies with respect to both mid cap and small cap companies. One of the reasons was that large cap were required to disclose more mandatory fields in comparison to other two market capitalizations. Another reason is that they also disclose additional voluntary information in their

annual reports to lure the investors. It can be recommended that the mid and small cap companies should also focus on more disclosures so that they can also attract more potential investors. The government and regulatory bodies should also review the disclosure norms periodically to check if more provisions are required for mid and small cap and also if there are any redundant provisions that are desirable to be removed.

CONCLUSION

There are many changes that happened in the corporate reporting scenario over the past year. A major bend took place when the Company Act 2013 was introduced. The regulatory systems not only stopped at that Act but also introduce new changes every year with the help of issuing various rules and amendments. This paper sought the corporate reporting practices of Large, Mid and Small Cap Auto sector. The disclosure practices were calculated on the basis of scores generated from these two market Capitalizations. Various elements of disclosure were identified and categorized, and subsequently final scores were obtained on the basis of which, the study found that there was difference in the reporting environment of these three market Capitalizations. Proper financial reporting structure is important in every economy to assist healthy competition among its corporate world. This practice will not only promote transparency and openness but will help to eradicate inconsistencies.

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