iCMA

INDUSTRY Insights

FEBRUARY 2024

MEMBERS IN INDUSTRY COMMITTEE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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Behind every successful business decision, there is always a CMA

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Institute Motto

असतोमा सद्गमय	From ignorance, lead me to truth
तमसोमा ज्योतिर् गमय	From darkness, lead me to light
मृत्योर्मामृतं गमय	From death, lead me to immortality
ॐ शान्ति शान्ति शान्तिः	Peace, Peace, Peace

About the Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

The Institute is headquartered in Kolkata having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 116 Chapters in India and 11 Overseas Centres. The Institute is the largest Cost & Management Accounting body in the world with about 1,00,000 qualified CMAs and over 5,00,000 students pursuing the CMA Course. The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

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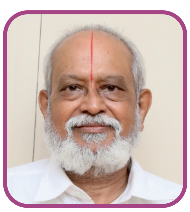

CMA T C A Srinivasa Prasad

CMA (Dr.) V. Murali

CMA Vinayaranjan P

CMA TCA Srinivasa Prasad
Chairman
Members in Industry Committee
The Institute of Cost Accountants of India

MESSAGE

Dear Esteemed Members,

It brings me great pleasure to extend my warmest greetings to all members of the ICMAI community. In this edition of 'Industry Insights,' we turn our focus towards the dynamic and ever-evolving shipping industry.

The shipping industry plays a pivotal role in global trade and commerce, serving as the backbone of the global economy by facilitating the movement of goods and commodities across borders. As management accountants operating within this dynamic sector, it is imperative for us to stay abreast of the latest developments, trends and challenges shaping the industry landscape.

The past year has presented the shipping industry with a myriad of challenges, from supply chain disruptions and fluctuating freight rates to changing regulatory requirements and environmental concerns. Despite these challenges, the resilience and adaptability demonstrated by industry stakeholders have been commendable, reaffirming the industry's capacity to navigate through turbulent waters and emerge stronger than ever.

As management accountants, our role within the shipping industry extends beyond financial management and cost control. We are instrumental in driving strategic decision-making, optimizing operational efficiencies and ensuring regulatory compliance within our organizations. Moreover, our expertise in performance measurement and risk management enables us to provide valuable insights and solutions to address the evolving needs and challenges of the industry.

In the spirit of collaboration and knowledge sharing, I encourage all members of the ICMAI community to actively engage in discussions, webinars and networking events focused on various sectors of industry. Let us leverage our collective expertise and experience to foster innovation, drive sustainable growth and propel the industry towards a brighter and more prosperous future.

As we navigate through the challenges and opportunities that lie ahead, let us remain steadfast in our commitment to excellence, integrity and continuous learning. Together, we can overcome any obstacle and chart a course towards success in the dynamic world of shipping.

Wishing you all a fruitful and productive month ahead.

Warm regards,

CMA TCA Srinivasa Prasad

Inside...

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Indian Shipping Industry

Navigating the Waters: Exploring the Indian Shipping Industry

The Indian shipping industry serves as the lifeline of the nation's economy, transporting over 95% of India's trade by volume (Ministry of Ports, Shipping and Waterways, 2024). With a coastline stretching over 7,517 km and a strategic location in the Indian Ocean, India boasts a vibrant maritime sector, playing a crucial role in global trade (Invest India, 2024). This article delves into the key aspects of this dynamic industry, highlighting its strengths, challenges, and leading players.

Riding the Waves of Growth:

- **Market Size:** India ranks 16th globally in maritime trade and 18th in terms of shipping tonnage (UNCTAD Review of Maritime Transport 2023). The industry contributes significantly to the national GDP, estimated at around 1.25% (World Bank, 2023).
- **Cargo Handling:** Major ports like Mumbai, Chennai, and Kolkata handle millions of tonnes of cargo annually, facilitating diverse imports and exports (Ministry of Ports, Shipping and Waterways, 2024).
- **Employment:** The sector directly employs over 2 million people and indirectly supports millions more in related industries (Invest India, 2024).
- **Government Initiatives:** The government›s «Maritime India Vision 2030» aims to transform the sector by promoting port development, shipbuilding, and coastal shipping (Maritime India Vision 2030, n.d.).

Facing the Currents: Challenges and Opportunities:

- **Infrastructure:** Congestion at major ports, limited inland waterways, and inadequate logistics infrastructure pose challenges (Invest India, 2024).
- **Competition:** Global competition from established players puts pressure on Indian shipping companies to be cost-effective and efficient (UNCTAD Review of Maritime Transport 2023).
- **Skill Gap:** The industry requires skilled personnel across various levels, necessitating investment in training and development (The Hindu Business Line, 2023).
- **Technological Advancements:** Embracing automation, digitalization, and green technologies will be crucial for sustained growth (World Bank, 2023).

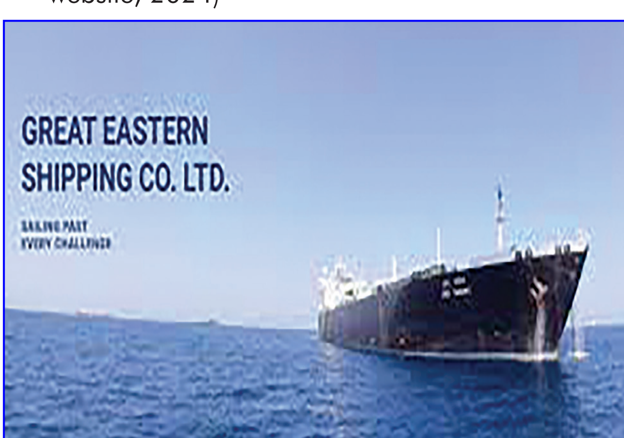
Facts and Figures:

- India has over 1,200 operational merchant ships, with a combined tonnage of over 21 million Gross Registered Tonnage (GRT) (UNCTAD Review of Maritime Transport 2023).
- The government aims to increase India's share in global shipping tonnage to 10% by 2030 (Maritime India Vision 2030, n.d.).
- The Indian shipbuilding industry contributes about 1.5% to the national GDP and employs over 100,000 people directly (Statista, 2024).
- India ranks amongst the top 5 ship-recycling nations globally, with a major facility at Alang (World Bank, 2023).

Shipping Companies in India

1. Great Eastern Shipping Company

Founded in 1948, it is one of the oldest and biggest shipping company in India. Being the largest private sector shipping company in the country, the company involves in transportation of crude oil, petroleum products, gas and dry bulk commodities. Consists of over 48 modern vessels, including offshore support vessels (OSVs), tankers, and dry bulk carriers. (Source: GE Shipping website, 2024). Offers diverse services across offshore oil & gas exploration, production, and maintenance, as well as crude oil and dry bulk cargo transportation. (Source: GE Shipping website, 2024)



Financial Performance:

- Revenue (FY 2023 - 24): ₹ 10,430 Crore (Source: GE Shipping Annual Report 2023-24)
- Profit After Tax (FY 2023 - 24): ₹ 3,847 Crore (Source: GE Shipping Annual Report 2023-24)
- Market Capitalization (as of February 23, 2024): ₹ 36,492 Crore (Source: Economic Times, 2024)

Current Status:

- **Strong financial performance:** GE Shipping has consistently reported strong financial results, benefiting from favorable market conditions in the offshore and dry bulk sectors. (Source: GE Shipping Annual Report 2023-24)
- **Focus on sustainability:** The company is committed to environmentally responsible practices, investing in cleaner technologies and emissions reduction initiatives. (Source: GE Shipping Sustainability Report 2023)
- **Expansion plans:** GE Shipping is actively expanding its fleet, focusing on modern and fuel-efficient vessels to cater to future market demands. (Source: GE Shipping Investor Relations Presentation, 2024)

Future Plans:

- **Diversification:** GE Shipping plans to diversify its portfolio by entering new segments like container shipping and liquefied natural gas (LNG) transportation. (Source: GE Shipping Investor Relations Presentation, 2024)
- **Digitalization:** The Company is investing in digital technologies to improve operational efficiency and safety. (Source: GE Shipping website, 2024)
- **Focus on India:** GE Shipping sees India›s growing maritime sector as a key driver of future growth and plans to capitalize on this opportunity. (Source: GE Shipping Investor Relations Presentation, 2024)

Overall, Great Eastern Shipping Company is well-positioned for continued growth and success in the global shipping industry. Its strong financial performance, focus on sustainability, and expansion plans point towards a bright future.

2. Essar Shipping

Being the second largest shipping company in India was started in 1945 and incorporated in 2010[1]. The company is listed in Bombay Stock Exchange. They provide transportation service for bulk commodities and crude oil.

Current Status:

- **Financial Performance:** Essar Shipping reported a consolidated net profit of ₹ 454.33 crore in FY 2023, compared to a loss of ₹ 284.20 crore in FY 2022. (The Economic Times, 2024)
- **Fleet Expansion:** The Company is currently focusing on fleet renewal and expansion, with plans to add 2-3 new vessels per year over the next few years. (Platts, 2023)
- **Market Outlook:** The global shipping industry is expected to see moderate growth in the coming years, driven by rising demand for oil and gas transportation. (International Energy Agency, 2023)

Future Plans:

- **Decarbonization:** Essar Shipping aims to reduce its carbon footprint by investing in cleaner technologies and exploring alternative fuels like LNG. (Essar Shipping, 2023 Sustainability Report)
- **Digitalization:** The company is investing in digitalization initiatives to improve operational efficiency and data-driven decision making. (Essar Shipping website, 2024)
- **Diversification:** Essar Shipping is exploring opportunities to diversify its business into new segments such as coastal shipping and offshore wind farm support services. (Financial Express, 2023)

3. Shipping Corporation of India

The Shipping Corporation of India is a Government of India Public Sector Enterprise which is one of the largest shipping companies in India. The Shipping Corporation of India was established on October 2nd, 1961, by the amalgamation of Eastern Shipping Corporation and Western Shipping Corporation. It offers break-bulk services, offshore services, container services, passenger services. It was established in the year 1961[2]. As the country's premier shipping line, the SCI owns and operates around one-third of the Indian tonnage, and has operating interests in practically all areas of the shipping business; servicing both national and international trades. The SCI has immensely contributed to the growth of India's EXIM trade and the national exchequer, by being a net earner/saver of valuable foreign exchange. Over the years, SCI has been a lifeline for the country in times of emergency and distress, by ensuring continued and uninterrupted supply of crude oil, which drives the country's economy.

एस सी आई
SCI
Navratna Company
The Shipping Corporation Of India Ltd.
(A GOVERNMENT OF INDIA ENTERPRISE)

1. https://reliantlogisticsinstitute.com/blog/top-5-shipping-companies-in-india/
2. https://reliantlogisticsinstitute.com/blog/top-5-shipping-companies-in-india/

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The Indian shipping industry, despite its challenges, is poised for further growth and development. With strategic investments in infrastructure, technology, and skill development, the sector can navigate the currents and become a major player in the global maritime landscape. The leading companies mentioned above are at the forefront of this journey, shaping the future of Indian shipping. As the nation's maritime ambitions set sail, the industry holds immense potential to contribute to economic prosperity and global trade.

(Source: Ministry of Ports, Shipping and Waterways:

https://www.mospi.gov.in/.accessed February 24, 2024)

(Source: Invest India:https://www.investindia.gov.in/sector/ports-shipping. accessed February 24, 2024)

(Source: UNCTAD Review of Maritime Transport 2023: https://unctad.org/system/files/official-document/rmt2023_en.pdf. accessed February 24, 2024)

(Source: Market Outlook: International Energy Agency, World Energy Outlook 2023: https://www.iea.org/reports/world-energy-outlook-2023)

Sustainability Issues in Shipping Industry

- Although it is a critical pillar of the global economy, the shipping industry is very polluting. Moving such amount of goods around the globe leads requires roughly 300m metric tons of dirty fossil fuels per year. This process generates approximately 1bn metric tons of carbon dioxide emissions. This is quite as much as some countries' annual greenhouse gas emissions if only to mention Japan. According to the International Maritime Organization (IMO), the emissions from merchant's vessels might be 30% above their 2008 levels. That is the reason why one of the IMO's main concerns is the prevention of pollution from ships and the fight against climate change.

  (Source:https://sinay.ai/en/sustainable-shipping-what-are-the-main-environmental-topics-the-imo-is-focusing-on/#:~:text=The%20shipping%20industry%20contributes%20to,as%20some%20countries'%20annual%20emissions.)

- In addition to CO2, ocean going ships generate emissions of Sulphur Oxides (Sox), Nitrogen Oxides (NOx) and Particulate Matter (PM). Many actions have been undertaken in recent years to significantly reduce air emissions from ships, mostly through Annex VI of MARPOL, an International Treaty developed through the IMO (link) that establishes legally binding international standards to regulate emissions and discharges generated by ships.

  (Source:https://www.worldshipping.org/sustainable-shipping)

- Maritime shipping is by far the most carbon efficient means of transporting goods, emitting only a fraction of the CO2 per tonne kilometre of a truck, train or airplane. However, the sheer size of global trade means that the industry accounts for 2.1% of global CO2 emissions. Of that, liner shipping accounts for approximately 0.5%, while moving roughly 52% of maritime commerce by value. Shipping must contribute to reducing greenhouse gas emissions in both the short and the long term, and global regulation through the IMO will play a key role. The IMO's 2030 target, a 40% efficiency gain, can be met with efficiency improvements.

  (Source: https://www.worldshipping.org/sustainable-shipping)

CMAs IN THE LEADERSHIP

CMA Ramesh Kumar Dash

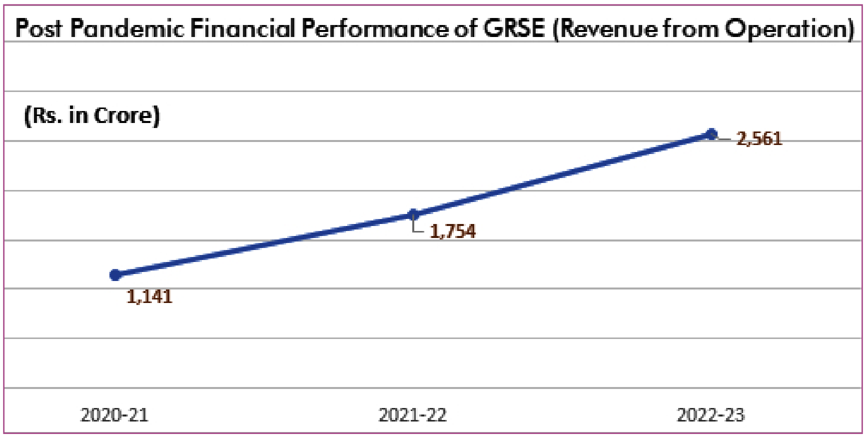
Director (Finance)

Garden Reach Shipbuilders & Engineers Ltd., Kolkata

CMA Ramesh Kumar Dash has taken over charge as Director (Finance) of GRSE Ltd on 01 July 2020. He is also the Chief Financial Officer of the Company. He is a Post Graduate in Commerce, Bachelor of Law and Associate Member of The Institute of Cost Accountants of India. Shri Dash started his career as Finance Officer in M/s. Paradeep Phosphate Ltd. (PPL), Govt. of India, Enterprise in April 1992 and his first assignment was in Marketing Finance at Bhopal. Subsequently, Mr. Dash was transferred to the plant at Paradeep (Odisha) and rendered his service in various functions of the finance department. After working eight years in various positions, he left M/s. Paradeep Phosphate Ltd. in 1999 and joined Hindustan Aeronautics Limited, Bangalore as Manager (Fin). Mr. Dash was posted in the Overhaul Division, Bangalore in December 1999. In 2001, he was transferred to Barrackpore (Kolkata) as Head of Finance. In 2007, Mr. Dash was transferred to Hyderabad Division and continued up to 2012. On promotion as Dy. General Manager of Finance, Mr. Dash took over as finance head of Lucknow Division of HAL. After completing almost 20 years in various divisions of HAL, Mr. Dash was transferred to the Corporate Office to utilize his factory experience in a corporate environment. He has extensive experience in Finance, Taxation, Accounts, Pricing, Budgeting, Treasury Management, Receivable Management, MoU, Contracts, Negotiations, Audit Functions and Corporate Governance. Mr. Dash received the Best CFO Award 2022 (Public-Manufacturing-Medium-Male) from The Institute of Cost Accountants of India.

1. Can you provide an overview of GRSE's financial performance in recent years and highlight any significant milestones or achievements?

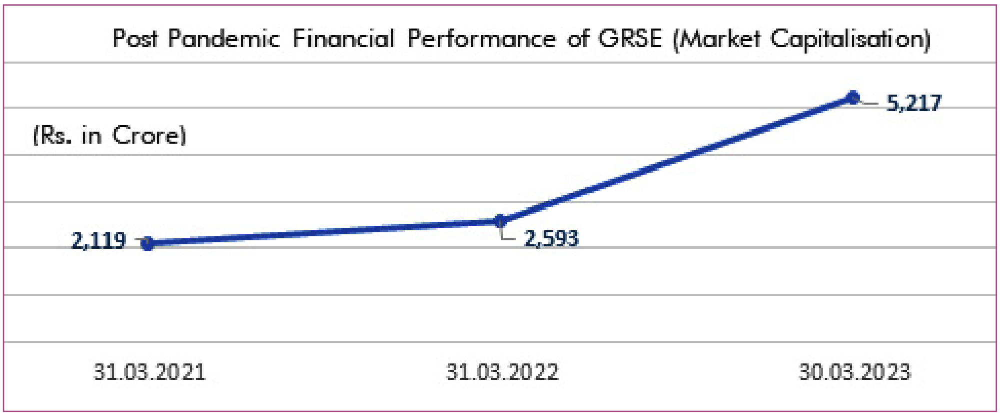
The Financial Performance of GRSE in recent past had been overwhelming and sustainable. Post-COVID challenges were tackled by strategic planning, enhancing capabilities and the company expanded its frontiers.



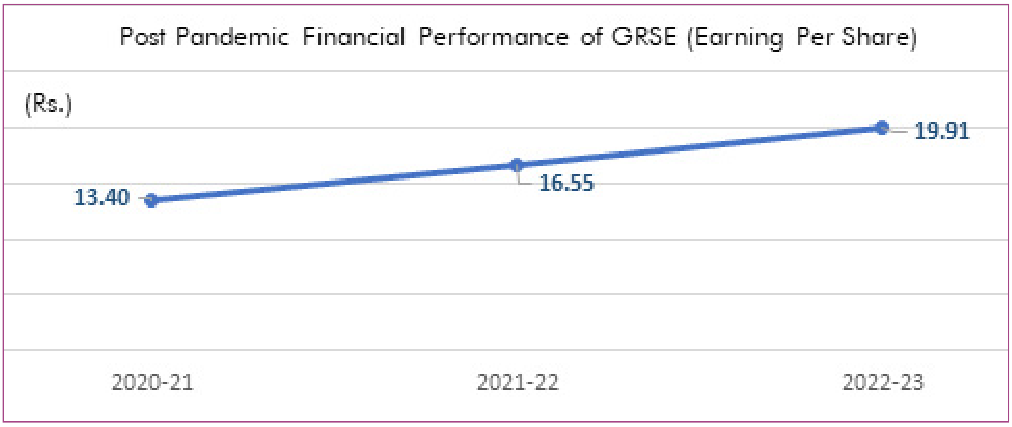
Financial Year 2022-23 was the best year in the prospective of Financial Performance in the history of the Company. Revenue from operations increased to Rs. 2561 Crore from Rs. 1141 Crore (FY 20-21) with a CAGR of 31%.

Production growth were registered post COVID even after lots of challenges and obstacles faced by the Shipyard.

GRSE financial performance towards creation of wealth for shareholders also increased very significantly during post pandemic.



The market capitalization was consistently scaling upwards since 2020-21 with a CAGR of 35%.



The Earning Per Share was increased to ₹ 19.91 from ₹ 13.40 in FY 20-21 with a CAGR of 14%.

Apart from the above, The ROI and Revenue per Employee have also increased substantially averaging a CAGR of 7% and 35% respectively.

Other remarkable achievements in recent years: -

- ✓ The Company has consistently achieved NIL Comments from CAG on the Company Annual Accounts till FY 22-23.
- ✓ Due to its robust performance in respect of key financial parameters, there is 8.6 times increase in market capitalization over the listing as on Half year of FY 23-24.
- ✓ Retained highest credit rating consistently which has helped to reduce cost of borrowing.
- ✓ Achieved Excellent MoU Rating for FY 2022-23 from Department of Public Enterprises wherein GRSE has exhibited robust performance in respect of all the Financial Parameters.

2. The shipbuilding industry is known for its unique challenges. How does GRSE strategize its financial management to adapt to industry dynamics and ensure sustained growth?

The challenges faced by Shipbuilding industry in India are manifold. In this era of competition there is compulsion to bid with razor-thin profit margin to win the order. Moreover, the intricate production cycle for design & construction of a complex warship involving various departments moves through a plethora of risks at multiple levels triggering cost and time overrun. Moreover, the economy of scale enjoyed by the foreign shipbuilders through construction of a large number of warships of a similar class is not available to the Indian shipyards. This poses a serious challenge to profitability.

GRSE has adopted several measures to mitigate the challenge-

- ✓ Reworking Production Schedules and resequencing of operation to suit various impediments ranging from non-availability of critical materials to delayed approval of design by customers. However, the value of production generated with profitability of each project are closely monitored by Finance with the budgeted figures and any deviation are immediately brought to the notice of the concerned departments for remedial measures.
- ✓ Judicious outsourcing of the non-core shipbuilding activities has led to substantial reduction in the cost of manpower.
- ✓ Increased use of automation has also reduced cost of manpower.
- ✓ Effective Supply Chain Management.
- ✓ Ideal Inventory Management

3. With sustainability becoming increasingly important in business operations, how does GRSE integrate financial planning with environmental and social responsibility initiatives?

For a Company like GRSE, sustainability is a challenge in the prevailing market situations and emerging technologies. The Company being one of the leading shipyard in India, adopts new technologies which are sustainable in environmental and social point of view.

GRSE has installed capacity 1950 KWp of solar energy. Apart from these, GRSE has adopted smart LED lights, using battery operated utility vehicles, use of electric vehicles for conveyance etc. GRSE also has a sustainable and strategic waste management systems to minimize waste generation and disposal costs. Investing in technologies and practices that optimize resource utilization, such as blasting and painting systems, efficient material handling processes, and lean manufacturing principles. By minimizing resource consumption and waste generation, the Company is able to lower its operating costs and improve overall efficiency. GRSE also Investing in R&D initiatives for adopting environment friendly technologies in its product and process towards its sustainable goal. The company also Integrating lifecycle cost to evaluate the financial implications of environmental initiatives over the entire lifespan of assets.

In social point of view GRSE has spent around ₹12.40 Crore in Corporate Social Responsibility in past 3 years and during the current Financial year the same is expected to be ₹ 5.11 Crore. GRSE also has a sound eco system of suppliers which includes around 500 Nos. of MSME suppliers promoting MSME support, indigenisation and Make in Indian initiatives of Govt. of India.

4. Innovation is crucial for staying competitive in today's market. Could you share any innovative financial strategies or practices implemented by GRSE to drive efficiency and cost-effectiveness?

With an objective towards enhancing profit and productivity, several measures have been initiated by GRSE which include increased use of Automation, AI enabled technology & Cutting-edge design software, Virtual Reality Lab for increased design efficiency as well as prevention of rework, state-of-the-art Project Planning Software and Modular Construction Methodology to produce quality warships in reduced time and cost. The allocation of fund from the internal accrual has been dovetailed with the emerging needs of investment in new technology and processes through CAPEX.

Other steps being adopted to rationalize and cut-off unproductive expenses incurred in company's premises are as follows –

- ✓ Expenses like electricity charges, transportation, advertisement and publicity are rationalised by adopting several measures like maximising solar energy, using electric vehicles and using websites for advertisements etc.
- ✓ Maximisation of IT software has been developed for record keeping to minimise the expenses of stationery and printing.
- ✓ Regular and preventive maintenance of Plant and Machinery to avoid irregular breakdowns and consequent revenue expenditures.
- ✓ Virtual meetings and interviews to cut travelling and other ancillary expenses associated with the same.
- ✓ Other unproductive expenses are also being continuously identified and necessary measures are under implementation to minimize/eliminate such expenses.

5. How does GRSE approach risk management in its financial operations, particularly considering the complexities inherent in the shipbuilding sector?

GRSE has a Board Level Risk Management Committee which identifies major risks prevalent in the organisation ranging from Design to Project execution with probability of occurrence, risk triggers and mitigation measures which gets continuously updated based on dynamic business scenario of a shipbuilding industry. The mitigation of risks associated with execution of shipbuilding projects finally translates to prevention of cost overrun for projects under execution.

6. Collaboration and partnerships often play a significant role in the success of large-scale projects. Can you elaborate on GRSE's approach to financial collaboration with stakeholders, both domestically and internationally?

Not envisaged as yet.

7. As digital transformation continues to reshape industries, what role does technology play in GRSE's financial processes and decision-making?

- ✓ Many of the SAP modules like MM, FI-CO, PS, PP, PM, HMS, SD etc. are already implemented since 2010 and tightly integrated for proper systemic control of business process and associated cost components.
- ✓ All business processes are mapped into system for proper control, transparency, visibility.
- ✓ Project wise budgets and control are also being utilized.
- ✓ Ready reports are available to determine the accumulated costs and helps in deciding financial decisions.
- ✓ Internal SOPs and Policies are prepared to restrict any transactions outside the periphery of system controls.

8. The COVID-19 pandemic has brought unprecedented challenges to businesses worldwide. How has GRSE navigated the financial implications of the pandemic, and what lessons have been learned from this experience?

(i) Warship building is a labour-intensive industry, which requires deployment of large number of groups, consisting of varying number of workers in each group, to work in confined compartments, constricted machinery spaces for fabrication and numerous outfitting activities on-board. Covid-19 and consequent imposition of several restrictions had necessitated staggered deployment of manpower affecting productivity.

(ii) GRSE had taken various steps like Implementation of Shift System with reduced timing, Reworking Production Schedules, Virtual Meetings, Transport Arrangement for workers, intensifying COVID Vaccination inside shipyard's premises etc. to achieve the production target.

(iii) Some measures taken by GRSE to improve internal efficiency and enhancement of operating profit are enumerated below:

- Reduction in electricity expenses by substituting high wattage lamps with LED lamps and usage of sensors to switch On / Off in presence / absence of Individuals.
- Increase in solar energy plant capacity to accrue savings in electricity expenses.
- Rationalisation of CISF personnel engagement by installation of more surveillance gadgets and CCTV network across the unit of the ship yard.
- Strict Control on overtime expenditure with accurate planning.
- Outsourcing of non-core areas on retirement of permanent employees to reduce labour cost.
- Maximum usage of video conferencing system to minimise travelling of executives between the units and out of city.
- Use of E-platform for tendering and reduction of circulation through print media.
- Reduction of stationary through effective utilization of IT facilities for document management system.
- Replacement of 14 nos. hired Diesel Vehicles with Electric Vehicles taken on lease.
- Automation in the production process.

Adoption of all these measures have resulted in consistently increase in the operating profit.

Even a shipbuilding Industry with its complex production cycle and a number of uncertainties could achieve excellence through innovation and financial prudence in the face of a pandemic which severely restricted the production activities and disrupted supply chain. The measures adopted by the shipyard during the pandemic will help to combat future challenges.

9. What advice would you offer to aspiring finance professionals looking to excel in the dynamic and demanding environment of the shipbuilding industry?

- Exercising Financial prudence and improvisation in dealing with several challenges imposed by this competitive world demanding an optimisation of the gradually increasing need for delivering products in reduced cost with stringent timelines and profitability for the sustenance of the organisation.

- In the present scenario there is no short-cut to hard work. Therefore, every professional should put his best effort to understand and analyse the business. Further, thinking out of the box and adding value to the organisation is also very much essential for survival and sustained growth. Each professional should update with the latest technology to discharge his duty efficiently.

10. Lastly, could you share your vision for the future of GRSE from a financial perspective, highlighting key areas of focus and potential growth opportunities?

It is appreciated that the shipyard will maintain the growth momentum with steady increase in its turnover and profit. The vast infrastructure, self-reliant design office and the accumulated experience & expertise developed by the Shipyard in the course of construction of a multitude of warships, its robust financial growth and enhanced internal efficiency have instilled confidence in our customers, not only Indian Armed Forces but also many other potential customers in diverse geographical areas for a wide variety of platforms. The continual upgradation of infrastructure through internal accrual is envisaged to continue in the forthcoming years which will add to the shipbuilding prowess of GRSE.

- A leading war shipbuilder of the nation GRSE is aiming at designing & constructing a wide array of platforms ranging from Next Generation Corvettes, Destroyers, Frigates, Survey Vessels, Autonomous vessels and other auxiliary ships for Indian Navy and Indian Coast Guard with unwavering focus on quality and without any time & cost overrun.

- The company is committed to emerge as a well-diversified company with core focus on domestic warship building and at the same time unleashing its potential to grab opportunities prevalent in Ship Repair, Commercial Shipbuilding, Tugs, Dredgers, Green Energy Platforms, Autonomous Platforms, Weapons, Marine Valves, Water Jets & Marine Diesel Engines and other Engineering Products.

- The company will expand geostrategic reach in Friendly Foreign Countries by exporting a wide array of warships, commercial platforms, Bailey Bridges & other engineering products.

- Consequently, the company will generate substantial revenues and profit from all the new business avenues.

- GRSE is striving towards attaining **SCHEDULE-A Status as a short term goal** and striving for **NAVRATNA Status as a Long term goal.**

CMA S V Rambabu

Director of Finance & Commercial (DFC) Hindustan Shipyard Ltd Visakhapatnam Andhra Pradesh

1. Introduction:

Can you please provide a brief overview of your role and responsibilities as the Director of Finance & Commercial at Hindustan Shipyard Ltd?

As the Director of Finance & Commercial at Hindustan Shipyard Ltd (HSL), the incumbent holds a pivotal role in overseeing and optimizing the financial and commercial aspects of the organization. Responsibilities span various domains, including finance, commercial operations, and strategic planning. Here's an overview of the role and responsibilities:

i) **Financial Management:** Overseeing all financial operations, including budgeting, financial planning, cost management, and accounting practices. Ensuring adherence to financial regulations and standards while optimizing financial performance.

ii) **Commercial Strategy:** Developing and implementing commercial strategies to enhance revenue generation and profitability. This includes negotiating contracts, identifying business opportunities, and cultivating relationships with clients and stakeholders.

iii) **Strategic Planning:** Playing a key role in strategic planning, aligning financial and commercial objectives with the overall goals of the organization. Contributing to decision-making processes regarding investments, expansion, and resource allocation.

iv) **Business Process Re-engineering (BPR):** Leading initiatives for business process re-engineering, aiming to streamline operations, enhance efficiency, and foster innovation. This includes transforming organizational culture from traditional PSU norms to modern corporate practices.

v) **Financial Transformation:** Spearheading financial transformation initiatives across shipbuilding, ship repairs, and submarine refits verticals. Aiming to revitalize financial practices and drive sustainable growth.

vi) **Corporate Governance:** Upholding high standards of corporate governance, ensuring compliance with regulatory requirements and promoting transparency and accountability in organizational operations.

vii) **Performance Monitoring:** Monitoring financial and commercial performance metrics, analyzing key performance indicators (KPIs) to assess progress towards organizational goals. Implementing measures to address challenges and capitalize on opportunities.

viii) **Social Responsibility:** Overseeing corporate social responsibility (CSR) initiatives, ensuring that the organization contributes positively to society through philanthropic activities and community development projects.

Overall, the Director of Finance & Commercial's role at HSL encompasses a wide range of responsibilities aimed at driving financial sustainability, fostering commercial growth, and ensuring organizational excellence.

2. Industry Perspective:

- **How would you describe the current state of the shipbuilding industry in India, particularly in terms of financial and commercial aspects?**

Currently, India's share stands at miniscule 1% in global shipbuilding. Indian Shipyards are primarily catering to maritime, defence, inland waterways, Oil & gas sector and research requirements of India. There are currently 06 major shipyards (05 in public sector and 01 in private sector) and minor shipyards on both eastern and western coast of India. Major portion (in terms of value) of the shipbuilding is handled by these 05 shipyards. However, these shipyards are highly dependent on defence for orders. With the impetus given by the Govt of India on "Atmanirbhar Bharat", the focus of the shipyards has now shifted to commercial shipbuilding expanding the scope to build different types of vessels viz., Cargo, CNG carriers, etc., to make India self-reliant in shipbuilding. Current challenges faced by Indian shipbuilding Industry in terms of financial and commercial aspects is three-fold.

(a) **Subsidy policy:** Currently, China, Korea and Japan are global leaders in shipbuilding with a share of 95%. These countries have offered substantial subsidies which incentivised the shipyards. As a result, this enabled the shipbuilding industry in these countries to establish and contribute to growth of their economies. Though subsidy is not a permanent panacea, for making the industry globally competitive and enabling it to garner a sizeable market share, the industry requires an integrated policy initiative by the government for its revival.

(b) **Taxes & Duties:** Prior to introduction of GST, the differential rate of duties and taxes between India and other countries puts India at a cost disadvantage to the extent of 30-40 per cent. With the implementation of GST, the cost disadvantage has reduced to some extent. However, the issues being faced in GST include inverted duty structure with Output GST rate of ship at 5% while inputs are taxed at 12-28% resulting in accumulation of input tax credit. Consequently, shipyards are deprived of crucial working capital resulting in considerable cost disadvantage. Further, proposal for removal of Customs Duty exemptions to shipbuilding and ship repairs (sunset clause) could push the Indian shipyards to further cost disadvantage.

(c) **Working Capital & Long Term Finance:** As already brought out major shipyards are dependent on defence orders. Defence shipbuilding contracts have peculiar terms which require submission of Bank Guarantees to the extent of 85% of the cost of the vessel and keeping them open till delivery of the vessel, which has increased the financing costs of the shipyards. Further, considering the size and scale of the defence projects, submission of BGs would not only increase the finance costs but also block the crucial working capital which could enable the shipyards to take up commercial shipbuilding orders and export orders.

(d) **Sourcing of material:** There is a limited number of suppliers for sourcing material and equipment required for shipbuilding. In order to incentivize the manufacturing in India and MSMEs, Govt of India had issued guidelines/orders for sourcing of materials from MSMEs, prohibition of global tenders upto a value of Rs. 200 Cr, payments to MSMEs within 45 days, etc,. Public sector undertakings are bound to comply with these orders/guidelines and have to sustain their operational margins alongside competing with the private players.

- **What are some key challenges Hindustan Shipyard Ltd faces in today's market, and how does the finance department address these challenges?**

Hindustan Shipyard Ltd operates through three business verticals viz., shipbuilding, Submarine and Ship Repairs. Out of the three verticals, shipbuilding constitutes sizeable portion in terms of order book. However, shipbuilding projects have longer execution time while the submarine and ship repairs have smaller size orders with shorter duration. As such, the contribution % in shipbuilding is low compared to submarine and ship repairs. The key challenges faced by the company are high interest rates, inverted duty structure in GST, higher lease rent. Each of these challenges are being addressed to enable HSL to remain competitive and grow in the industry.

High Interest Rates: A shipyard typically requires a working capital of around 25-35% of the cost of the ship during the entire construction period. The interest rates on working capital in India are in the average range of 9-10%. In contrast, the interest rates presently offered to shipbuilding yards overseas are significantly lower. They stand at 3-4% in Korea and China. High interest rates on working capital is major concern for HSL impacting the bottom line. Currently, HSL has been continuously negotiating with the banks for reduction of interest rates showcasing the improved financial parameters in terms of increased turnover, profits and winning of big orders on competitive basis during the last five years. Finance Dept has resorted to innovative ways of availing credit at cheaper rates through Suppliers credit for imports, leveraging bank Limits to facilitate MSME in import of material on large scale outsourcing contract, etc,.

Inverted duty structure in GST: GST inverted duty structure causes severe strain on the cash flows / working capital. In order to address this challenge, Finance dept had approached AAR on a big ticket project to ease the pressure on cash flows and working capital availability for projects. If succeeded, this could bring a substantial relief for the company on working capital efficiency.

High Lease Rentals: The Shipyard operates from the land taken from Visakhapatnam Port Authority on long term lease. The rates of lease rentals were increased by VPA resulting in two-fold increase from FY 18-19. The significant increase of lease rentals on factory land has a negative impact on the bottom line. This being a fixed cost, the company has taken up the matter at appropriate levels of the Ministry for reduction of the lease rentals which is under active consideration.

Financial Performance:

- **Could you share insights into the financial performance of Hindustan Shipyard Ltd over the past few years? What trends or patterns have you observed?**

Shipbuilding industry per se operates on thin margins in the range of 7.5%-10%. Therefore, the financial performance of shipbuilding industry is dependent on various factors like sourcing of material and equipment at optimal cost and on time, decision on in-house (vs) outsourcing of work, timely approval of drawings from customer, etc. In order to sustain the performance, securing of continuous orders and improving order book position is critical for ensuring profitability. In contrast, the scenario in Ship and Submarine repair business has a contribution margin in the range 20-25%. Further, in shipbuilding contracts sizeable cash flows are received initially and flattens as the vessel construction progresses. Whereas Ship repair and submarine repairs verticals have quicker turnaround time providing continuous cash flows.

Coming to the performance of HSL, the yard has shown a remarkable improvement over the past five years continuously posting operating and net profit except for Covid-19 affected year (FY 2020-21) view non-delivery of supplies by OEMs, disruption of production. Turnover of the company increased by almost 100% from ₹595 Cr in 2019-20 to ₹1118 Cr in 2022-23. Similarly, the operating profit has increased manifold from ₹8 Cr in 2019-20 to ₹65 Cr in 2022-23. A similar trend is observed in the net profit which has increased for ₹13 Cr in 2019-20 to ₹65 Cr in 2022-23. Key indicators like EPS (from 120 in FY2019-20 to 216 in FY2022-23) and ROE (12% in FY 2019-20 to 22% in FY 2022-23) have shown a remarkably improvement over the past five years touching their all-time high.

The above financial indices showcase the turnaround story of the company which was possible because of the various initiatives taken to improve productivity and control costs by the company.

- **How does the finance department contribute to the company's overall financial health and sustainability amidst industry fluctuations?**

Reduction in Bank Guarantee Charges: By continually engaging with banks, the Finance Department achieved a significant reduction in Bank Guarantee charges, resulting in substantial cost savings for the company.

Introduction of Electronic Bank Guarantees (eBG): The company has taken up with Banks to facilitate issuance of electronic bank guarantees. This innovative approach expedites the issuance and acceptance of bank guarantees, reducing turnaround time and enhancing operational efficiency.

Innovative Supply Chain Management: Leveraging HSL LC limits for the import of materials by MSMEs, the Finance Department ensured project completion within shoestring budgets, even in challenging times.

Financial Recovery Strategies: Identified shortcomings in contract clauses and devised recovery strategies for Foreign Exchange (FE) rate and mix variations within contracts, thereby saving substantial amounts..

Sustainable Finance Initiatives: As part of sustainable finance initiatives, HSL implemented three Megawatt (MW) Solar rooftop power plants. These plants contribute approximately 30% of the energy needs of HSL, demonstrating the company's commitment to sustainable practices and reducing operational costs.

Revision of Accounting Policies: The Finance Department revised accounting policies, particularly in income recognition pertaining to the repair business segment, to ensure better presentation of financial statements.

3. Commercial Strategies:

- **What are some innovative commercial strategies Hindustan Shipyard Ltd has adopted to stay competitive in the market?**

HSL being in shipbuilding industry is susceptible to volatile metal prices viz., steel, piping material, etc., which form the basic ingredient and key raw materials. Further, major part of the equipment and machinery which goes onboard the ship are imported and driven by OEMs (Original Equipment Manufacturers). This material cost forms around 60-70% cost of the ship and therefore, managing the material cost is key for remaining competitive in the market.

Binding long term rate contracts: Metal prices remain volatile due to changes in demand and supply patterns in the economy. However, due to Covid-19 and Russia-Ukraine war, the prices of metals have shot up by almost 30-40% and remained at elevated levels for long duration. Considering the periodic and bulk requirement of various items for construction and repair of ships, HSL has entered into long term rate contracts with price variation clause. This helped the company in procuring the necessary items in short duration while keeping a check on the prices.

Large Scale Outsourcing: This is a first of its kind and innovative way of outsourcing in shipbuilding with key machinery and equipment supply kept in the scope of contractor along with completion of work. This method would ensure timely delivery of materials/ equipment and execution of work on time which is an area of concern for Indian shipyards. This eases the burden on the shipyard to look at other critical areas of design, construction and sourcing of material for ships because of single point responsibility in the large scale outsourcing.

Contractual shortcomings: The Company majorly undertakes contracts with Indian Navy, Indian Coast Guard and similar entities of Govt or Govt owned. These contracts provide for exchange rate variation on imported material. However, in view of certain shortcomings HSL was not able reap the complete benefits which was addressed through negotiation with the Customers. This mitigates the foreign exchange risk to the maximum extent.

Apart from the above, many more innovative commercial strategies have been undertaken over the past few years. Innovation being a continuous process, organization places significant thrust for improving efficiency in every sphere of its operations.

- **How do you assess the effectiveness of these strategies in achieving the company's commercial objectives?**

  HSL had devised these strategies to meet the company's objective of delivering ships on time and at targeted cost. These commercial strategies have ensured that risks emanated from customer contracts on exchange rate variation is mitigated, logistics costs and timely sourcing of key equipment and material is ensured and price volatility on steel and metal based materials is minimized.

4. Cost Management and Control:

- **How does Hindustan Shipyard Ltd manage and control costs in the shipbuilding process?**

  Bank Guarantee Costs: HSL primarily caters to the defence requirements and the defence contracts have a provision to furnish Bank Guarantees (BGs) to the extent of 85% of vessel cost which are valid till delivery of the vessel. With the size of defence projects and delivery period of the vessels ranging from 03-05 years, the yard has to incur substantial costs on account of these BGs. Finance Department has taken up with the banks for restructuring of BGs on existing project which brought reduction upto 30% on the existing commission rates. Thus, reduction in BG and working capital costs.

  Manage BRI costs: Shipyards undertake insurance for ongoing shipbuilding projects to mitigate the various risks posed during the course of construction. The insurance cost could be around 1% of the vessel cost which translates into huge sums depending on the order value. To contain the costs, HSL has partnered with insurance intermediaries specializing in insurance and reinsurance domains were forged to streamline insurance coverage and proactively reduce the expenditure for projects, particularly for the Fleet Support Ship (FSS) project.

- **Can you highlight any cost-saving initiatives or optimization measures implemented by the finance department?**

  Tax Management: HSL has carried out an exercise on the Income Tax outflow for the FY 2022-23 and beyond in light of New tax regime introduced through budget 2021. A thorough cost benefit analysis and tax planning has resulted in savings in terms of cash flow to the company for the current and upcoming years. This has saved substantial financing costs to the company.

  Tax Deduction Optimization: Obtaining a NIL Tax deduction certificate for a significant amount resulted in substantial cash flow benefits for the company.

5. Regulatory Compliance:

- **With regards to financial and commercial operations, how does Hindustan Shipyard Ltd ensure compliance with relevant regulations and standards?**

  HSL has well laid down framework for ensuring compliance with applicable regulations and standards. In terms of financial reporting, the company undergoes three levels of audit viz., Internal Audit, Statutory Audit and C&AG Audit as mandated under the Companies Act, 2013. The stringent and different levels of audit process ensure compliance of various regulations and standards applicable to the company. Moreover, the company has a framework for periodic reporting by the senior level management on compliances in each of the functional areas which is directly overseen by the Board.

- **What are the major regulatory challenges faced by the company, and how are they addressed?**

The company faces regulatory challenges such as compliance with International maritime standards, environmental regulations, labor laws and restrictions on sourcing of materials. These challenges are addressed through training, upskilling and proactive engagement with the regulatory bodies / agencies.

6. Market Trends and Future Outlook:

- **What are some emerging trends or developments in the shipbuilding industry that Hindustan Shipyard Ltd is closely monitoring?**

Shipbuilding industry is undergoing a period of significant transformation, driven by several key trends and developments and some of these emerging trends or developments that Hindustan Shipyard Ltd is closely monitoring are enumerated hereunder.

A major focus is on developing "Green Ships" to reduce the industry's environmental impact. To mark a transformative leap towards greener footprints in Maritime sector, Hindustan Shipyard Limited (HSL) initiated a ground breaking initiative to promote e-vessel ecosystem in the country.

With the aim of making India a 'Global Hub for Green Ship' by 2030, Ministry of Ports, Shipping and Waterways (MoPSW) has announced a vision on likely conversion of atleast 50% of tugs into Green Tugs by 2030 under "Green Tug Transition Program (GTTP)". In a pioneering step in this direction, HSL is going with modular concept and developing a family of e-tugs with bollard pull capacity ranging from 40T to 80 T and beyond with a wide range of options including compatibility for using green alternative fuels based on the diverse operational requirements of customer.

In addition, HSL has employed a customer- centric approach towards reaching to diverse customer base for promoting its electric tugs and to address the unique needs of each of these clienteles. Towards this, HSL has identified varied customer segments viz. Ports, Tug operators, Shipping Companies etc. which testifies the yard's utmost commitment to implement Green technologies in maritime sector.

Autonomous Underwater Vehicles (AUVs). Towards diversification of product profile, HSL is exploring the areas of Unmanned/ Autonomous Underwater Vehicle, IoT in Marine applications, Automation / Control Systems, Strategic Electronics and other futuristic technologies.

- **How does the company adapt its financial and commercial strategies to align with future market dynamics?**

Currently, the main focus of the company is on meeting the defence requirements of India. With Govt of India vision for increasing the exports from defence sector and impetus given to "Atmanirbhar Bharat", HSL has signed working agreements with various agencies to bring export business and having talks with other neighbouring countries like Myanmar, Bangladesh, Vietnam, etc., to explore business in the defence space through G2G framework or through competitive bidding.

HSL is adept at construction of conventional Tugs at a low cost and this could be great opportunity for the company to catch up on with the GTTP announced by GoI. Thus far HSL could not avail upon the benefits from Shipbuilding Financial Assistance policy, which do not extend the assistance to defence vessels. Going forward HSL would be fully taking advantage of the policy by undertaking orders in non-defence space.

Further, HSL is reaching out various companies and startups towards exploring technologies in niche fields viz. Remote Controlled Boats, Carbon and Composite Boats, Amphibious vessels, Autonomous Vessels and Green Ships etc. HSL sees substantial opportunities in this niche area

Equally, HSL is bestowed with a big dry-dock which enables to undertake repair of multiple ships at a time. HSL has been actively involving indigenous suppliers, ancillary industries and MSMEs to enhance competition, increase efficiencies for timely delivery of ships. The company is exploring business opportunities in this area. Further, the company has a unique expertise in the area of refit of submarines of EKM class which enables the company to leverage to the future opportunities in this space both in India and outside India.

7. Collaboration with ICMAI:

- **In what ways does Hindustan Shipyard Ltd collaborate with professional bodies like ICMAI to enhance industry knowledge and best practices?**
- **How do you envision continued collaboration between Hindustan Shipyard Ltd and ICMAI for the benefit of the industry?**

Hindustan Shipyard Ltd (HSL) collaborates with professional bodies like the Institute of Cost Accountants of India (ICMAI) to enhance industry knowledge and best practices in several ways:

Workforce Expertise: HSL has several members of the Institute of Cost Accountants of India (ICMAI) working in various capacities within the Finance department. This showcases the company's commitment to leveraging professional expertise at the various levels.

Commercial Trainees: HSL engages with professional bodies like ICMAI by enrolling CMA inter students as commercial trainees. This provides aspiring professionals with practical industry exposure and hands-on experience under the guidance of experienced CMAs within the company.

Active Participation: Members of ICMAI employed at HSL actively engage with the local chapter of the institute. They participate in various events, seminars, and workshops, contributing to knowledge sharing and professional development within the broader community.

Academic Contribution: ICMAI members from HSL also serve as panel speakers and guest lecturers in various universities and educational institutions. By sharing their industry experiences and expertise, they help bridge the gap between academic theory and practical application, nurturing the next generation of finance professionals.

Overall, HSL's collaboration with ICMAI facilitates the exchange of industry knowledge, promotes best practices, and fosters continuous learning and development within the organization and the broader professional community.

8. Personal Insights:

- **As the Director of Finance & Commercial, what are your key priorities and strategies to drive sustainable growth for Hindustan Shipyard Ltd?**

To drive sustainable growth at HSL, we have identified the following priorities and strategies:

- Secure major Defence Shipbuilding orders to harness full potential of the yard.
- Expanding business in the area of Inland waterways & coastal vessels

- Focus on development of niche products like construction of e-Tugs / e-Vessels
- Secure exports orders in commercial as well as Defence sector
- Diversifying into Engineering, Procurement, Construction (EPC) contracts
- Forging partnership with global shipbuilding entities to enhance knowledge exchange
- Augmenting infrastructure facilities to accommodate current and forthcoming projects

- **What advice would you offer to finance professionals aspiring to work in the shipbuilding industry?**

Aspiring Finance professionals should be aware about the latest developments and technologies in ship building industry and their impact on cost, use of 3D printing, IOT, AI and black chain technologies in various spheres of manufacturing. They should think innovatively for resource optimization and cost reduction.

INDUSTRY TITBITS

CMA Industry Insights – February 2024 Issue

Entrepreneurship and Startup

- As per Tracxn Geo Annual Report, Karnataka Tech startup ecosystem saw a total funding of $3.4 billion in the year 2023, which is a 72% fall from $12.2 billion raised in the year 2022 while the Gujarat based tech startups fell 66% to $139 million in the year 2023 from $412 million in the year 2022. Tamil Nadu based tech startup ecosystem also saw a fall in funding and secured a total funding of $255 million in the year 2023 as compared to $1.7 billion raised in the year 2022.
- As per the interim budget, it has been proposed that there will be a one year extension of the timeline for startups, sovereign funds and certain businesses in Gujarat International Finance Tec-City (GIFT-City) to claim tax breaks. The eligibility to utilize the tax benefit has been extended to startups incorporated before 31st March, 2025.
- Fintech giant PhonePe launched its Android app marketplace Indus Appstore on February 21, 2024 to take on Google Play Store and Apple App Store. PhonePe company further said that the Indus Appstore platform hosts more than 2 Lakh apps across 45 categories and the Indus Appstore is available in English and 12 other Indian languages that will offer "no app listing fees" for the developers till the year March 2025.
- Startup Odisha which is part of the MSME Department of the Government of Odisha that fosters startup and innovation ecosystem in Odisha that aims to have about 5000 startups by the year 2025 having the goal to spur a inclusive and holistic startup ecosystem within the state. To achieve its goal, the Odisha Government has created its own incubator named Odisha Startup Hub which is one of the largest incubator in the state that spans around 4,00,000 square feet.
- The Financial institution North Eastern Development Finance Corporation Limited (NEDFi) has signed a MoU with NIPER Guwahati to collaborate in leveraging the strengths of technology and financial expertise of both the organizations to stimulate the startup ecosystem in Northeastern Region (NER). NEDFi has been committed towards promoting and nurturing entrepreneurship in the North East Region through its Venture Fund.
- The government of India has proposed to amend the definition of "eligible startup" under the Startup India Scheme to get a tax holiday, to the startups that have been incorporated between 1st April, 2016 and 31st March, 2025. At first, the deadline for incorporation was 31st March, 2024 but now the startups that will be formed in the coming fiscal year too will get the benefit under the scheme.
- National Association of Software and Service Companies (NASSCOM) said approximately 16.5% of the Indian origin startups have externalized legal structures and would consider raising equity capital through public listing in India if the regulations are amended to allow for

a direct listing on stock exchange. NASSCOM wants the government of India to substantially reduce the time it takes to conclude the Advance Pricing Agreements (APAs), reduce safe harbour mark-ups for software development services and ITeS from 17–18% to 14–16% and make the safe harbour regime available for entities with international transactions of up to rupees 1,000 crore, up from the current rupees 200 crore.

- The Jammu and Kashmir started a fresh startup policy which aimed at establishing 2,000 new startups in the Union Territory by the year 2027. The policy focuses on providing startup and entrepreneurship support facilities to students, women, and entrepreneurs where support will be extended through government, private entities, and high net worth individuals (HNIs) to facilitate the setup of startups.

Banking Sector

- India set to standardise Know Your Customer (KYC) and customer verification processes across the financial sector to restrain illegal lending through online applications. India's financial stability panel discussed at a meeting of the Financial Stability and Development Council (FSDC) which seeks to ensure uniformity in Know Your Customer (KYC) norms as well as to prevent the negative impacts of illegal online lending apps, which have surged during the COVID-19 pandemic.
- Banking regulation of India is cracking down on potential fraud and scam in the financial sector, starting with Paytm Payments Bank. The Reserve Bank of India (RBI) is getting tighter on customer verification lapses and may take more severe action against Paytm Payments Bank in the coming days. The RBI has also observed that the regulatory concerns are rising as lenders rush to open more accounts and mop up deposits to meet the major demand for loans in the fastest growing economy.
- As per S&P Global Ratings, the system level credit growth to moderate at 14% in the Financial Year 2025, starting April 1, from about 16% annual growth in the first three quarters of Financial Year 2024, with margins also set to fall. The rating agency also said that the credit demand is strong in the Indian banking sector while the economic backdrop is highly conducive to growth.
- The Reserve Bank of India (RBI) governor Shaktikanta Das has asked banks to be on guard against complacency and be vigilant around various risks in the financial sector, but also complimented banks on their improved financial performance. The RBI governor also points out issues relating to business model viability, the outlier growth in personal loans and also urged adherence to co-lending guidelines.
- According to the RBI report, the number of frauds in the banking sector during the first half of the current financial year has increased substantially to 14,483 cases, although the amount involved is only 14.9 per cent of the previous year's amount. As per the report on Trend and Progress of Banking in India 2022-23, there is a need to protect the banking system along with the payments system from the risks of fraud and data breaches occurring from cyber threats.
- According to a report by the Fintech Association for Consumer Empowerment (FACE), Financial Technology companies have witnessed a steady increase in loan disbursal in the past five years.

The volume of personal loans disbursed increased from 1.1 million in the first half of the Financial Year 2018-19 to 41.6 million in the same period in Financial Year 2024 while the value of loans surged to rupees 40,845 crore from rupees 5,907 crore during the same period. The average ticket size of these loans has reduced from rupees 26,794 to rupees 9,816 on the back of a higher volume of small ticket loans.

- The RBI has asked MasterCard and Visa to stop card-based business-to-business payments such as rents or money transfer to vendors routed through third party fintech firms. Regular payments made to businesses via corporate cards will not be impacted but only a small set of payments, which were routed via fintech firms, will be impacted as the central bank said.
- Indian banks are currently facing challenges as urban savers shift to various instruments like mutual funds and stocks rather than bank deposits, causing a decline in low cost Current and Savings Account (CASA) deposits. Public sector banks also facing difficulties in attracting deposits from corporate and government accounts while private sector banks are particularly affected.

Infrastructure Related News

- In FY24, the Road Ministry plans to build a record 13,813 kilometres of highways.

According to Anurag Jain (the secretary of MoRTH), the Ministry of Road Transport and roadways (MoRTH) plans to build 13,813 km of roadways in the current fiscal year, setting a new national record. Jain stated that by 2027–2028, the ministry hopes to get rid of national highways with fewer than two lanes. In March 2012, the overall length of National Highways (NH) with fewer than two lanes were 25,517 km, or 30.1% of the entire length. Currently, there are 14,350 km of fewer than two-lane NHs in total (9.8% of the total length). In the 2019–20 fiscal year, the ministry built 10,237 km of national highways; in 2020–21, 13,327 km; in 2021–22, 10,457 km; and in 2022–23, 10,331 km. In the current fiscal year, the ministry has built 6,216 kilometres of NH as of December, up from 5,774 km at the same period last year. Jain went on to say that the road ministry wants to sell assets for ₹ 40,000 crore this fiscal year. He stated that going ahead, more private funding will be allocated to road construction. In the next ten to twelve years, India's road network will catch up to that of wealthy nations, predicts Jain. The nation's motorways and national highways are mostly built by NHAI and the National Highways and Infrastructure Development Corporation Ltd (NHIDCL).

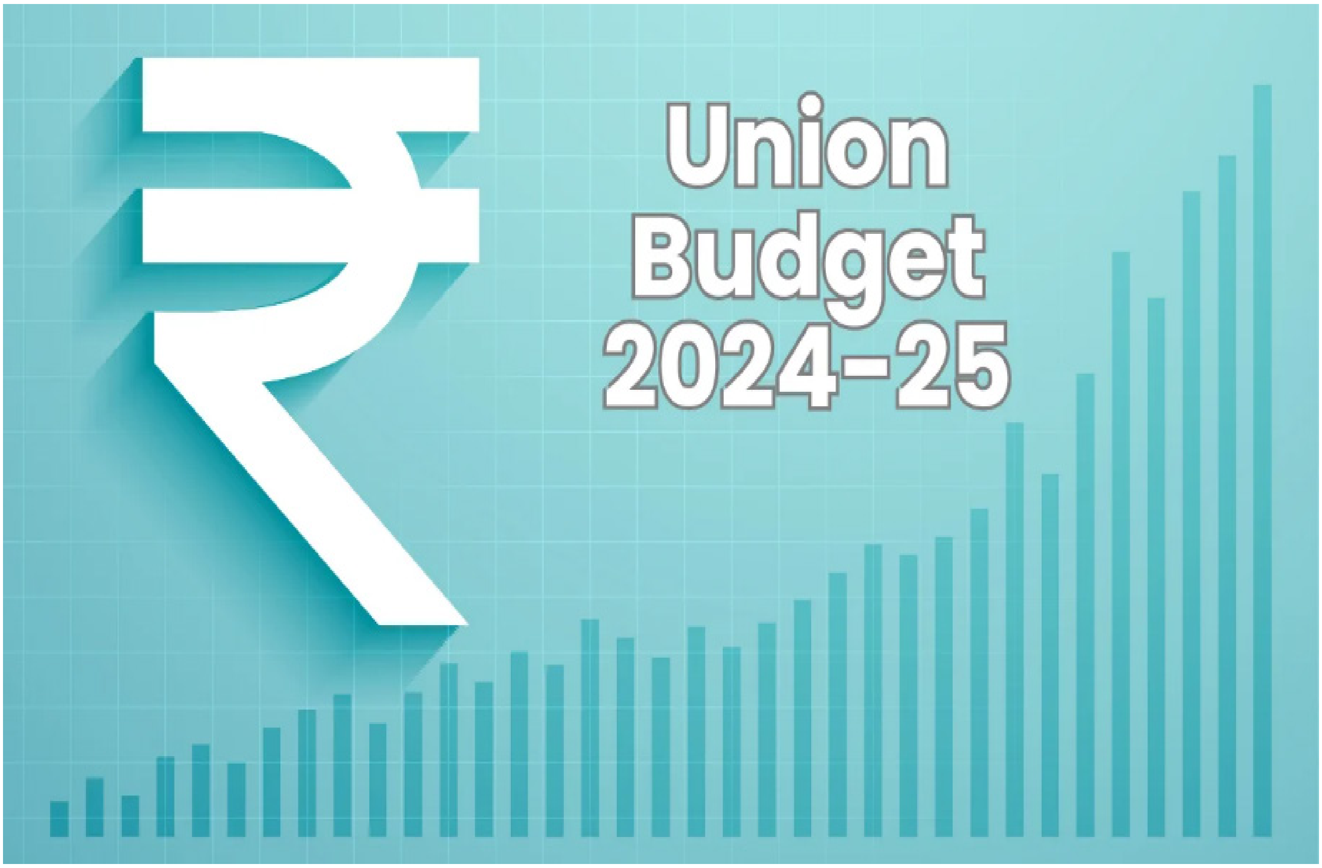
(Source: https://indianexpress.com/article/business/road-ministry-construct-national-highways-in-fy24-9141161/)

- More than 2000 railway projects totalling ₹ 41,000 crores are unveiled by PM Modi.

In a virtual event on Monday, Prime Minister Narendra Modi dedicated and opened more than 2000 railway infrastructure projects worth more than ₹ 41,000 crores. According to the PM, these projects will increase peoples' "ease of living." The 553 stations that are scheduled for redevelopment are dispersed over 27 states and U.T. "By serving as "City Centres," these stations will connect the city's two sides. A roof plaza, lovely landscaping, multimodal connectivity, an upgraded modern façade, a children's play area, kiosks, food courts, and other contemporary passenger amenities will all be present. They will be rebuilt to be both Divyang and environmentally friendly. Local culture, history, and architecture will serve as inspiration for the design of these station structures.

(https://economictimes.indiatimes.com/industry/transportation/railways/indian-railways-to-get-2000-infra-projects-at-rs-41000-crore/articleshow/107996149.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

- "Infrastructure outlay hiked to ₹ 11.11 lakh crore for FY25, will be 3.4% of GDP," the finance minister states in the interim budget for 2024.



With an allocation of ₹ 11.11 lakh crore, the interim budget 2024–25 broke the previous record for infrastructure spending, which was ₹ 10 lakh crore in the fiscal year 2023–24. With this, the nation focuses on achieving its objectives of having cleaner, more congested cities, faster, access-controlled highways, extremely efficient ports, and safer, faster trains. Finance Minister Nirmala Sitharaman stated, "Economic corridor programmes for energy, mineral, and port connectivity will be implemented by Railways," outlining a portion of the capital expenditure (capex) outlay for infrastructure. A total of 40,000 standard rail bogies will be upgraded to Vande Bharat specifications. Further, Sitharaman granted state governments 50-year interest-free loans totalling ₹ 1.3 lakh crore for the development of infrastructure in the 2023–24 budget. She stated that this will continue in the upcoming fiscal year.

(https://economictimes.indiatimes.com/news/economy/policy/interim-budget-2024-25-rs-11-11-lakh-crore-allocated-for-infrastructure-creation/articleshow/107316381.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)

Insurance Sector News

- IRDAI proposes to set up online marketplace 'Bima Sugam'

  Insurance Regulatory and Development Authority of India (IRDAI) has proposed to set up an online insurance market place called 'Bima Sugam', aim to setting up a marketplace which increase penetration of insurance in India and to enhance availability, accessibility, and affordability. As per IRDAI, Bima Sugam, will be a one-stop solution for all insurance stakeholders, vis-a-vis customers, insurers, intermediaries or insurance intermediaries, and insurance agents. It would promote transparency, efficiency, collaboration across the entire insurance value chain, technological innovation in the sector, universalise and democratise insurance and achieve the vision of 'Insurance for all by 2047'. As per the draft, Bima Sugam would be a not-for-profit company. "The company shall establish, facilitate, develop, operate, and maintain the marketplace for providing various services to the insurance stakeholders," the draft said, listing out the regulatory framework for establishment, governance, functioning of Bima Sugam.

- IRDAI proposes to extend the Free Look Period for insurance policies by 30 days

  The Insurance Regulatory and Development Authority of India (IRDAI) has proposed extending the free look period for insurance policies to empower policyholders and ensure greater transparency. Previously it is set at 15 days from the date of receipt of the policy document, this crucial window now spans an additional 30 days. This extension will help policyholders with an increased duration to thoroughly review their insurance policy details, understand its terms and conditions, and make informed decisions regarding its suitability.

- IRDAI proposes revising coverage across sectors to secure insurance for all

  The Insurance Regulatory and Development Authority of India (IRDAI) has proposed raising mandatory coverage under Rural, Social Sector and Motor Third Party Obligations' norms in an effort to achieve the objective of "insurance for all". In the exposure draft of Rural, Social Sector and Motor Third Party Obligations Regulations, 2024, the IRDAI said that a new strategy and fresh approach have been devised to boost insurance penetration in the country.

MSME related News

MSME Sector: Key Updates from the Interim Budget 2024

The interim budget for 2024, as outlined by Union Finance Minister Nirmala Sitharaman, demonstrates a focused approach towards the development and empowerment of Micro, Small, and Medium-Scale Enterprises (MSMEs) in India. Here's a breakdown of key highlights and allocations:

- **Total Allocation:** ₹ 22,137.95 crores have been allocated for the MSME sector, indicating a significant commitment towards its growth and sustainability.

- **Establishment of Clusters and Technology Centers:** A portion of the budget, amounting to ₹ 450 crores, is earmarked for the establishment of new technology centers. Additionally, there's a focus on creating clusters through the allocation of ₹ 400 crores for the Micro and Small Cluster Development Programme.
- **PM Vishwakarma Scheme:** A substantial allocation of ₹ 4,824 crores has been dedicated to the PM Vishwakarma scheme, aimed at fostering innovation and technological advancement within the MSME sector.
- **Emergency Credit Line Guarantee Scheme (ECLGS):** While there's a reduction in allocation for the ECLGS compared to the previous financial year, with it being set at ₹ 10,162.92 crores, it still signifies ongoing support for MSMEs, albeit at a reduced scale.
- **Coir Sector:** The budget also includes a marginal increase in allocation for the coir sector, with ₹103.10 crores dedicated to its development.
- **New Rule of Payment to MSMEs:** The new regulation enforced by the central government for the assessment year 2024-25 is a significant step towards promoting the financial well-being of Micro, Small, and Medium-Scale Enterprises (MSMEs) in India. This regulation mandates that purchasers settle payments for goods procured from MSMEs within 45 days of delivery.

The Federation of Indian Micro and Small & Medium Enterprises (FISME) views the budget positively, emphasizing its strategic direction in addressing critical needs of the MSME sector. The budget's emphasis on resource-efficient and green technologies aligns with the evolving priorities of the sector.

Overall, the interim budget reflects the government's commitment to providing timely financial support, relevant technologies, and essential training to nurture the growth and competitiveness of MSMEs, with a particular focus on innovation, technology adoption, and sustainability.

ESG related News

- The issuance of green, social, sustainability, and sustainability-linked bonds (GSSSB) is forecast to reach around $1 trillion in 2024, according to S&P Global Ratings. S&P notes that the GSSSB market is maturing, with its share of overall bond issuance is expected to stabilize or slightly increase. As a result, overall financing conditions will play a major role in determining the final 2024 issuance figure within the projected range. Instead of significant overall growth, 2024 is likely to see a broader geographic reach and wider variety of instruments offered within the GSSSB market.

(Source: S&P Global Ratings Forecasts Sustainable Bond Issuance To Approach $1 Trillion In 2024 - ESG News)

- BNP Paribas Asset Management ('BNPP AM') announced the launch of the first two funds in its new suite of innovative fixed income exchange-traded funds ('ETFs'). BNP Paribas Easy Sustainable EUR Corporate Bond and BNP Paribas Easy Sustainable EUR Government Bond are sub-funds of the BNP Paribas Easy Luxembourg SICAV and began trading on 20 February on Borsa Italiana and Deutsche Börse Xetra.

BNP Paribas Easy Sustainable EUR Corporate Bond is an Article 9 fund according to SFDR regulation, with a 100% sustainable investment universe. The Benchmark Index is Bloomberg Euro Aggregate Corporate, an investment grade bond index with an average duration of 4.4 years.

BNP Paribas Easy Sustainable EUR Government Bond is an Article 8 fund according to SFDR regulation, with a targeted Sustainable Investment of at least 30%. The Benchmark Index is J.P. Morgan EMU Investment Grade Index, an investment grade bond index with an average duration of 7.1 years.

(Source: BNP Paribas Asset Management Debuts ESG-Driven Fixed Income ETFs - ESG News)

- Schneider Electric, the leader in the digital transformation of energy management and automation, announced that it has committed to invest in a portfolio of Texas-based clean energy projects utilizing a Tax Credit Transfer Agreement (TCTA) for solar and battery storage systems developed, built, and operated by ENGIE North America (ENGIE). The contracted projects are expected to come online throughout 2024 and will enable Schneider Electric to get closer to its 100% renewable energy goal in the U.S. and Canada. The agreement between ENGIE, a leader in the net-zero energy transition, and Schneider is among the first at this scale to take advantage of new tax credit transfer provisions in the Inflation Reduction Act (IRA) that will help companies meet their renewable energy goals.

  (Source: Schneider Electric and ENGIE Launch Tax Credit Transfer for Renewable Energy in North America - ESG News)

- The Premier League, the most watched football league in the world, in collaboration with its clubs, has announced a significant push towards environmental sustainability with the introduction of the Premier League Environmental Sustainability Commitment. The Commitment outlines four operational measures, which will build on existing action made by clubs to reduce their environmental impact and provide a foundation to underpin long-term environmental ambitions. The new Premier League Environmental Sustainability Commitment will see each club:

1. Develop a robust environmental sustainability policy, by the end of the 2024/25 season.
2. Designate a senior employee to lead the club's environmental sustainability activities.
3. Develop a greenhouse gas (GHG) emissions dataset (scope 1, 2 and 3) by the end of the 2025/26 season and work towards a standardised football-wide approach to measuring emissions.
4. Support the development of a common framework for action via the Premier League Sustainability Working Group (PLSWG).

(Source: The English Football Premier League Takes Big Step in Sustainability with New Commitment - ESG News)

- Verizon Communications announced on February 20, 2024 that it has fully allocated the $1 billion in proceeds from its most recent green bond, issued in May 2023, will the full amount directed towards investments in renewable energy, supporting the company's clean energy targets. According to Verizon's Green Bond Impact Report, proceeds from the bond, Verizon's fifth green bond since 2019, were allocated entirely to renewable energy purchase agreements (REPAs), supporting renewable energy projects under development in five states, including Illinois, Maine, North Dakota, Ohio and West Virginia, and covering nearly 0.9 GW of capacity, of which 53% is solar and 47% is wind energy. Verizon added that it is on track to exceed its target to source the equivalent of 50% of its total annual electricity consumption with renewable energy by 2025, and that it will continue to identify new renewable energy projects under development to support its goal to reach 100% renewable energy by 2030.

(Source:https://www.esgtoday.com/verizon-invests-1-billion-green-bond-proceeds-in-renewable-energy-development-projects/)

- Closed-loop battery materials solutions provider Ascend Elements announced on 21st February, 2024 that it has raised $162 million in new equity investments, with proceeds aimed at supporting the building of a new 1-million square foot sustainable lithium-ion plant in Kentucky. According to Ascend Elements, the new Hopkinsville, Kentucky-based project, Apex 1, anticipated to open in early 2025, will be North America's first sustainable pCAM manufacturing facility, producing sustainable pCAM and CAM for up to 750,000 electric vehicles per year. The project is supported in part by U.S. Department of Energy and the Bipartisan Infrastructure Law.

  (Source: https://www.esgtoday.com/sustainable-battery-materials-provider-ascend-elements-raises-162-million-for-new-us-plant/)

- Climate projects, micro, small, and medium-sized enterprises (MSMEs), women and farmers in Asia and the Pacific have benefited from record amounts of funding from IFC. The funds will alleviate poverty and increase prosperity in the face of overlapping crises and challenges, including climate change, gender inequality, food and energy insecurity, and higher inflation. IFC, the largest global development institution focused on the private sector in emerging markets, committed a record $11 billion to 108 projects in Asia and the Pacific in the fiscal year ended June 30, a 10 percent year-on-year increase. This comprised $4.7 billion in long-term financing from its own account, $3.4 billion in mobilization, and $2.9 billion in short-term trade and supply-chain finance to facilitate trade flows.

  (Source:https://esgnews.com/ifcs-11-billion-committed-to-asia-pacific-region-sees-climate-projects-msmes-women-and-farmers-benefit/)

Highlights from Indian Space Research

- In February 2024, the Indian Space Research Organisation (ISRO) is scheduled to launch INSAT-3DS, marking the seventh flight in the INSAT-3D series. For this mission, ISRO plans to utilize the Geosynchronous Satellite Launch Vehicle Mark II (GSLV Mk II) as the launch vehicle.
- The Indian government has boosted the Department of Space's budget to ₹ 13,042.75 crore for 2024-25, a significant increase of ₹498.84 crore from the previous year. This funding will support ambitious projects like Gaganyaan, aiming to send the first Indian to space, and the

development of a dedicated space station by 2035.

- ISRO, is gearing up for a momentous leap in its space exploration agenda with a planned schedule of approximately 30 launches. These launches, scheduled for the fourth quarter of fiscal year 2023-24 and fiscal year 2024-25, will originate from the Satish Dhawan Space Centre (SDSC) SHAR.
- This surge in launch activities signifies a substantial expansion of India's space industry, highlighting ISRO's commitment to advancing space exploration and technology development.
- The X-ray Polarimeter Satellite (XPoSAT) launched in early 2024 signifies a significant leap in India's space exploration efforts. With its mission to study X-ray sources in the universe, XPoSAT promises to deepen our understanding of celestial phenomena, shedding light on the mysteries of the cosmos.
- The NISAR mission, a collaborative venture between ISRO and NASA, holds immense promise for revolutionizing our understanding of Earth's surface and natural processes. Expected to provide unprecedented insights into Earth's dynamics, NISAR highlights ISRO's commitment to studying and preserving our planet's environment.
- Ambitious missions like Shukrayaan-1, aimed at exploring Venus, and Mangalyaan 2, ISRO's second mission to Mars, demonstrate India's expanding horizons in interplanetary exploration. These endeavors underscore India's growing capabilities in space exploration and its commitment to pushing the boundaries of scientific knowledge.
- Collaborative ventures such as the Lunar Polar Exploration Mission with JAXA showcase India's increasing collaboration with global space agencies. These partnerships not only enhance India's reputation in the international space community but also foster mutual learning and cooperation in exploring the frontiers of space.
- The Indian Space Research Organisation (ISRO) has announced the Young Scientist Programme (YUVIKA) 2024, scheduled to be conducted from May 13 to May 24. This program is specifically designed for students studying in standard 9. YUVIKA aims to inspire and nurture young minds by providing them with hands-on experience and exposure to various aspects of space science and technology.

Market Report: A Recap of the Key Developments for the month of January 2024

INTRODUCTION

As we reflect on the month of January 2024, it becomes evident that the Indian financial market witnessed significant developments and events that shaped investor sentiment, market dynamics, and regulatory landscape. From policy announcements to corporate earnings, along with some speculations, several factors influenced the trajectory of the Indian financial market during this period.

MARKET PERFORMANCE

In January 2024, the Indian stock market exhibited the following performance:

i) **Initial Sensex Returns:** In January 2024, the Sensex, a significant benchmark index, generated a return of 7.84%. In the preceding year, it has demonstrated a noteworthy increase of 18.10 percent. It is worth noting that the primary drivers of this expansion were capital goods, public sector undertaking (PSU), and metal inventories.

ii) **Caution Regarding the Capital Goods Sector:** The capital goods sector attracted scrutiny as a result of its exceptional growth in the preceding year. In 2023, the S&P BSE Capital Goods Index witnessed a noteworthy increase of 66.89%, surpassing the performance of the Nifty 50 and Sensex by a significant margin.

The S&P BSE Capital Goods index exhibited a PE ratio of 48.31 as of January 24, 2024, suggesting that certain companies were valued excessively in comparison to the index as a whole. The sector appears to be dominated by speculators at present, as indicated by the high turnover in relation to market capitalization, rather than by long-term investors.

Although 2023 produced exceptional results, it may be premature to anticipate comparable returns in 2024. Prior to investing in the sector, investors ought to await a correction.

iii) In terms of technical analysis, the Nifty closed at 21,353, representing a decrease of 1.02%. Investment decisions should be made with vigilance and consideration of the aforementioned factors by market participants.

In brief, although the Indian stock market exhibited favorable trends, investors continue to be advised to exercise prudence in assessment and risk mitigation.

Fig 1: BSE Sensex during the month of January 2024 (Source: www.investing .com)

RESERVE BANK OF INDIA POLICIES

The Reserve Bank of India (RBI) serves as the nation's monetary authority and central bank. Monetary policy aims to ensure price stability and foster economic growth through the oversight of the banking system, management of currency and foreign exchange reserves, and communication of monetary policy decisions. Few pivotal measures implemented by the Reserve Bank of India in January 2024 are as below:

i) The Reserve Bank of India (RBI) released exhaustive guidelines on January 1, 2024, outlining the necessary protocols that banks should establish in order to handle inactive accounts and unclaimed deposits. The purpose of these guidelines is to aid account holders, streamline the process of resolving complaints and claims, and prevent fraudulent activities. Additionally, the Reserve Bank of India (RBI) increased the aggregate deposit limit for Scheduled Primary (Urban) Co-operative Banks (UCBs) in Tier 3 and 4 to one crore Rupees or more on the same day. It is anticipated that this will enhance the profitability and liquidity of these UCBs.

ii) The Deputy Governor of the RBI presided over a meeting with the Managing Directors and Chief Executive Officers of every Credit Information Company (CIC) on January 2, 2024. The meeting deliberated on matters pertaining to the security, reliability, and punctuality of credit information, in addition to the contribution of CICs to consumer protection and financial inclusion.

iii) The Reserve Bank of India (RBI) released its third bi-monthly monetary policy statement for the fiscal year 2023-24 on January 24, 2024. The Reserve Bank of India (RBI) has made the decision to maintain the policy repo rate at 4.25 percent and to maintain an accommodating posture for as long as is required to address the economic challenges posed by COVID-19 and to restore and sustain growth in a sustainable manner.

The RBI implemented several significant measures in India throughout the month of January 2024. They demonstrate the RBI's dedication to carrying out its responsibilities and goals, as well as to adapting to the changing economic and financial circumstances both domestically and internationally.

Policy Decisions by Securities and Exchange Board of India (SEBI)

Several substantial measures were introduced by the Securities and Exchange Board of India (SEBI) in January 2024 with the aim of bolstering market integrity and safeguarding the interests of investors. The SEBI undertook the following noteworthy actions throughout that month:

i) SEBI has put forth a proposal to transition to a "T+0 settlement cycle," which would enable the settlement of stock transactions on the same day as the transaction. With this modification, the settlement procedure will be streamlined and investor risk will be diminished.

ii) **Algorithmic Trading Testing:** - During special live trading sessions, SEBI mandated that all stockbrokers participate in and test their approved algorithmic trading strategies. This requirement underscores the significance of conducting comprehensive evaluations and guaranteeing the preparedness of trading systems in the face of difficult conditions.

iii) **Surveillance Measures on Scrips:** In order to protect the interests of investors, SEBI and exchanges implemented a range of surveillance measures, such as implementing periodic call auctions, reducing price bands, and transitioning specific securities to the Trade to Trade (T2T) segment.

DEVELOPMENTS IN CRYPTO MARKET

In the month of January 2024, the following crypto market developments transpired:

1. Crypto ETF: U.S. regulators have granted official approval to exchange-traded funds (ETFs) linked to the spot bitcoin market, a new entrant in the cryptocurrency pool.

The U.S. Securities and Exchange Commission (SEC) adopted rule modifications that authorize the introduction of spot bitcoin ETFs in the country. The ETFs were not identified by the SEC; however, eleven asset managers were reportedly "approved" to introduce the new product, according to The Wall Street Journal.

The SEC's ruling potentially signifies a substantial change in the way the investing public perceives and engages in cryptocurrency trading. SEC leaders have cautioned for years about the dangers of the largely unregulated cryptocurrency markets, rejected a number of crypto-based investment applications, and fined alleged crypto frauds.

2. Expansion of the DeFi Market: - Since November, the DeFi market has exhibited a consistent positive trend, culminating in a growth of 15.2% in December 2023. Solana experienced the most substantial growth in Total Value Locked (TVL), which increased by 115%.

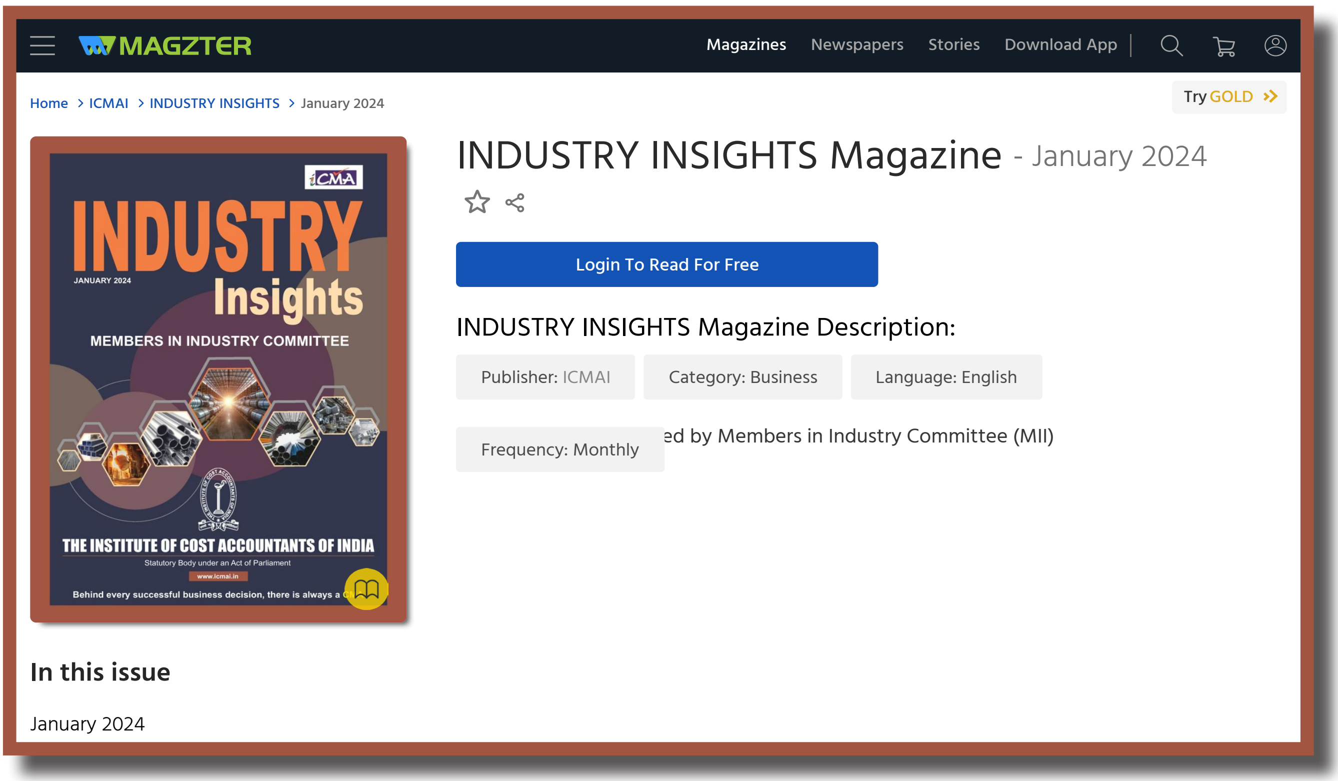
3. The Finest Cryptocurrency Selections: - Amidst heightened volatility resulting from diminished trading volumes during the holiday season, a number of cryptocurrencies surfaced as preferred investments in January 2024. The aforementioned cryptocurrencies consist of Solana (SOL), Cosmos (ATOM), Ethereum (ETH), Dashlink (LINK), and ScapesMania. Extensive research substantiates their prospective achievements.

4. The Ethereum Killer Account: - The narrative pertaining to the "Ethereum killers" became more prominent, largely due to Solana's outstanding performance. Airdrop mining, a frenzy over meme coins, and adverse sentiment regarding ETH all played a role in the formation of this trend. The continued existence of this narrative in 2024 is yet to be determined.

In brief, the crypto industry experienced noteworthy advancements in January 2024, wherein ETF listing, altcoin performance, and DeFi expansion occupied prominent positions.

Fig 2: Bitcoin chart (Source: www.investing.com)

INDUSTRY INSIGHTS UNDER MAGZTER



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