

Challenges and Opportunities for Young CAs in Indian Automobile Industry



Indian Automobile Industry



This article appraises the readers on challenges and opportunities for the young Chartered Accountants in the Indian Automobile Industry. It puts into a professional perspective the status of the Indian Automobile Industry and future prospects, job role/task of finance/accounting function in auto industry and career related aspects. A finance professional gets the opportunity to participate in various functions in the Automobile Companies, which gives him enough scope to use his professional skills and enhance his capability.

Status of Indian Automobile Industry and Future Prospects

The Indian Auto Industry is in a very interesting phase. Almost all major global players have already arrived in India. Exhibit 1 depicts details of Auto Companies in India.

Details of Sale Nos./Turnover etc. of the Indian Auto Industry of F.Y. 2013-14 are in Exhibit – 2.



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Indian Automobile Industry (2013-14)

Domestic Sales Numbers

2 Wheelers : 14.8 Mn

3 Wheelers : 0.47 Mn

Passenger Vehicles : 2.5 Mn

Commercial Vehicles : 0.63 Mn

Industry Estimates

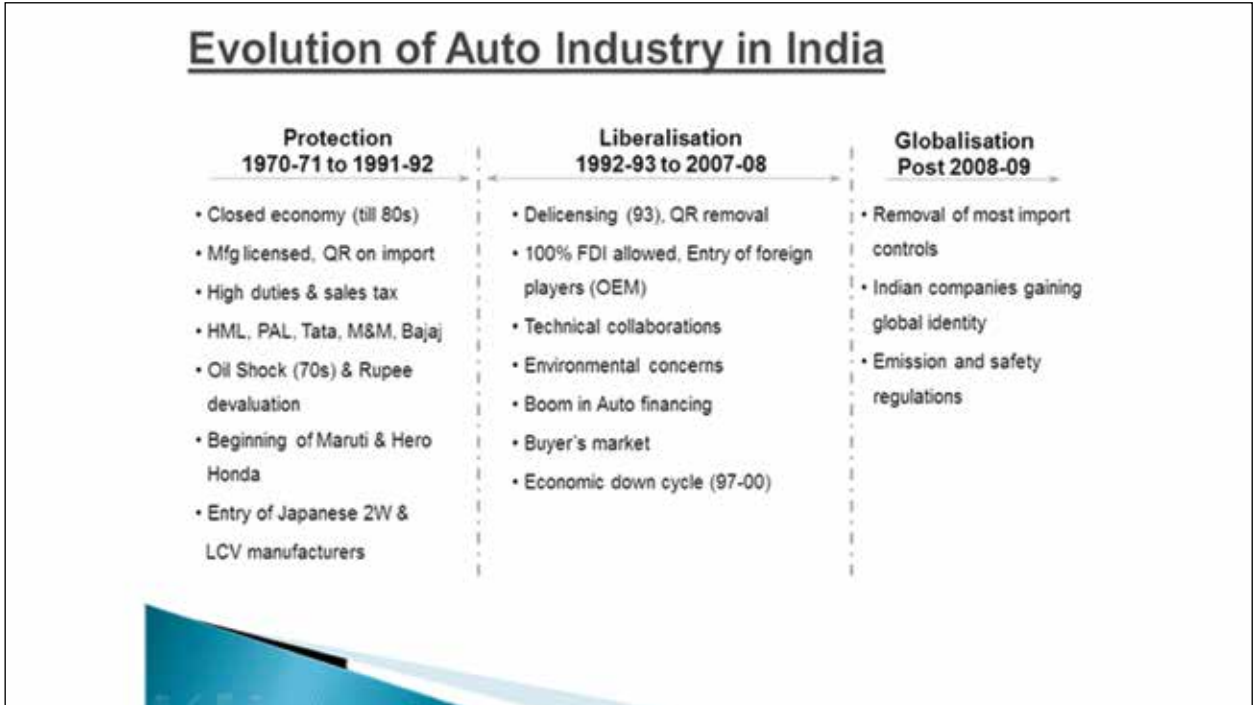
Vehicle Industry Turnover : 46 bill USD

Vehicle Exports : 6.5 bill USD (14% of Turn Over)

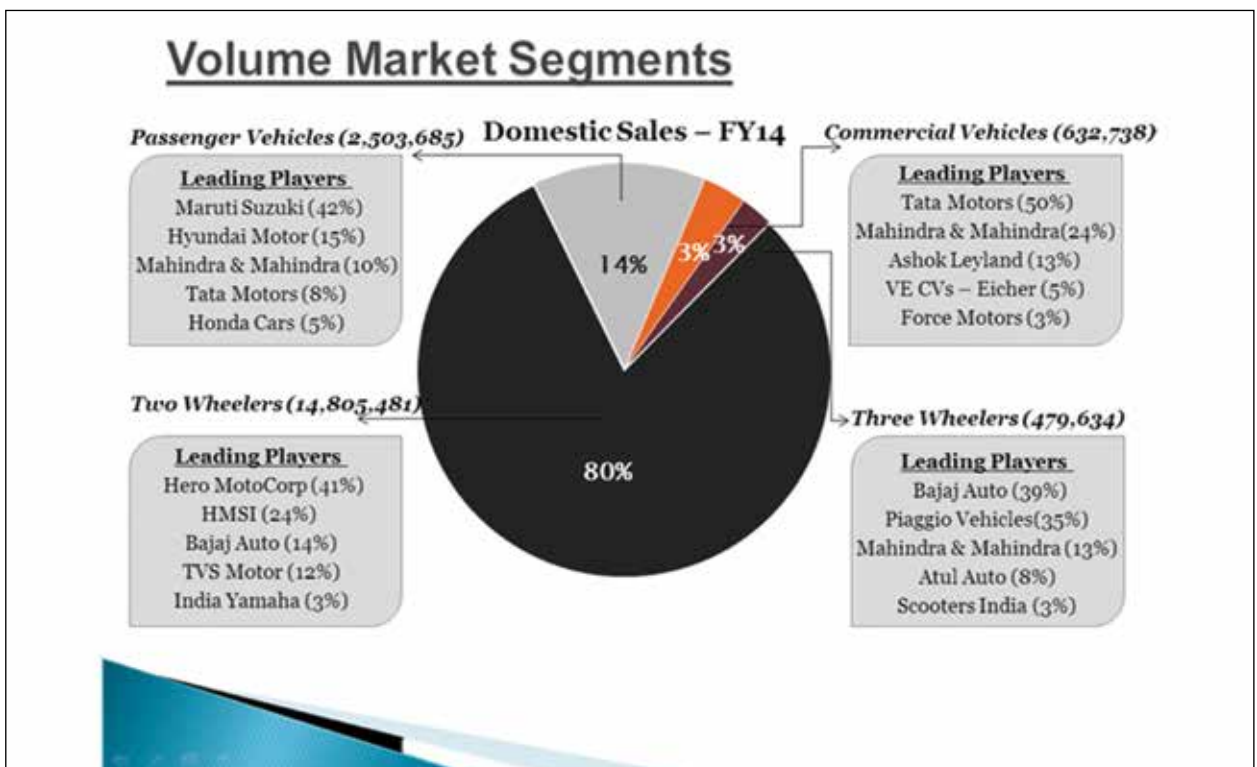
Employment (Direct+Indirect) : 1 Mn+18 Mn

Young Members Empowerment

Exhibit 3 shows the evolution of the Auto Industry in India from the initial phase of production to the present phase of globalisation.



Details of the market segment and the major suppliers are in Exhibit 4.



Young Members Empowerment

The Indian Automobile Industry has a very prominent role to play in the world. Details are in Exhibit 5.

Future Growth Potential

The common man may have some apprehension about the future potential after looking at the traffic congestion in metros or the lukewarm growth in the last 1-2 years. However, I am of the view that this is a temporary hiccup. The number of people who “have got” vehicles are lesser than the people who “have not got” a vehicle. This is reflected in the vehicle penetration data which is in Exhibit 6.

Where does India stand in the world?

2nd Largest TWO WHEELER manufacturer

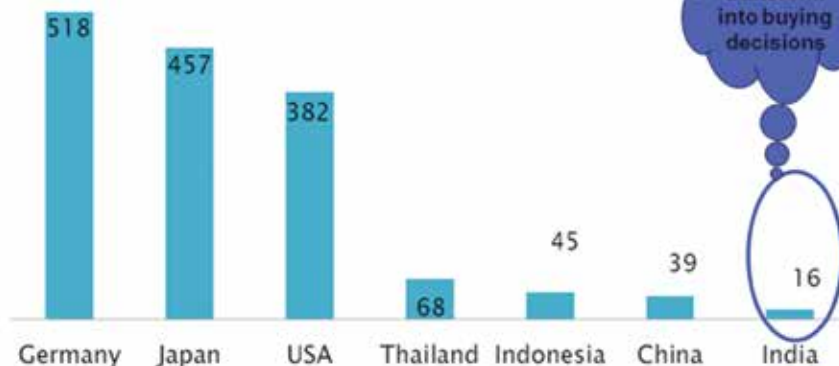
2nd Largest BUS manufacturer

5th Largest HEAVY TRUCKS manufacturer

6th Largest CAR manufacturer

8th Largest COMMERCIAL VEHICLE manufacturer

Opportunity - Low penetration



Source : ACMA

Investment by Auto Industry

Keeping the potential in view, manufacturers are making significant investment for capacity expansion:

- ▶ Over **USD 4.4 billion** invested in last three years to create additional capacity
- ▶ Planned investment in next few years is expected to be around **USD 4.2 billion**

FY 12-13: 1 USD = 50 INR
Future: 1 USD = 60 INR

Keeping the potential in view, the manufacturers are making a significant investment for capacity expansion. As per the informal estimate by SIAM, the planned investment in the next few years is expected to around US\$ 4.2 billion. All of the above clearly indicates that there is enough latent demand for vehicles in India and there is going to be substantial growth and prosperity in the Indian Auto Industry.

Young Members Empowerment

Accounts and Finance Function

The Accounts and Finance function is as under:

Role of Accounts/Finance Function:

Front-line Roles:

- a) Fund Management
- b) Tax Management

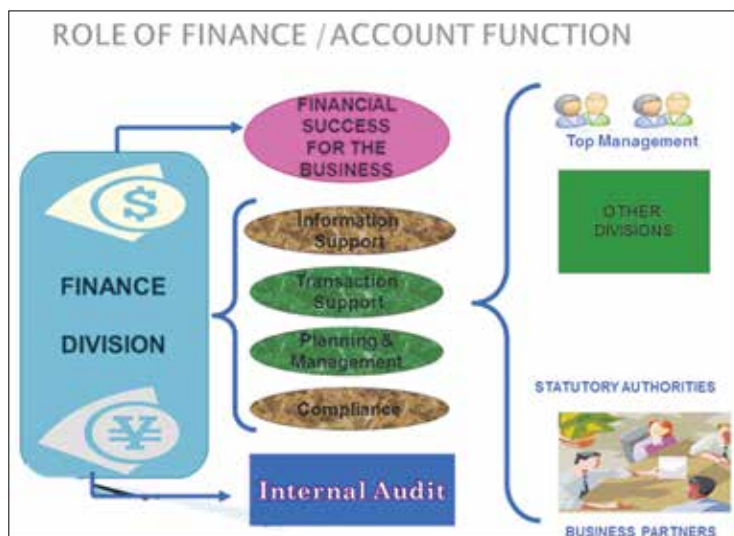
Support Role:

- a) Information Support
- b) Receipts & Payments

Front-line Role, *i.e.*, fund management and tax management, which is a specialised function. Each chartered accountant possesses professional skills to carry out this function.

The Support Role *i.e.*, jobs and tasks performed by these professionals as a support to the main business activity being carried out and other functions such as purchasing, production, marketing & sales, *etc.* These roles are performed at different levels on the basis of nature of the transaction. It may be performed at the top management level or at operating level, *etc.*

Finance professionals have to deal with the top management, other colleagues, statutory auditors, tax departments like the Excise Department, Sales Tax Department, Income-tax Department, *etc.* They also deal with other business partners like suppliers, customers, service providers, *etc.* This is explained in Exhibit 8.



The detailed explanation of the role of Finance Professionals in Auto Industry is explained hereunder:

The total role can be bifurcated into the following sub-categories:

- 1) Planning and Decision-making
- 2) Budget and Costing
- 3) Corporate Accounting & Reporting
- 4) Transaction Accounting (Sales Accounting/ Purchase Accounting)
- 5) Taxation: (a) Direct Tax; and (b) Indirect Tax
- 6) Banking & Treasury
- 7) Internal Audit and Internal Controls

1. Planning and decision-making consists of the following activities:

- Strategic Planning
- Feasibility analysis for business decisions (capacity expansion, new model introduction, *etc.*)

2. Budgeting & Costing:

- Preparing revenue budgets
- Preparing long term plans
- Product Costing & Contribution analysis, Ratio & Variance analysis.

3. Corporate Accounting & Reporting:

- General Ledger maintenance in compliance with Indian & International GAAPS
- SEBI Compliance for Quarterly results
- Arranging Statutory Audits
- Reporting to Holding Companies/Group Companies, *etc.*

4. Transaction Accounting (Sales Accounting/ Purchase Accounting)/Fixed Asset:

- a) Sales Accounting- Accounting of Sales of vehicle, Spare parts, Extended Warranty, *etc.* Accounting relating to marketing expenses, receivables and monitoring of default if any
- b) Purchase Accounting- Payment to suppliers for various inputs services and capital equipment
- c) Fixed Asset - Maintaining Fixed Asset Register-Depreciation.

5. Taxation:

Direct Tax:

- Direct tax planning,
- Transfer pricing study & assessment,
- Filing of Returns under Direct Tax Laws,
- Representing the Company in various assessment & appeals proceedings.

Young Members Empowerment

Indirect Tax:

- Indirect Tax planning and tax management,
- Availment of Input Tax Credit (CENVAT/ Service Tax/VAT),
- Filing of various Returns under various Indirect tax laws:
 - Excise
 - VAT
 - Service Tax
- Representing the company in various assessment appeal and proceedings.

6. Banking & Treasury:

- Realisation of sale receivables, cheque issuance/ electronic fund transfer to suppliers, Bank reconciliation, *etc.*
- Foreign currency transactions including forward covers and hedging.

7. Internal Audit & Internal Controls:

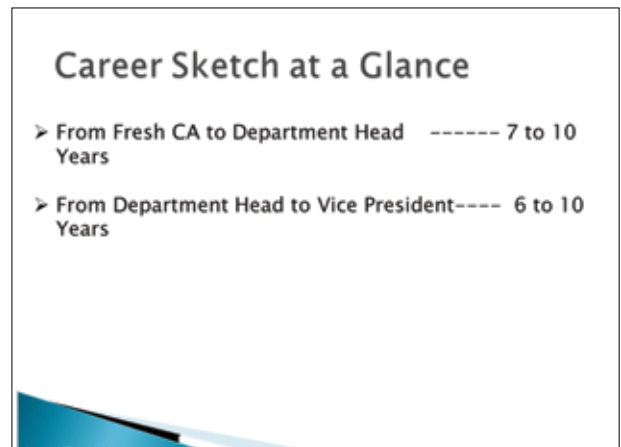
- Ensuring internal controls,
- Internal Audit as per plan approved by Audit Committee,
- Compliance with Clause 49 of Listing agreement.

There is a statutory requirement for adequate internal controls so as to facilitate the same finance/accounting professionals who have to play a very significant role. Most of the Automobile Industries have established an elaborate computer-based system, each and every process is fully analysed and check points are built in and at periodical intervals, each process owner is supposed to check whether the controls are being maintained and in case any non-compliance appropriate counter measures are taken. This is called Risk & Control Matrix.

Career Aspect

1. Recruitment & Promotion

Normally, fresh Chartered Accountants are recruited by the Automobile Companies at Assistant Managers' level and with good performance they move upwards in the journey of career progress. Exhibits 9 & 10 reflect the organisational hierarchy and career scope.



2. Compensation:

In a manufacturing company, compensation is not only by way of hard cash, it is much more than that. Young professionals should also be aware of the expectations of their employer from young CAs, which is in Exhibit 11. Let young professionals be part of the Indian Auto Industry in the journey towards excellence.

