



# Foundation Course for All India Services & Central Civil Services Government of India

## Finance for Policy Makers

11.30 am to 1.30 pm/ 3<sup>rd</sup> October 2024



Residential Training @ MCRHRDIT, Hyderabad  
23<sup>rd</sup> September 2024 to 27<sup>th</sup> December 2024

**Dr. Kishore Nuthalapati**  
CFO, BEKEM Infra Projects Pvt. Ltd; &  
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**CFO LEDGER**

*Fresh takes, in-depth analysis and opinions from our esteemed panel of industry leaders*



Kishore NK - Kishore NK, Director BEKEM Infra Projects Pvt. Ltd.

**Interest rate & Inflation challenges**

Markets are prepared to see RBI rising its policy rates in its monetary policy committee meeting schedule between 6 th to 8 th June 2022. But the markets are eager about how much would the increase be.

**Search Funds: A new venture-entrepreneurship**

Growth funding is critical to sustain and grow a business even after it breaks even and gains brand image. For most of the products, growth funding is difficult. Should a potential business perish for want of growth funding? Not necessarily. Innovations in entrepreneurship have a solution in the name of Search Funds. Search Funds bypass

10 days ago

**The Ascent & Assent of Cryptocurrencies**

The launch of cryptocurrency exchange platform by TCS and association of other IT majors such as Infosys and Wipro with block chain technology increased attention towards block chain technology and also cryptocurrencies. It may be funny yet interesting that the Reserve Bank of Kailasa, the central bank of the new nation Kailasa

236 days ago

**Have masala bonds become less spicy?**

Pecking order imbues fund mobilisation. Companies prefer exhausting their debt sources before examining equity funds. However, the debt equity limit imposed by



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- The details are compiled from the publicly available data and are not recommendations or any advices.



**Contribution of Dr. Kishore Nuthalapati in TV media with analysis on Economy & Financial Markets**



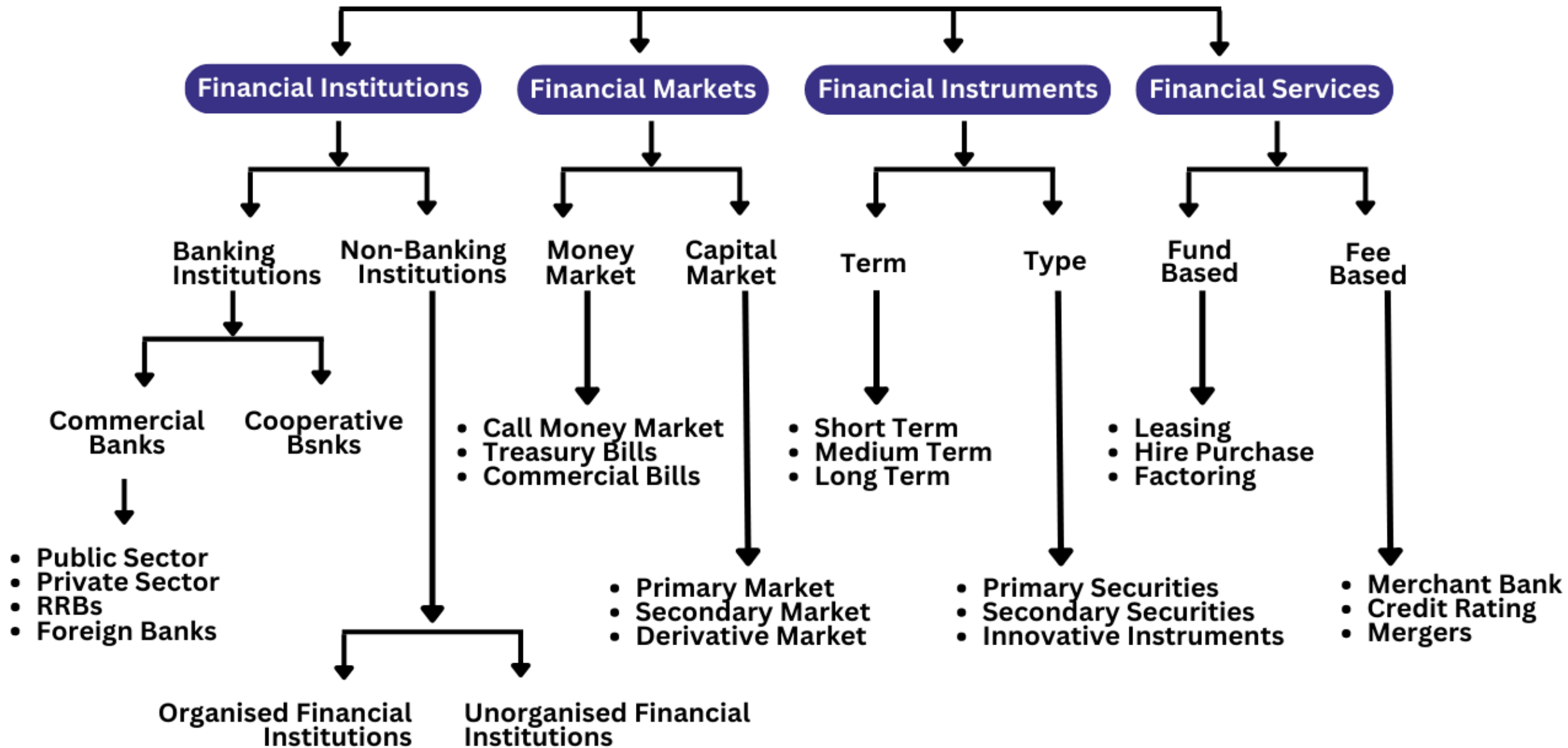
. with knowledge

# Finance for Policy Makers: Coverage of discussion

- Indian Financial System
- Union Budget and Key Aspects
- High Frequency Economic Indicators
- Gross Domestic Product & Measurement
- Accounting and the Financial Statements
- Approved & Adopted Accounting Systems
- Corporate Finance & Key Functional Aspects
- Finance related Challenges to the Policy Makers
- Summarizing, Reviewing, Questions and Answers

- Dr. Kishore Nuthalapati

# COMPONENTS OF INDIAN FINANCIAL SYSTEM





# Union Budget

- Union Budget Information System (**UBIS**) with standard numeric codes.
- Budget **circular** issue in **Sept**
- **Pre-Budget** & Revised Estimates **meeting** in mid of **October**
- Receive complete **info by Nov**
- Provisional **SBE & DDG by mid Dec**
- Final **allocation** by end of **Dec**
- **Final** budget allocation by **Jan end**
- Budget Presentation on 1<sup>st</sup> Feb

## What to look for in budget?

- Tax changes
- GDP growth rate
- Sectoral balance
- Variation between BE and RE
- Expenditure for asset creation
- Quantum & Burden of fiscal deficit
- Status of previous budget decisions
- Allocation vs exp per last year budget

# Budget Documents: 2024-25

- A. Annual Financial Statement (AFS)
- B. Demands for Grants (DG)
- C. Finance Bill
- D. Fiscal Policy Statements mandated under Fiscal Responsibility and Budget Management (FRBM) Act, 2003:
  - i. Macro-Economic Framework Statement
  - ii. Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- E. Expenditure Budget
- F. Receipt Budget
- G. Expenditure Profile
- H. Budget at a Glance
- I. Key Features of Budget 2024-25
- J. Implementation of Budget Announcements, 2023-24

## Deficits:

Budgetary deficit

Fiscal deficit

Revenue deficit

Effective Rev deficit

Primary deficit

# High frequency indicators



SI No	Indicator	Theme	Remarks	Level in India	Other countries
1	Unemployment Rate	Indicates employment level in the country	Expansion of businesses and growth	8.51% in August 2024	4.2% in USA
2	EPFO Subscribers	Growth & formalization of employment	Sectors, gender, age, etc	1.65 crs by FY 2023-24	SSA in USA, CPPIB in Canada, etc
3	E-way bills	Volume and direction of goods movement	Value, kind, etc	34 lakh e-way bills per day	Consignment notes
4	Housing Launches	Projection of real estate growth	Region, sizes, values,	1,60,000 launches in H1 of 24-25	13 lakhs in 2023 in USA
5	Housing Sales	Present state of real estate	Values, prices, etc	Rs. 4.5 trln; 350,000 units	13 lakhs in 2024 in USA
6	Domestic Passenger Vehicle Sales	Consumer sentiment and income availability	Volumes of various kinds of 4-wheelers	40 lakhs vehicles p.a.	180 lakhs p.a in USA
7	Domestic Air Passenger Traffic	Business sentiment, and deal volumes	Sectors, occupancy, etc	15 crores pa	100 crores p.a in USA
8	GST Collections	Economic activity and consumer spending	turnover volumes of businesses	Rs. 22 trillion	\$500 billion pa in USA
9	PMI Composite	Measures direction of private sector activity	> 50% is expansion, less is contraction	60 in India	49 in USA
10	Sensex / Nifty	Proxy for the economy in the near future	Positive movement is good and vice versa	25,790 Nifty 50	S&P 500, presently at 5,700



Sl No	Indicator	Theme	Remarks	Level in India	Other countries
11	8-Core Industries Index	Overall health of the economy (monthly released 12 days before IIP)	Coal, Crude Oil, Natural Gas, Refinery items, Fertilizers, Steel, Cement, Power	About 7.5% per annum	1% per annum in USA
12	UPI transactions	Digital and financial inclusion	Using digital payments, cash less	13 bln transactions, Rs. 19 trillion value	RTP in USA, with \$1 trillion value
13	Daily Electronic Toll Collection	Increased movement of goods and people	Revenue from vehicle movement	Rs. 60,000 crs p.a	\$4billion in USA (Z-pass, etc)
14	Port Cargo Traffic	Reflects trade and commerce	domestic and cross border trade	1.5 billion metric tons of cargo p.a.	2.4 billion metric tons in USA
15	Forex Reserves	Country's external position and imports cover	Currency stability and growth potential	\$690 billion, 10 months of import cover	\$36.4 billion, 0.1 months of import cover
16	WPI and CPI	Whole sale and consumer price index	inflation prevalent in the month	1.31% WPI; 3.65% CPI	2.2% WPI and 3.2% PPI
17	Exchange Rate	Value of domestic currency	in comparision with other currencies	INR/USD 83.50	-
18	10-Years G-Sec Yield	Returns investors expect to hold Invsts for 10 yrs	bench mark interest rate for debt market	6.74% on 20th Sep 2024	3.74% in USA on 20-9-24

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19	Bank Credit growth	Economic expansion, demand for loans	Consumer confidence to spend and invest	13.6% for August 2024	-0.3% in USA
20	ECB Volume	Indicates appetite for investment including debt	Difference in domestic and foreign debt	\$32 billion in FY 23-24	\$34 trillion in USA
21	IPOs	Indicates market and investor confidence	volume of investments in equity market	About Rs. 65,000 crs avg per annum	\$25 billion plus in USA
22	Corporate Bonds	indicates corporate debt needs	debt market volumes, depth & cost of capital	Rs. 1.65 trillion p.a	\$1.4 trillion in USA
23	Currency In Circulation	Indicates liquidity in the economy	Physical money in the economy	Rs. 34 trillion	\$2.33 trillion
24	GDP	Growth of the economy	of domestic product	7.3% FY 2023-24	2.5% for USA

# GDP & Measurement

Gross domestic product (GDP) is the total market value of all final goods & services produced in a country during a given period of time.

GDP does not include work in homes, criminal activity, and underground economy

## GDP measurement:

## Production

## Expenditure

## Income



Market  
value of final  
goods and  
services

=

Consumption

Investment

Government  
spending

Net exports

=

Labor Income

Capital Income

# **GDP growth rate should be higher than:**

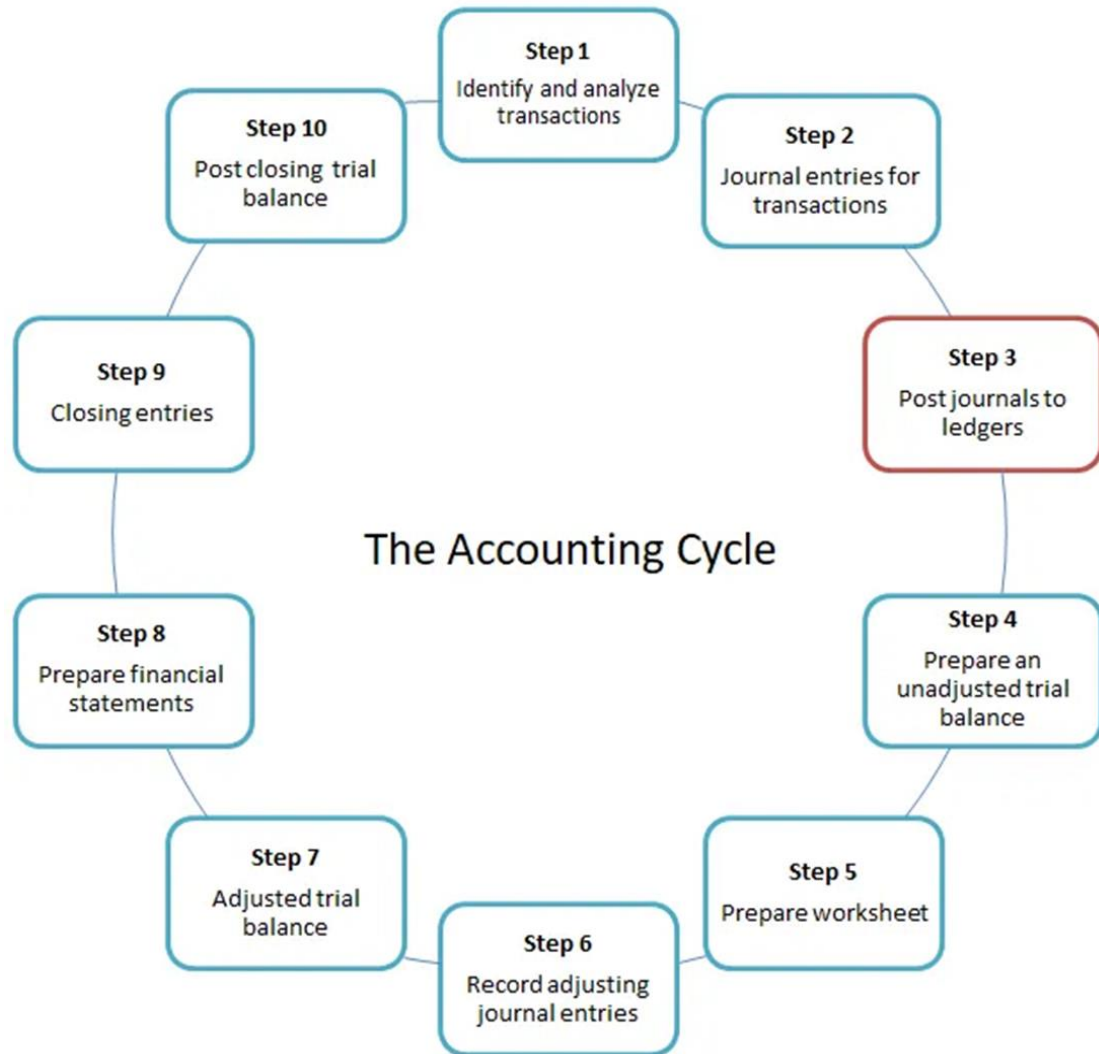
- population growth
- inflation
- productivity growth rate
- investment growth rate
- wage growth rate
- nominal interest rates
- public debt to GDP ratio
- Consumer debt growth
- savings growth rate
- Health care cost growth rate
- corporate profit growth rate
- housing price growth rate
- education cost growth rate
- energy consumption growth
- public expenditure growth
- Social welfare exp growth



# Limitations with GDP

- Income distribution is not reflected
- Everyone, and mostly Govt is worried about GDP
- Quality of life and welfare measure are not captured
- High GDP growth rate is not good (courtesy: inflation)
- Pollution, environmental impact, etc are not captured
- Government do not have complete power to change GDP
- Cultural and social values are ignored with mechanical computations
- GDP cannot measure value of economy or value of assets of economy
- GDP ignores non-monetary transactions such as household work, volunteer work, and even informal economy
- National Balance sheet is not prepared in India. Only 20% of economies prepare this.

# Accounting Cycle & Financial Statements



**5 key items:** Assets, liabilities, revenue, expenses, and equity.

## Financial Statements: Following 5

- **Balance sheet** = Position at the end of FY
- **P&L** = What takes place until the FY end
- **CFS** = Flow of cash during the FY
- **Changes in equity** = in Equity & Net Worth
- **Notes** = Explanations & additional info

**Balance Sheet as at 31st March**

<b>Liabilities</b>	
Equity Share Capital	
Reserves & Surplus	
5% Preference Share Capital	
Convertible Debentures	
Non-Convertible Debentures	
Lease Liabilities	
Term Loans (TL) @ 12%	
<b>Current Liabilities:</b>	
Cash Credit @ 10%	
Trade Payables	
Provisions - Current	
Other current liabilities	
Current Maturity of TL	
<b>Total</b>	

<b>Assets</b>	
Property Plant Equipment	
Capital Work-in-progress	
Investment Property	
Good Will	
Investment in Subsidiaries	
Intangible Assets	
Other Non-current assets	
<b>Current Assets:</b>	
Inventories	
Trade receivables	
Contract Assets	
Other current assets	
Cash/Bank	
<b>Total</b>	

**Statement of Profit & Loss for the year ended 31st March**

<b>Expenditure</b>	
Purchases - Indegenous	
Purchases - Import	
Employees Cost	
Work Expenses	
Depreciation @ 10%	
Selling & General Exp	
Interest Cost	
<b>Profit Before Tax</b>	
Income Tax @ 20%	
<b>Profit After Tax</b>	
<b>Total</b>	
Dividend Payment	
<b>Transfer to Reserves</b>	
<b>Total</b>	

<b>Income</b>	
Indigenous	
Export	
Interest income	
Dividend Income	
Commission	
Scrap Sale	
Closing Stock	
<b>Total</b>	
Profit Brought Down	
<b>Total</b>	

# Ratios & Levels of Accounts

Financial Ratio	T-1	T-2	T-3	T-4
Profit After Tax %	0%	11%	15%	19%
Current Ratio Times	100	2.29	1.79	1.97
Debt -Equity Ratio Times	0	0.00	0.19	0.18
Return on Assets %	0%	7%	10%	15%
Return on Equity %	0%	8%	15%	24%
Cash Profit to Equity	0%	12%	19%	27%

Inventories	0	5.00	5.00	10.00
Trade receivables	0	20.00	40.00	50.00
Contract Assets	0	0.00	10.00	10.00
Other current assets	0	20.00	25.00	25.00
Cash/Bank	100	23.60	9.40	19.50
<b>Total Current Assets</b>	<b>100</b>	<b>68.60</b>	<b>89.40</b>	<b>114.50</b>
Cash Credit @ 10%	0	0.00	10.00	10.00
Trade Payables	0	20.00	22.00	26.00
Provisions - Current	0	0.00	2.00	4.00
Other current liabilities	0	10.00	13.00	15.00
Current Maturity of TL	0	0.00	3.00	3.00
<b>Total Current Liabilities</b>	<b>0</b>	<b>30.00</b>	<b>50.00</b>	<b>58.00</b>





# Accounting Systems

- Cash based accounting
- Single Entry system
- Double Entry system
- Quadruple Entry system
- Indian GAAP
- IndAS
- IFRS (USA, China and Japan do not follow)
- US GAAP
- System of National Accounts (as per UNSD)

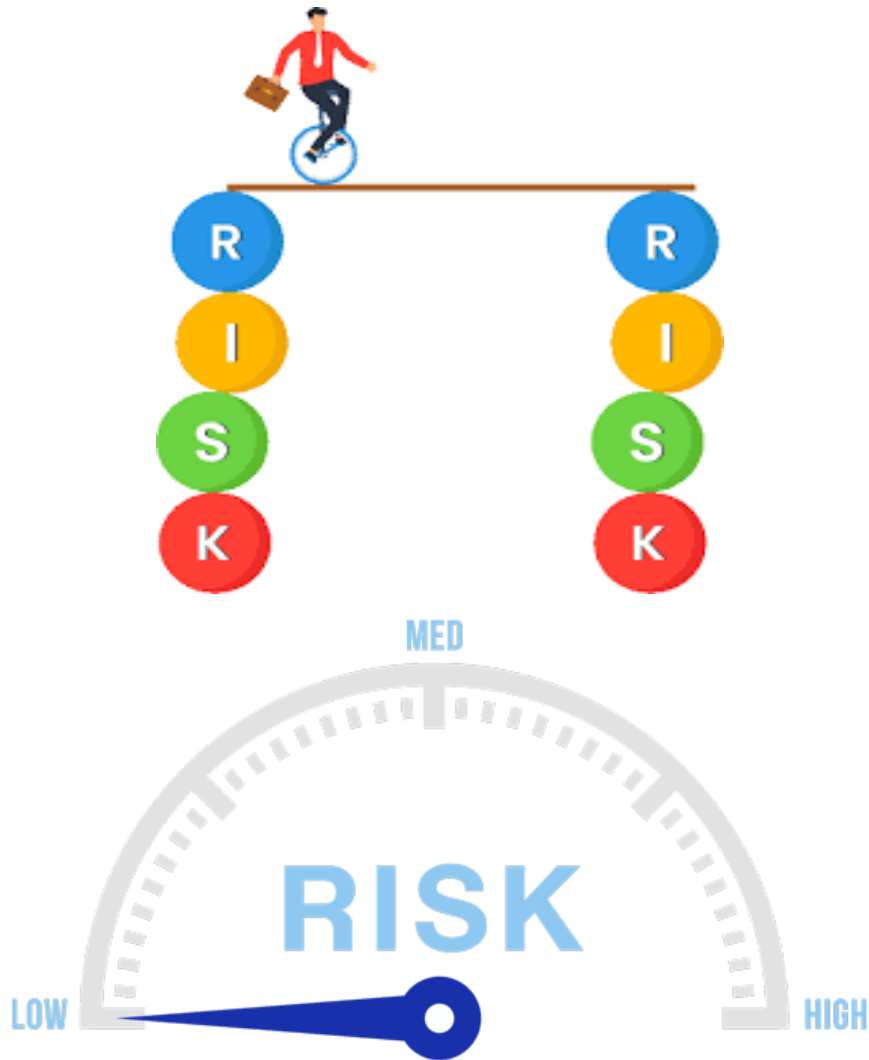
# Corporate Finance

- Time value of money
- Value maximization
- Financing – Investing – Dividend
- Financing – Cost of Capital & Capital Structure
- Investment Decisions – Capital Budgeting
  - NPV / PBP / IRR
  - Return / Risk / Coefficient of Variance
- Dividend – policy / determining factors / plough back
- Working Capital Management
- Expansion / Diversification
- Liquidity / Profitability
- Mergers & Acquisitions

# Challenges for Policy Makers



# Finance Challenges



- Law – Regulation – Guidelines
- Compliance is the critical thing
- Contracting – Trust - Humanity
- Balancing competing demands
- Budget and availability of funds
- Complex Procedures & Process
- L1 process is the biggest demon
- Asset management & safeguard
- Lack of control on the utilization
- Risk of savings & private finance



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country and the public**



# **Thank You**

