IMPACT OF IND AS ADOPTION ON THE FINANCIAL PERFORMANCE OF INDIAN COMPANIES

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ABSTRACT

The Indian companies are provided with a global reporting landscape with the introduction of Indian Accounting Standards (Ind AS). These standards are in line with the global International Financial Reporting Standards (IFRS) and have made the financial statements comparable at a global level. In India, the MCA gave a strategic plan for the introduction of Ind AS, which are in line with IFRS, in 2010. A planned roadmap was given for the adoption of Ind AS voluntarily from April 2015, mandatorily for all companies with a net worth of 500 crore or more from April 2016, and so on in a phased manner. The objective of the research is to analyze the impact of Ind AS adoption on the financial performance of selected companies in India, based on the cutoff year 2016. Data from 39 eligible companies (ranging from 2012-2023) was collected, and hypotheses were tested using paired sample t-tests. The results show that there is no significant impact of Ind AS adoption on the financial ratios of the selected companies. The study has practical implications for the companies that are still lagging behind in reporting Ind AS data and companies for whom adoption is still voluntary, as findings suggest that adoption and reporting of Ind AS do not affect the financial performance of the company.

Key Words: Ind AS, financial performance ratios, IFRS, t-test.

INTRODUCTION

The rise of globalization, the internationalization of capital markets, increased cross-border listings, and the necessity for comparable financial reporting have accelerated the steps towards uniformity in accounting rules worldwide, fostering the implementation of uniform accounting standards. This drive for standardization and harmonization of accounting rules began in the 1990s and progressed towards convergence in the 2000s (Zeff, 2007).

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Establishing common accounting standards can assist investors in distinguishing between low-quality and high-quality companies, providing them with more information and enhancing safety in their investment decisions. Consequently, in today's global business landscape, companies advocate for a universally recognized accounting language through globally harmonized accounting standards. To achieve this harmonization, the International Accounting Standards Board (IASB) introduced International Financial Reporting Standards (IFRS), which have become the international standard for accounting. Currently, over 130 nations have adopted IFRS, with many more committed to doing so in the future. Unlike their predecessors, these new accounting standards are principle-based. In India, the Ministry of Corporate Affairs oversees the operations of Indian companies and released a strategic roadmap for convergence with IFRS in January 2010. Subsequently, in February 2011, after extensive deliberations and consultations, the Ministry of Corporate Affairs issued 35 Accounting Standards known as Ind AS to facilitate the process of adoption.

Although Ind AS has progressed a lot and is becoming quite close to IFRS, there are still some differences which can lead to differences in the financial statements of the firm and can also have an impact on the company's financials. Researchers around the world have reported a mixed impact of the adoption of IFRS on a company's financials. This paper seeks to examine the impact of the adoption of Ind AS on the financial performance of Indian companies.

LITERATURE REVIEW

Companies today are operating at a global level, running in multiple countries. With each country having its own accounting standards, it is a time-consuming task to prepare financial statements as per the requirements of local accounting standards of each country. The introduction of IFRS is a solution to this problem. Therefore, all countries worldwide must adhere to the IFRS, which is approved by IASB. The IFRS standards are implemented as Ind AS in India. Keeping in mind the legal and judicial framework in India, some changes are made during the convergence process. Ind AS was adopted in a phased manner in India, giving companies sufficient time to clearly understand the new standards. Many researchers around the world have studied the impact of this adoption on the company's financial performance. Some of the results are discussed here.

Tlemsani et al., (2024I investigated the impact of IFRS adoption on companies' financials in Saudi Arabia. Using a paired-sample t-test, the results revealed significant differences between GAAP and IFRS for the measurement, recognition, and classification of non-current assets and liabilities. Another study by using a sample of German companies from the years 1998 to 2002. Ebaid (2022) Revealed that there was no significant difference between the profitability, leverage, and liquidity of Saudi Arabian companies in the post-IFRS era. Rudzioniene at al., (2022) I evaluated the impact of IFRS on the liquidity, profitability, and leverage of 15 state-owned companies in Lithuania. The results revealed an insignificant decrease in the profitability and liquidity ratios.

However, the decrease in the leverage ratio was significant. Opare et al., (2021) Used meta-analysis of 56 studies and discovered that adopting IFRS enhances financial reporting comparability and market liquidity while lowering the cost of equity. In 2018, the ICAI conducted a thorough examination of the impact of Ind AS. They conducted both quantitative and qualitative impact analyses of the consolidated financial statements of 170 selected companies listed under Ind AS, representing various industry sectors. The objective was to assess how the transition from Ind AS to US GAAP affected key financial metrics. Additionally, they employed a qualitative approach through surveys to gauge how the industry handled the implementation of Ind AS, drawing insights from experts in the field. The findings suggest that there is no significant impact on critical financial metrics such as total assets, tangible assets, borrowings, equity, revenue, and profit after tax (PAT) when considered collectively. However, the analysis indicates that the mandated adoption of Ind AS has led to diverse consequences in the Indian manufacturing sector. Chandrasekar et al. (2016) conducted research on Wipro to investigate the influence of these international standards on its financial statements and various key ratios. They compared the consolidated financial statements prepared under GAAP with those prepared under IFRS. By analyzing specific ratios, they identified discrepancies between the two sets of statements. The findings suggest an increase in liquidity ratios and the interest coverage ratio, a slight rise in the debt equity ratio, and no significant improvement in profitability ratios except for a slight increase in the profitability ratio in 2013. Overall, the study indicates that the adoption of IFRS standards based on fair value accounting and strict adherence to the same have strengthened financial indicators, offering decision-makers transparent and accurate accounting insights. Yhlas Sovbetov (2013) investigated the influence of IFRS implementation on UK public listed firms by analyzing three categories of ratios: profitability, capital structure and productivity, and liquidity, both pre- and post-IFRS implementation. According to the study in the UK, IFRS has led to an increase in the ratios of return on assets (ROA) and net profit. Dimitrios et al. (2013) found that transitioning from Greek Accounting Standards (AS) to IFRS could lead to variations in financial ratios. Their study focused on companies newly listed on the Athens Exchange and those with longstanding listings. The findings indicated that there were no significant differences in the operational dynamics of the two groups of companies following the implementation of IFRS. Blanchette, Racicot, and Girard (2011) examined the effect of IFRS adoption on leverage, liquidity, coverage, and profitability measures among a cohort of Canadian businesses. Their survey findings showed fluctuations in means, medians, and volatility across various financial ratios of organizations, although these variances were not statistically significant in most cases. Additionally, they found no notable disparities in outcomes when analyzing results based on groups of companies that adopted IFRS at different points in time. Using 20 financial parameters, Pazarskis and collaborators (2011) examined the potential impact of IFRS adoption by IT sector firms listed on the Athens Exchange in Greece. According to their findings, only the EBIT margin ratio showed a statistically significant

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increase, while the leverage ratio demonstrated a significant decrease. Ferrer et al., (2011) investigated how liquidity and leverage ratios influence the level of IFRS compliance among 100 publicly listed firms in the Philippines, using disclosure indicators derived from balance sheets and income statements. Their research concluded that liquidity and financial leverage do not affect IFRS compliance when represented as indicators on the balance sheet and income statement.As per Swaminathan. S (2011), The convergence of conservative Indian accounting standards with IFRS has a minimal impact on metrics such as ROE, ROA, total asset turnover, or profitability ratio, but it significantly affects the financial leverage ratio. When a company adopts a new accounting standard for its financial statements, the impact on financial indicators may vary, sometimes remaining unchanged. After extensive review, it can be said that there is no consensus on the impact of IFRS/Ind AS on financial ratios because of the time and country differences in the studies.

Arouri et al. (2010) conducted longitudinal research to analyze the return on equity (ROE) and the value relevance of 40 French-listed firms in the fiscal year 2004 following IFRS implementation. Utilizing the fair valuation concept, they observed increases in ROE, net income, and gearing ratio (GR). However, there was limited evidence indicating an improvement in clarity or value relevance.

Lantto and Sahlstrom (2009) analyzed the years 2004 and 2005 as the "pre-adoption" and "post-adoption" periods, respectively, regarding the adoption of IFRS. They observed that this implementation has altered the magnitudes of fundamental financial ratios due to changes in book value and the imposition of stricter regulations. According to their findings, IFRS influenced critical accounting ratios by slightly increasing the profitability ratio (PR) and the gearing ratio (GR), while significantly decreasing the P/E ratio, equity ratio, and quick ratio.

Hung et al. (2007) analyzed the impact of the adoption of IFRS on the financial statements. Results revealed that the absolute variation of total assets, equity, as well as net earnings is significantly greater with IFRS than under German AS. But the difference in financial ratios after the adoption of new standards was insignificant.

Agca et al. (2007) conducted research on 147 firms listed on the "Istanbul Stock Exchange". They looked at the effect of IFRS implementation on the Financial Ratios of these firms between 2004 and 2005. 2004 was used as the "pre-adoption" year and the other as the "post-adoption" year. The results revealed that both the liquidity ratio and the net asset turnover were significantly impacted.

Callao et al. (2007) examined the impact of the adoption of IFRS on the Financial Ratios of 35 Spanish listed companies during 2004 and 2005. It was concluded that following the adoption of IFRS, there was an increase in cash and cash equivalents, current ratio, long-term liabilities, return on equity, and gearing ratio. Conversely, there was a decrease in equity, debtors, operating revenue, and solvency ratio. The researchers highlighted that the revisions under the new regime directly affected the concepts of fair value, particularly in relation to return on equity, gearing ratio, and equity.

Goodwin et al. (2007) discovered that IFRS implementation led to increased liabilities and leverage ratios, alongside decreased equity and earnings on average. These findings align with those of Hung & Subramanyam (2007), who examined the particular impacts of IFRS implementation on a company's financials by comparing statements prepared using IFRS and German GAAP. In their report on 125 Finnish businesses.

RESEARCH GAP

After an extensive review of the literature, it was found that maximum studies have been conducted in a foreign context, and very few studies have been conducted in the Indian context. Either they use data from a short span of time or they focus on very few companies. The present study contributes to the existing literature by filling this gap using an extensive sample of 39 companies over a period of 12 years. The study is novel in its approach as it uses data from the maximum number of available companies for the maximum time period. It also compares the pre and post implementation of Ind AS.

RESEARCH METHODOLOGY

Objectives of the Study: To analyze the impact of Ind AS adoption on the financial performance of Indian companies.

Data Collection: Top 50 NSE NIFTY companies that adopted Ind AS in the year 2016 were selected for the study. The final dataset included 39 companies due to the applicability of Ind AS. The list of companies is presented in Table 1 below. Data is taken from the Prowess and Capitaline database to ensure its authenticity. The collected data ranges from 2011-12 to 2022-23 and has been divided into the Pre-Ind AS adoption phase (2011-12 to 2015-16) and the Post-Ind AS adoption phase (2016-17 to 2022-23) to meet the objective.

List of Companies

Hypothesis of the Study

To meet the objective of this research, the following hypothesis will be examined:

1. H01: Implementation of Ind AS has no significant impact on the Return on Net Worth of Indian firms.
2. H02: Implementation of Ind AS has no significant impact on the Debt-Equity Ratio of Indian firms.
3. H03: Implementation of Ind AS has no significant impact on the Interest Coverage Ratio of Indian firms.
4. H04: Implementation of Ind AS has no significant impact on the Return on Capital Employed of Indian firms.
5. H05: Implementation of Ind AS has no significant impact on the Current ratio of Indian firms.
6. H06: Implementation of Ind AS has no significant impact on the Profit After Tax Ratio of Indian firms.

Research Tool and Test Used: To meet the objective and test the hypotheses, a paired sample t-test was performed using SPSS.

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DATA ANALYSIS & INTERPRETATION

As the objective of the research is to analyse the impact of Ind AS adoption on the financial performance of the Indian companies, the collected data was analysed using paired sample t-test. The results are presented in the tables as follows:

Table 1:

Company Name	Sector	Company Name	Sector
Adani Ports and SEZ	Infrastructure	M & M	Automobile
Asian Paints	Paints and Varnishes	L & T	Automobile
Bajaj Auto	Automobile	Power Grid	Power Generation
BPCL	Refineries	Nestle	Consumer Food
Bharti Airtel	Telecommunications	ONGC	Oil Exploration
Britannia	Consumer Food	NTPC	Power Generation
Coal India	Coal	Maruti Suzuki	Automobile
Cipla	Pharmaceuticals	Sun Pharmaceutical Industries Ltd	Pharmaceuticals
Divis Labs	Pharmaceuticals	Reliance Industries	Diversified
Dr. Reddy's Lab	Pharmaceuticals	Shree Cement	Cement
Eicher Motors	Automobile	Tata Steel	Iron and Steel
HCL Technologies	IT services and consulting	Tata Consumer	Consumer Food
Grasim	Diversified	TCS	IT services and consulting
Infosys	IT services and consulting	Tata Motors	Automobile
Hero Motocop	Automobile	Titan	Consumer goods
Hindelco	Iron and Steel	Tech Mahindra	IT Services and Consulting
HUL	FMCG	UPL	Pesticides and Agrochemicals
IOC	Coal	Ultra Tech Cement	Cement
JSW Steel	Iron and Steel	Wipro	IT Services and Consulting
ITC	Diversified		

Table 2:

Paired Samples Statistics					
		Mean	**N**	**Std. Deviation**	**Std. Error Mean**
Pair 1	**RONW Before**	**22.1372**	**39**	**14.63246**	**2.34307**
	RONW After	**22.8637**	**39**	**27.5114**	**4.40535**
Pair 2	**DE Before**	**0.5836**	**39**	**0.67246**	**0.10768**
	DE After	**0.5903**	**39**	**0.63741**	**0.10207**
Pair 3	**IC Before**	**193.794**	**39**	**518.06389**	**82.95661**
	IC After	**157.8196**	**39**	**443.62144**	**71.03628**
Pair 4	**ROCE Before**	**33.8067**	**39**	**104.98886**	**16.81167**
	ROCE After	**20.3712**	**39**	**12.98123**	**2.07866**
Pair 5	**CR Before**	**1.6174**	**39**	**0.79524**	**0.12734**
	CR After	**1.7497**	**39**	**1.06391**	**0.17036**
Pair 6	**PAT Before**	**12.8938**	**39**	**9.10121**	**1.45736**
	PAT After	**12.0308**	**39**	**8.12469**	**1.30099**

The descriptive statistics of various ratios of selected companies is presented in table 2. The average mean value of Return on Net Worth before adoption of Ind AS and after adoption of Ind AS has a minor difference of 0.73 only while standard deviation has greater difference. Incase of Debt-Equity ratio both mean and standard deviation have minor difference while Interest Coverage and Return on Capital Employed have higher difference in mean and standard deviation, the reason for difference in standard deviation is size and nature of companies while for difference in mean the reason is increase/decrease in debt. The average Current Ratio and Profit After Tax also have minor differences in mean and standard deviation, it means the companies do not have visible impact on financial ratios after adoption of Ind AS as compared to the before adoption Ind AS data.

Table 3:

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	RONW Before & RONW After	39	0.226	0.166
Pair 2	DE Before & DE After	39	0.897	0
Pair 3	IC Before & IC After	39	0.722	0
Pair 4	ROCE Before & ROCE After	39	0.184	0.262
Pair 5	CR Before & CR After	39	0.807	0
Pair 6	PAT Before & PAT After	39	0.892	0

Above table 3 describes the correlation between the financial ratios before Ind AS adoption and after adoption of selected companies. According to the analysis presented in the table, there is a significant positive correlation for the Debt-Equity Ratio, Interest Coverage Ratio, Liquidity Ratio, and Profit after Tax Ratio. However, for the Return on Net Worth and Return on Capital Employed, the correlation is positive but not significant. The reason for this non-significant positive correlation is the amount of capital employed by a few of the companies.

CONCLUSION & IMPLICATION

The objective of the study was to analyze the impact of Ind AS implementation on the financial performance of Indian companies. The collected data of 39 companies was divided into pre- and post-era of Ind AS implementation. As the data set belongs to the same set of companies in the pre- and post-era, the paired sample t-test was applied for hypothesis testing. The results showed that there is an insignificant impact of Ind AS implementation on the financial performance of the companies, and these results are in accordance with the previous studies and support the work by Ibiamke & Ateboh Briggs (2014), Abdul Baki et al. (2014), Aggarwal Rishika (2020), Callao et al. (2007), Lantto and Sahlstrom (2009). The study has practical implications for companies that are still lagging behind in reporting Ind AS data and companies for whom adoption is still voluntary, as findings suggest that adoption and reporting of Ind AS do not affect the financial performance of the company.

Table 4:

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	RONW Before - RONW After	-0.73	28.09	4.50	-9.83	8.38	-0.16	38	0.87
Pair 2	DE Before - DE After	-0.01	0.30	0.05	-0.10	0.09	-0.14	38	0.89
Pair 3	IC Before - IC After	35.97	365.03	58.45	-82.35	154.30	0.62	38	0.54
Pair 4	ROCE Before - ROCE After	13.43	103.39	16.55	-20.08	46.95	0.81	38	0.42
Pair 5	CR Before - CR After	-0.13	0.63	0.10	-0.34	0.07	-1.31	38	0.2
Pair 6	PAT Before - PAT After	0.86	4.12	0.65	-0.47	2.12	1.31	38	0.2

Table 5:

Hypotheses	Accepted/Not Accepted	Supported by previous studies
H_{01}	Accepted	Ibiamke & Ateboh Briggs (2014); Abdul Baki et al. (2014); Aggarwal Rishika (2020); Callao et. al (2007); Lantto and Sahlstrom (2009).
H_{02}	Accepted	
H_{03}	Accepted	
H_{04}	Accepted	
H_{05}	Accepted	
H_{06}	Accepted	

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