KIRTANE & PANDIT

Integrated Reporting- Overview and Examination of Adoption by Nifty Next 50 Companies

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Integrated reporting by Nifty Next 50 companies

Integrated reporting refers to the reporting framework that organisations can use when communicating information to stakeholders on how organisations create or erode value over short, medium and long term (generally through annual reports).

The Securities and Exchange Board of India (SEBI) vide circular SEBI/ HO/ CFD/ CMD/ CIR/ 2017/ 10 has permitted companies who are required to submit Business Responsibility Report to report under the integrated reporting framework.

In this article, K&P technical team examines the adoption of IR by Nifty **next 50** companies in their financial reports for 2022. For further information, please contact:

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Background

Integrated reporting refers to the reporting framework that organisations can use when communicating information to stakeholders on how organisations create or erode value over short, medium and long term (generally through annual reports). IR includes a combination of financial and non-financial data to demonstrate how business targets and wider goals are achieved through use of various capitals within the context of the environment that the organisation operates in.

The mechanism for IR evolved into a set of standards that were initially issued by International Integrated Reporting Council (IIRC) in 2013 as it was widely perceived by stakeholders that financial reports and management discussion and analysis presented in annual reports often covered similar topics though in a diffused manner. It was thought that stakeholders would benefit if organisation's strategy of creating value and inter-relationships between its various assets (Capitals) such as funds, plant and machinery, intellectual property and human capital were disclosed. The IIRC has prescribed six capitals that are available to organisations – these capitals form the crux of integrated reporting (Refer subsequent page for details on the 'Capitals' per IR).

As compared to the earlier practice of separately reporting financial information in different parts of annual reports, Integrated Reports seek to co-relate the financial information in a cohesive manner across the annual report. For example, if the R & D initiatives were earlier reported in the Board Report on Technology adoption in the Annual report, then IR would seek to ensure reporting of such initiatives as part of overall Intellectual Capital resources that are available to an organisation.:

Furthermore, under IR, the value that the organisation derives from such R&D initiatives would also be elaborated.

The separate disclosure of financial statements (within annual reports) with notes as prescribed by accounting frameworks and board and other reports as per SEBI regulations would continue even after adoption of IR.

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Interplay between sustainability reporting and IR

In India, Business Responsibility and Sustainability reporting is mandatory for top 1,000 listed companies (by market cap) from FY2022–23. This replaces earlier BRR reporting to now include reporting on sustainability.

Sustainability reporting seeks to disclose how entities manage environmental, social, economic and governance issues. In contrast, IR is a broader reporting of an entity's approach to creating value considering a wider array of risks in addition to the Environment Sustainability and Governance (ESG) risks covered in sustainability reporting. Therefore, sustainability reporting would comprise a part of the overall integrated reports of companies. In June 2021, the IIRC and Sustainability Accounting Standards Board (SASB) merged to enable a holistic reporting of value creation process through governance and sustainability disclosures by enterprises.

Capitals as per IR framework

The IR framework describes six sources of capital available to organisations.

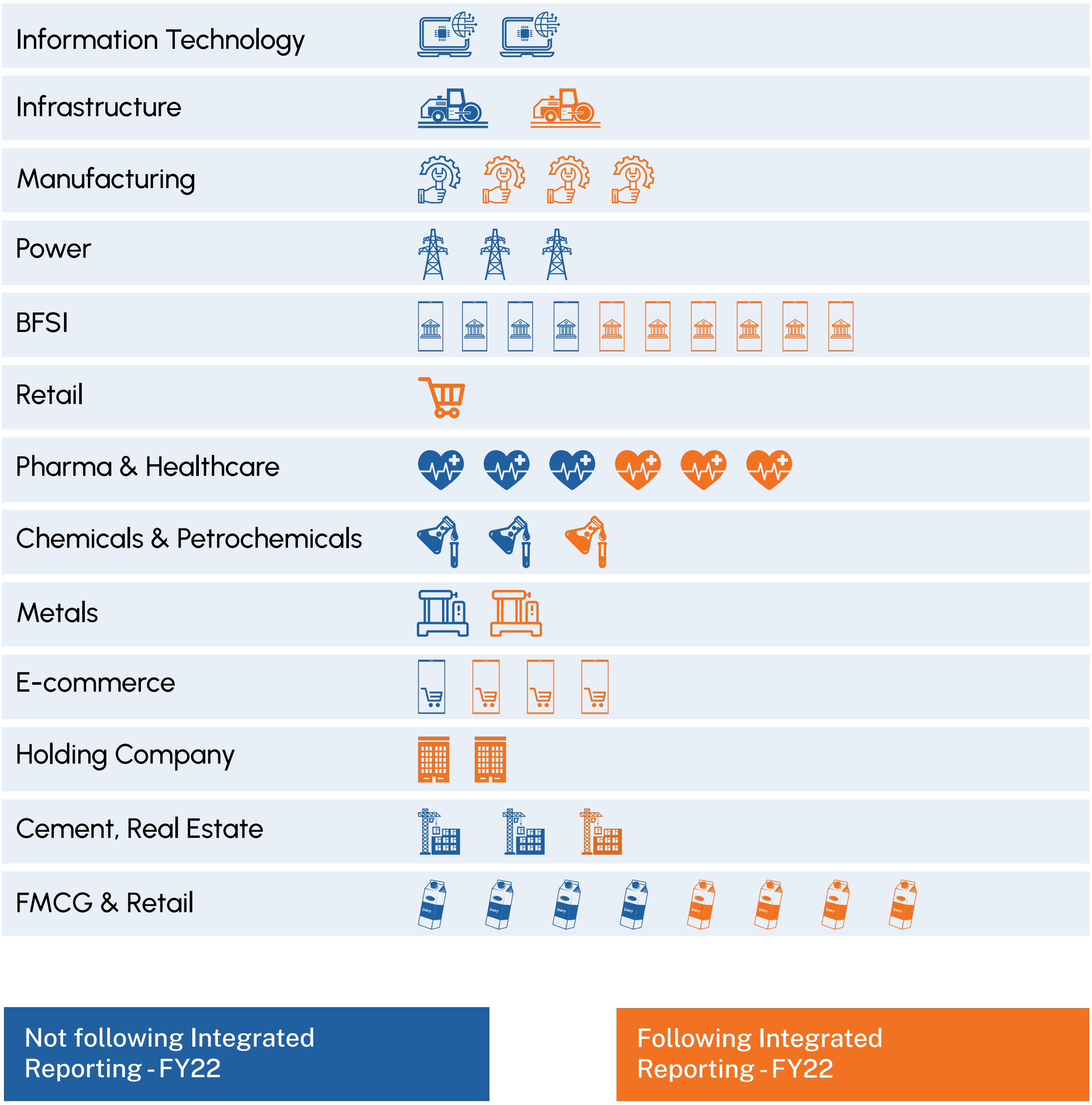
Capitals per framework	Coverage	Information and disclosure in Annual Reports	Sector relevance
Financial capital	Funds used in production of goods/services	Information on debt and equity capital, working capital and value generated, value retained and net value creation. Credit rating of debt.	Relevant for all companies as source, deployment and returns on capital are key matrices for all.
Manufactured capital	Manufactured physical objects such as machinery	Information on number of factories, project sites, manufacturing output and linkage to overall strategy to provide insight to stakeholders on importance of manufactured capital in the value creation by a company.	Relevant for manufacturing companies including those that outsource manufacturing.
Intellectual capital	Intellectual property such as patents, licenses, rights and organizational procedures and knowledge.	Total patents owned, new products developed through R&D, awards for innovation. Ongoing research projects or products under development that could significantly impact future value creation.	Technology, pharma companies though industry 4.0 requires innovation by all companies irrespective of sector.
Human capital	People's competencies, capabilities, loyalties and experience. Motivations to innovate and improve processes.	Number of employees of which qualified employees such as engineers or PHDs. Attrition data. Training initiatives and hours trained. Commentary on diversity and inclusion.	Relevant for all companies. People dependent sectors such as IT, outsourcing, pharma expected to provide greater details.
Social, relationship capital	Institutions and relationships within and between communities, groups of stakeholders and other networks.	CSR spend and number of MSME and other vendors indicating how organisations engage with and develop communities.	Relevant for all industries given high focus on CSR initiatives and overall stakeholder value creation rather than only shareholder value creation.
Natural capital	Company's understanding of scarcity of natural resources, climate change strategy, carbon emission, water consumption and recycling.	Water and carbon usage and strategy towards reducing emissions. Sustainability initiatives undertaken by the organisation. Use of renewable energy and controls over hazardous materials.	Relevant for all industries given high focus on sustainability by stakeholders. Chemical, Mining companies would need to explain how use of natural capital is incorporated in overall strategy.

Organisations are required to use these six sources and their inter-relationships to describe how value is created through delivery of products and services.

Non-financial resources such as IP, human capital, natural capital and relationships provide a wider prism for reporting under IR.

Refer annexure for illustrative mapping of existing disclosures in annual report to relevant capitals per IR.

Nifty next 50 – adoption of IR by sector



In case of Nifty **next 50** companies, the adoption of integrated reporting is split down the middle with **24 companies out of Nifty next 50** companies reporting under IR framework in their annual reports for financial year 2022.

Power sector and Information Technology – all companies in Nifty next 50 have adopted IR.

E-commerce and Manufacturing – more than half companies in Nifty next 50 are yet to adopt IR.

Key companies that have adopted integrated reporting:

- Ambuja Cements
- LT Infotech
- Havells India
- Godrej Consumer Products
- GAIL

Should startups follow Integrated reporting - a counter intuitive view

A counter intuitive view is that IR might be more relevant for start-ups given their limited quantum of financial capital but high amount of intellectual, human and social capital. Essentially the vision of start-up founders might be more easily expressed through integrated reporting compared to traditional financial reports. Start-ups principally communicate the key aspects of how their business will change the world in their pitch decks. IR seeks to do the same though in a more formalised manner and within a specific framework.

While startups may not formally adopt IR, the six capitals prescribed under IR can provide clarity to startups in their reporting to stakeholders and investors..

Benefits of integrated reports

Adoption of IR is expected to provide benefits to the organisation as well as others engaged with the organisation. Some of the possible benefits of IR are:

- More efficient and cohesive reporting through reporting of value creation considering all possible facets and impacts of a company's operations.
- Improved decision-making as non-financial sources of capital would be formally considered in addition to traditional emphasis on financial and manufacturing capital.
- Improved reputation and stakeholder relationships – adoption of IR can signal management's emphasis on enhanced communication with shareholders and others.
- Employees and consultants would be able to better understand the Company's operations and their role within.
- Clarity on organisations strategy to all parties.

In our view, organisations that benefit most from IR are those that incorporate IR into their operations, internal processes and MIS reporting rather than restricting IR only to the year end activity of financial reporting/annual reports.:

Steps in adopting Integrated reporting in annual reports

Eligible companies in India that are planning reporting under IR framework for FY23 would need to start preparation well in advance. Key steps in preparing for IR reporting comprise:

- Deciding what to communicate through dialogue with stakeholders within the Company and the Board. This first step can start with an agenda meeting for companies to first discuss their strategy in context of the six capitals prescribed by the IR reporting framework.
- Assigning responsibility for implementation of IR framework. While the bulk of the work would be lead by investor relations and finance team, other departments such as HR and R&D/Production would need to be involved. A committee for implementation of IR could be formed to actively track progress.
- Identification of additional information required for reporting. Setting timelines and responsibilities for gathering such information.
- Preparation of draft IR or a shorter version of the annual report so that internal feedback can be collated and obtained. Roll out of the first Integrated Report by the company.

The second year of integrated reporting poses a different challenge as entities would need to ensure that changes in the environment, resources and value creation are reflected in the annual report with new or different disclosures rather than a mere updation of factors identified in the first year.

Integrated Reporting offers an opportunity to organisations to effectively communicate their strategy and value creation process to stakeholders. As seen in this article, 24 out of 50 Nifty Next 50 companies have already adopted IR in their annual reports. Other companies planning to shift to IR reporting would need to ensure organisation wide involvement and careful planning of the transition to ensure clarity and cohesiveness in the intended messaging. Further, organisations that integrate IR in their operations would be able to ensure maximum value realisation through the changed reporting.

Annexure - Illustrative mapping of existing reporting in Annual Report to capitals per IR framework

Capital as per IR Framework

DIRECTORS' REPORT TO THE MEMBERS

Board's report on conservation of energy, technology absorption and foreign exchange earnings and outgo, management discussion and analysis

Input	Output
100 Million - R&D expenditure	10 – Patents and trademarks filed
10 - Employees in R&D	5 - Patent granted
	5 - Research publications
	5 - Design patents filed
	Amount (in Million)

BUSINESS RESPONSIBILITY REPORT

Input	Output
Energy Utilised	Recycling achieves (tonnes)
Water utilised	
Materials utilised	
Oil, Wood, Sand, Steel	

MANAGEMENT, DISCUSSION, AND ANALYSIS

The Company has 3 Manufacturing units, locations in India

EMPLOYEES SECTION

500- Employees	500 hours - Learning and development
1000 Million - Total employee benefit expenses	700 hours - health and safety training

CORPORATE SOCIAL INITIATIVES

50 – Distributors
10 Million - CSR expenditure
100 vendors including 18 MSME vendors

Financial capital

Intellectual capital

Natural capital

Manufactured capital

Human capital

Social Capital

Financial statements in Annual Report

	2022	2023
Balance Sheet		
Equity and liabilities		
Shareholders' funds	Xx	xx
Non-Current liabilities	Xx	xx
Current liabilities		
Assets		
Non-current assets	Xx	xx
Fixed Assets	Xx	xx
Intangible assets	Xx	xx
Current assets	Xx	xx
Total	Xx	xx
Statement of Profit and Loss		
Income		
Revenue from Operations	Xx	xx
Expenses	xx	xx
Employee benefits expense	Xx	xx
Depreciation, impairment and amortisation expense	xx	xx
R&D expenses	Xx	xx
CSR expenses	xx	xx
Net profit	xx	xx

Overview of Kirtane & Pandit LLP

Kirtane & Pandit LLP, Chartered Accountants (KPCA) is an Accounting, Auditing & Consulting firm with a widespread established network of financial experts across India. With the "Step ahead, Always" motto, we partner your growth journey with the delivery of sound financial solutions & value added approach.

With an extensive experience of 65+ years, we deliver a wide range of professional services in the areas of Assurance, Accounting & Advisory to listed & reputed companies from varied industries across the globe.

We are registered member of PCAOB, SEC, USA & feature as an A category firm of RBI and C&AG.

6 decades of Experience

Operating across India with **7** Offices

33 Partners

700+ Team of Professionals & experts

Client spread across **30+** Industries

Multinational Clientele parented from **17+** countries

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