

DISCLOSURE PRACTICES OF SELECTED COMPANIES IN THE CHEMICAL SECTOR

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ABSTRACT

Corporate Disclosure is the total communication system between the business enterprise and its various stakeholders. The need for corporate disclosure arises as comply with the statutory requirements, public opinion and social welfare. Adequate disclosures help the stakeholders in making informed decisions. The need for enhanced disclosure has become inevitable in the context of the expansion and growth of the company form of organization, increased competition, increasing flow of foreign funds and increase in the information needs of the stakeholders. Globalization and Liberalization together with advancements in information technology have changed the form, content and context of corporate disclosure. The present study examines the disclosure practices of selected Indian companies. The findings bring out the fact that the companies comply with the mandatory disclosure requirements, but lack with respect to enhanced voluntary disclosures which help the stakeholders make the quality decisions.

KEYWORDS: *Disclosure, Voluntary, Financial Reporting, Annual Report.*

Introduction

Corporate disclosure is the process through which an enterprise communicates the financial and non-financial information to the various stakeholders. A robust and a transparent communication system ensure efficient and effective allocation of resources in the capital and financial markets which promotes economic growth. It also enables the investors and other stakeholders to assess the risk and returns of various investment alternatives and thus improves their decision making process.

With growth in business enterprises in terms of size and structure and with the increase in participation of the individual and institutional investors in the capital markets, the concept of corporate disclosure has assumed altogether more importance. Disclosures are of two types – Statutory or Mandatory and Voluntary. Statutory or Mandatory disclosure refers to the minimum disclosure that all the listed companies have to do to comply with the regulations laid down by various regulatory authorities. The voluntary disclosures are the disclosures that the companies make voluntarily. These disclosures enhance the quality of financial reporting information and increase the confidence of the stakeholders in the performance of the companies. There are various mediums for the disclosure of the information, but annual report is the most important and authentic source of corporate information.

Literature Review

Hasnan(2006) investigated the degree of mandatory disclosures in the annual reports of 100 Non-financial companies in India. A checklist of 170 information items was prepared and the extent of disclosure was measured using an unweighted disclosure index. The results pointed out that the degree

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of disclosure of the mandatory items in the annual report was 81% on an average and only 27% of the voluntary information items on an average. No company has disclosed 100%. The over disclosure score range of various sectors ranges between 76% to 84% with engineering (highest -84%) and the service industry (lowest-76%) The study also concluded that higher the firm's size, higher is the level of disclosure. The mean disclosure score of the foreign companies is higher than the domestic companies.

Hashim & Saleh (2007) investigated the relationship between the degree of voluntary disclosures and seven firm characteristics, namely Size of the company, audit quality, type of industry, level of multinationality, profitability and ownership concentration. Annual reports of the year 2003 of 107 MNCs listed on Bursa Malaysia were scanned to study the degree of voluntary disclosure. The correlation analysis conducted point out the degree of voluntary disclosure and the size of the company and audit firms are strongly positively related. Other factors do not significantly affect the degree of voluntary disclosures. The regression analysis results also pointed out that the company size and the type of the audit firm are the two most important variables which explain the degree of voluntary disclosures in the MNCs. The other variables like the leverage, profitability and degree of multi nationality are not the important variables which explain the degree of voluntary disclosures.

Hossain & Hmami (2009) investigated the extent of voluntary disclosures in the annual reports of 25 companies listed on the Doha Securities Market in Qatar and also tried establish the study the relationship between various company characteristics and the level of disclosure in the annual reports. . A list of 44 Information items was made and the annual reports of the company were scanned to study the disclosure. The average level of disclosure was reported to be 37%, the minimum being 20% and the maximum being 67%. The regression analysis was conducted to study the variables that significantly affect the disclosures. The results suggested that the factors like age of the company, size of the company, complexity of the business and asset-in-place explained significant impact on the level of disclosure and profitability explained a significant impact on the level of disclosure.

Rouf, Hasan & Ahmed (2014) investigated the voluntary disclosure practices of 21 textile manufacturing companies listed on Dhaka Stock Exchange in Bangladesh. They also tried to study whether there is any association between the various aspects of corporate governance and the extent of voluntary disclosures. A list of 68 information items was identified and Pearson Correlation analysis was employed to study the association between the various aspects of corporate governance and extent of voluntary disclosures. The results suggested that there is a positive association between the size of the board, total sales, profitability and the extent of voluntary disclosure and a negative association between the structure of ownership and the extent of voluntary disclosures.

Abraham, Marston & Jones (2015) compared the level of compliance of Clause 49 of the listing agreement by the Indian companies during the two different periods 2004-05 and 2005-06. A corporate governance index was developed on the basis of Clause 49 and the disclosure pattern of two different periods (pre and post Amendment of Clause 49) followed by 88 companies was compared. It was found that the level of compliance was high post amendment since there was severe penalty for non-compliance. With respect to voluntary disclosure information items in the corporate governance report, it was found that the private sector companies had a higher level of disclosure than the public sector companies.

Mangala (2015) measured the level of voluntary disclosures made by the 38 companies in the Nifty index (The 12 financial sector companies have been excluded)for a period of six years. The study tried to measure the item wise, company wise and industry wise disclosure practice. The item wise analysis pointed out that corporate governance information was the highest disclosed item whereas the forward looking information was the least disclosed item. With respect to company wise disclosure, Power Grid Corporation is at the top with 64.96% whereas Coal India is at the bottom with 47. 37%. The energy sector has the highest level of disclosure and the consumer goods have the lowest level of disclosure.

Objectives of the Study

- To examine the degree of disclosure done by the selected companies in the Chemical Sector
- To examine the degree of disclosure of various information items in the annual reports of these companies

Research Design

• Sample Selection

“The domestic chemical industry, 3rd largest producer in Asia and 12th in the world, is a key constituent of Indian economy”, *Nirmala Sitharaman (Economic Times March 24, 2017)*
The Chemical industry is one of the key industries contributing to the growth of the economy. The present study is based on the disclosure practices of 10 companies in the Chemical sector. The annual reports of these companies for the year 2015-16 have been studied to examine the disclosure practice followed by these companies.

Table 1

Name of the Company	Market Capitalization (in Crores)
Aarti Industries	6,446.45
BASF Industries	5,776.47
Deepak Nitrite	1,712.32
Gujarat Alkalies & Chemicals Ltd.	3,164.64
Gujarat Fluorochemicals Limited	8,059.52
GHCL Ltd.	2,751.50
Himadri Chemicals & Industries Ltd.	2,052.25
India Glycols Limited	518.48
Tata Chemicals	15,467.63
United Phosphorous Ltd.	31,236.37

Index of Disclosure

- An index of disclosure consisting of 57 items of information is constructed. The disclosure index has been constructed after an in-depth scanning of the annual reports, the available literature and considering the disclosure regulations under the various regulatory frameworks. The disclosure index is un-weighted. The disclosure level of a company was calculated by dichotomous procedure which assigns a score of 1 if a company has disclosed an item and a score of 0 if it has not. (Hossain and Hammami, 2009). For each company, a disclosure index is computed as the ratio of the actual score given to the company divided by the maximum score. Accordingly, the disclosure index for each company was calculated (Hossain and Hammami, 2009). An item wise disclosure score is calculated by dividing the number of companies disclosing a particular information item by the total number of companies considered for the study.

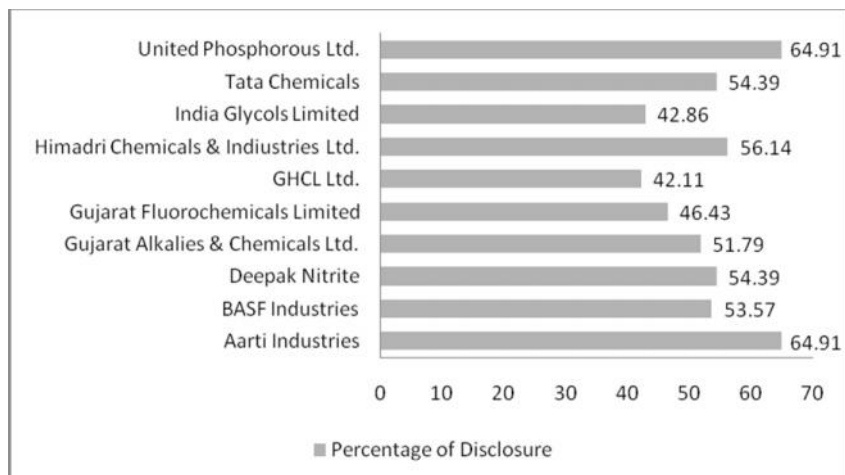
Disclosure Practices of Companies

The company wise disclosure percentage as well as item wise disclosure percentage has been found out using percentage analysis.

Company wise Disclosure

Table 2

Name of the Company	Market Capitalization (in Crores)	Percentage of Disclosure
Aarti Industries	6,446.45	64.91
BASF Industries	5,776.47	53.57
Deepak Nitrite	1,712.32	54.39
Gujarat Alkalies & Chemicals Ltd.	3,164.64	51.79
Gujarat Fluorochemicals Limited	8,059.52	46.43
GHCL Ltd.	2,751.50	42.11
Himadri Chemicals & Industries Ltd.	2,052.25	56.14
India Glycols Limited	518.48	42.86
Tata Chemicals	15,467.63	54.39
United Phosphorous Ltd.	31,236.37	64.91



The above bar graph suggests that the percentage disclosure of Arti Industries and United Phosphorous Ltd. is highest with 64.91% and that of GHCL Ltd. is lowest at 42.11%. The market capitalization of Arti Industries is Rs.6, 446.45 crores and that of United Phosphorous is Rs. 31,236.37 crores. But the extent of disclosure of both the companies is same. The reason for the same needs to be investigated.

Item wise Disclosure

Table 3

Sr. No.	Item of Disclosure	Disclosure Percentage
1	Chairman's Speech	60
2	Management Discussion & Analysis	100
3	Directors' Report	100
4	Income Statement	100
5	Balance Sheet	100
6	Cash Flow Statement	100
7	Auditors' Report	100
8	Schedules and Notes to accounts	100
9	Accounting Policies	100
10	Corporate Governance Report	100
11	Company Profile	70
12	Corporate Information	70
13	Vision & Mission Statement	50
14	Awards & Achievements	60
15	The Year at a Glance	60
16	5/10 Year Performance Highlights	80
17	Director's Resume/ Profile	30
18	Shareholding Pattern	100
19	Statement relating to Subsidiary Company	80
20	Related Party Disclosures	100
21	Segment Reporting	80
22	Human Resource Accounting	10
23	Current Cost Adjusted Accounts	0
24	Corporate Social Responsibility Report	100
25	Photographs of Men at work/ Photographs of Plant	100
26	CEO/CFO Certification	100
27	Economic Value Added	10
28	Value Added Statement	0
29	Sources & Application of Funds	10
30	Code of Business Conduct & Ethics	100
31	Graphical Presentation/ Pictures/Graphs	90
32	Report on Environment, Health & Safety	80

33	Brand Value Statement	0
34	Share Price movement chart	90
35	Future Projections of Sales/ Profit/ Dividend	0
36	Key Customers	20
37	Order Book	0
38	Key Markets	50
39	Drivers of Revenue & Profitability	30
40	Dividends declared in the last 3- 5 years	50
41	Credit rating	50
42	Total revenue & Breakdown of various sources of revenue	100
43	Breakdown of costs into fixed & variable	0
44	Working Capital	30
45	Gross Profit Ratio	0
46	Net Profit Ratio	10
47	Current Ratio	20
48	Return on Capital Employed	60
49	Return on Net Worth	10
50	Debt- Equity Ratio	50
51	Interest Coverage Ratio	20
52	Debt Service Coverage Ratio	0
53	Fixed Assets Turnover Ratio	0
54	Dividend Payout Ratio	20
55	Price Earnings Ratio	60
56	Turnover to Gross Block	10
57	Price Earnings to Growth Ratio	0

The percentage disclosure showing the number of items under each percentage range

Table 4

Percentage Disclosure (%)	No. of Disclosure Items
Zero	10
1 to 20	10
21 to 40	3
41 to 60	10
61 to 80	6
81 to 99	2
100	16
Total	57

Table 5: Detailed Disclosure

Percentage Disclosure (%)	Information Items
Zero	Current Cost Adjusted Accounts, Value Added Statement, Brand Value Statement, Future Projections of Sales/ Profit/ Dividend, Order Book, Breakdown of costs into fixed & variable, Gross Profit Ratio, Debt Service Coverage Ratio, Fixed Assets Turnover Ratio, Price Earnings to Growth Ratio
1% to 20 %	Human Resource Accounting, Economic Value Added, Sources & Application of Funds, Key Customers, Net Profit Ratio, Current Ratio, Return on Net Worth, Interest Coverage Ratio, Dividend Payout Ratio, Turnover to Gross Block
21% to 40%	Working Capital, Director's Resume or Profile, Drivers of Revenue & Profitability
41% to 60%	Chairman's Speech, Vision & Mission Statement, Awards & Achievements, The Year at a Glance, Key Markets, Dividends declared in the last 3- 5 years, Credit rating, Return on Capital Employed, Debt- Equity Ratio, Price Earnings Ratio
61% to 80%	Company Profile, Corporate Information, 5/10 Year Performance Highlights, Statement relating to Subsidiary Company, Segment Reporting, Report on Environment, Health & Safety
81% to 99%	Graphical Presentation/ Pictures/Graphs, Share Price movement chart
100%	Management Discussion & Analysis, Directors 'Report, Income Statement, Balance Sheet, Cash Flow Statement, Auditor's Report, Corporate Governance Report, Shareholding Pattern, Related Party Disclosures, Corporate Social Responsibility Report, CFO/CEO Report, Code of Business Conduct & Ethics, Total revenue & Breakdown of various sources of revenue

The above table shows that out of 57 information items only 16 items show 100% disclosure i.e. these items are disclosed by all companies. Majority of these items are the mandatory disclosures and hence all companies have disclosed since the non-compliance leads to stringent actions. And 10 items have 0 % disclosure, i.e. these items are not at all disclosed by any of the companies. All these 10 items are the voluntary disclosure.

Summary & Conclusion

The objective of the study was to examine the disclosure practices of 10 companies in the chemical sector. Arti Industries and United Phosphorous have the highest level of disclosure (64%) whereas GHCL has the lowest level of disclosure (42.11%). There is a huge variation in the percentage disclosure of various items by the companies. The information items like Current Cost Adjusted Accounts, Value Added Statement, Brand Value Statement, Future Projections of Sales/ Profit/ Dividend, Order Book, Breakdown of costs into fixed & variable, Gross Profit Ratio, Debt Service Coverage Ratio, Fixed Assets Turnover Ratio, Price Earnings to Growth Ratio has zero percentage disclosure. The information items which have 100% disclosure are the items that are mandatory disclosures under the regulatory provisions. Hence it can be concluded that the companies tend to comply with the Mandatory disclosures. But the level of voluntary disclosure is low. In order to facilitate informed decisions by the stakeholders the companies need to improve their disclosure level. The companies usually refrain from disclosing the future projections of sales, profits and dividend which would be of immense help to the stakeholder decision making.

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