INDUSTRY-WISE LEGAL EXPENSES ANALYSIS OF INDIAN COMPANIES

Hemant Kushwaha

Research Scholar, School of Business Shri Mata Vaishno Devi University,
Jammu & Kashmir, India.

ABSTRACT

This study analyzes the industry-wise legal expense pattern and its relation with total expense and sales for the period of 2009-2010 to 2018-2019. Also, identify a group of industries having high legal expenses. Data of 1851 sample companies are collected from the CMIE ProwessIQ database, which is segregated into different industries groups from A to U as per NIC Industries Code 2008. The analysis is done through ratio analysis and trend analysis. Results found that legal expenses show an increasing trend in growth and few industries have higher legal expenses than average legal expenses. Also, some legal requirements are common but some may differ from industry to industry they operate.

Key words: Legal expenses, Legal needs, Industries, Growth rate.

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1. INTRODUCTION

Indian legal environment is changing very fast and the legal expenses of companies are also increasing in a few years. The fee paid for legal services is known as a legal fee. Fees can be paid in a different form to the legal service providers such as an hourly, statutory, flat, court-approved, mixture of the continent, and hourly fee. (The free dictionary, 2020). The legal expense includes cost of postage, court fee, processing fee, witness fee, courier, filing fees, expert and consultancy fee, etc. (Attorney-Client Match, 2020)

The legal requirement of industries varies from industry to industry, though it shares some common legal needs such as filing tax returns and company law compliances, etc. Every Industry working environment and process of operation are different, even product and issues dealing with differs. Like labor used in manufacturing is different than labor working in hospitals and telecommunication companies. They have different skills and demand for different facilities. Even the case and its terminology are different from industry to industry. Around more than half of total legal expenses are from sector pharmaceuticals, banking & finance, refineries, information technology infrastructure in the FY 2015 (Yoosef, 2015). Indian

listed companies' legal expense increases in the last five years due to the introduction of regulation laws (Vyas & Kadam, 2019) such as the law on insurance, companies Act 2013.

Below is the table, there are few industries discussed with their legal requirement, industries namely manufacturing, banking and securities, energy and resource, Insurance, Real estate, Technology, media & telecommunications. The legal need of the companies in an industry differs from other operating in the other industry

Table 1. Industry-wise legal need

Industry	Legal Requirements	Companies
Banking and Securities	Assistance for loan transactional, loan work out/restructuring finance deals, NPL deals, assistance in getting licensing and regulatory compliance, financial and credit institutions, Mergers and acquisitions of licensed entities, Reorganization of licensed entities via intra-group mergers/spin-offs, assistance for Pre/Post IPO, Public offerings, Market abuse cases, Securities law compliance, Stock option plans.	Banking and securities include company dealing with financial services, cross-border, complex multidisciplinary approach
Energy and resources	M&A advice, drafting relevant M&A documents, Closing, and post-closing activity, M&A advice concerning possible damages, Assistance in corporate structuring and financing, Commercial agreements, Regulatory market study activities, Cross-functional capabilities, Employment, and benefits law. Advise companies in determination of utility rates, antitrust issues, service dispute litigation, and compliance with federal and state utility regulations, Rate compliance, compliance related to environmental protection agency's act.	Energy and resources include company dealing in oil, gas, power, water, mining, shipping, and ports.
Insurance	National and international reorganizations, legal, regulatory compliance, and review of insurance contracts.	Insurance companies
Real estate	Real estate transactions and due diligence, Real estate finance, Lease and asset management, Construction and PPP contracts, Development and planning, Dispute resolution	property companies, construction, and engineering companies
Technology, media & telecommunications	Intellectual Property/Intellectual Capital; royalty recognition, Cross-border mergers, and acquisitions, Commercial contracting; licensing, Corporate restructuring, PE, joint venture, Intangibles Management, (unfair) competition, Outsourcing (IT and BPO), Business Model Optimization, Supply chain management, Compliance, Regulatory, public sector, Litigation, ADR and Tax Controversy support, Employment and Benefits, Distribution, Insurance.	Technology related company including hardware, software, internet, technology services
Manufacturing	intellectual-property rights-drafting and filing patents, copyrights, and trademarks, patent infringement disputes and an increase in new product developments, federal and state product standards, inspection and compliance issues, approval, and fulfilling the requirements and conditions of food and drug administrations.	Companies included which indulge in manufacturing of any product
Health Care and social assistance	Compliance guidelines related to public policy, insurance coverage, advice on regulatory changes, compliance guidelines related to public policy, insurance coverage, patient protection acts, reimbursement rates for Medicare and Medicaid patients, compensation and reimbursement rates, compliance, and implementation of health care acts.	Hospital and health care companies

Source: adapted from www2.deloitte.com and www.ibisworld.com

The government has made different laws, policies, and regulations for different industries. As from the above table, health care companies have to comply with guidelines issued by the medical association and implement as per the health care act, and banking companies need to adhere to rules for NPA.

2. NEED OF THE STUDY

Recently, increasing legal expenses in past few year and fast changing legal environment. Now, companies act has been revised, new laws, rules and regulations has been introduced such as GST to lowering the fraud and promoting digital and transparent environment. The study investigates industry-wise legal expenses during the period 2010 to 2019. To get better understanding of legal expenses and its portion in sales and legal expenses.

3. OBJECTIVES

- To analyze the industry-wise legal expense of Indian companies and identify the industry spending high legal expenses.
- To analyze the proportion of legal expense with sales, total expense.

4. METHODOLOGY

For assessing the potential demand for business legal expenses in India, first, it is essential to understand its business industry and legal environment in the industry. For achieving this objective, the author extracted companies' data for the period of the year 2010 to 2019 of CMIE ProwessIQ 1.95. There are 51021 companies' data available in the prowess, but complete data is not available for all years for the variable of legal charges, sales, and total expense. It was difficult to sort and fill in missing information one by one, and the pattern of missing data varied from company to company. So, it was easy and convenient to filter the companies from having missing data. There were only 1851 companies left. After that, using the NIC code (National Industrial Classification), data have been classified into different industries from division A to U (Table 2).

Table 2. Industry classification

Division	Name	Division	Name
A	Agriculture, forestry, and fishing	J	Information and communication
B	Mining and quarrying	K	Financial and insurance activities
C	Manufacturing	M	Professional, scientific, and technical activities
D	Electricity, gas, steam, and air conditioning supply	N	Administrative and support service activities
F	Construction	O	Public administration and defense; compulsory social security
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	P	Education
H	Transportation and storage	Q	Human health and social work activities
I	Accommodation and Foodservice activities	R	Arts, entertainment, and recreation

Source: www.mospi.nic.in

5. ANALYSIS AND INTERPRETATIONS

The study uses cross-tabulation to show results of the trend of legal expense. It used 10-years average Legal expense, sales to analyze the industry's performance over 10 years. The study also uses the ratio of legal expense to sales and legal charge to total expense to identify the industry-wise effect of legal expense effect on sales and total expenses.

Table 3 Industry-wise 10-year average

Division	No. of companies	%	10 Yr. Avg. Total Expenses (million)	10 Yr. Avg. sales (million)	10 Yr. Avg. Legal Expenses (million)	Average legal expenses per company
A	72	3.89%	86710.4	83461.2	281.94	3.92
B	29	1.57%	337609	352513	145.98	5.03
C	883	47.70%	88830.8	88916.8	475.54	0.54
D	37	2.00%	611763	577793	718.55	19.42
F	115	6.21%	94766.8	90148.8	419.59	3.65
G	230	12.43%	72415.9	69372.8	217.44	0.95
H	63	3.40%	170889	163828	399.64	6.34
I	42	2.27%	14230.7	12614.4	158.54	3.77
J	128	6.92%	19025.1	170254	1386.13	10.83
K	106	5.73%	44269.2	4181.87	280.48	2.65
M	44	2.38%	30787.9	31057.6	243.22	5.53
N	54	2.92%	13886.2	13647.8	154.3	2.86
O	1	0.05%	7507.9	10012.5	91.1	91.1
P	18	0.97%	16361.4	15180.9	134.16	7.45
Q	21	1.13%	44457.9	42271.9	465.89	22.19
R	8	0.43%	12177.3	11236	119.08	14.88
Total	1851	100.00%				3.07

Source: Compiled and calculated by the author

Figure 1. 10-year legal charges

In the above table 3, it can be observed that Division C: Manufacturing, which has 883 (47%) of the total sample companies having total average legal expenses for ten years is 475.54 million, and it has the lowest average legal cost per company is Rs. 0.54 million. Division G: Wholesale and retail trade; repair of motor vehicles and motorcycles having Rs. 0.95 million. Division J has the highest 10-year average legal expenses (Rs. 1386.13 million), followed by division D (Rs 718.55 million), which has the highest total expense (Rs. 611763 million) and highest 10-year average sales in division D (Rs. 577793 million) (Figure 1).

Table 4. Legal charge growth rate

Division	YOY Growth Rate of legal expenses (10 Yr. Avg.) (%)	CAGR (in %)	Legal expenses to sales (%)	Legal expenses to total expenses (%)
A	9%	8%	0.34%	0.33%
B	12%	11%	0.04%	0.04%
C	14%	13%	0.53%	0.54%
D	16%	15%	0.12%	0.12%
F	11%	11%	0.47%	0.44%
G	14%	13%	0.31%	0.30%
H	16%	16%	0.24%	0.23%
I	7%	6%	1.26%	1.11%
J	14%	13%	0.81%	7.29%
K	8%	7%	6.71%	0.63%
M	19%	18%	0.78%	0.79%
N	17%	14%	1.13%	1.11%
O	77%	35%	0.91%	1.21%
P	21%	18%	0.88%	0.82%
Q	23%	22%	1.10%	1.05%
R	83%	28%	1.06%	0.98%

Calculated by the Author

Figure 2 Legal expense growth rate

Table 4 shows that there is an increase in the year-on-year growth rate of legal expenses for a ten-year average ranging from 7% to 83%. Highest YOY (Year on Year) growth rate is 83% for division R and the lowest for division I is 7%. Where Division R has 28% CAGR (Compounded Average Growth Rate) and division I have 6% (Figure 2).

Industry-Wise Legal Expenses Analysis of Indian Companies

Figure 3. Legal expense growth rate

Legal expenses to sales ratio show a portion of legal charges in total sales. Division K is 6.71% and the minimum is in Division B is 0.04%. The legal expense to total expense ratio shows a portion of legal expense in total expense. It varies from 0.045 to 7.29%, division B is 0.04% to division J is 7.29% (Figure 3).

Table 5 Industry-wise legal expenses (Rupees in millions)

Industry	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Total
A	1355	1618	1714	2472	1893	2030	2016	2172	2415	2615	20299
	(0)	(263)	(96)	(758)	(-579)	(138)	(-14)	(156)	(243)	(200)	
B	280	322	326	374	406	440	436	457	485	708	4234
	(0)	(42)	(3)	(48)	(32)	(34)	(-4)	(21)	(27)	(223)	
C	20106	23599	28319	35402	39487	44263	53453	55469	57906	61896	419900
	(0)	(3492)	(4721)	(7083)	(4086)	(4776)	(9189)	(2017)	(2437)	(3990)	
D	1109	1565	1593	2135	2353	2873	3545	3515	3899	4000	26587
	(0)	(456)	(28)	(542)	(218)	(521)	(672)	(-29)	(384)	(101)	
F	3578	4291	5421	5862	6382	7772	7073	7874	8618	8918	65788
	(0)	(713)	(1130)	(440)	(521)	(1390)	(-699)	(801)	(744)	(301)	
G	2262	2908	3146	4013	4342	5981	6520	7121	6677	7039	50010
	(0)	(647)	(238)	(867)	(329)	(1639)	(539)	(601)	(-444)	(363)	
H	1190	1499	1501	1860	2166	2341	2652	3789	3733	4446	25177
	(0)	(309)	(2)	(360)	(306)	(175)	(310)	(1137)	(-56)	(713)	
I	483	572	594	558	611	675	712	858	756	841	6659
	(0)	(89)	(22)	(-36)	(54)	(64)	(37)	(145)	(-102)	(85)	
J	8706	9809	11812	13220	15558	17485	25777	23660	24640	26758	177425
	(0)	(1104)	(2003)	(1409)	(2337)	(1927)	(8291)	(-2116)	(980)	(2117)	
K	2129	2457	2428	2593	2876	2873	3240	3514	3585	4035	29730
	(0)	(328)	(-29)	(165)	(282)	(-3)	(367)	(274)	(72)	(450)	
M	483	615	654	597	747	845	1210	1481	1895	2175	10702
	(0)	(132)	(39)	(-57)	(150)	(98)	(365)	(272)	(414)	(280)	
N	390	414	629	550	888	1082	911	1125	1035	1310	8332
	(0)	(24)	(215)	(-79)	(338)	(194)	(-171)	(214)	(-90)	(275)	
O	1	2	10	5	5	9	10	17	16	17	91
	(0)	0	(8)	(-5)	(0)	(4)	(2)	(6)	(-1)	(1)	
P	116	157	126	111	178	239	282	265	439	501	2415
	(0)	(41)	(-30)	(-15)	(67)	(61)	(43)	(-17)	(174)	(62)	
Q	393	549	627	614	785	897	1064	1125	1408	2322	9784
	(0)	(156)	(78)	(-13)	(171)	(112)	(167)	(61)	(283)	(914)	
R	48	61	75	62	38	40	42	78	58	452	953
	(0)	(13)	(14)	(-14)	(-24)	(2)	(2)	(36)	(-20)	(394)	

Source: Author's calculation

Note: Figures inside the brackets represents a yearly change from the previous year.

Figure 4. Industry-wise legal expense

Legal expense shows an increasing trend over the period from 2010 to 2019 (Table 4), Division C shows the highest legal expenses in division C, followed by division D and division J (Figure. 4). There is more than a 100% increase in legal expense in comparison from 2010.

5. FINDINGS

- Around half of the sample companies (47.7%) fall under division C: Manufacturing industry. Which is having Rs. 475 million 10-years legal expense and Rs. 0.54 million legal expense per company legal expenses. Though it has 10-year average sales is around Rs. 88916.8 million.
- Division J: Information and communication incurred highest 10-year legal expense is Rs. 1386.13 million, followed by Division D: is Rs. 718.55 million.
- Division O has the highest legal expense per company (Rs. 91.1), but it can be ignored as it has only one company of the sample under this division. Division Q spends approx. Rs. 22.19 million per company.
- In terms of growth in legal expense over ten years, Division R is having the highest YOY growth rate of 83% and 28% CAGR. Followed by division Q and P having YOY growth rates are 23% and 21%, whereas the CAGR for division Q is 22% and division P has 18%.
- Legal charges to sales is 1.04% on an average for all industries ranging from 0.04% to 6.71%. Division K: has the highest effect of legal expense on sales i.e., 6.71%. Legal charges to total expense ratio are highest in division J i.e., 7.29%, and its range is from 0.04% to 7.29%. Division B has the lowest legal expenses to sales and legal expenses to total expenses.
- Legal expense shows an increasing trend from 2010 to 2019 for almost every industry. Division C show the highest increase in legal expense over the period
- Some legal needs of companies are common and some legal needs vary from industry to industry.

6. CONCLUSION

Based on results and findings, it can be concluded that legal expenses show increasing trends for almost all companies. Further, legal requirements and legal expenses of companies vary from industry to industry due to the nature of business and the environment in which they operate. Companies working in industries such as Information and communication, Electricity, gas, steam, and air conditioning supply, manufacturing have high legal expenses. The study shows manufacturing is an important industry for the Indian economy and also legal expenses are high. Legal expenses have a higher portion of the total expense and sales in the industries such as financial and insurance activities and information and communication. This study creates a better understanding of legal expenses. However, industry-wise analysis of legal expense is new. Further research is required to find the reasons for varying legal expenses.

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