Financial Reporting of COVID-19 Impact:

Sector-wise Analysis

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Foreword

The coronavirus COVID-19 outbreak has significantly disrupted the activities of many business entities. The complete or partial lockdowns imposed have resulted in suspension of manufacturing operations, restricted movement of goods, severe impact on travel/leisure/retail businesses and so on. The impact on the banking and financial sector in terms of non-performing assets and reduced economic activity will only be known once the situation returns to normalcy. At the same time, there are certain sectors which have been positively impacted such as information technology and digital businesses, e-commerce businesses, pharma & life sciences businesses, healthcare and insurance businesses. Given the way COVID-19 outbreak is evolving, it is challenging at this juncture, to predict the full extent and duration of its business and economic impact. These circumstances are presenting entities with challenges while preparing their financial statements and reporting their results.

Ind AS (essentially "converged IFRS") contains several areas involving application of significant judgments and financial reporting is based on significant management estimates. Currently, there is limited literature on financial reporting of Ind AS application and practical issues. Therefore, it is pertinent to examine the financial reporting of COVID-19 impact and implementation issues under Ind AS. Disclosures and discussion around accounting issues such as, impairment provision, delay revenue recognition, inventory write down, deferred tax implications, lease restructuring, appropriateness of going concern assumption and employee benefits have been reported in the financial statements/ results of several companies.

In this publication, we endeavor to bring out significant sector-wise financial reporting implication due to COVID-19 outbreak along with related issues that are emerging in practice. This publication would also help companies to benchmark their current financial reporting with that of their industry peers as also with other leading companies.

In a separate chapter, this publication also covers the key Ind AS amendments that are effective for financial year ending 31 March 2021, and, therefore, need to be applied by listed companies for the purpose of their quarterly interim financial results.

This publication is not meant to deal with the quantitative impact that the shift to Ind AS may have caused from a capital markets or market capitalization perspective. Nor is it meant to examine, in detail, the impact of COVID-19 in the financial statements. This Research Report aims to assess the financial reporting impact on the Ind AS financial statements/results of COVID-19 for a wide cross-section of sectors with an objective to aid companies leverage on the industry experiences and calibrate their own financial reporting based on the industry best practices.

We hope you find this publication useful. In case you have any feedback, you may reach out to us at **emails@rsmindia.in**.

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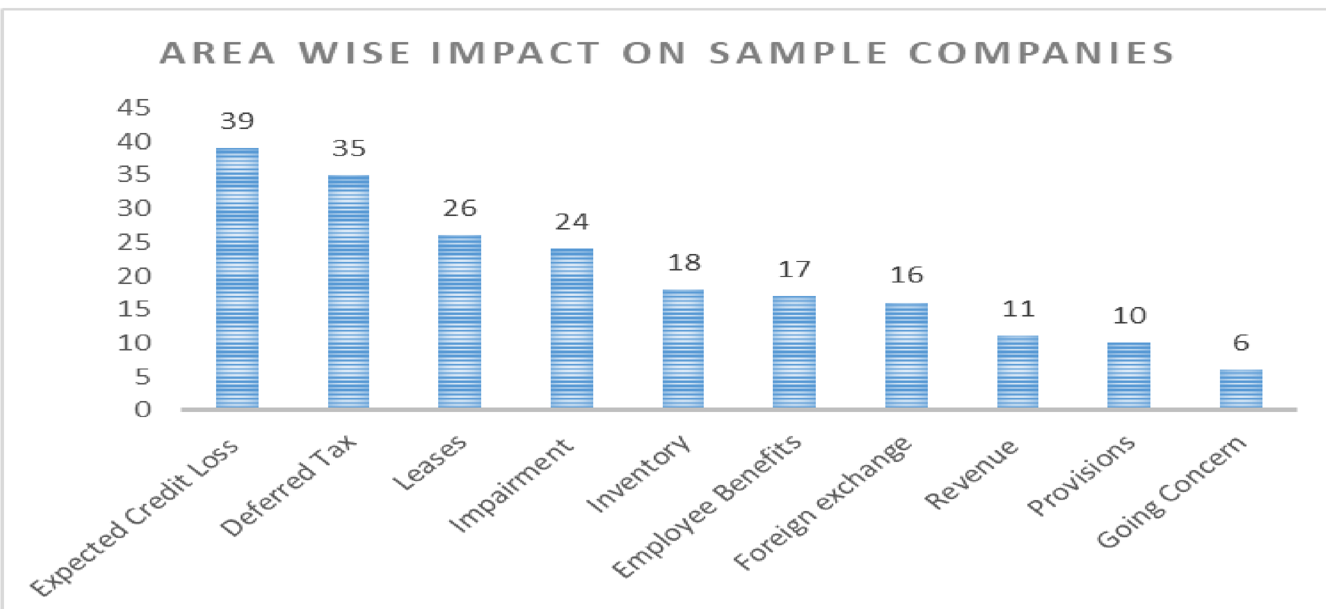
Chapter 1: Summary of Findings - Key Accounting Impact of Covid-19

The table below summaries the major areas of impact, key reasons for the impact and the sectors mainly impacted.

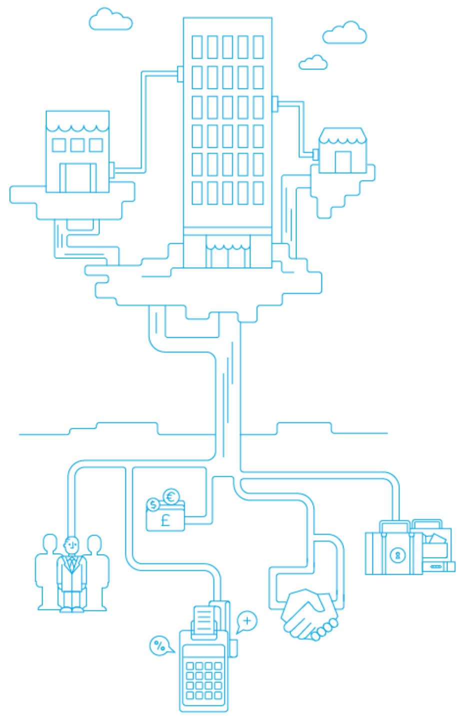
Major Areas of Impact	Main Financial Reporting of Covid-19 Impact	Main Sectors Impacted
Property, plant and equipment	- Impairment reviews of property, plant and equipment - Review of useful life of property, plant and equipment and acceleration of depreciation charge	- Retail - Hospitality & Leisure - Infrastructure - Automotive - Power & Utilities
Financial instruments	- Impairment of financial assets based on Expected loss model	*Generally across all sectors*
Revenue	- Timing of recognition of revenue (estimated sales return, dispatch vs. delivery) - Deferral of revenue due to slow progress of completion - Increase in estimated Sales Returns	- Real Estate - Transportation & Logistics - Hospitality & Leisure - Pharmaceuticals & Life Sciences
Leases	- Accounting for COVID-19 related rent concessions	- Retail - Transportation & Logistics - Hospitality & Leisure - Financial Services
Foreign currency	- Foreign exchange fluctuations to be immediately charged to the statement of profit and loss	- Pharmaceuticals & Life Sciences - Information Technology & ITES - Oil & Gas
Deferred tax	- Reassessment of recoverability of deferred tax assets based on projections of future profitability	- Pharmaceutical & Life sciences - Technology & ITES - Financial Services - Real Estate & Construction
Inventory	- Provision recognition due to Inventory obsolescence - Significantly reduction/ cessation in production for a period of time implies that significant fixed production overhead (e.g. rent, depreciation of assets, some fixed labour, etc.) to be expensed in profit & loss	- Oil & Gas - Retail
Disclosures	- Reporting impact of COVID-19 on financial results and disclosures -	*Generally across all sectors*

Going concern	- Going concern analysis and disclosures, including risks and uncertainties	- Transportation & Logistics - Hospitality & Leisure
Employee benefits	- Voluntary Retirement schemes and employee terminations - Stock compensation and incentive plans – modifications due to changes to earnings/ performance targets	- Transportation & Logistics - Hospitality & Leisure - Automotive -
Provisions	- Onerous contracts may exist for contractual or constructive obligations (e.g. revenue contracts, purchase contracts for which no benefit will now be obtained by the entity); - Insurance recoveries relating to losses incurred due to the outbreak may not meet recognition requirements in a reporting period (i.e. recovery may not be virtually certain).	- Transportation & Logistics - Fast Moving Consumer Goods

The following chart provides the number of sample companies (out of a total sample of 43 companies) that disclosed the impact of various accounting areas:



1.1 Going Concern



1.1.1 Financial statements are generally prepared using going concern assumption. An entity is no longer a going concern if management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed. In case the financial statements are not prepared on a going concern basis, the entity should disclose the basis of preparation of financial statements and also the reason why the entity is not regarded as a going concern. Management should consider the impact of measures taken by governments and local banks in its assessment of going concern.

1.1.2 Given the uncertainty about the immediate outlook for many companies, financial statements of many entities in certain sectors such as, hospitality, aviation and real estate included disclosures that management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

1.1.3 The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. The decreases in asset values, decline in demand for goods and services and supply chain disruptions may be dissimilar to any previously encountered in 'normal' scenario, making forecasting the precise results difficult. While the requirements of Ind AS 1 are not prescriptive as to how management's assessment is performed, in circumstances where significant uncertainty exists surrounding the outcome of future events, it may be appropriate to model multiple scenarios and weigh their likelihood.

1.1.4 The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern. Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.

1.1.5 As a result of COVID-19 and its associated effects, entities need to consider whether, in their specific circumstances, they have the ability to continue as a going concern for at least, but not limited to, 12 months from the reporting date. Management's assessment of the entity's ability to continue as a going concern involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions. This will require an entity to consider, among other things,

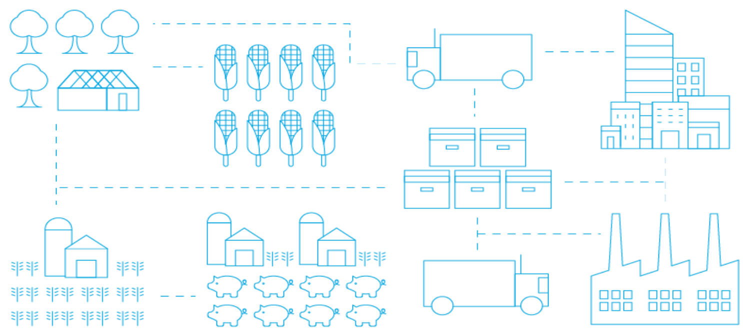
(i) the extent of operational disruption;
(ii) potential diminished demand for products or services;
(iii) contractual obligations due or anticipated within one year;
(iv) potential liquidity and working capital shortfalls; and
(v) access to existing sources of capital (e.g., available line of credit, government aid).

1.1.6 Given the randomness of the potential impact of the COVID-19 outbreak, there may be material uncertainties that cast significant doubt on the entity's ability to operate under the going concern basis. If the entity, nevertheless, prepares the financial statement under the going-concern assumption, it is required to disclose these material uncertainties in their financial statements in order to make clear to readers that the going concern assumption drawn by the management is subject to such material uncertainties.

1.2 Inventory

1.2.1 Provision towards slow-moving/ obsolete inventory

It might be necessary to write-down inventories to net realisable value. These write-downs could be due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales.



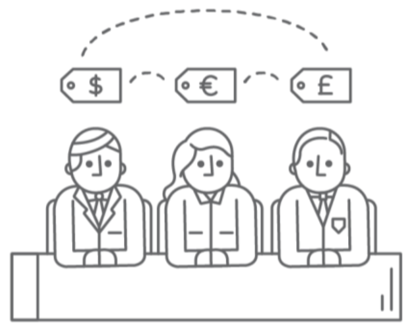
The COVID-19 pandemic may affect the recoverability of inventory balances. Some entities with inventories that are seasonal or are subject to expiration may have to assess whether a write-down for obsolescence or slow-moving stock may be necessary as a result of a slower sales pace. Other entities may have to assess whether a decline in their future estimated selling price is expected, which may require a write-down in the cost of inventory in an interim or annual period.

Under Ind AS 2 inventories are measured at the lower of their cost and net realisable value (NRV). In a difficult economic environment, the NRV calculation may be more challenging and require more detailed methods or assumptions.

1.2.2 Inventory Valuation

It Manufacturing entities have to reassess their practices for fixed overhead cost absorption if production volumes become abnormally low during the year as a result of plant closures or lower demand for their products. Ind AS 2 requires that fixed production overheads are included in the cost of inventory based on normal production capacity. Reduced production might affect the extent to which overheads can be included in the cost of inventory. Ind AS 2 also requires that variable production overhead costs should be allocated to each unit of production based on the actual use of the production facilities. The COVID-19 pandemic may affect manufacturing entities in a number of ways (e.g. shortages of labor and materials or unplanned factory downtime) that, if sustained, may result in an abnormal reduction of an entity's production levels. In such circumstances, an entity should not increase the amount of fixed over-head costs allocated to each inventory item. Rather, the unallocated fixed overhead costs are recognised in profit or loss in the period in which they are incurred.

1.3 Employee benefits



Many entities have been considering (or implementing) restructuring of employee benefit plans to mitigate their exposures associated with unforeseen consequences of the COVID-19 pandemic. Immediate actions may include measures to reduce their workforce through temporary employee layoffs. Further, entities may be forced to consider subsequent restructuring actions as information becomes available on the long-term effects of the pandemic on an entity's operations. Salary continuation, temporary suspension of employment.

1.3.1 Salary continuation, temporary suspension of employment

Some entities may offer to continue to compensate employees even though they are not actively working during the suspension period, keeping the right to call employees back to work as necessary and preventing employees from taking up work elsewhere during the suspension period. When an entity uses a temporary suspension arrangement of this nature in order to reduce its employment costs during periods of reduced activity, the costs of the temporary suspension should be classified as a short-term benefit similar to a paid absence (e.g. holiday or leave pay).

1.3.2 Termination Benefits

If benefits are provided by the entity as a result of termination of employment, the entity should recognise its obligation at the earlier of either the date when it can no longer withdraw the offer of those benefits or the date when it recognises the cost for a restructuring that is within the scope of Ind AS 37 and involves the payment of those termination benefits. Ind AS 19 provides further guidance to establish the date when the entity can no longer withdraw the offer. In particular, Ind AS 19:167 specifies that when the termination benefits are payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and
- The plan establishes the termination benefits that employees will receive in sufficient detail such that employees can determine the type and amount of benefits they will receive when their employment is terminated.

1.3.3 Mandatory Termination Benefits

Mandatory termination benefits are provided by an employer to employees in connection with their termination of employment. The appropriate accounting for mandatory termination benefits depends on whether the costs will be paid under a contractual arrangement, an ongoing plan or a one-time benefit arrangement.

1.3.4 One-time Termination Benefits

One-time termination benefits could be provided on their own or in addition to base contractual termination benefits or base termination benefits provided through an ongoing plan. One-time termination benefits are recognized when there is a present obligation depending on the facts and circumstances. If the employee is required to render services beyond a minimum retention period (which cannot exceed the legal notification period or, in its absence, 60 days) the liability is measured at fair value on the communication date and recognized ratably over the future service period. Otherwise, the liability is recognized at fair value on the communication date.

In certain circumstances, voluntary and mandatory termination benefits are related to company restructuring events or activities that also result in pension or post retirement plan settlements, curtailments or plan amendments.

1.4 Leases

1.4.1 Due to the impact of the COVID-19 outbreak on trading conditions, many lessees have sought rent concessions from lessors. Rent concessions may take the form of a one-off reduction in rent, a reduction for a defined period of time or a change in the nature of rent – e.g. fixed rent payments becoming variable. For example, a number of retailers are seeking reductions in real estate rents – though similar issues may arise in other leases.

1.4.2 The accounting implications of an agreed change to rents can be very different depending on whether the change was envisaged in the original lease agreement:

- a rent concession not envisaged in the original lease agreement will often be a lease modification, requiring the lessee to remeasure lease assets and lease liabilities, and the lessor to revise its operating lease income over the remaining lease term; but

- the application of an existing contractual mechanism to adjust rent may represent a variable lease payment, resulting in an adjustment to lease income/expense in the period in which it arises.

1.4.3 The amendment to Ind AS 116 provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

1.4.4 The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

1.4.5 Lessees that apply the exemption will need to disclose that fact, as well as the amount recognised in profit or loss arising from COVID-19-related rent concessions. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances.

Several entities in the retail, hospitality and media and entertainment sectors opted for the practical expedient.

1.5 Deferred tax

1.5.1 Recoverability of deferred tax assets

Deferred tax assets may not meet recoverability requirements and therefore may not meet the recognition criteria in Ind AS 12. Similar to an assessment of going concern, an assessment of the likelihood of an entity being able to recover the value of deductible temporary differences needs to consider all available information. Since COVID-19 has caused disruption to operations of several entities in many sectors, forecasts may need to incorporate extremely severe down-side forecasts. Tax losses and other deductible temporary differences having no fixed expiry or a very long-term expiry (e.g. 20 years) is not justification for the recognition of associated deferred tax assets.

1.5.2 Remeasurement of Deferred Tax Asset/ Liability due to Taxation Laws (Amendment) Ordinance, 2019

The Taxation Laws (Amendment) Ordinance, 2019 (the Ordinance) came into effect from 20 September 2019 and was subsequently enacted. It has brought out significant changes to corporate income tax rates. The domestic companies have an option to pay income tax at a rate lower than the normal corporate income tax at the rate of 30% depending on certain specified conditions. However, the option to pay income tax at a lower rate is dependent upon not availing certain exemptions or incentives as specified in the Ordinance. If a company expects to opt for the lower tax rate (with an intention appropriately evidenced), the current and deferred tax are required to be measured using lower tax rate as per the Ordinance.

1.6 Provisions

1.6.1 Onerous contracts

While Ind AS 37 does not permit the recognition of future operating losses as liabilities, losses arising from onerous contracts may increase as the unavoidable costs may exceed the economic benefits derived from the contract. For example, if an entity is obligated to pay costs for a conference held after the end of the reporting period, but it has cancelled the conference due to the COVID-19 outbreak, the cost of the conference would be recognised as a liability at the time of cancellation as it would be an onerous contract (i.e. unavoidable costs exceed the economic benefits).

1.6.2 Penalties related to termination of contracts

Many entities have incurred significant penalties for terminating contracts. For example, many conferences and events are being cancelled, which can result in loss of deposits and/or require penalties to be paid. These non-recurring costs will need to be appropriately recognized, measured, presented, and disclosed in financial statements. Even when an entity has not made a decision to cancel an event, consideration will have to be given to the issues related to deposits and potential penalties if the event cancellation is probable in the future. It's important that the contracts are reviewed for termination and force majeure clauses. Such assessment needs to be especially done as per Ind AS 37 for all executory agreements that are likely to become onerous.

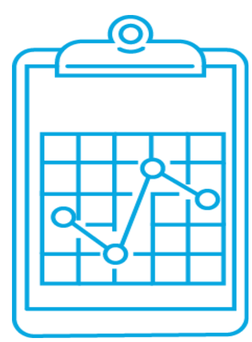
1.6.3 Reimbursements

Companies that have business disruption insurance may be entitled to a certain amount of insurance proceeds to cover some or all costs. In addition, there may be government grants/incentives available to help support businesses. In many cases, determining if an entity is actually covered or eligible will require a detailed analysis of the policy or grant criteria. Given that we are in unprecedented times, careful technical interpretation of the policy/grant criteria and the accounting standards is required to determine the appropriate presentation and disclosures.

Any reimbursement recoverable for costs incurred for provisions are presented separately as an asset. Such as an asset is recognised only if it is virtually certain that settlement of the obligation will result in a reimbursement, and the amount is recoverable. The amount recognised for the reimbursement should not exceed the amount of the provision. The amount of any expected reimbursement is disclosed. In profit and loss account, net presentation of provision and reimbursement amount is permitted.

Entities have to look at their existing insurance arrangements (e.g. loss of profits, employee corporate policies etc.) to evaluate if it provides cover against pandemics in the nature of COVID-19 and if such claims would be sustainable. The accrual for such claims should be made in the financial statements only if there is a valid acceptance by the insurance company.

1.7 Impairment testing



1.7.1 Both Ind AS 36 Impairment of Assets and AS 28 Impairment of Assets require an entity to assess, at the end of each reporting period, whether there is any impairment for an entity's non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal and the value in use. Value in use is defined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The calculation of an asset's value in use incorporates an estimate of expected future cash flows and expectations about possible variations of such cash flows. The effects of the COVID-19 outbreak should be considered in impairment of financial and non-financial assets. Consequently, forecasts, projections, and valuations for impairment calculations will need to be carefully reviewed to ensure that significant events related to the COVID-19 outbreak are being incorporated. Value in use calculations may required to be adjusted (e.g. revised cash flows and/or adjusted discount rate). Fair value less costs of disposal may decrease and active markets for certain types of assets may disappear or may not exist.

1.7.2 Many companies in a vast array of sectors are experiencing an economic loss because of COVID-19. For example, the hospitality, travel and leisure industry has incurred sharp declines in revenue from a sudden decline and cancellation in travel and consumer spending. The impact is not limited to the leisure industry; many manufacturers having closed their facilities, retailers facing supply chain issues, distributors not getting international shipments of inventory. Entities may incur significant penalties for cancelling contracts.

1.8 Revenue recognition

1.8.1 Under Ind AS 115 *Revenue from Contracts with Customers*, the amount of revenue recognized and the pattern of revenue recognition may be impacted by COVID-19. With the possibility of recession and reduced cash flows, dramatic changes are expected in the pattern of customer or public spending which is expected to be more on necessities instead on other goods and services.

1.8.2 Entities are required to account for returns and refund liabilities towards the customers. For example, a fast moving consumer goods company may have flexible return policies and consumers stocking up non-perishable items. Airlines and event organizers may have to provide refunds for cancelled flights and events.

1.8.3 For companies that follow percentage of completion method for revenue recognition, such as, engineering and construction companies that recognize revenue over a long period of time, the pattern of revenue recognition may change for delays in rendering services. Further contract costs recovery of which is not probable are recognised as an expense immediately and can not be considered to be part of contract cost for the purpose of percentage of completion.

1.8.4 Entities in some of the significantly impacted sectors or otherwise, may consider renegotiating existing contractual arrangements with their customers with respect to product pricing, delivery schedule, logistics costs etc. in the revised scenario. Appropriate accounting or disclosures need to be ensured by the management for such mutually agreed amendments, based on the information available till the date of approval of financial statements by the Board of Directors.

1.9 Disclosure as material/exceptional event

1.9.1 When the items of income and expense are material, their nature and amount are required to be disclosed in the financial statements separately. However, under Ind AS, gains and losses should not be reported as extraordinary items, either on the face of the statement of comprehensive income (or income statement) or in the notes.

1.9.2 Ind AS 1 *Presentation of Financial Statements* requires disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities, such as noncurrent assets subject to impairment, within the next financial year (with the exception of assets and liabilities measured at fair value based on recently observed market prices). The disclosures are required to be presented in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided will vary according to the nature of the assumption and other circumstances.

1.9.3 Examples of the types of disclosures that an entity is required to make include:

- The nature of the assumption or other estimation uncertainty
- The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected.
- An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved

When it is impracticable to disclose the extent of the possible effects of an assumption or other source of estimation uncertainty at the end of a reporting period, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions used could require a material adjustment to the carrying amount of the asset or liability affected.

1.10 Expected credit loss assessment under Ind AS 109

1.10.1 Ind AS 109 *Financial Instruments* requires an entity to incorporate reasonable and supportable information about past events, current conditions and the forecast of future economic conditions into the assessment of expected credit losses (ECL) for financial assets not measured at fair value through profit or loss. ECL is a probability weighted amount that is determined by evaluating a range of possible outcomes.

1.10.2 ECL is a probability weighted amount that is determined by evaluating a range of possible outcomes. The impact from the outbreak may vary depending on an entity's specific situation and its methodology in assessing ECL. Accordingly, management should ensure that there is reasonable and supportable consideration of past events, current conditions and forecast of future economic conditions when making that assessment.

1.10.3 When considering the Ind AS 109 requirements to incorporate the forecast of future economic conditions on a probability weighted basis, from a technical standpoint, an entity should evaluate the likelihood of the occurrence of an event (i.e., in this case its severity and the potential impact leading to an epidemic) if this would significantly affect the estimation of expected losses of financial assets. In assessing the expected credit loss, management should consider reasonable and supportable information at the reporting date.

1.10.4 The implications could vary depending on an entity's specific situation and its methodology in assessing ECL. For example, financial institutions may incorporate estimates of forward-looking macro-economic factors into multiple scenarios about the future economy.

1.10.5 ECL may increase due to an increase in both the probability of default ('PD') and the loss given default ('LGD') for financial assets. As all financial assets subject to ECL require the PD to be estimated over the next 12 months, the effects of uncertainty relating to coronavirus may be very significant. Besides this, the impact of the coronavirus may trigger a significant increase in credit risk, and therefore, the recognition of a lifetime ECL provision may arise on many financial assets.

1.11 Borrowing cost

Under Ind AS 23 *Borrowing costs* requires an entity to suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. During the COVID-19 related lockdowns/ curfews, an entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation.

1.12 Debt restructurings and breach of loan covenants

1.12.1 Uncertain economic environment may result in a decline in cash inflows and as such companies may seek additional financing, relief from being classified as non-performing asset (NPA), revise repayment terms and interest rates of existing debt agreements, or request waivers if they no longer satisfy debt covenants. The consequential impact any non- compliance with debt covenants need to be appropriately dealt with in the financial statements.

1.12.2 Small businesses that were already reeling under stress due to the economic slowdown have been among the worst affected and banks have begun to see delays in loan repayments from them. Many appeals to the RBI are being made asking relief on NPA classification. Such revisions may have an impact on the classification and measurement of financial liabilities presented on the balance sheet.

1.12.3 Lenders and borrowers both may enter into agreements to modify the terms of financial instruments such as bank loans. These modifications may take the form of reduced interest rates, modification to payment terms and 'grace periods' for covenant violations. Entities should consider the requirements of Ind AS 109 for the modification of assets (for lenders) and liabilities (for borrowers). These modifications may give rise to gains for borrowers and losses for lenders.

Chapter 2: Methodology of Our Approach

2.1 Coverage

In this publication, we have perused the annual or latest available financial results announced by 43 companies across 13 sectors for the financial years ended 31 March 2020, quarter ended 30 June 2020 and 30 September 2020. The selection was based on market capitalization of the companies and does not find adequate representations of a few sectors, such as, real estate, retail, transportation and jewelry & gems. Therefore, we have expanded our samples and included leading companies in respective sectors, so as to have a sample size of at least 3 companies.

Whilst banking and financial services sector is included in the research, it must be noted that banks are currently not allowed to apply Ind AS. Therefore, the analysis are based on the Ind AS financial results of non-banking finance companies.

2.2 Sectors covered

	Sector categorization	Number of companies covered
1	Automotive & Auto Components	4
2	Fast Moving Consumer Goods	3
3	Hospitality & Leisure	4
4	Infrastructure	3
5	Jewelry & Gems	3
6	Financial Services	4
7	Oil & Gas	3
8	Power & Utilities	3
9	Pharmaceuticals & Life Sciences	3
10	Real estate & construction	3
11	Retail	4
12	Technology & IT Enabling Services	3
13	Transportation & Logistics	3

2.3 Basis

The publication analysis is primarily based on the disclosures provided by the selected companies in their financial results. We have also referred to the additional information and explanations provided by the companies by way of separate investor presentations.

Chapter 3: Sector-Wise Ind-AS Analysis

This chapter deals with the key Ind AS impact areas for each sector identified.

3.1 Automotive & Automotive Components

Sample size – **4** companies including original equipment manufacturers of commercial vehicles, passenger vehicles, including 2/3 wheelers, and automotive parts and equipment.

The automotive sector initially faced issues such as decline in production especially BS VI due to supply chain/labor disruptions. The sector was hit by a triple whammy: factory closures, supply chain disruption, and a collapse in demand.

3.1.1 Impairment of non-financial assets

Ind AS 36 requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity's non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing.
One of the sample companies has a significant impairment loss.

3.1.2 Voluntary Retirement Scheme

If benefits are provided by the entity as a result of termination of employment, the entity should recognise its obligation at the earlier of either the date when it can no longer withdraw the offer of those benefits or the date when it recognises the cost for a restructuring that is within the scope of Ind AS 37 and involves the payment of those termination benefits. Ind AS 19 provides further guidance to establish the date when the entity can no longer withdraw the offer. When the termination benefits are payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and
- The plan establishes the termination benefits that employees will receive in sufficient detail such that employees can determine the type and amount of benefits they will receive when their employment is terminated.

Two sample companies had provision towards voluntary retirement scheme.

3.1.3 Expected credit loss model

The ‘expected credit loss’ (ECL) model for impairment of financial assets such as, trade receivables, requires a forward-looking information to recognize either a 12-month or a lifetime expected credit losses. A company always estimates an ‘expected loss’ considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

3.2 Fast Moving Consumer Goods

Sample size – **3** companies.

FMCG industry has also not been spared by the impacts of COVID-19. Companies involved in manufacturing of essential consumer products has been seeing robust increase in sales. The demand for personal hygiene products such as hand sanitizers and hand washes is growing at an exponential rate across the globe. However, the demand for non-essential products has seen a steep downfall.

3.2.1 Impairment of non-financial assets

Ind AS 36 requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity’s non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing.

Under Ind AS, an intangible can be assessed to have an indefinite useful life if there is no predictable time period over which it is expected to generate economic benefits for the company. These intangible assets are tested for impairment annually. In practice, certain FMCG companies have assessed their brands with certain attributes to be having indefinite useful lives.

One of the sample companies provided following note in its financial results for period ended 30 September 2020:
‘Exceptional item for the current quarter represent costs relating to the business integration of foods business of Rs 10 Crores, redundancy cost of Rs 9 Crores and impairment of assets of Rs 5 Crores.’

3.2.2 Application of Ind AS 116 Amendment - COVID 19 Rent Concession

FMCG companies, particularly those who have physical stores, generally take stores on lease basis. Due to the impact of the pandemic on business conditions, many retailers are seeking rent concessions from lessors. Rent concessions may take the form of a one-off reduction in rent, a deferral of rent or a change in the nature of rent – e.g. fixed payments become variable.

The amendments to Ind AS 116 introduce a practical expedient for lessees i.e. a lessee is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. For example, if the rent concession is in the form of a one-off rent reduction, then it would be accounted for a variable lease payment and be recognized in P&L.

3.2.3 Voluntary Retirement Scheme

If benefits are provided by the entity as a result of termination of employment, the entity should recognise its obligation at the earlier of either the date when it can no longer withdraw the offer of those benefits or the date when it recognises the cost for a restructuring that is within the scope of Ind AS 37 and involves the payment of those termination benefits. Ind AS 19 provides further guidance to establish the date when the entity can no longer withdraw the offer. When the termination benefits are payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

- The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date; and

- The plan establishes the termination benefits that employees will receive in sufficient detail such that employees can determine the type and amount of benefits they will receive when their employment is terminated.

3.3 Hospitality & Leisure

Sample size- **4** companies including those involved in hotel operations and holiday management.

The hospitality and leisure sector was highly impacted on account of COVID-19. The sector witnessed reduced occupancies and revenues due to the lockdown and several hotels had to be shut down. With the unlocking of restrictions, most of the hotels have opened and business outlook is expected to gradually improve.

3.3.1 Going Concern

Financial statements should be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed. In case the financial statements are not prepared on a going concern basis, the entity should disclose the basis of preparation of financial statements and also the reason why the entity is not regarded as a going concern. An entity is no longer a going concern if management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. Management should consider the impact of measures taken by governments and local banks in its assessment of going concern.

One of the sample companies provided the following disclosure in its financial results ended 30 September 2020.

COVID-19 pandemic has impacted and continues to impact business operations in many countries due to lockdown, travel bans, quarantines and other emergency measures resulting reduction in occupancy of hotels and realization rate per rooms starting from the month of March 2020. Management has undertaken/is undertaking various cost savings initiatives like salary reduction, rent waiver, etc., to conserve cash. Further, out of 13 Hotels (1406 rooms) of the company 8 hotels (906 rooms) were operational as on September 30, 2020. The weighted average occupancy of the operational rooms for the month ended September 30, 2020 was 39%.

In evaluating the impact of COVID-19 on its ability to continue as a going concern and the possible impact on its financial position, the company has made an assessment of its liquidity position for the next one year and assessed the impact of macro economic condition on its business in light of comparison of future projections developed and of the recoverability and the carrying value of its major assets comprising of Property, Plant and Equipment (PPE), trade receivables and investment in subsidiaries and associates (investments) as at Balance sheet date. Based on aforesaid assessment, management believe that the company will continue as a going concern and will be able to meet all its obligations as well as recovers the carrying amount of its aforesaid assets as on September 30, 2020.

Management believes that it has taken into account all the possible impact of the known events arising from COVID-19 pandemic in the preparation of the above financial results. The associated economic impact of the pandemic is highly dependent on the variables that are difficult to predict. The impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration and actual result may differ materially from these estimates. The company will continue to monitor any material changes to future economic conditions and significant impact of these changes would be recognized in the financial statement as and when these material changes to economic conditions arise.

3.3.2 Application of Ind AS 116 Amendment - COVID 19 Rent Concession

Retail companies, particularly those who have physical stores, generally take stores on lease basis. Due to the impact of the pandemic on business conditions, many retailers are seeking rent concessions from lessors. Rent concessions may take the form of a one-off reduction in rent, a deferral of rent or a change in the nature of rent – e.g. fixed payments become variable.

The amendments to Ind AS 116 introduce a practical expedient for lessees i.e. a lessee is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. For example, if the rent concession is in the form of a one-off rent reduction, then it would be accounted for a variable lease payment and be recognized in P&L.

All the sample companies applied the option of the practical expedient under the amendment and recognized the rent concession in P&L under 'other income'. The other income arising on account of rent concession in one of the sample companies constituted **735%** of its consolidated loss after tax.

3.3.3 Impairment of non-financial assets

Ind AS 36 requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity's non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing.

Two of the sample companies had to recognize impairment loss.

3.4 Infrastructure

Sample size – **3** companies representing BOT operator for road tolls, ports and airport

3.4.1 Impairment of non-financial assets

Ind AS 36 requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity's non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing.

One of the sample companies provided the following note in its financial results for six-month period ended 30 September 2020:

The Outbreak of Coronavirus (COVID-19) pandemic globally and in India is causing significance disturbance and slowdown of economic activity. Operations at all toll plazas of various project SPVs across the country had been closed down w.e.f. March 26, 2020 till April 19, 2020 mid-night. This was down as per the directives received by Ministry of Road Transportation & Highways (MoRTH)/ National Highway Authority of India (NHAI), in accordance with the MHA guidelines about commercial and private establishment in the wake of COVID-19 pandemic. The Group commenced collection of user fee at all toll plazas on National Highway w.e.f. April 20, 2020 as per the directives issued by NHAI and by ensuring compliance with preventive measures in terms of guidelines/ instruction issued by Govt, of India to contain spread of COVID-19, Further, construction activities were also resumed gradually in planned manner. The Group has filed a statement of claims for *appropriate relief as per the terms of Concession Agreement with NHAI and has also availed the relief provided by its lenders by way of moratorium on certain principal payments.*

The Group believes the current levels of operations are temporary in nature and based on various initiatives announced by the respective Central and state governments, and therefore this may not result in any significant financial impact on the Group. The Management has considered internal and external sources of information up to the date of approval of these unaudited consolidated financial results, in assessing the recoverability of investments and assets, liquidity, financial position and operations of the Group including impact on estimated construction cost to be incurred towards projects under execution and based on the management's assessment, there is no material impact on the unaudited financial results of the Group.

Considering the uncertainties involve in estimating the impact of this pandemic, the future impact of this pandemic may be different from those estimated as on the date of approval of these unaudited financial results, and this will continued to be monitored in future period.

Another sample company provided the following note in its financial results for six-month period ended 30 September 2020:

The carrying amounts of long-term investments in equity shares of wholly owned subsidiary companies viz. XXXXX and XXXXXX aggregates to Rs.235.94 crores as at September 30, 2020 and long term loans given to XXXXXX and XXXXXXX aggregating to Rs. 1748.46 crore (including interest accrued Rs. 57.82 crore) as at September 30, 2020. The said individual subsidiary company have incurred losses in the recent years and individually have negative net worth which aggregates Rs. 744.10 crore as at September 30, 2020. The company has been providing financial support to these entities to meet its financial obligations, as and when required in the form of loans, which are recoverable at the end of the concession period associated with these subsidiaries. XXXXXX has received relaxation in the form of rationalization of revenue share on storage income from the Port Trust in accordance with the guidelines received from Ministry of Shipping. On July 14, 2020, XXXXXXX's application for the assets being classified as "Stressed Projects" in accordance with the guidelines of MoS has been concurred by Murmugao Port Trust for the financial year 2019-2020. AMPTPL vide its letter dated July 23, 2020 has requested MPT for amendment of the concession agreement and rationalization of Tariff. MPT has sent XXXXXXX's application to Tariff Authority of Major Ports (TAMP Authorities) for issuance of notification to make it effective for which approval from TAMP is awaited.

The company has determined the recoverable amounts of its investments and loans in these subsidiaries as at September 30, 2020 by considering a discounted cash flow model. This valuation is based on significant estimates & judgment's to be made by the management as regards the benefits of rationalization of revenue share on storage income received on one subsidiary and the relaxation expected for the other subsidiary, the short-term implication expected to arise from the COVID-19 event, as well as with respect to cargo tariff, port tariffs, inflation, discount rates, revenue share on income which has been considered over the remaining concession period and are considered reasonable by the Management. On a careful evaluation of the aforesaid factors, the company's management has concluded that no provision for impairment in respect of such investments and loans is considered necessary at this stage.

3.4.2 Service concession arrangements

Under Ind AS, the operator does not recognise the fixed asset constructed as a part of the service concession arrangement. The operator is considered to have a right to access, rather than a right to use/right of ownership control over the infrastructure asset. This right is recognised either as an intangible asset or a financial asset depending on the terms of the arrangement. Ind AS considers the arrangement to be in the nature of a barter, wherein the operator initially provides construction services to the government agency earning a right to collect consideration either from public or from a government agency or partly from both. On this basis where the entity is assured of annuity by the NHAI and the traffic demand risk is bourne by the government, the entity recognizes a financial asset under Ind AS 32/ Ind AS 109.

The 'expected credit loss' (ECL) model for impairment of financial assets requires a forward-looking information to recognize either a 12-month or a lifetime expected credit losses. A company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

3.5 Gems & Jewellery

Sample size- **3** companies

3.5.1 Impairment of non-financial assets

Ind AS 36 requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity's non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing.

3.5.2 Foreign currency

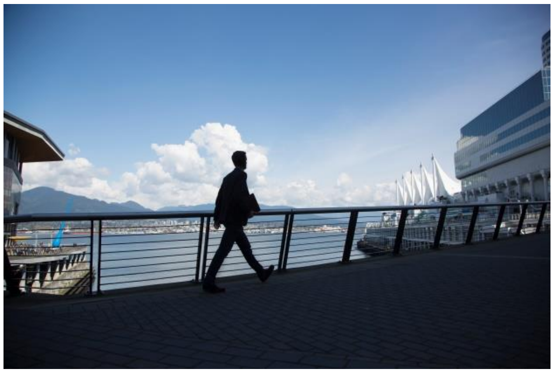
Accounting for foreign currencies was another major impact area for the sample companies. Devaluation of Indian Rupee has been a one of the major challenges over past few months. Rupee value has fallen swiftly against US dollar. Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency. Determination of functional currency is based on the primary economic environment in which the company operates. Factors used for determining the functional currency include the currency that determines the sales price, currency in which costs of providing goods and services are incurred, currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services, and currency in which funds are raised and retained. For foreign subsidiaries, one of additional factors include - whether the operations of the foreign company are an extension of the parent.

3.5.3 Expected credit loss model

The 'expected credit loss' (ECL) model for impairment of financial assets such as, trade receivables, requires a forward-looking information to recognize either a 12-month or a lifetime expected credit losses. A company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

3.6 Financial Services

Sample size- **4** non-banking finance companies



The Government of India and Reserve Bank of India (RBI) announced various economic and fiscal stimulus measures to tide over the COVID-19 crisis. The companies in the financial sector have been focusing on liquidity and credit risk along with the quality of financial reporting and disclosures. Ind AS- compliant NBFCs have been facing the challenge of provisions as per Ind AS, which requires provisions to be computed based on the expected credit losses.

3.6.1 Expected Credit Loss Provision

COVID-19 has brought in many challenges to the entities in estimating the ECL for Ind AS compliant- NBFCs. This is not only due to historical data and information but it is required to be based on forward looking information as well. Considering the sudden onset of COVID-19 outbreak, NBFCs had limited ability to develop detailed forecasts of future conditions. It is to be noted here that, Ind AS 109 requires application of management judgment and its ECL approach permits consideration of different approaches depending upon different circumstances to faithfully reflect the impact of COVID-19 to individual entities. ECL approach does not require a mechanistic application of the prescriptions and it does not set bright lines rather prescribes a few rebuttable presumptions.

ECL is based on reasonable and supportable information that is available without undue cost and effort, about past events, current conditions and forecast of future economic conditions including macroeconomic conditions including economic and monetary policy measures implemented to sustain the economy.

Ind AS 109 requires the forward-looking information to be considered:

- The estimate of ECL does not require a detailed estimate for periods that are far in the future for such periods, an entity may extrapolate projections from available, detailed information.

- Entities need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses:

- The information used should include factors that are specific to entity's borrowers or or credit risk portfolios and more importantly to the economic environment in which the entity is operating;

- Time horizon of forecast information should be commensurate with the expected life of the credit risk portfolio;

- Source of information can be internal as well as external e.g. reports and publications from Credit Rating Agencies, International Monetary Authorities and Prudential Regulators, both domestic and global if relevant to entity's operating environment;

In respect of the type and number of macroeconomic factors to be considered, the standard being a principled standard, does not set any bright lines nor mandates minima-maxima thresholds in this area. However, paragraph B5.5.52 quotes a few macroeconomic indicators e.g. unemployment rate, property prices, commodity prices in the context of ensuring directional consistency between estimation of expected credit losses and these factors. It may be noted that following macroeconomic factors are commonly used in the estimation of expected credit losses in general. It is important to ensure correlation between the macroeconomic factors used in Ind AS 109 ECL estimations and the credit risk profile of the entity;

Gross Domestic Product (GDP) Growth	Inflation Rate or Consumer Price Index	Unemployment Rates
Interest Rates	Foreign Exchange Rates	Real Estate Prices
Household Consumption/Savings	Industrial Production	Crude oil prices
Equity Prices	Purchasing Power Index	Investment in Fixed Assets

One of the sample companies provided following disclosure in its financial results for period ended 30 September 2020:

The COVID-19 pandemic has affected several countries across the world, including India. The pandemic and consequent lockdown imposed by the governmental authorities has considerably impacted the Group's business operations for the half year ended 30 September 2020, in respect or subsidiaries engaged in the business of lending. Apart from other adverse effects, the pandemic has also resulted in a significantly lower business acquisition and put constraints on recovery of overdues from customers of aforesaid subsidiaries. Further, in accordance the RBI guideline relating 10 'COVID-19 Regulatory Package' dated 27 March 2020 and subsequent guidelines on EMI moratorium dated 17 April 2020 and 23 May 2020, the Group offered moratorium lo its customers based on requests as well as suo moto basis between 1 March 2020 to 31 August 2020.

During the quarter, the Group has made an expected credit ross (ECL) provision on standard (stage 1 and 2) assets of, Rs.1,370 crore, In respect of aforesaid subsidiaries, taking the overall ECL provision on standard assets lo Rs.5,099 crore as of 30 September 2020. The Group continues to hold a management overlay of Rs. 2,260 crore as part of Its ECL provision for standard assets of Rs. 5,099 crore as at 30 September 2020. Further, the Group, based on its estimate and judgement, has *reversed capitalised interest of Rs. 142 crores during the quarter ended 30 September 2020 taking the overall reversal for the half year ended 30 Seplember2020 to Rs.361 crores.*

Given the dynamic and evolving nature of the pandemic, these estimates to be subject to uncertainty and may be affected by the severity, duration of the pandemic and other variables.

3.6.2 Modification of Financial Assets

Consequent to the announcement of economic relief packages by the Government and Regulatory Authorities, NBFCs have been giving loan repayment moratoriums to its borrowers.

Ind AS compliant NBFCs are required to assess the impact of the economic relief packages by the Government and Regulatory Authorities on the recognised loans and their conditions. Assuming, the borrowers to whom such relief has been provided have not experienced a significant increase in credit risk, the financial institution will need to assess modification of the loan balances and whether modifications lead to their derecognition. Under Ind AS 109, when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in P&L. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Ind AS 109 requires entities to perform quantitative test (the 10% test) that compares the present value of the cash flows under the revised and original terms to determine whether modified financial liabilities are to be derecognised or not. If the difference is 10% or greater, the existing liability is derecognised and a new financial liability is recognised. There is no such requirement in the standard to use a similar quantitative test for modified financial assets. However, it would be appropriate to include such a test as one of the indicators, in combination with other qualitative factors to determine whether modified financial assets are to be derecognised or not.

3.6.3 Application of Ind AS 116 Amendment - COVID 19 Rent Concession

Due to the impact of the pandemic on business conditions, many banks and NBFCs have been seeking rent concessions from lessors. Rent concessions may take the form of a one-off reduction in rent, a deferral of rent or a change in the nature of rent – e.g. fixed payments become variable.

The amendments to Ind AS 116 introduce a practical expedient for lessees i.e. a lessee is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. For example, if the rent concession is in the form of a one-off rent reduction, then it would be accounted for a variable lease payment and be recognized in P&L.

One of the sample companies opted to apply the practical expedient.

3.7 Oil & gas

Sample size- **3** covering oil and gas extraction companies, oil refining and marketing & retailing companies.

The outbreak of COVID-19 globally and resultant lockdown in many countries, including from 25th March 2020 in India, had an impact on the business of the oil and gas entities. Consequently, lower demand for crude oil and petroleum products impacted the prices and therefore refining margins globally. Since petroleum products are covered under essential services, the oil and gas operations were continued during the lock down period. During COVID-19, there was lower refinery throughput which was mainly due to lower demand of petroleum products.

3.7.1 Inventory valuation provision

Under Ind AS 2 are measured at the lower of their cost and net realisable value (NRV). In a difficult economic environment, the NRV calculation may be more challenging and require more detailed methods or assumptions.

One of the sample companies provided following note in its financial results for year ended 31 March 2020:

In respect to Refining and Petrochemicals business, the Company has determined the non-cash inventory holding losses in the energy businesses due to dramatic drop in oil prices accompanied with unprecedented demand destruction due to Covid-19 and the same has been disclosed as Exceptional Items in the Financial Results. Impact of the same, net of current tax for the quarter and year ended 31 March 2020 is Rs.4,245 crore (tax Rs.899 crore).

Another sample company provided following note in its financial results for period ended 30 September 2020:

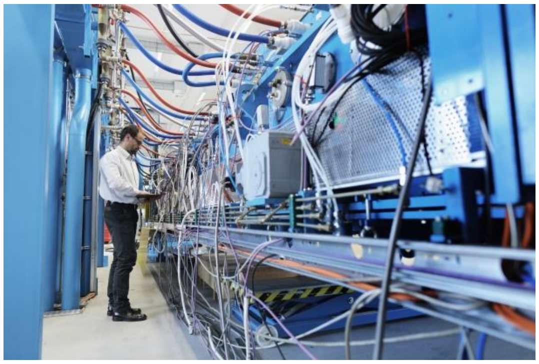
Exceptional item pertaining to FY 2019-20 of Rs.1080.83 Crores is on account of write down of Inventory to net realizable value.

3.7.2 Foreign currency

The outbreak of COVID-19 has led to significant volatility in the financial markets all around the World, depreciation in Indian Rupee (INR) has been witnessed against US$. The exchange differences arising on its settlement or on translation of the foreign currency monetary items at reporting date need to be recognised in the P&L, unless the entity has opted for hedge accounting for its foreign exchange risk. An entity cannot defer foreign exchange losses considering the material impact of high depreciation of INR.

Two sample companies had significant foreign exchange differences in their financial results.

3.8 Power & Utilities



Sample size- 3 companies, including companies involved in generation, distribution and transmission of power.

3.8.1 Impairment on non-financial assets

Both Ind AS 36 Impairment of Assets and AS 28 Impairment of Assets require an entity to assess, at the end of each reporting period, whether there is any impairment for an entity's non-financial assets. An entity is required to assess at each reporting date whether there are any indications of impairment (other than for goodwill and indefinite life intangible assets under Ind AS 36). The impairment test only has to be carried out if there are such indications. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal and the value in use. Value in use is defined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The calculation of an asset's value in use incorporates an estimate of expected future cash flows and expectations about possible variations of such cash flows. The effects of the COVID-19 outbreak should be considered in impairment of financial and non-financial assets when reporting on the balance sheet date. Consequently, forecasts, projections, and valuations for impairment calculations will need to be carefully reviewed to ensure that significant events related to the COVID-19 outbreak are being incorporated. Value in use calculations may required to be adjusted (e.g. revised cash flows and/or adjusted discount rate). Fair value less costs of disposal may decrease and active markets for certain types of assets may disappear or may not exist.

One of the sample companies provided following note in its financial results for period ended 30 September 2020:

Net carrying value of Property, Plant & Equipment as at September 30, 2020 includes t 2,979.35 Crore pertaining to 1,200 XXXX Mega Power Project located at Dahej, Gujarat {"OGEN'). OGEN started commercial operations with effect from November 2014 and thereafter has operated only intermittently I partially, including during the current quarter & half year.

Company had carried out an impairment assessment of OGEN as at March 31, 2020 and had recorded a charge off 1,000.00 Crore under the heading 'Exceptional items' towards the shortfall in the recoverable amount (being the higher of 'fair value less cost to sell' and 'value in use') of OGEN over its carrying amount, in accordance with Indian Accounting Standard 36 'Impairment of Assets' ("Ind AS 36"). The Company has reviewed the key assumptions underlying the above assessment and has concluded that no further impairment provision is considered necessary as at September 30, 2020.

Assessment of 'value-in-use' involves several key assumptions including expected demand, future price of fuel, expected tariff rates for electricity, discount rate, exchange rate and electricity market scenario, based on past trends and the current and likely future state of the industry.

Management reviews such assumptions periodically to factor updated Information based on events or changes in circumstances in order to make fresh assessment of impairment, if any.

3.9 Pharmaceuticals & Life Sciences

Sample size – **3** companies. Our sample companies ranged from generic drug manufacturers to clinical research companies.

Pharmaceutical companies are taking center stage in the Covid-19 fight. Many large pharmaceutical and life science companies are seeing positive growth and a new burst of innovation in the infectious disease landscape as the race for treatment approval for a COVID-19 therapy takes off.

3.9.1 Foreign currency

Pharmaceutical and life science companies have significant foreign operations and are thereby exposed to foreign currency exposures. Accounting for foreign currencies was another major impact area for the sample companies. Devaluation of Indian Rupee has been a one of the major challenges over past few months. Rupee value has fallen swiftly against US dollar.

Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency. Determination of functional currency is based on the primary economic environment in which the company operates. Factors used for determining the functional currency include the currency that determines the sales price, currency in which costs of providing goods and services are incurred, currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services, and currency in which funds are raised and retained. For foreign subsidiaries, one of additional factors include - whether the operations of the foreign company are an extension of the parent.

3.9.2 Remeasurement of Deferred Tax Asset/ Liability due to Taxation Laws (Amendment) Ordinance, 2019

The Taxation Laws (Amendment) Ordinance, 2019 (the Ordinance) came into effect from 20 September 2019. It has brought out significant changes to corporate income tax rates. The domestic companies have an option to pay income tax at a rate lower than the normal corporate income tax at the rate of 30% depending on certain specified conditions. However, the option to pay income tax at a lower rate is dependent upon not availing certain exemptions or incentives as specified in the Ordinance.

If a company expects to opt for the lower tax rate (with an intention appropriately evidenced), the current and deferred tax are required to be measured using lower tax rate as per the Ordinance.

In case the company expects to opt for the lower tax rate from the next financial year 2021-22 onwards, the lower tax rate is required to be applied only to the following extent:

- Deferred Tax asset is expected to be realized or
- Deferred Tax liability is expected to be settled

In the periods during which the entity expects to be subject to lower tax rate.
The normal tax rate is required to be applied to the extent deferred tax asset/ liability is expected to be realized/ settled in earlier period.

3.9.3 Expected credit loss model

The 'expected credit loss' (ECL) model for impairment of financial assets such as, trade receivables, requires a forward-looking information to recognize either a 12-month or a lifetime expected credit losses. A company always estimates an 'expected loss' considering a broader range of information including; past events such as, historical loss trend for similar assets; current economic and trade conditions; and, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instruments.

3.9.4 Sales returns Estimation

One of the prevalent trade practices in the Indian pharmaceutical industry is for the drug manufacturers to accept from the distributors and retailers the returns of products whose shelf lives have either expired or are nearing expiry. Under Ind AS, when the buyer has a right of return the goods and there is uncertainty about the possibility of return, revenue is not recognised until the shipment has been accepted by the customer or the goods have been delivered and the time period for rejection has elapsed. Under Ind AS 18, an adjustment would be made to revenue, cost of revenue, and inventories for estimated sales return based on past experience.

3.10 Real Estate & Construction

Sample size- **3** companies, including companies involved in construction& development of real estate projects and/or renting out commercial properties.

The Indian real estate and construction sector has been trying to get back on its feet and come to terms with multiple reforms and changes brought in by demonetization, RERA, GST, NBFC crisis and the subvention scheme ban. While it was a tough task for the sector to align itself with these new regulations, the measures have been instrumental to bring transparency, accountability and fiscal discipline over the last few years. Current coronavirus outbreak is expected to derail the sector's growth momentum in the short term due to its impact on the overall slowing economy.

3.10.1 Construction Revenue

One of the major Ind AS issues in the sector is around revenue recognition for real estate development. Under Ind AS 115, determining the timing and amount of revenue to be recognised often requires a company to make estimates and judgements. The COVID-19 coronavirus outbreak has disrupted the sector and created uncertainties that may affect these estimates significantly.

For example, real estate and construction companies had to consider:
- Are customers being offered new incentives that would reduce the estimated amount of revenue?
- When contracts include variable consideration, are there changes in the estimated amount of revenue?
- Do estimated stand-alone selling prices need to be updated for new contracts?
- When revenue is recognised over time, does the estimated progress towards completion reflect the latest expectations?

Companies need to consider carefully whether actions taken to respond to the COVID-19 outbreak result in additional variable consideration – e.g. incentives or concessions offered to customers. Additionally, if a construction company's supply chain or labour force is disrupted such that it cannot satisfy its obligations, then this could result in penalties that reduce the transaction price under Ind AS 115.

When a company uses an input method to measure progress – e.g. costs incurred as a percentage of expected total costs – it needs to estimate the total expected inputs that will be needed to satisfy the performance obligation. COVID-19 may impact project timelines if work cannot be completed to schedule. It may also push up the costs of key inputs.

3.10.2 Lease revenue

The economic effects of COVID 19 pandemic has adversely affected lessees such that, for most of them, the COVID 19 measures have significant curtailed the lessees' ability to use and derive the intended benefits from using the leased assets. Several retail stores across the country were closed to the public use implying that the lessee retailer cannot generate sales from the stores.

Under such circumstances, the lessor cannot conclude that collectibility of amounts, or remaining amounts, owed from those lessees are probable of collection. Collectibility issues may exist if lessees request rent payment deferrals or short pay (i.e. pay less than) contractually owed amounts.

One of the sample companies provided following note in its financial results for period ended 30 September 2020:
In view of the lockdown enforced during the period ended September 30, 2020 due to the pandemic, the Mall operations of one of the subsidiary company were severely impacted. Due to the prevailing circumstances and having regard to significant uncertainties relating to collection of rental and other amounts from lessees and the ongoing discussions with lessees, the Company has not presently recognised revenue of Rs. 1,412 lakhs and Rs. 2,826 lakhs for the quarter and period ended September 30, 2020 in respect of contracts with its lessees in its Mall. Further in cases where the changes in the terms and conditions of the lease agreements has been agreed upon with the lessees, the lease rentals have been recognised in accordance with the requirement of lease modification as specified in Ind AS 116 Leases resulting in lease rental income of Rs. 1,455 lakhs relating to the quarter ended June 2020 being recognised in the current quarter.

3.10.3 Remeasurement of Deferred Tax Asset/ Liability due to Taxation Laws (Amendment) Ordinance, 2019

The Taxation Laws (Amendment) Ordinance, 2019 (the Ordinance) has brought out significant changes to corporate income tax rates. The domestic companies have an option to pay income tax at a rate lower than the normal corporate income tax at the rate of 30% depending on certain specified conditions. However, the option to pay income tax at a lower rate is dependent upon not availing certain exemptions or incentives as specified in the Ordinance.

If a company expects to opt for the lower tax rate (with an intention appropriately evidenced), the current and deferred tax are required to be measured using lower tax rate as per the Ordinance.

In case the company expects to opt for the lower tax rate from the next financial year 2021-22 onwards, the lower tax rate is required to be applied only to the following extent:

- Deferred Tax asset is expected to be realized or
- Deferred Tax liability is expected to be settled

In the periods during which the entity expects to be subject to lower tax rate.
The normal tax rate is required to be applied to the extent deferred tax asset/ liability is expected to be realized/ settled in earlier period.

One of the sample companies provided following note in its financial results for period ended 30 September 2020:
The Company and certain companies within the group have, pursuant to the option permitted under section 115BAA of the Income Tax Act, 1961 as introduced by the Taxation Laws (Amendment) Act 2019, recognised the provision for income tax for the six months ended September 30, 2020 and re-measured its deferred tax assets/liabilities basis the rate prescribed in the said section. The full impact of this change has been recognised in the consolidated financial results for the quarter ended September 30, 2020.

3.11 Retail

Sample size of **4** companies.

COVID-19 pandemic has taken a sharp financial toll on the retail industry worldwide as many retailers and shopping centers were forced to shut down for months due to mandatory lockdown and curfews. Consequentially, online retailers received a major boost in sales as customers looked for alternative ways to shop. Internationally, many retailers filed for bankruptcy. In India, the impact of the coronavirus pandemic and the lockdown is clearly visible in financial results of the retails companies.

The companies in our sample provided a brief note in their financial results about the impact of COVID-19 on their operations. One sample company provided the following note in its financial results for its six-month period ended 30 September 2020:
The Company's financial performance for the current quarter and half-year has been severely impacted by the COVID-19 related developments. Given the unprecedented circumstances, the

results for the current quarter and half-year are not comparable with that of the corresponding quarter and half-year of the previous year.

Gradually from May 2020, the operations recommenced as permitted by local regulations and as of date all our stores are operational. Selectively at the local level, certain restrictions continue to apply and consequently impact trading performance. Nevertheless, the trajectory of revenues has continued to improve month to month post reopening. Indicatively, standalone comparable sales v/s corresponding period in FY2O for October 2020 was approximately 70% versus approximately 38% in July 2020.

3.11.1 Application of Ind AS 116 Amendment - COVID 19 Rent Concession

Retail companies, particularly those who have physical stores, generally take stores on lease basis. Due to the impact of the pandemic on business conditions, many retailers are seeking rent concessions from lessors. Rent concessions may take the form of a one-off reduction in rent, a deferral of rent or a change in the nature of rent – e.g. fixed payments become variable.

The amendments to Ind AS 116 introduce a practical expedient for lessees i.e. a lessee is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. For example, if the rent concession is in the form of a one-off rent reduction, then it would be accounted for a variable lease payment and be recognized in P&L.

All the retail companies in our sample applied the option of the practical expedient under the amendment and recognized the rent concession in P&L under 'other income'. The aggregate Ind AS 116 income due to COVID-19 rent concession constituted **31%** of the aggregate net loss of the sample companies for the six-month period ended 30 September 2020. In case of one of the sample companies, the income from rent concession constituted **158%** of the net loss.

3.11.2 Remeasurement of Deferred Tax Asset/ Liability due to Taxation Laws (Amendment) Ordinance, 2019

The Taxation Laws (Amendment) Ordinance, 2019 (the Ordinance) brought out significant changes to corporate income tax rates. The domestic companies have an option to pay income tax at a rate lower than the normal corporate income tax at the rate of 30% depending on certain specified conditions. However, the option to pay income tax at a lower rate is dependent upon not availing certain exemptions or incentives as specified in the Ordinance.

If a company expects to opt for the lower tax rate (with an intention appropriately evidenced), the current and deferred tax are required to be measured using lower tax rate as per the Ordinance.

In case the company expects to opt for the lower tax rate from the next financial year 2021-22 onwards, the lower tax rate is required to be applied only to the following extent:

- Deferred Tax asset is expected to be realized or
- Deferred Tax liability is expected to be settled

In the periods during which the entity expects to be subject to lower tax rate.

The normal tax rate is required to be applied to the extent deferred tax asset/ liability is expected to be realized/ settled in earlier period.

Three sample companies had to review the components of deferred tax assets/ liabilities leading to a reassessment of its estimates compared to earlier periods, resulting in reversal of the deferred tax asset/liability balances causing onetime recognition in P&L.

3.11.3 Revision of Useful Lives of Property, Plant and Equipment

Ind AS 16 requires depreciation to be based on the estimate of useful life of assets, which may be different from the current depreciation rates. It additionally requires the residual value, useful life estimates and depreciation method to be reviewed at least at the end of each financial year. Any changes to these estimates are required to be accounted on a prospective basis.

One sample company reviewed and changed the estimated economic useful lives of all components within the asset block of leasehold improvement and electrical equipment of its property, plant and equipment, based on the combination of evaluation conducted by an independent consultant and management estimate. As a result, the depreciation charge was significantly higher. The Company also accelerated its depreciation amount on account of change in estimate of useful lives of property plant and equipment resulting from store closures / shifting premises.

3.12 Technology and Information Technology enabling services

Sample size – **3** companies. Our sample consisted of IT and business process outsourcing companies. We have analysed based on the consolidated financial results of the sample companies.

3.12.1 Remeasurement of Deferred Tax Asset/ Liability due to Taxation Laws (Amendment) Ordinance, 2019

The Taxation Laws (Amendment) Ordinance, 2019 (the Ordinance) came into effect from 20 September 2019 and was subsequently enacted. It has brought out significant changes to corporate income tax rates. The domestic companies have an option to pay income tax at a rate lower than the normal corporate income tax at the rate of 30% depending on certain specified conditions. However, the option to pay income tax at a lower rate is dependent upon not availing certain exemptions or incentives as specified in the Ordinance.

If a company expects to opt for the lower tax rate (with an intention appropriately evidenced), the current and deferred tax are required to be measured using lower tax rate as per the Ordinance.
In case the company expects to opt for the lower tax rate from the next financial year 2021-22 onwards, the lower tax rate is required to be applied only to the following extent:

- Deferred Tax asset is expected to be realized or
- Deferred Tax liability is expected to be settled

In the periods during which the entity expects to be subject to lower tax rate.

The normal tax rate is required to be applied to the extent deferred tax asset/ liability is expected to be realized/ settled in earlier period.

All the three sample companies had to review the components of deferred tax assets/ liabilities leading to a reassessment of its estimates compared to earlier periods, resulting in reversal of the deferred tax asset/liability balances causing onetime recognition in P&L.

3.12.2 Deferred tax on undistributed profits of subsidiaries, joint ventures and associates

The differences in tax base and carrying amount of investments would arise due to the existence of undistributed profits of a subsidiary, joint venture or associate. Under Ind AS, deferred taxes are recognized on such temporary differences, unless the parent or investor is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future. This exemption is generally available for undistributed profits of a subsidiary or a joint venture where the parent or investor controls distribution of dividends, and there is no current management intention to declare dividend from such undistributed profits. Deferred taxes are recognised on the portion of undistributed profits of a subsidiary, which have already been proposed for or are intended for distribution as dividend. The exemption from recognition of deferred taxes would most likely not be met for investments in associates since an investor only has significant influence over an associate and not control.

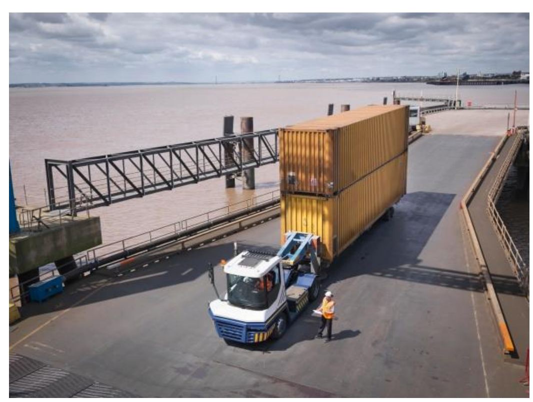
3.12.3 Foreign currency

Technology companies significantly operate in foreign countries and are thereby exposed to foreign currency exposures. Accounting for foreign currencies was another major impact area for the sample companies.

Under Ind AS, a company needs to determine its functional currency, which may not necessarily be the currency of the country in which it is domiciled. Thus, it is possible that the functional currency of an Indian company may be a foreign currency. Determination of functional currency is based on the primary economic environment in which the company operates. Factors used for determining the functional currency include the currency that determines the sales price, currency in which costs of providing goods and services are incurred, currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services, and currency in which funds are raised and retained. For foreign subsidiaries, one of additional factors include - whether the operations of the foreign company are an extension of the parent.

Devaluation of Indian Rupee has been a one of the major challenges over past few months. Rupee value has fallen swiftly against US dollar.

3.13 Transportation & Logistics



Sample size- **3** companies, including companies involved in civil air transportation, shipping and logistics.

3.13.1 Going Concern

As part of a going concern assessment, it is critical for management to assess what impact the current events and conditions have on an entity's operations and forecasted cash flows, with a focus on whether the entity will have sufficient liquidity to continue to meet its obligations as they fall due. Management will need to consider the existing and anticipated effects of COVID-19 on the assumptions in its assessment giving attention to significant assumptions that are sensitive or susceptible to change or are inconsistent with historical trends. Management should develop a range of scenarios (e.g., different time periods of expected lockdowns, social distancing measures etc.) to determine the potential impact on underlying performance and future funding requirements.

One sample company provided the following note in its financial results for its six-month period ended 30 September 2020:
Our scheduled operations resumed from 25th May 2020 with certain capacity and fare restrictions imposed by the Central Government. There were additional capacity restrictions imposed by various state governments for considerable part of the quarter which had an impact on the pace of our capacity deployment. As a result, our revenues were materially impacted during this period. We have taken several actions to mitigate the effect of Covid·19 on our business. We have taken steps to reduce our unit costs and increase our liquidity by making our fleet more efficient with continuing to substitute older CEO aircraft with NEO's, prioritizing flying with our NEOs over older CEO, putting on hold discretional expenses, deferring ccr1ain capital expenditures, sale and lease buck of our owned assets, etc.. In order to sustain operations, we also had to take actions to cut employee costs through pay cuts, leave without pay and reduction in workforce.

We are ramping up our operations in a phased manner, subject to Government directions. We have sufficient fleet, crew and other operating staff available to scale-up operations across networks to cater to demand strictly adhering to safety and social distancing norms. We have introduced a number of measures as part of our new standard operating procedures like spray cleaning the aircraft at every arrival, increased frequency of deep cleaning of the aircraft, wiping of all touch points such as tray tables, arm rests, seal bells. lavatory door, etc. to ensure the health and safety of our passengers.

Due care has been exercised to determine recoverability of the carrying amount of the assets while preparing. the Company's financial results as of and for the quarter ended 30 September 2020. We have performed sensitivity analysis on the assumptions used and based on current estimates, expect the carrying. amount of1hcse assets to be recovered. We have a strong cash position as of 30 September 2020 and hold our current investments in highly liquid funds and bank fixed deposits. We have met and expect to meet all our ongoing cash obligations pertaining to our lease rentals, debt repayments and any other financial obligations. The unprecedented nature of the pandemic makes the future business environment uncertain, however, we will continue to cany out the impact assessment on our assets and closely monitor any material changes to future economic conditions.

Another sample company provided the following note in its financial results for its six-month period ended 30 September 2020:
The Company continues to implement various measures such as enhancing customer experience, improving selling and distribution, revenue management, fleet rationalization, optimizing aircraft utilization, redeployment of capacity in key focus markets, management and employee compensation revision, renegotiation of Contracts and other costs control measures, to help the company establish consistent profitable operations and cash flows in the future. Further, improvements in certain macroeconomics factors relevant to the company's business and operations, the resumption of airline operations (which includes the company's expectations of the timing ofre-introduction of Boeing 737 MAX aircraft into its operations), as well as the renegotiation

with vendors discussed in Note 8 above, are expected to increase operational efficiency and support cash-profitable operations. The Company has also earned revenue of Rs 3,285.40 million from cargo operations during the current quarter, compared to Rs. 2,363.94 million in the quarter ended June 30, 2020 and Rs 1,279.99 million in the quarter ended September 30, 2019. The Company also continues to remain confident of compensation in respect of the matter discussed in Note 7 above. Based on the foregoing and their effect on business plans and cash flow projections, management is of the view that the company will be able to achieve profitable operations and raise funds as necessary, in order to meet its liabilities as they fall due. Accordingly, these financial results have been prepared on the basis that the company will be able to continue as a going concern foreseeable future. The auditors have drawn emphasis in their report in this regard.

3.13.2 Onerous contracts

While Ind AS 37 does not permit the recognition of future operating losses as liabilities, losses arising from onerous contracts may increase as the unavoidable costs may exceed the economic benefits derived from the contract. For example, if an entity is obligated to pay costs for a conference held after the end of the reporting period, but it has cancelled the conference due to the COVID-19 outbreak, the cost of the conference would be recognised as a liability at the time of cancellation as it would be an onerous contract (i.e. unavoidable costs exceed the economic benefits).

One of the sample companies provided following note in its financial results for six-month period ended 30 September, 2020:
The Company has also renegotiated I is renegotiating various operating contracts (including, in particular, contracts with aircraft lessors), and has reassessed their maintenance provisions (having regard to contractual obligations and current maintenance conditions), based on the anticipated scale of operations in the immediate future, and the Company's expectations of the timing of re-introduction of Boeing 737 Max aircraft into its operations. Further, the Company has assessed its liquidity position for the next one year, is in negotiations with lenders regarding deferment of dues and other waivers, and also assessed the recoverability and carrying values of its assets as at the balance sheet date. Management is confident that they have considered all known potential impacts arising from the COVID-19 pandemic on the Company's business, and where relevant, have accounted for the same in these results. However, the full extent of impact of the COVID-19 pandemic on the Company's operations, and financial metrics will depend on future developments across the geographies that the Company operates in, and the governmental, regulatory and the Company's responses thereto, which are highly uncertain and incapable of estimation at this time. The impact of the COVID-19 pandemic on the financial position and its financial performance might be different from that estimated as at the date of approval of these results. The auditors have drawn an emphasis of matter in their report in this regard.

3.13.3 Application of Ind AS 116 Amendment - COVID 19 Rent Concession

Due to the impact of the pandemic on business conditions, many retailers are seeking rent concessions from lessors. Rent concessions may take the form of a one-off reduction in rent, a deferral of rent or a change in the nature of rent – e.g. fixed payments become variable. The amendments to Ind AS 116 introduce a practical expedient for lessees i.e. a lessee is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. For example, if the rent concession is in the form of a one-off rent reduction, then it would be accounted for a variable lease payment and be recognized in P&L.

One of the sample companies provided following note in its financial results for six-month period ended 30 September, 2020:

Pursuant to the renegotiations discussed in Note 8 above, the Company has accounted for other income of Rs 125.16 million during the current quarter (Rs. 95.35 million for the quarter ended June 30, 2020) arising from rental concessions concluded in respect of the period, in line with the requirements of lnd-AS 116, read with the amendment thereto vi de Ministry of Corporate Affairs notification dated July 24, 2020, relating to COVID-19-Related Rent Concessions.

Chapter 4: Ind-AS Amendments Effective For FY 2020-21

Ind AS are largely based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. In lines with the IFRS amendments, Ind AS are also amended from time to time. On 24 July 2020, the Ministry of Corporate Affairs (MCA) has issued amendments to certain Ind AS. This chapter deals with these amendments to Ind AS.

4.1 Summary of Ind AS Amendments

Ind AS Standard	Summary of the amendment	Effective date
Ind AS 1 ***Presentation of Financial Statements*** **and Ind AS 8** ***Accounting Policies, Changes in Accounting Estimates and Errors***	The definition of the term 'material' is refined and clarified. There are consequential amendments to other standards.	Prospectively for annual periods beginning on or after 1 April 2020.
Ind AS 103 ***Business Combinations***	The definition of the term 'business' is revised. An optional concentration test is introduced that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Further, there is an additional guidance provided on how to assess whether an acquired process is 'substantive'.	Amendment is applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 April 2020 and to asset acquisition that occur on or after the beginning of that period.
Ind AS 107 ***Financial Instruments: Disclosures***	There are additional disclosures prescribed pertaining to interest rate benchmark (IBOR) reform.	These amendments shall be applied when the corresponding amendment to Ind AS 109 is applied.
Ind AS 109 ***Financial Instruments***	There is modification to some specific hedge accounting requirements to provide relief to the potential effects of uncertainty caused by the interest rate benchmark (IBOR) reform.	Annual periods beginning on or after 1 April 2020.
Ind AS 116 ***Leases***	The amendment provided an optional practical expedient which permits lessees not to account for COVID-19 related rent concessions as a lease modification.	Annual periods beginning on or after 1 April 2020. In case a lessee has not yet approved the financial statements for issue before the issuance of the amendments, then the same may be applied for annual periods beginning on or after 1 April 2019.

4.2 Overview of Ind AS Amendments

4.2.1 Refined definition of 'materiality': amendment to Ind AS 1 and Ind AS 8

Current definition of materiality	Revised definition of materiality
Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.	*Information is material if omitting, misstating or **obscuring** it could **reasonably be expected to** influence decisions that **primary users** of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*

The concept of materiality depends on the nature or magnitude of information, or both. An entity needs to assess whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

An information is considered to be obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The amendments provided examples of circumstances that may result in information being obscured. Those, inter alia, include:

- Information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear

- Information regarding a material item, transaction or other event is scattered throughout the financial statements and

- Similar items, transactions and other events are inappropriately disaggregated.

There are consequential amendments to Ind AS 10 *Events after the Reporting Period*, Ind AS 34 Interim Financial Reporting and Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

4.2.2 Revised definition of 'business': amendment to Ind AS 103

	Current definition	Revised definition
Business	*An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.*	*An integrated set of activities and assets that is capable of being conducted and managed for the purpose of **providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities**.*

Outputs	*The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.*	*The result of inputs and processes applied to those inputs that provide* ***goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities****.*

To support the new definition of a 'business', the application guidance contained in Ind AS 103 has been amended so that:

- Inputs and processes no longer need to have the ability to create outputs. Instead, they merely need to have the ability to contribute to the creation of outputs.
- The intellectual capacity of an organised workforce having the necessary skills and experience in following rules and conventions may provide the necessary processes applied to inputs to create outputs.
- The focus on outputs is on returns from goods and services provided, investment income, and other income from ordinary activities.

The amendments clarify that to be considered a business, an acquired set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also clarify that:

- Outputs are not necessarily required for an integrated set of activities and assets to qualify as a business
- A business need not necessarily include all inputs and processes used by the seller in operating the business, and
- If an acquired set of activities and assets has outputs, continuation of revenue (e.g. a recurring revenue stream) does not by itself indicate that both an input and a substantive process have been acquired.

Extensive guidance has been added to Ind AS 103 as part of these amendments to assist in determining whether an acquired process is 'substantive'.

The 'concentration test' is added that allows a simplified assessment of whether an acquired set of activities and assets is not a business. In other words, this is a short-cut way of concluding that the acquisition is not a 'business', without having to conduct the detailed assessment required by Ind AS 103.

In applying the concentration test, extensive guidance is provided about what can be considered a single identifiable asset or similar assets. The concentration test is optional, and it can be applied to some acquisitions and not others (i.e. separate election for each acquisition can be made).

4.2.3 IBOR related amendments to Ind AS 109

The amendments provide temporary exceptions would be applicable to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainty about:

- The interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk and/ or
- The timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

The amendments require an entity to assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

For discounted hedging relationships also, the assumption that for a forecasted transaction to qualify as an eligible hedged item in a cash flow hedge it must be highly probable.

In case of a discontinued cash flow hedge (for any reason), Ind AS 109 specifies that when the amounts accumulated in the cash flow hedge reserve (in OCI) would be reclassified to profit and loss
:

a) Any amount remaining in the cash flow hedge reserve would be reclassified to profit or loss in the same period or periods which the hedged cash flows affect profit and loss, assuming that interest rate benchmark on which the hedged cash flows are based is not altered as a result benchmark reform.

b) Where the hedged future cash flows are no longer expected to occur, the amount is immediately reclassified to profit or loss.

In order to determine whether the hedged future cash flows are expected to occur, an entity should assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

4.2.4 IBOR related amendments to Ind AS 107

The amendments introduce disclosures to be made by an entity in respect of hedging relationships to which it applies the exceptions provided under Ind AS 109 IBOR:

- Significant interest rate benchmarks to which the entity's hedging relationships are exposed
- Extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform
- How the entity is managing the process to transition to alternative benchmark rates
- A description of significant assumptions or judgments the entity made (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present which respect to the timing and the amount of the interest rate benchmark-based cash flows) and

- The nominal amount of the hedging instruments in those hedging relationships

4.2.5 COVID-19 related Rent Concessions: Ind AS 116 amendments

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under Ind AS 116, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies the practical expedient discloses that it has applied the practical expedient to all rent concessions that meet the conditions for the practical expedient or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient. In addition, a lessee discloses the amount recognised in profit or loss to reflect changes in lease payments that arise from such rent concessions to which the lessee has applied the practical expedient.

The amendment provides relief to lessees for accounting for rent concessions from lessors specifically arising from the COVID-19 pandemic. While lessees that elect to apply the practical expedient do not need to assess whether a concession constitutes a modification, lessees still need to evaluate the appropriate accounting for each concession as the terms of the concession granted may vary.

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Bengaluru
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Jubilee Building, 45, Museum
Road, Bengaluru - 560 025

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DTA-2, G-02 to G-05 Plot
Gujarat Hira Bourse
Ichhapore-2
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T-720, Belgium Tower
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14 January 2021

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