KPMG

Ind AS: Practical perspectives

Quarterly update – Issue 01/2016

A quarterly analysis of published results of Indian listed companies

October 2016

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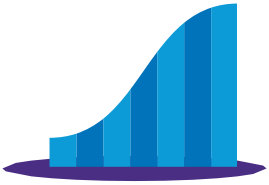

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Foreword

The year 2016 marks the dawn of a new era in Indian financial reporting as the convergence with International Financial Reporting Standards (IFRS) is becoming a reality, with the adoption of Indian Accounting Standards (Ind AS) by the largest Indian companies and declaration of the first quarter results for Fiancancial year (FY) 2016-17. This culminates a nine year journey towards convergence with IFRS that had its share of ups and downs and false starts. However, at the end of it all, we now have a set of standards that are virtually on par with the globally accepted standards, notwithstanding a few carve-outs or deviations from IFRS.

While the standard setting process has produced a respectable outcome, the real success of the convergence initiatives depends on how well these standards are implemented and how effectively companies embrace this change. KPMG in India, through its publication, 'Ind AS: Practical perspectives', aims to put a finger on the pulse of India Inc's adoption of Ind AS and capture emerging trends and practices.

In the first edition of 'Ind AS: Practical perspectives', we analyse the results of 71 companies that are part of the Bombay Stock Exchange (BSE)

100, and have announced their results under Ind AS for the first time. The impact of the transition to Ind AS has been analysed by comparing the reported results for the quarter ended 30 June 2015 under the previous Accounting Standards (AS) with the restated results for the same quarter under Ind AS, that have been published as comparatives for the quarter ended 30 June 2016.

Our analysis identifies the significant financial reporting areas that have had an impact on companies' profits. As expected, a substantial portion of the impact is related to areas such as business acquisitions, property, plant and equipment, financial instruments and taxes. However, the impact arising from policy choices made by companies on transition/ first-time adoption as well as the extent to which some companies have adopted specific 'carve-outs' are emerging as important areas of focus, and some of these are expected to have a lasting impact on financial results in the future.

However, the implementation of Ind AS in the first quarter has been largely impacted by the relaxations provided by the Securities Exchange Board of India (SEBI); this has brought in diversity in results presented by companies. Most of these companies have presented only the bare minimum information mandated by SEBI; as a result, the impact of the transition on net worth, the transition related choices made and exemptions availed, carve-outs adopted, etc. are not evident in the published results. Further, close to one-third of these companies have reported only stand-alone results instead of consolidated results. Considering all of these aspects, when compared with the extent of qualitative differences between AS and Ind AS, the quantitative impact as reported is not as staggering.

As our IFRS convergence journey enters its next phase with companies starting to report under Ind AS, the key challenge is about ensuring that entities achieve high quality and consistency in the adoption of Ind AS, and that they do not end up with divergent practices and interpretations that are not in line with the spirit of these standards.

We hope you find this publication useful in enhancing your understanding of corporate results under Ind AS and we welcome any suggestions or feedback that you may have.

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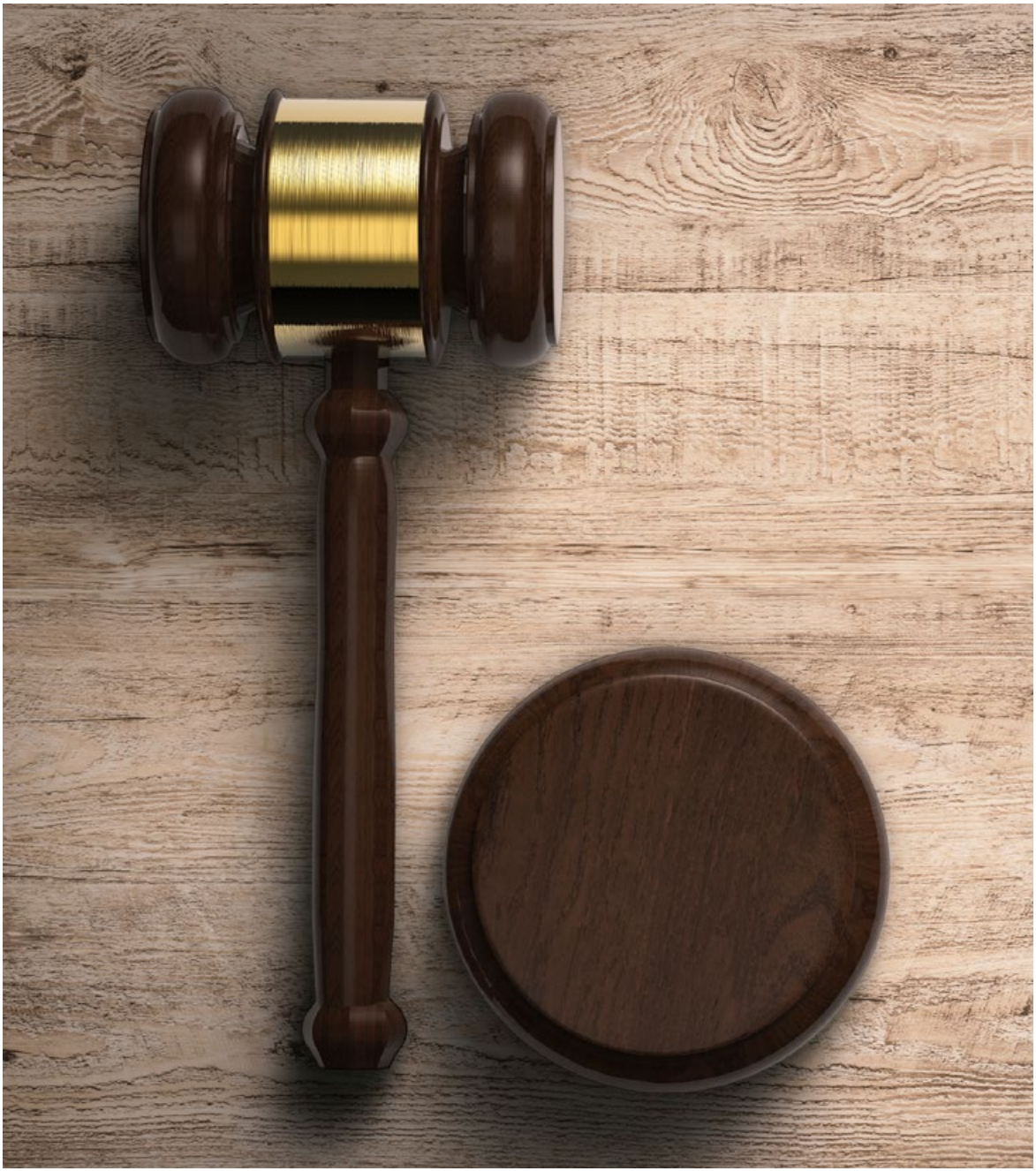


Introduction

Background to Ind AS adoption

Ind AS comprises 40 accounting standards that are largely converged with IFRS which were issued by the Ministry of Corporate Affairs (MCA) on 16 February 2015 and amended on 30 March 2016. While there are certain differences from IFRS (carve-outs), the more significant ones are optional and have been introduced to facilitate a smooth transition from Indian Generally Accepted Accounting Principles (Indian GAAP or AS) to Ind AS. An important decision taken by MCA was to notify the financial instruments standard based on the requirements of IFRS 9, *Financial Instruments* which is not yet mandatory internationally for companies preparing financial statements as per the requirements of IFRS.

Ind AS introduce significant differences from the requirements of AS in areas such as revenue recognition, property, plant and equipment, financial instruments, business combinations, consolidation, etc. In addition to changes in the requirements of the standards themselves, there are several areas where Ind AS require application of judgement and financial reporting would be based on estimates made by the management. Annual financial statements also are required to include several new quantitative and qualitative disclosures, especially in relation to financial instruments and consolidated financial statements.

The MCA laid down a road map for companies (other than banks, insurance companies and NBFCs) whereby companies with a net worth of more than INR500 crore (phase I companies) are required to apply Ind AS for statutory financial reporting from 1 April 2016 (with 1 April 2015 as the transition date). All remaining listed companies and other unlisted companies with a net worth of more than INR250 crore (phase II companies) are required to apply Ind AS from 1 April 2017 (with 1 April 2016 as the transition date). Separate road maps have been issued for banks, insurance companies and Non-Banking Financial Companies (NBFCs) thereafter with the first cycle of applicability from 1 April 2018 onwards (transition date 1 April 2017). Based on the road map for corporates, listed companies with a net worth of more than INR500 crore were required to report their results for the quarter ended 30 June 2016 as per the requirements of Ind AS.

As the first quarter of the current financial year (2016-17) came to a close, the regulator for listed entities, the SEBI, in view of submissions made by listed companies, issued certain relaxations to enable a smooth transition to Ind AS reporting in the initial few quarters. These are primarily relating to reporting timelines, comparative information and the requirement of audit/limited review of comparative information. Importantly, SEBI also provided relaxations in terms of the reconciliations required to be included as part of the quarterly results. Accordingly, 14 September 2016 was the revised deadline for submission of Ind AS financial results for all phase I listed companies with a financial reporting year end of 31 March.

Basis of our analysis

Profile of companies covered

In this edition of Ind AS: Practical perspectives, we have analysed the first quarter results announced by the Bombay Stock Exchange (BSE) 100 companies. The publication analyses the impact of adoption of Ind AS on the profits of BSE 100 and identifies some of the key standards contributing to the impacts on revenue, EBITDA[01], interest, tax and PAT[02].

Of the companies comprising the BSE 100 index, 14 companies are banks, nine are Non-Banking Financial Companies (NBFCs) and six companies follow a different date of transition to Ind AS (other than 1 April 2015). Therefore, the analysis in the subsequent sections are based on the results published by the remaining 71 companies (covered companies).

Sector-wise split of companies

The covered companies, whose results have been analysed in this publication have been categorised into 12 broad sectors. The sector classification of the covered companies done by BSE has been used to arrive at the sector categorisation used for the purposes of our analysis in this publication, as indicated in the table alongside.

The table below summarises basis of classification of sectors

Sector categorisation used in this publication	Corresponding sector(s) classification by BSE	Number of companies
Automotive and ancillaries	• Commercial vehicles • 2/3 wheelers • Auto parts and equipments • Cars and utility vehicles	10
Cement and cement products	• Cement and cement products	1
Energy	• Refineries/petro products • Coal • Oil marketing and distribution • Mining • Electric utilities (certain companies) • Exploration and production • Integrated oil and gas	11
Infrastructure	• Industrial machinery • Realty • Utilities • Electric utilities (certain companies) • Construction and engineering	7
IT consulting and software	• IT consulting and software	4
Metals	• Aluminum • Zinc • Iron and steel/interim. products	7
Other manufacturing	• Heavy electrical equipment • Furniture-furnishing-paints • Other industrial products • Textiles • Cigarettes-tobacco products • Commodity chemicals • Agrochemicals	7

01. EBITDA - Earning Before Interest, Tax, Depreciation and Amortisation
02. PAT - Profit After Tax

Sector categorisation used in this publication	Corresponding sector(s) classification by BSE	Number of companies
Packaged foods	• Packaged foods	1
Personal products	• Personal products • Tea and coffee	6
Pharmaceuticals	• Pharmaceuticals	8
Telecom and telecom services	• Telecom services • Other telecom services	4
Others	• Marine ports and services • Other apparels and accessories • Breweries and distilleries • Broadcasting and cable TV	5

Source: KPMG in India's analysis 2016 based on the primary information from BSE 100 index website as on 14 September 2016 http://www.bseindia.com/corporates/List_Scrips.aspx?expandable=1%3fexpandable%3d1

Availability and comparability of information

In view of certain relaxations offered by SEBI (detailed analysis provided subsequently in this publication) majority of the covered companies in their published financial results have presented only the minimum mandatory reconciliations explaining the variation between the profit reported under AS for the quarter ended 30 June 2015 and the profits reported under Ind AS for the same period (as comparatives to the results for the quarter ended 30 June 2016).

Of the covered companies, 28 have provided stand-alone financial results for the quarter ending 30 June 2015 while 43 have provided consolidated financial results for the quarter ending 30 June 2015.

Additionally, six of the covered companies have historically published IFRS consolidated financial statements.

Therefore, the analysis performed on the covered companies has been constrained due to the lack of availability of comparable information for all the relevant periods.

Basis of analysis

Analysis in the subsequent sections of this publication is based on the profit reconciliations presented for the quarter ended 30 June 2015 by the covered companies (the analysis is based on consolidated financial results, unless the consolidated financial results have not been published for the quarter ended 30 June 2016, in which case the stand-alone financial results have been used).

As necessary explanations/ notes to the profit reconciliations have not been provided in a narrative form by all the covered companies, we have determined the nature of adjustments to profit to a particular Ind AS standard on the basis of descriptions available in the reconciliations and on the basis of our analysis of those descriptions. Further, certain values and percentages, referred to in this publication should be considered as indicative and may change if computed differently and/ or on use of different set of assumptions.

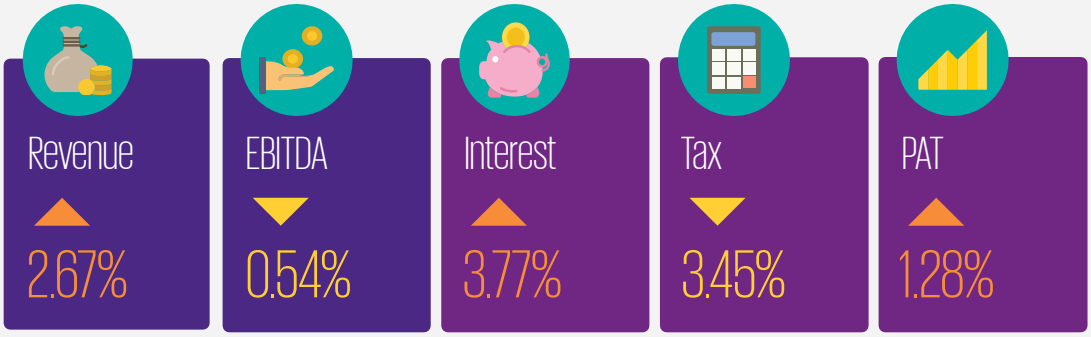
Additionally, standard-wise Ind AS impact analysis on profitability is based on the absolute values of adjustments disclosed in the reconciliations.

Ind AS transition: Impact on headline numbers

The transition to reporting under Ind AS did not make headlines for several companies, as the quantitative impact on the reported numbers was not as stark as the qualitative differences between AS and Ind AS would have suggested them to be. A combination of factors including accounting policy choices and exemptions availed at the date of transition to Ind AS, use of carve-outs (deviations from IFRS) provided in Ind AS and inconsistent practices in reporting, have meant that the impact in the first quarter results were rather muted.

Impact on key metrics reported by companies is analysed below.

Impact on key metrics of companies for the 30 June 2015 quarter under AS and Ind AS



The impact of the transition to Ind AS presented above is based on the reported results for quarter ended 30 June 2015 as per AS and as per Ind AS for the quarter ended 30 June 2015.

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Revenue

The table below provides a summary of total revenue under AS and Ind AS for the covered companies.

(Amount in INR crore)

Quarter ended 30 June 2015	AS	Ind AS	Change	Percentage change	Number of companies
Total revenue reported by covered companies	784,257	805,165	20,908	2.67	71
Companies with increase in revenue	379,265	411,543	32,278	8.51	24
Companies with no change in revenue	101,009	101,009	-	-	13
Companies with decrease in revenue	303,983	292,613	(11,370)	(3.74)	34

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Our analysis suggests that 24 companies have reflected an increase in revenue by around 8.51 per cent (determined for the 24 companies separately) while around 34 companies have reflected a reduction in revenue by around 3.74 per cent (determined for the 34 companies separately), The remaining 13 have seen no movement in revenue.

Due to the relaxations made by SEBI, which are discussed in greater detail later in this document, 24 companies have presented revenues gross of excise duty which implies that for such companies revenue would have increased from the corresponding number reported under AS. However, if all companies had presented revenues gross of excise duty, in line with the SEBI clarification of 20 September 2016, then the revenues of the covered companies may have increased with a corresponding increase in the excise duty costs. Further, voluntary disclosures by companies operating in the personal products sector indicate that the reclassification of expenditure (earlier presented as selling and promotion expenses) under Ind AS as a reduction from revenue has adversely affected the topline of these companies. Apart from these presentation changes, other adjustments, which have impacted the timing of revenue recognition, and had a resultant impact on the net profit for the period, aggregate INR117 crore, representing an increase in revenues of 0.01 per cent as compared to the previously reported revenues.

EBITDA

The table below provides a summary of total EBITDA under AS and Ind AS for the covered companies.

(Amount in INR crore)

Quarter ended 30 June 2015	AS	Ind AS	Change	Percentage change	Number of companies
Total EBITDA reported by covered companies	150,506	149,690	(815)	(0.54)	71
Companies with increase in EBITDA	79,726	83,454	3,728	4.68	38
Companies with no change in EBITDA	-	-	-	-	-
Companies with decrease in EBITDA	70,780	66,236	(4,544)	(6.42)	33

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

EBITDA has shown a marginal reduction for the covered companies as a whole. Of the 71 companies that have reported their results under Ind AS, 38 have seen an increase in EBITDA by 4.68 per cent, whereas 33 have seen a reduction in their EBITDA by 6.42 per cent. While the covered companies have not provided separate reconciliations for changes in the reported EBITDA, the key changes that have impacted EBITDA are changes in accounting for revenues, foreign currency fluctuations, financial instruments, business combination, etc. In particular, the change in policy relating to accounting for foreign currency fluctuations (recognising gains and losses through statement of profit and loss as compared to earlier practice of routing through balance sheet) has led to an increase in EBITDA of 1.43 per cent, whereas all the other changes led to a decrease in EBITDA of 1.97 per cent.

EBITDA calculations of the covered companies do not include profit from associates and joint ventures.

Interest

The table below provides a summary of total interest under AS and Ind AS for the covered companies.

(Amount in INR crore)

Quarter ended 30 June 2015	AS	Ind AS	Change	Percentage change	Number of companies
Total interest reported by covered companies	17,251	17,902	651	(3.77)	71
Companies with increase in interest	14,093	15,485	1,392	9.88	43
Companies with no change in interest	289	289	-	-	17
Companies with decrease in interest	2,868	2,127	(741)	(25.83)	11

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

While majority of the companies have seen an increase in the interest costs (approximately 43 out of the covered companies have reflected a 9.88 per cent increase in their interest costs while 11 companies have reflected a 25.83 per cent reduction in their interest costs), this being one of the key impacts of the new financial instruments standard; companies are now required to classify many more instruments as debt/ liability, as well as recognise all related finance costs through the statement of profit and loss. However, the quantum of increase in interest costs may potentially undergo a change when all covered companies publish consolidated financial results. For few companies it is likely that significant reduction in the interest costs is primarily on account of the fact that the joint ventures which carried a significant component of debt in their respective balance sheets are no longer proportionately consolidated. Accordingly, the related interest cost in the consolidated financial results has reduced as compared to AS.

Tax

The table below provides a summary of total tax expense under AS and Ind AS for the covered companies.

(Amount in INR crore)

Quarter ended 30 June 2015	AS	Ind AS	Change	Percentage change	Number of companies
Total tax reported by covered companies	27,523	26,573	(950)	(3.45)	71
Companies with increase in tax expense	14,021	14,647	625	4.46	31
Companies with no change in tax expense	129	129	-	-	1
Companies with decrease in tax expense	13,373	11,798	(1,575)	(11.78)	39

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Tax expense for the covered companies has reduced by 3.45 per cent. Thirty nine companies have reported a reduction of approximately 11.78 per cent in tax expense for the quarter ended 30 June 2015 while 31 companies have reported an increase of approximately 4.46 per cent. A quick analysis of the companies who have reported stand-alone financial results suggests that the movement in tax expense (if all these companies with stand-alone financial results were considered together) is very minimal. Therefore, substantial movement in the tax expense is primarily with respect to the consolidated financial results. While certain companies have reported recognition of deferred tax liabilities on undistributed earnings of subsidiaries, associates and joint ventures (which would result in an increase in tax expense), it is likely that reduction in tax expenses may be partly on account of deferred tax on consolidation adjustments e.g. unrealised profit on sale of inventory, unrealised profit on sale of fixed assets, deferred taxes on accounting policy alignments.

The trend for tax expense also reflects the pattern for the movement in PAT reported by the covered companies discussed in the next page.

PAT

The table below provides a summary of total PAT under AS and Ind AS for the covered companies.

(Amount in INR crore)

Quarter ended 30 June 2015	AS	Ind AS	Change	Percentage change	Number of companies
Total PAT reported by covered companies	69,543	70,434	892	1.28	71
Companies with increase in PAT	34,870	38,625	3,754	10.77	38
Companies with no change in PAT	-	-	-	-	-
Companies with decrease in PAT	34,673	31,810	(2,863)	(8.26)	33

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

While almost an equal number of covered companies have reported an increase and decrease in PAT respectively, it is pertinent to note that a substantial part of the movement in the aggregate PAT of covered companies has been contributed by the companies that have published consolidated financial results.

The financial instruments standard Ind AS 109, *Financial Instruments* has had the most far reaching impact on the profits of the covered companies. While the quantum of impact of foreign exchange fluctuation is very large, the number of companies that have reported an impact in their profit reconciliation is restricted to six companies. An overview of the impact of various standards on the overall profits of the covered companies has been provided in the chart on the next page.

IFRS results

From the BSE 100 companies, six have historically presented IFRS results. The difference in the Ind AS results and IFRS results of these companies on an aggregate basis is 4 per cent and it is attributed to one company out of these six. The fact that five out of six companies have insignificant impact could be due to the reason that their Ind AS accounting policies are in line with IFRS.

The table below summarises the impact of various Ind AS on the profits of the covered companies

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

The table below presents aggregated profit reconciliation for all the covered companies:

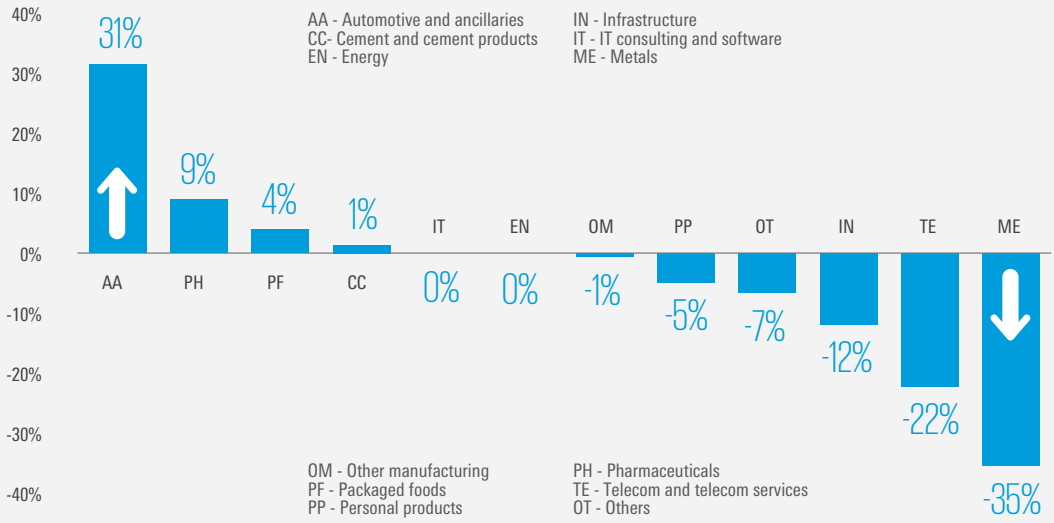
Description	Total
Profit as per AS	73,652
Revenue	117
Property, plant and equipment	(68)
Financial instruments	(1,129)
Foreign exchange fluctuation	1,866
Employee benefits	(709)

Description	Total
Business combination	889
Others	(214)
Income taxes	(846)
Total adjustments	94
Profit as per Ind AS	73,558

Ind AS transition: Sectorial impacts

Percentage impact on results

Impact of Ind AS on results of individual sectors



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

The chart above showcases the impact of Ind AS on the results of the companies belonging to individual sectors.

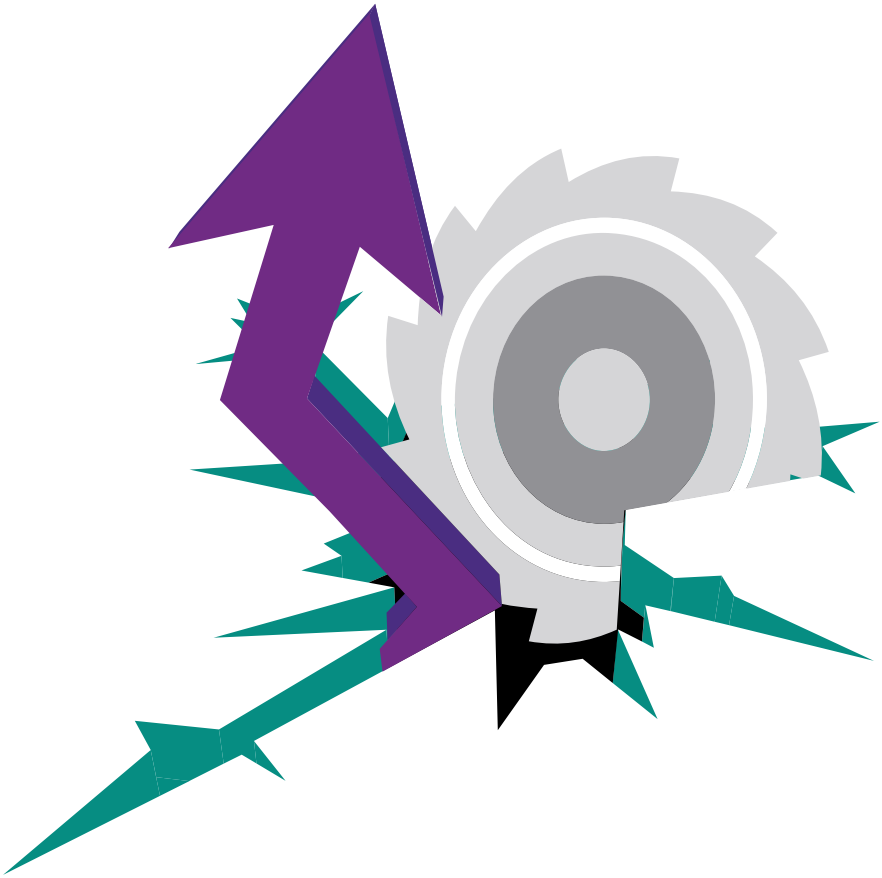
As was expected and is known, the nature and quantum of the impacts vary not only based on the sectors to which companies belong but also on the choices made by the companies while transitioning to Ind AS. Accordingly, while a significant component of the improvement in results of the automobile and ancillaries' sector was on account of choice of discontinuing the past policy of accumulating exchange differences in reserves and subsequent amortisation into statement of profit and loss, some companies in the metals' sector have recognised incremental depreciation in their statement of profit and loss on account of fair valuation of property, plant and equipment. This may be because metals' sector companies have elected to apply the fair value deemed cost exemption as at the date of transition.

Further, company specific adjustments have also contributed to how Ind AS has impacted the results of the various sectors. For example, while the companies in the metals' sectors have recognised a significant adjustment due to fair valuation loss on financial instruments, companies in the automobiles and ancillaries' sector have recognised a significant gain on fair valuation of derivatives.

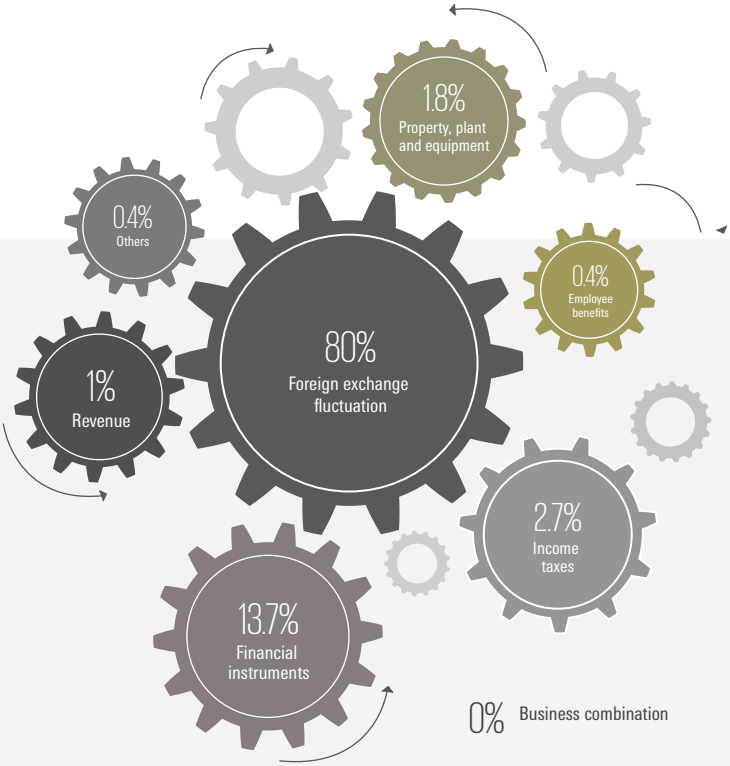
Similarly, while some sectors like energy may have seen a low impact on results as per Ind AS, voluntary disclosures made by some entities seems to suggest that certain adjustments on the date of transition were significant but had an offsetting effect in terms of the overall adjustment to the profits voluntary disclosures for net worth impact have been made by only four companies. Accordingly, when similar disclosures are made by the remaining companies as part of the annual financial statements that may also bring out the true impact on the financial statements and reveal how some of the choices made by companies on the transition date have affected subsequent profits.

Standard-wise impact on results of each sector

The subsequent charts highlight the impact of key standards on the results of individual sectors. The percentages referred to in the charts in this publication represent the relative impact with reference to the overall impact of Ind AS on the results of the particular sector. Accordingly, it may not be appropriate to presume that similar percentages reflected for two different sectors is indicative of similar absolute values.



Automotive and ancillaries' sector

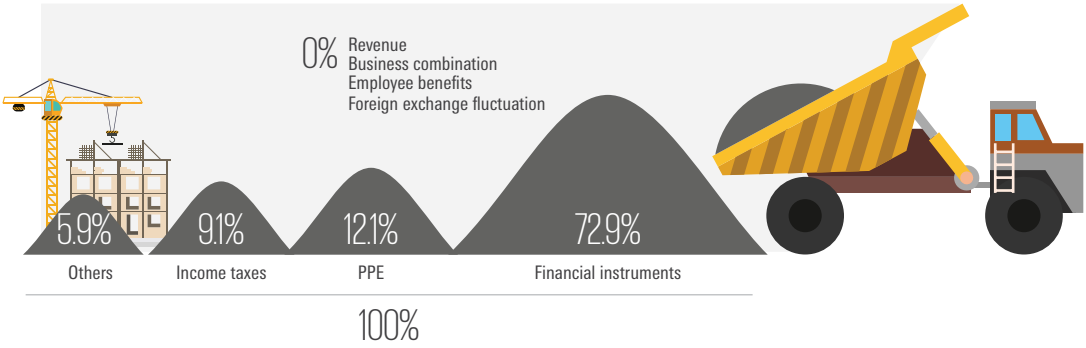


100%

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Results of the companies belonging to the automobile and ancillaries' sector appear to have been significantly affected by the foreign exchange fluctuation standard. However, significant part of the impact is on account of one of the related choices on first-time adoption exercised by one company to discontinue the policy followed under AS. This could be based on an intention to align with IFRS requirements. Some of the impacts reported by a significant proportion of companies in the automobile and ancillaries' sector include adjustments for revenue recognition and fair valuation of financial instruments.

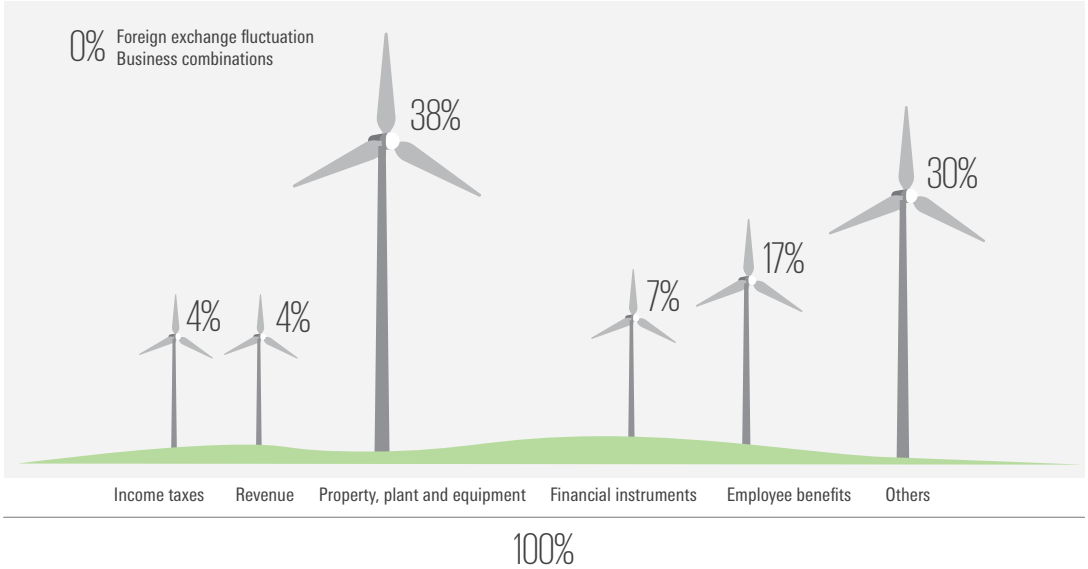
Cement and cement products



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

The key differences between AS and Ind AS reporting include adjustments in relation to fair valuation of derivative instruments and certain adjustments reported for depreciation. However, given that a significant proportion of companies in this sector are yet to publish Ind AS results (as those companies have financial year end other than 31 March), the impacts due to Ind AS reported may not yet be represent the overall sector impact.

Energy

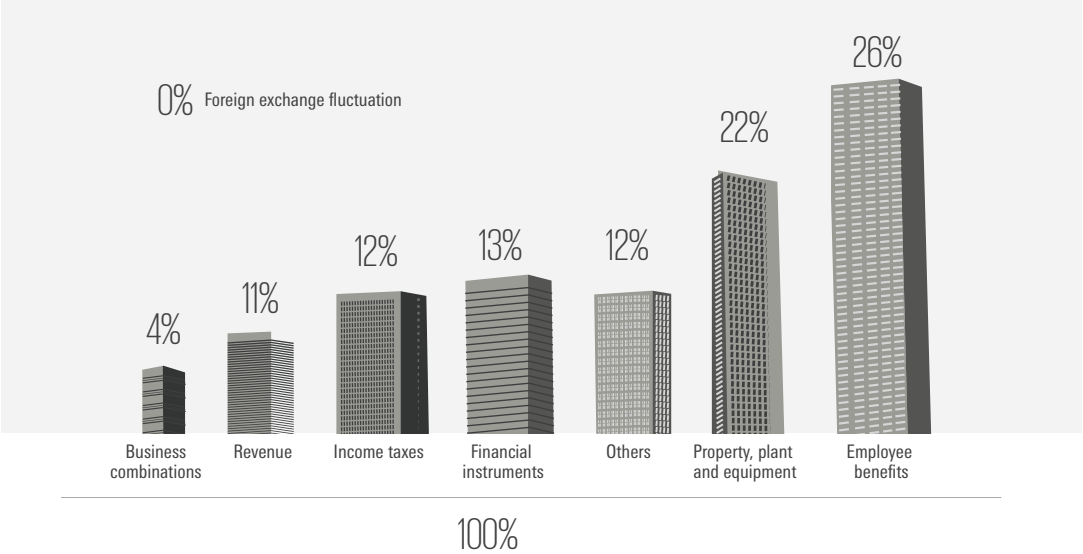


Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

The impact on the energy sector could be broadly split into, the impact on the exploration sector and other sub-sectors. Companies in the exploration sector have reported adjustments to the oil and gas assets on account of changes in policies of measuring such assets and in certain cases, recognition of asset retirement obligations on a discounted basis.

Other significant adjustments which have been reported by a large proportion of companies in the energy sector include fair valuation adjustments (for derivatives and other financial instruments), amortised cost measurement of certain financial instruments, adjustments to depreciation for items such as stores and spares, enabling assets, etc. Certain companies have reported adjustments for revenue recognition as well.

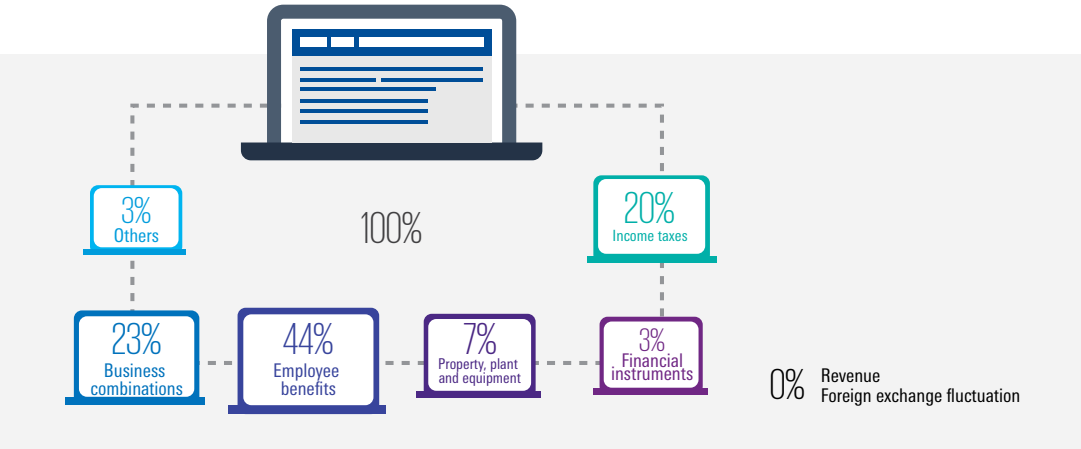
Infrastructure



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Financial instruments is again a common impact area for almost all companies within the infrastructure space with significant impact resulting from not only the fair valuation measurement requirements for certain instruments, but also the amortised cost measurement requirement. Adjustments to revenue recognition have been reported by companies in the real estate sector space. Similarly, adjustments for property, plant and equipment do not represent any particular trend and substantial portion of such adjustments have been reported by one company. Similar to other sectors' adjustments for employee benefits reflect in the profit reconciliations of almost all companies. However, in addition to the adjustments relating to actuarial gains/ losses and related items, recognition of additional liability on account of constructive obligations is also appearing as a one of reconciliation item for one covered company in this sector.

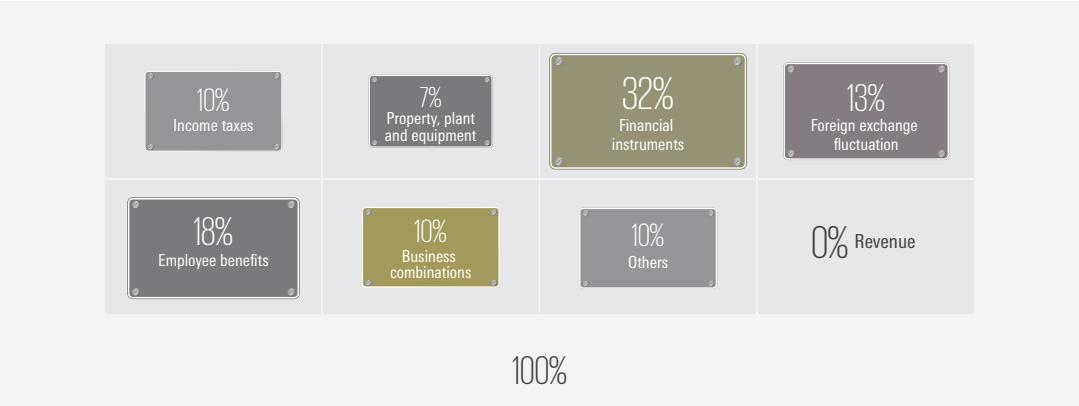
IT consulting and software



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Key differences reported by companies in this sector are with reference to certain financial instruments, employee benefits, business combinations, etc. Revenue recognition under AS appears to have been aligned with the requirements of IFRS and hence, no adjustments were reported by any of the companies in this sector. Similarly, while these companies have a significant exposure to financial instruments such as derivatives, etc., the impact on transition to Ind AS has not been significant given that the policies under AS were on a large extent already based on the requirements of IFRS.

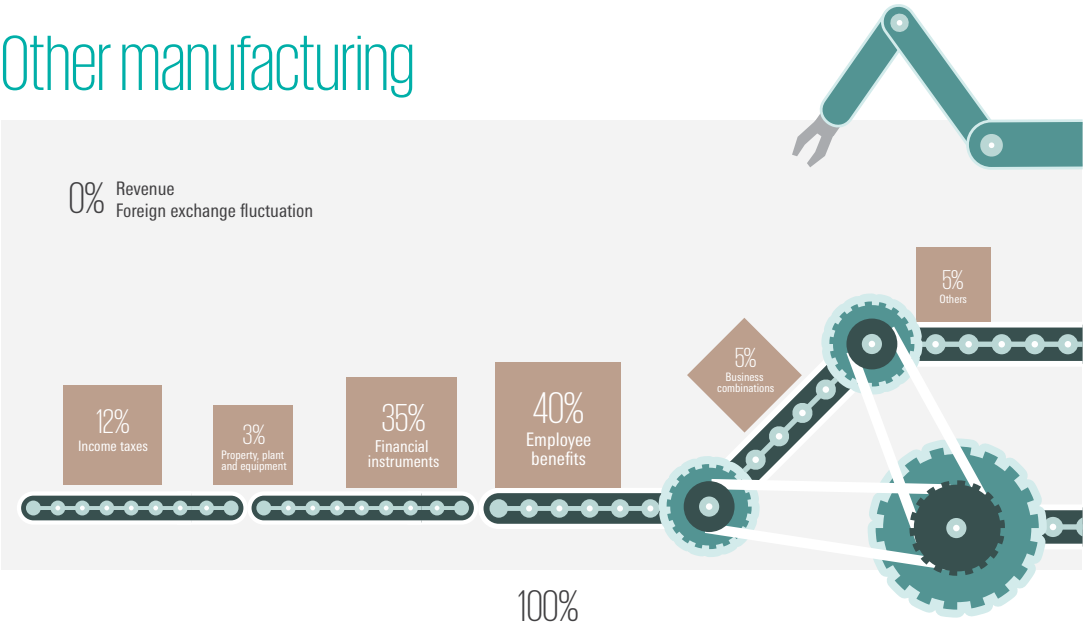
Metals



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Certain companies in this sector have large exposure to financial instruments which have resulted in adjustments relating to such instruments having a greater weightage. Certain companies have made a choice of measuring property, plant and equipment at their fair value on the date of transition – this has been reflected in the profit reconciliation as an adjustment to depreciation expense. Additionally, other areas of impact are recognition of remeasurements of defined benefit plans through other comprehensive income, restatement of past business combinations, and deferred taxes adjustments including impact on undistributed earnings of joint ventures.

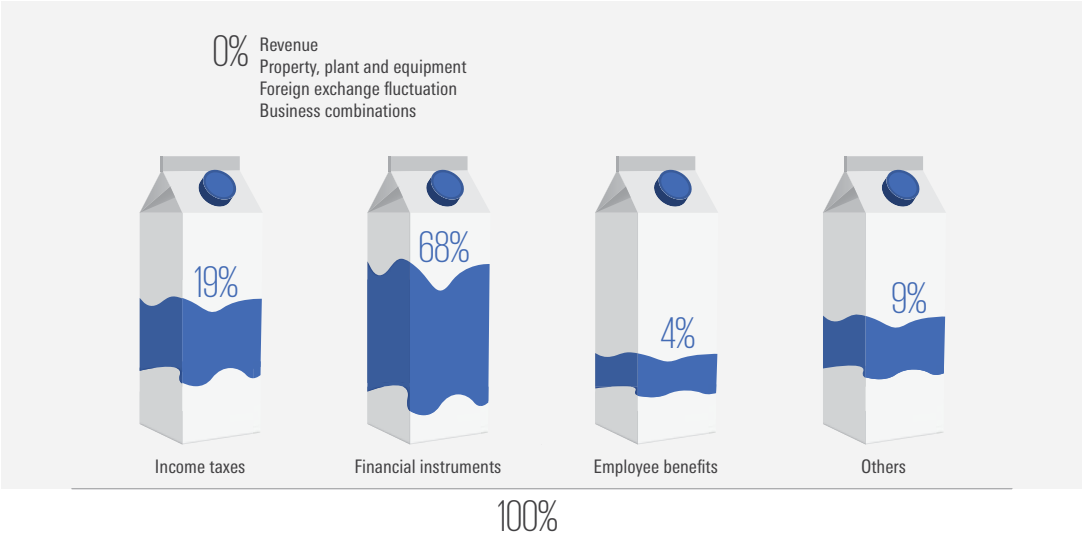
Other manufacturing



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Significant proportion of companies included in this sector have disclosed adjustments in relation to fair value measurement of derivatives and other financial instruments, and adjustments to property, plant and equipment regarding impact of stores and spares, change in depreciation charge, etc. Four companies in this sector have reflected adjustments in relation to business combinations.

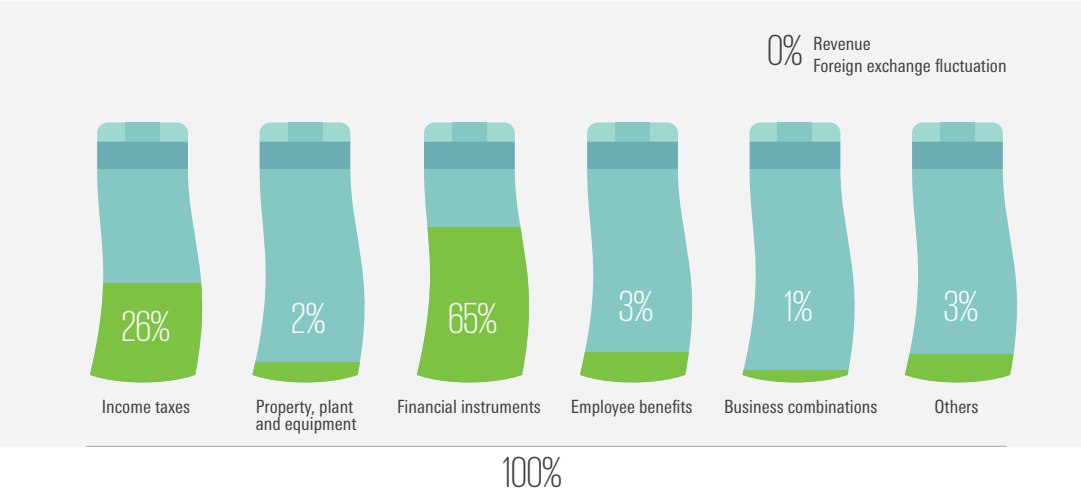
Packaged foods



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Fair value measurement requirement in relation to derivatives has had a significant impact on companies in this sector. Further, financial instruments and share-based payments are key contributors to the adjustments to profit, significant proportion of companies in this sector are yet to declare Ind AS results as their financial year end is other than 31 March.

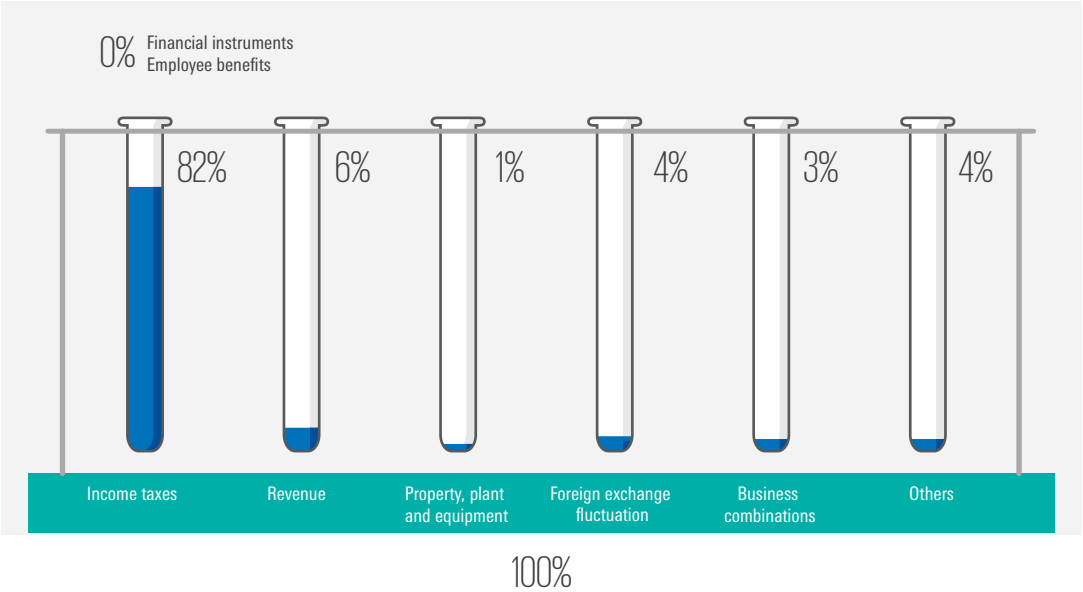
Personal products



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

In addition to the impacts reflected in the chart above, there are significant profit neutral adjustments to revenue which have been reported voluntarily by certain companies in this sector. These are related to discounts, incentives, etc. provided to customers which under Ind AS are specifically required to be adjusted in revenue.

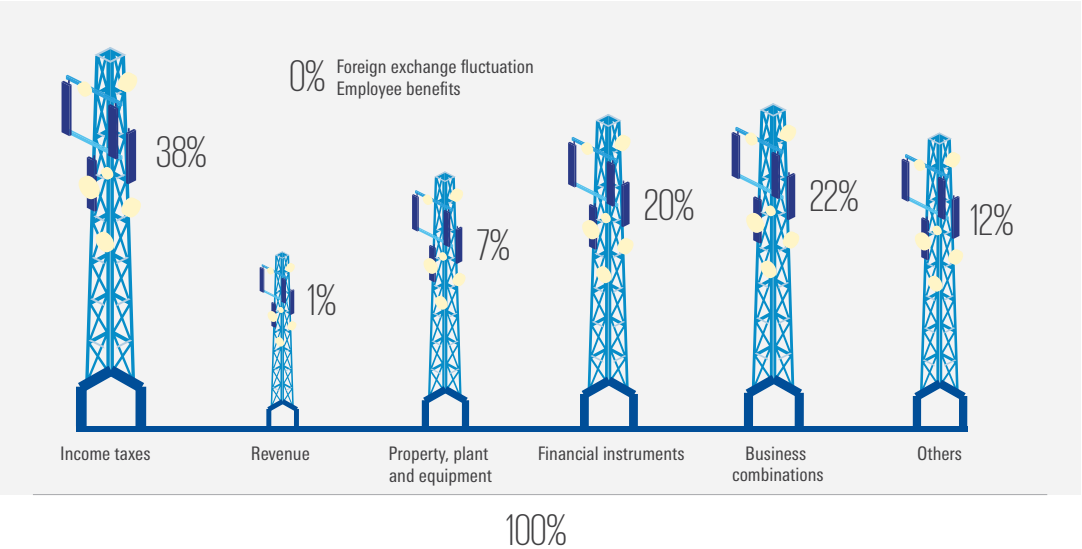
Pharmaceuticals



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

The results of the pharmaceutical sector are mainly affected by deferred taxes computation. This may be primarily on account of consolidation related adjustments e.g. elimination of unrealised profit on inventory transferred within the group. While companies in this sector typically have a significant exposure to derivatives, the impact of transitioning to Ind AS has not been significant from a financial instruments perspective as certain companies were already applying principles of IFRS for reporting under AS.

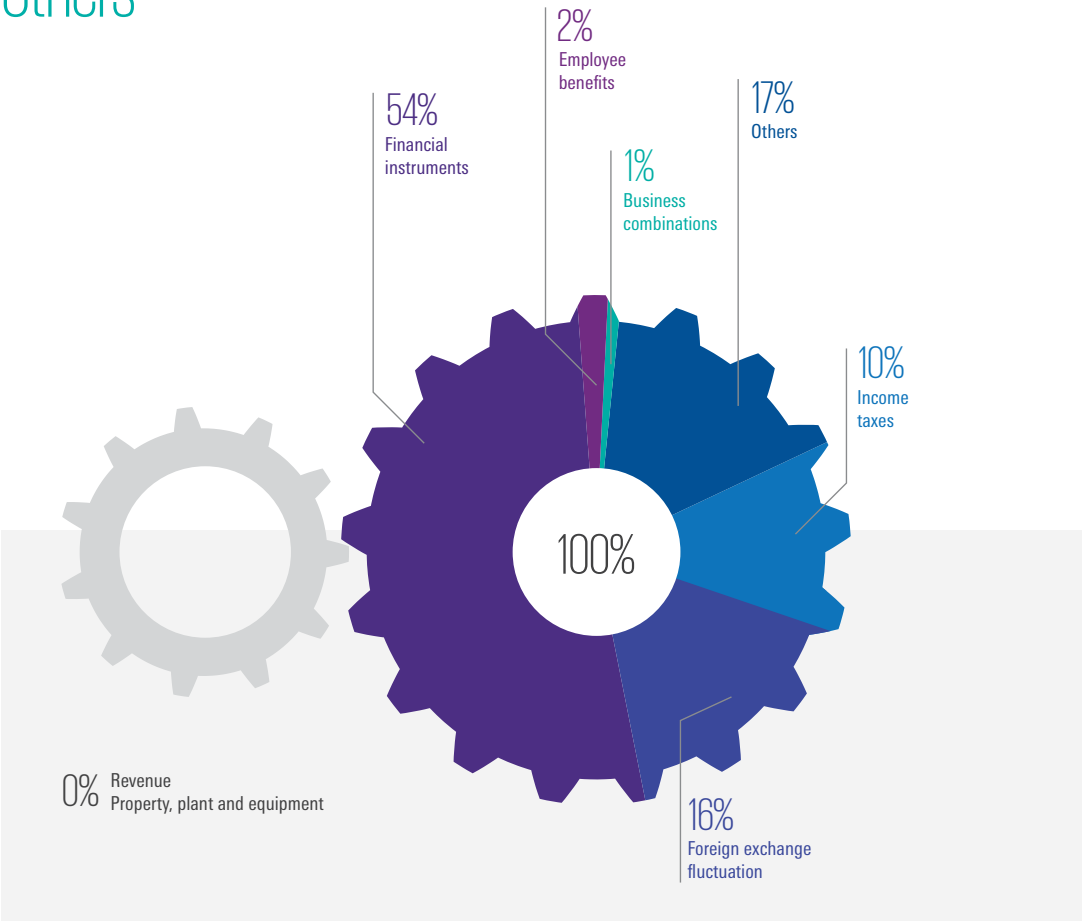
Telecom and telecom services



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

In addition to deferred tax impact of Ind AS adjustments, certain companies in this sector have recognised deferred tax liabilities on undistributed profits of subsidiaries, associates or joint ventures. Similarly, a large impact has been reported on account of business combinations (discontinuance of amortisation of goodwill) by one of the companies.

Others



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

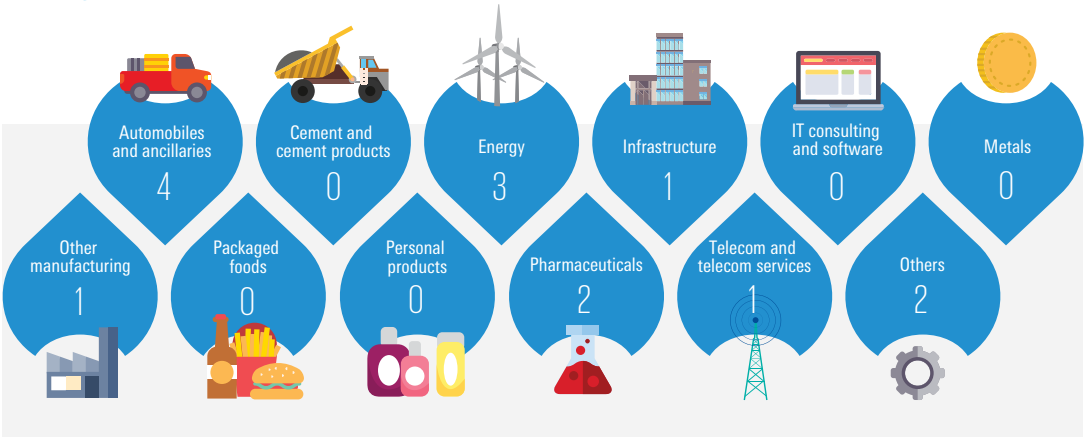
In general, the contribution of various standards to profit reconciliations reported by companies in this sector is consistent with the overall trend. Significant adjustments reported by these companies include fair value measurement of derivatives. Further, one company in this group has also chosen to fair value preference shares on each reporting date.

Analysis of impact of key standards

The following sections of the publication highlight some of the key differences between AS and Ind AS for the respective standards, reported as part of the profit reconciliations for the quarter ended 30 June 2015.

Revenue recognition

The table below summarises the number of companies to have reported an adjustment in relation to revenue recogniton



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Some of the key differences between AS and Ind AS in terms of revenue recognition areas are as following:

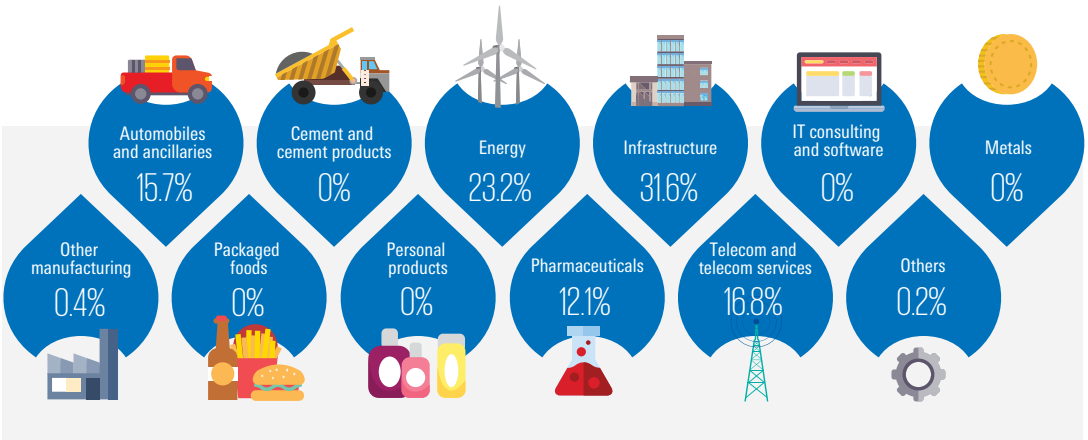
- Reallocation of revenue in case of multiple deliverable arrangements and linked arrangements.
- Recognition of revenue at fair value with adjustments for discounts, rebates, incentives, etc.
- Revenue is measured at the fair value of consideration received, taking into account any trade discounts and volume rebates. If a transaction includes a financing element, the revenue is measured by discounting all future cash receipts at an imputed rate of interest.
- Revenue from the sale of goods is recognised when the entity has transferred significant risks and rewards of ownership to the buyer and it no longer retains control or has managerial involvement in the goods. The AS guidance is on transfer of risk and rewards, and also permits revenue recognition when the seller has transferred to the buyer the property in the goods.
- Construction contracts are accounted for under the percentage-of-completion method. The completed contract method is not permitted under Ind AS.
- Revenue from service contracts is recognised in the period during which the services are rendered, generally under the percentage-of-completion method. Under the AS, revenue from rendering of services is recognised using percentage-of-completion method or completed contract method, whichever relates the revenue to work accomplished. The selection of the revenue recognition method is based on the nature of services rather than on the degree of reliability of the outcome.

While there are significant differences between AS and Ind AS, the number of differences impacting the results of the respective companies and the quantum thereof reported by the covered companies do not appear to be very significant. Further, in the absence of detailed explanations/notes to the reconciliations, the exact nature of difference is not clearly identifiable. Some key differences reported by the covered companies for revenue recognition related matters include:

- Deferment of revenue reported by certain companies in the energy sector
- Net adjustment in development income and leasing income reported by a company in the infrastructure sector
- Adjustment to revenue recognition on account of linked arrangements, measurement of revenue, etc. reported by certain companies in the pharmaceutical sector

In addition to the differences reported by the companies as part of the profit reconciliations, companies in the personal products sector have reported certain reclassification adjustments to revenue which do not affect the results of the respective companies. These reclassifications primarily pertain to presentation of certain expenses which are presented as part of selling and promotion expense under AS. Under Ind AS, these expenses are adjusted in revenue. Disclosures made by certain companies in the personal products sector indicate that the impact ranges within 3-5 per cent of revenue reported under AS.

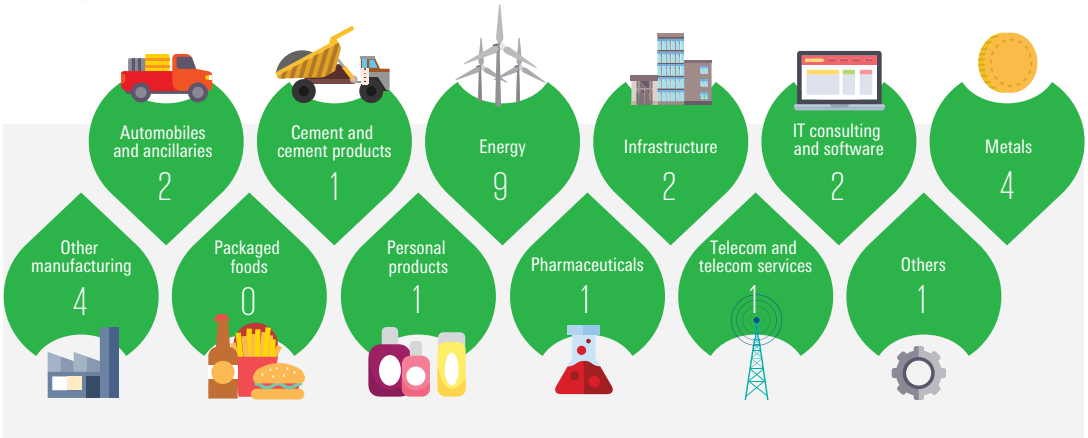
The table below highlights sector-wise impact of revenue recognition – determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Property, plant and equipment

The table below summarises the number of companies to have reported an adjustment in relation to property, plant and equipment



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

The guidance in Ind AS 16, *Property, Plant and Equipment*, and Ind AS 38, *Intangible Assets* are largely similar to the present requirements of AS. However, there are differences, including on determination of what elements of costs are eligible or required to be capitalised under Ind AS.

Following are some of the key differences between AS and Ind AS:

- Eligible borrowing costs (debt vs equity, stand-alone vs consolidated)
- Accounting for stores and spares
- Asset retirement obligation (to consider time value of money)
- Deferred credit arrangements for purchase of property, plant and equipment
- Indefinite useful lives for certain intangibles
- Restriction on revenue based amortisation.

Also, while the current requirements of AS are similar to those of Ind AS, the treatment applied in past periods had significant differences from the requirements of Ind AS. For example, application of minimum rates prescribed for depreciation, no specific requirement for componentisation, accounting for preoperative expenditure, etc.

These assume significance in light of the following choices available under Ind AS 101, *First-time Adoption of Indian Accounting Standards* (Ind AS 101):

- Previous GAAP carrying value as of date of transition to be presumed to be deemed cost
- Retrospective recomputation of the carrying value of property, plant and equipment based on the requirements of Ind AS, or
- Fair valuation of all or some of the property, plant and equipment as of date of transition with retrospective recomputation of the carrying value for assets which are not fair valued.

While companies have not specifically disclosed the choices made on the date of transition, in cases such choices have a material impact on profit for the quarter ended 30 June 2015, these have been highlighted as part of profit reconciliation.

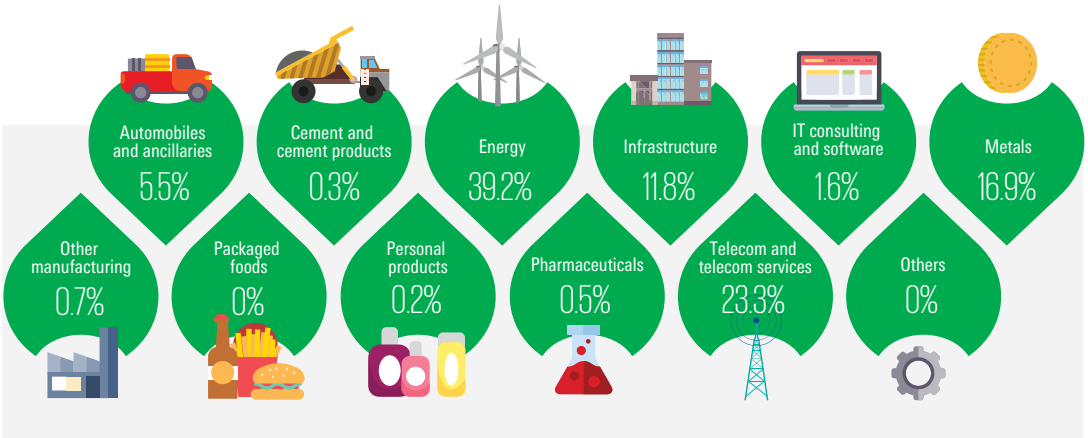
Further, for the purposes of this analysis, adjustments to oil and gas assets have also been covered as part of property, plant and equipment.

Some of the key differences reported by the covered companies in relation to property, plant and equipment are as follows:

- Impact of choice made on first time adoption – e.g. incremental depreciation on account of fair valuation of property, plant and equipment as of the date of transition
- Accounting for stores and spares
- Impact of choice of policy of foreign currency fluctuation on depreciation/ amortisation
- Indefinite life permitted to be attributed to intangible assets under Ind AS
- Depletion of oil and gas assets
- In addition to the above, certain companies have specified change in depreciation/amortisation as part of the reconciliation, without any further clarification as to the cause of the impact.

In relation to oil and gas assets, certain companies have reported a change in policy for oil and gas assets and have reported a consequential impact on profit for the quarter ended 30 June 2015.

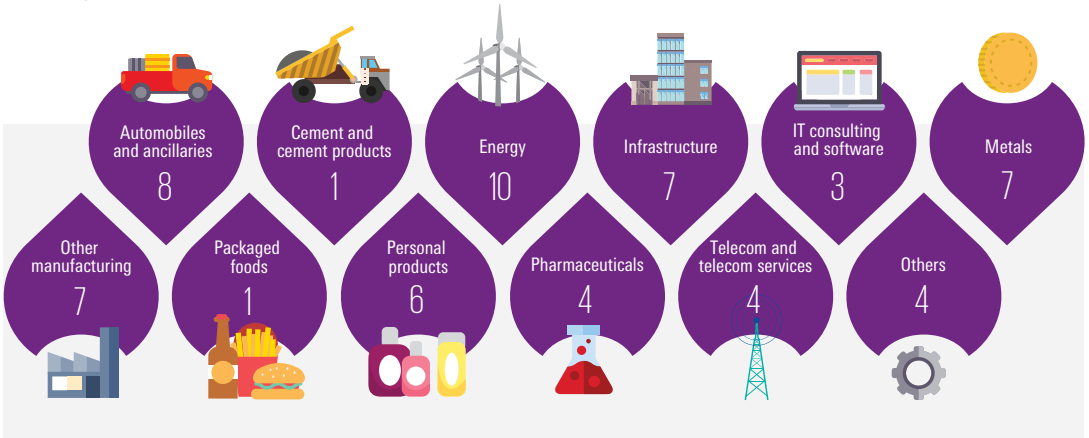
The table below highlights sector-wise impact of property, plant and equipment – determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Financial instruments

The table below summarises the number of companies to have reported an adjustment in relation to financial instruments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

While AS 13, *Accounting for Investments* (AS 13) is the only authoritative guidance on financial instruments, Ind AS 109, *Financial Instruments* provides a much more comprehensive, detailed and in certain cases complex guidance for accounting for financial instruments.

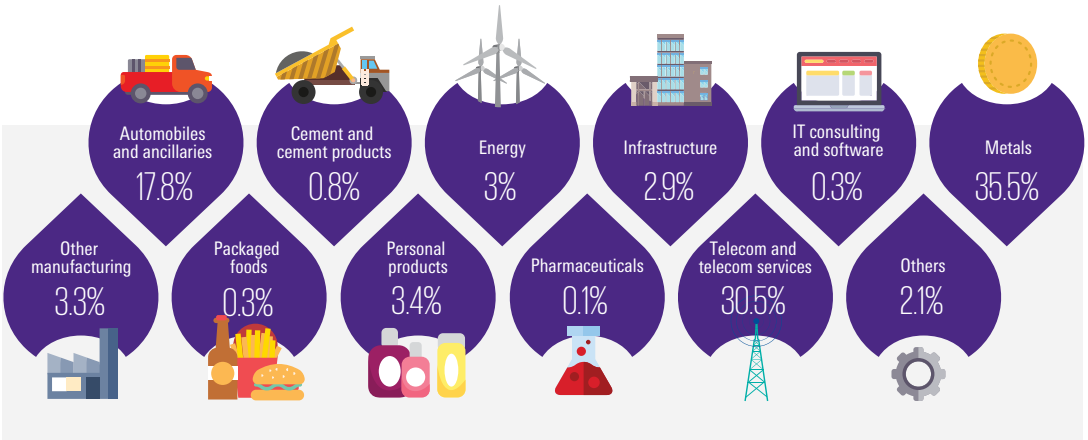
Some of the key areas of differences between AS and Ind AS are as follows:

- Classification and measurement of financial assets (including fair value measurement of equity shares, mutual funds, etc.)
- Measurement of derivatives at their respective fair values instead of providing only for losses based on principles of prudence
- Measurement of borrowings at amortised cost with reference to the effective rate of interest
- Classification of redeemable preference shares as debt and specific guidelines for classification in case of convertibles issued by the reporting entity
- Impairment of financial assets including trade receivables, etc. based on the expected loss model
- Recognition of financial instruments at fair value e.g. interest free loans to subsidiaries, interest free security deposits.

In case of the financial instruments standard, almost all of the above differences which are normally identified between AS and Ind AS have been reflected in the reconciliations of the covered companies. While the impact of the financial instruments standard by and large depends on the instruments which the respective company has on its balance sheet, the requirements of this standard appear to have affected the financial results of almost all the sectors (as reflected in the table above).

While measurement of instruments at fair value or amortised cost (amortised cost includes impact of fair value measurement on initial recognition) have been reflected in the profit reconciliations of a large proportion of covered companies, application of expected credit loss model has had limited impact on the profits of these companies.

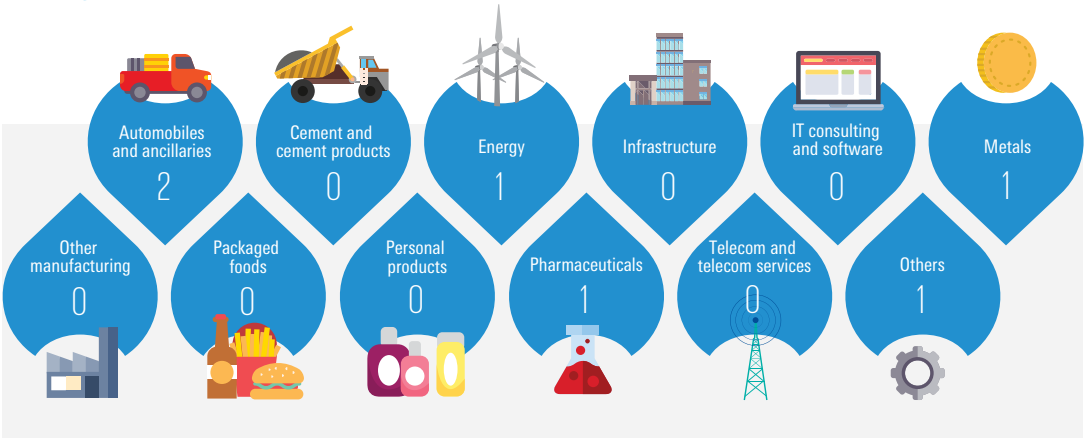
The table below highlights sector-wise impact of financial instruments – determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Foreign exchange fluctuation

Table below summarises the number of companies to have reported an adjustment in relation to foreign exchange fluctuation



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Some of the key differences between AS and Ind AS in relation to foreign exchange fluctuation are as follows:

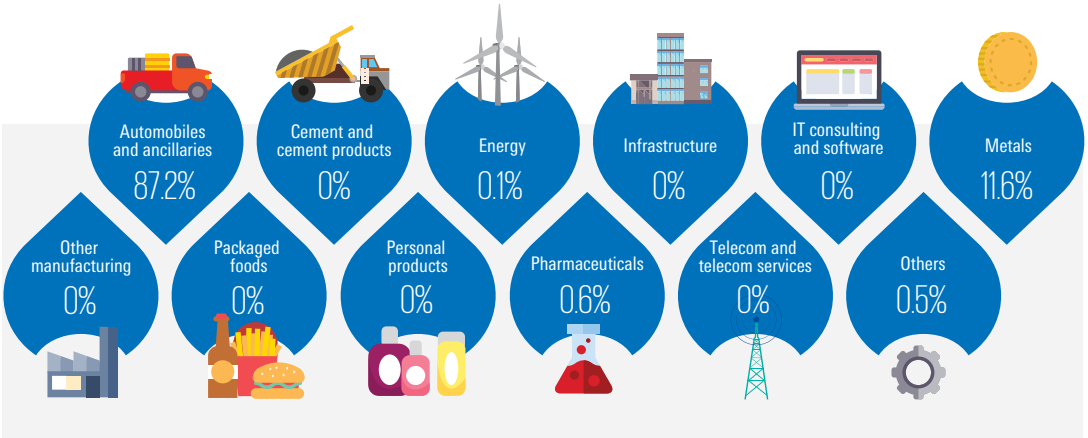
- No separate concept of functional currency and reporting currency under AS. Accordingly, under Ind AS, an assessment of functional currency based on the indicators specified in the standard is required.
- Under AS, companies had an option to capitalise foreign exchange differences on long-term monetary items, or to accumulate them in reserves and subsequently amortise them into the statement of profit and loss over the remaining tenure of the related monetary item. All other foreign exchange differences were required to be recognised in the statement of profit and loss.

Under Ind AS, on transition, companies could elect to continue their chosen AS policy of capitalising exchange fluctuation to fixed assets (or recognising the exchange fluctuation in reserves with subsequent amortisation) on long-term monetary items existing as of 31 March 2016. However, for all new transactions post 31 March 2016, companies are required to recognise exchange differences in the statement of profit and loss.

Based on the results declared by the covered companies, key observations in relation to treatment of foreign exchange fluctuation are as follows:

- Reconciliation of profits for the quarter ended 30 June 2015 reported by the covered companies do not appear to reflect any impact in relation to change in functional currency. While there may be specific disclosures in the annual financial statements in relation to functional currency, it appears that this requirement of Ind AS has not had any significant impact on the covered companies.
- Of the covered companies, only certain companies have reflected an impact on the profits for the quarter ended 30 June 2015, primarily on account of a change in policy with respect to exchange fluctuation on existing long-term monetary items. However, given that exchange fluctuation on new long-term monetary items entered into post 31 March 2016 is to be recognised in the income statement, this may potentially have a significant impact on the results of the covered companies for future periods.

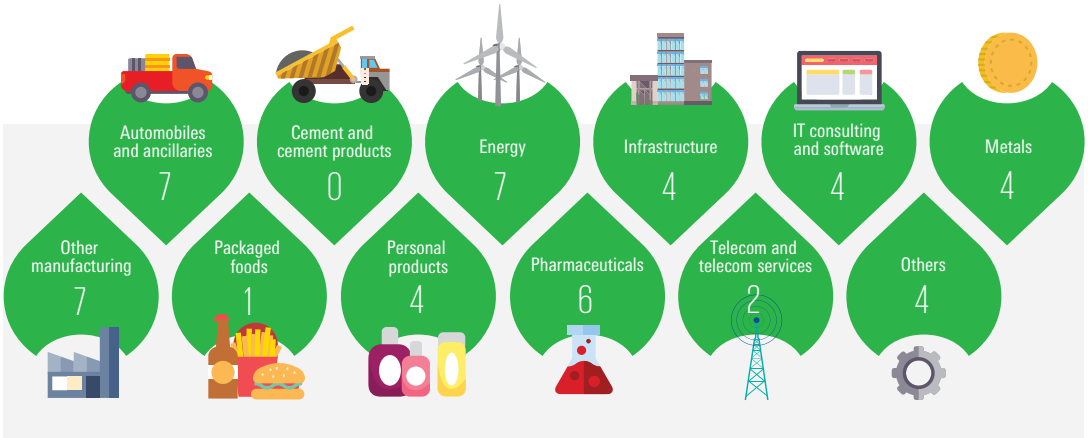
The table below highlights sector-wise impact of foreign exchange fluctuation – determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Employee benefits

The table below summarises the number of companies to have reported an adjustment in relation to employee benefits



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

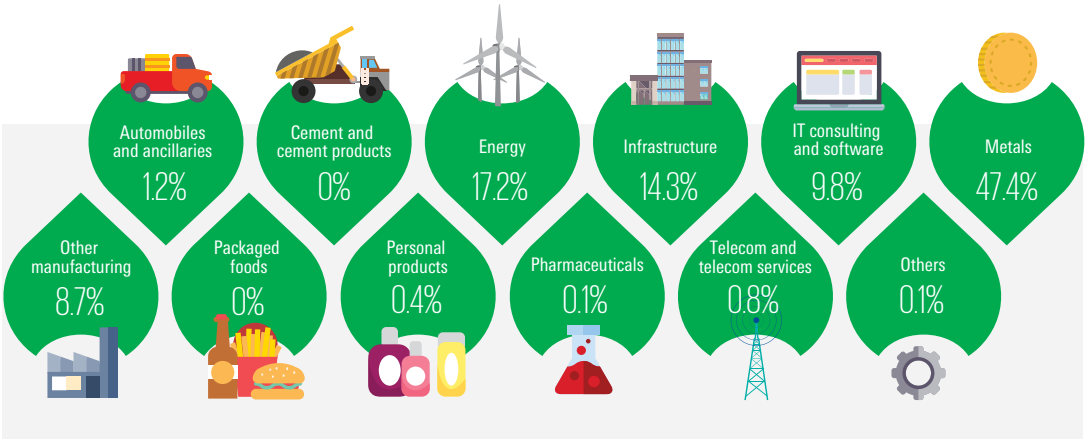
For the purposes of this analysis, share-based payments have also been covered as part of employee benefits. Key differences between AS and Ind AS in relation to employee benefits and share-based payments:

- Remeasurements (including actuarial gains/losses) to be recognised in Other Comprehensive Income (OCI) under Ind AS compared to the requirements of AS where the entire impact of the actuarial valuation was to be recognised in the income statement of profit and loss.
- Share-based payments are required to be measured with reference to their fair value unlike in AS where companies had an accounting policy choice to measure the same at either intrinsic value or fair value.
- In cases where the options have a graded vesting feature, each tranche is required to be treated as a separate grant and amortised over the respective period.

While these adjustments have had a significant impact only on the sectors highlighted above, a majority of the covered companies have reported an adjustment on account of remeasurement of long-term employee benefits (including actuarial gains/losses) as part of OCI.

Further, of the covered companies, select companies have reflected an adjustment on account of employee share-based payments separately in the profit reconciliation for the quarter ended 30 June 2015. The impact of the measurement based on fair value and impact on account of the graded vesting feature, however, is not disclosed separately.

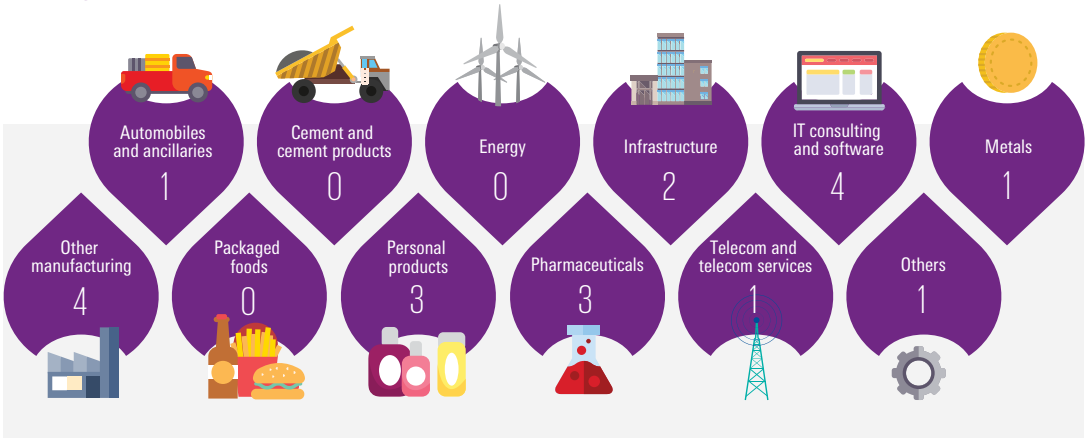
The table below highlights sector-wise impact of employee benefits– determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Business combinations

The table below summarises the number of companies to have reported an adjustment in relation to business combinations



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

While under AS there is no comprehensive guidance for accounting for business combinations e.g. AS 21 '*Consolidated Financial Statements*' (AS 21) for acquisition of subsidiaries, AS 14 '*Accounting for Amalgamations*' (AS 14) for amalgamations, etc. all business combinations under Ind AS are required to be accounted for as per the requirements of Ind AS 103 '*Business Combinations*' (Ind AS 103). Some of the key Ind AS requirements include:

- Acquisition date when control is transferred – not just a date mandated by court or agreement
- Mandatory use of purchase method of accounting – fair valuation of net assets (including previously unrecognised intangible assets) and subsequent fair value based amortisation
- Fair value of consideration transferred (earn-out arrangement, deferred and contingent consideration accounting on acquisition date)
- Transaction costs charged to the statement of profit and loss
- Goodwill amortisation not permitted
- Demerger at fair value, in certain instances
- Participative rights held by non-controlling interests could result in classification of investee as joint venture even in cases where the reporting entity has majority voting rights
- Recognition of liability for put options written in favour of non-controlling interests
- Equity method of accounting for joint ventures.

It is pertinent to note that the accounting requirements of business combinations tend to have a significant impact on the consolidated financial statements and in that context companies that are yet to publish their consolidated financial results could yet report a significant impact in relation to the consolidated financial results.

Similar to property, plant and equipment, choices made by companies on first time adoption in relation to past business combinations may be a very important factor in context of the impact on the results for the quarter ended 30 June 2015. For example, if a company chooses not to restate past business combinations and it has not made any acquisition in the quarter ended 30 June 2015, it potentially may not report any impact on account of business combination.

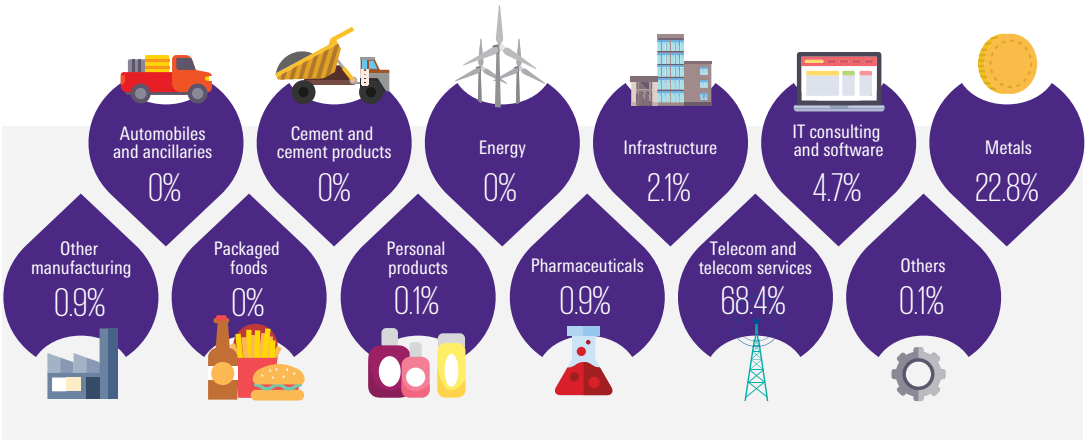
Some of the key adjustments reported by the covered companies include:

- Reversal of amortisation of goodwill recognised under AS
- Recognition of finance cost in relation to put options written in favour of non-controlling interests
- Impact of remeasurements of deferred consideration/ contingent consideration for past business combinations
- Increase in amortisation/ depreciation expense in relation to past business combinations/acquisitions.

Given that a majority of the covered companies have presented their profit reconciliations in a vertical format and have covered only items which affect profit, the impact of application of equity method of joint venture is specifically not identified in the financial statements. While in cases of certain companies there has been a reduction in each line item appearing in the consolidated results, it may not be possible to attribute the movement in each line item to a specific Ind AS adjustment.

Similarly, cases where entities were earlier classified as subsidiaries under AS and now identified as jointly controlled entities would not necessarily be apparent except if such reclassification has a significant impact on profits (e.g. in cases where the entity was loss making and non-controlling interest's share of losses was borne by the reporting entity under AS).

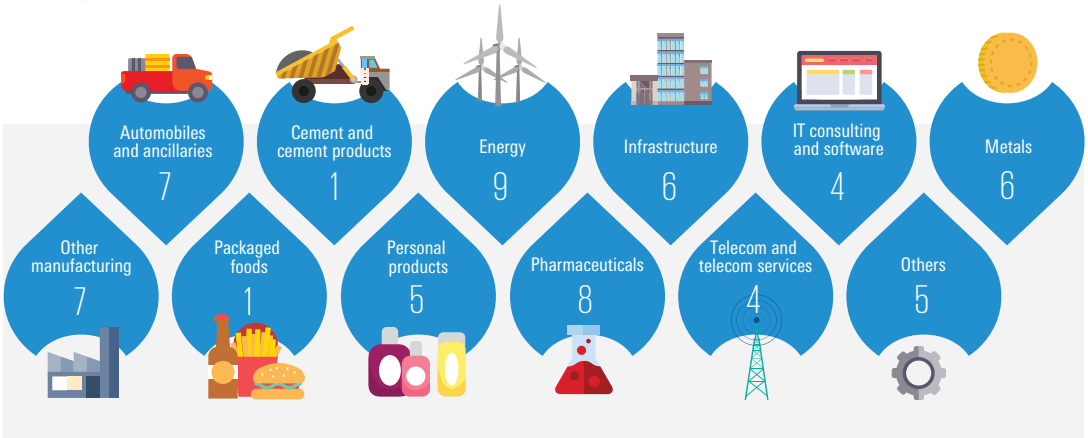
The table below highlights sector-wise impact of business combinations – determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Income taxes

The table below summarises the number of companies to have reported an adjustment in relation to income taxes



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Under Ind AS, determination of deferred taxes is tabulated with reference to a balance sheet approach compared to the income statement approach as required under AS.

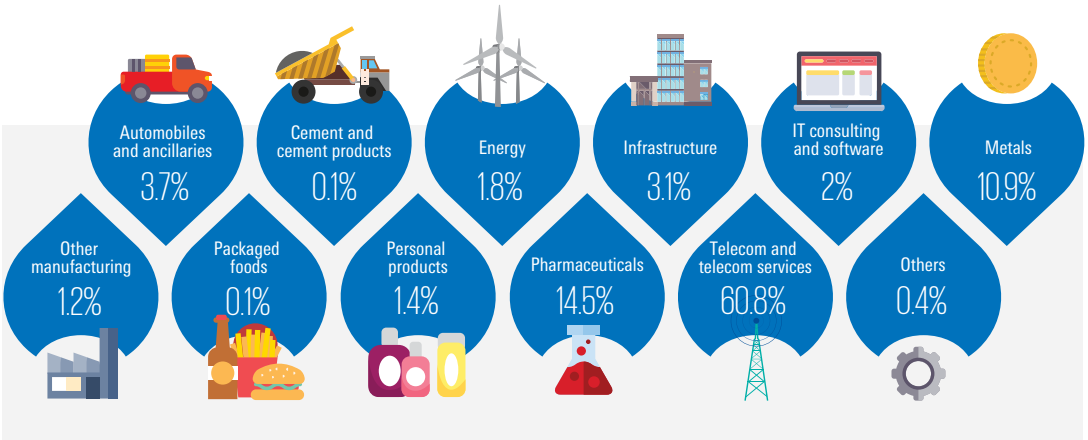
This has significant impact on the consolidated financial statements of companies, especially in cases where the consolidation adjustments (such as elimination of unrealised profit, etc.) are significant. Such adjustments to deferred tax in consolidated financial statements is specifically prohibited under AS.

Ind AS also specifically requires recognition of deferred tax liabilities on undistributed earnings of subsidiaries, associates and joint ventures, subject to certain conditions.

Key differences reported by covered companies as part of the profit reconciliation for the quarter ended 30 June 2015:

- Significant component of the adjustments identified in relation to tax represent the tax impact of the Ind AS adjustments considered as part of the requirements of other standards. However, differential tax rates especially in cases of certain financial instruments including certain tax free instruments could potentially be one of the reasons for the tax impact not being a consistent percentage of the Ind AS adjustments.
- Covered companies who have also reported consolidated financial results have recognised deferred tax adjustments on consolidation adjustments, unrealised profits, etc. The impact of such adjustments may be more pronounced in sectors where the business models involve selling of products in overseas markets through distribution subsidiaries e.g. Pharmaceuticals. However, very few of the covered companies have distinguished the Ind AS adjustment related deferred tax impact from the other deferred tax impacts attributed to the difference in approach to computation.

The table below highlights sector-wise impact of income taxes – determined with reference to value of adjustments



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Segment reporting

Ind AS requires segment disclosure based on the components of the company that the management monitors while making decisions about operating matters (the management approach). Such components (operating segments) are identified on the basis of internal reports that the company's Chief Operating Decision Maker (CODM) reviews regularly when allocating resources to segments and assessing their performance. This treatment is different from the AS requirement of disclosure of business and geographical segments and while the aggregating criteria specified in Ind AS 108 is similar to the definition of business segments per AS 17, one would have expected segment reporting undergoing significant changes for a number of companies.

However, for the purposes of the results for the quarter ended 30 June 2016, only 12 companies have reflected a change from the segments identified under AS. Fifty-nine of the covered companies have identified no changes in their segment. This may indicate that the segments identified under AS were already based on the internal reports submitted to the CODM and also consistent with external reports published for investors, analysts, etc.Another important point to note that out of these companies, 25 consider that they have only one reportable segment.

An analysis of the companies in relation to their segment reporting is as summarised in the table on the next page.

The table summarises segment reporting information

	Segment classification		No. of segments	
Sectors	Changed as compared to AS classification	Same as previously reported AS classification	One reportable segment	More than one reportable segment
Automotive and ancillaries	-	10	6	4
Cement and cement products		1	1	
Energy	1	10	4	7
Infrastructure	2	5	3	4
IT consulting and software	1	3		4
Metals	2	5		7
Other manufacturing	-	7	1	6
Packaged foods	-	1	1	
Personal products	3	3	2	4
Pharmaceuticals	1	7	4	4
Telecom and telecom services	2	2	-	4
Others	-	5	3	2
Totals	12	59	25	46

Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies up to 14 September 2016

Additional disclosures for segment reporting (including for those companies who have only a single segment) also shall apply in context of the annual financial statements. Further, while 43 of the 71 companies have presented consolidated financial statements, segment reporting for the remaining 28 could potentially undergo a change when the consolidated financial results/statements are presented either from the next quarter or in the quarter ending 31 March 2017 (depending on the choice elected by these companies).

Others

Other key adjustments reported by the covered companies include:

- Adjustments in relation to leases including impact of straight lining impact of leases (linked to inflation under Ind AS), impact of embedded leases, etc.
- Remeasurement of provisions as per the requirements of Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets.*
- Service concession related arrangements.

SEBI's reporting requirements on transition to Ind AS

SEBI relaxations for quarterly reporting

The SEBI issued a circular (reference No. CIR/CFD/FAC/62/2016) on 5 July 2016 (SEBI circular), providing certain relaxations in reporting of Ind AS financial results for the first three quarters. The relevant relaxations in terms of reporting timelines, comparative information and the requirement of audit/limited review of comparative information have been outlined as follows:

Format upto 31 December 2016

Listed entities are required to comply with the existing formats prescribed under the SEBI circular date, 30 November 2015 till the period ending 31 December 2016. This is particularly significant from a perspective of presentation of excise duty – the existing format prescribed by SEBI requires excise duty to be presented as a reduction from revenue (in line with AS) while under Ind AS, companies are required to present excise duty as an expenditure and not as a reduction from revenue.

Relaxation in format for 30 June 2016

The table below highlights the relaxations given for the quarterly results for the period ending 30 June 2016.

The table below highlights quarterly reporting audit or reviews and disclosures reserves requirement

Reporting requirements	30 June 2016
3 months ended	√
Preceding 3 months ended	×
Corresponding 3 months ended in the PY*	√
YTD** figures for current period ended	N.A.
YTD figures for the PY ended	N.A.
PY ended 31 March 2016	× (Note 1)
Audit/review of PY comparative period	× (Note 2)
Audit or review of period ended 31 March 2016	× (Note 1)
Disclosure of reserves (excluding revaluation reserves)	Optional

Source: *PY – Previous Year **YTD – Year to date
#The submission of Ind AS compliant financial results for the PY ended 31 March 2016 was not mandatory.

Notes:

1. Companies could have voluntarily provided Ind AS comparatives for the year ended 31 March 2016. However, these comparatives are not required to be audited or reviewed. Companies are required to disclose the fact that the financial results had not been audited/ reviewed.
2. Ind AS quarterly financial results for the comparative period are not required to be audited or reviewed. Necessary disclosures to that effect are required to be included in the financial results.

Based on Table above, a listed company preparing its first financial results as per Ind AS for the quarter ended 30 June 2016 at minimum was required to present the financial results for the quarter ended 30 June 2016 (after a limited review by auditors) and the financial results for the quarter ended 30 June 2015 (management results without limited review by auditors).

Timelines for submitting quarterly financial results

For the quarter ending 30 June 2016, the revised timelines for submitting quarterly financial results is 14 September 2016 (earlier 14 August 2016).

Consolidated financial results

The SEBI circular provided that a listed company could opt to present quarterly/year to date consolidated financial results in the second quarter instead of the first quarter of the financial year and this option shall not change during the remaining part of the financial year.

Reconciliations to be presented

Listed companies, prior to the issue of the SEBI circular, were required to comply with the requirements of para 32 of Ind AS 101 while presenting reconciliations along with the quarterly results for the quarter ended 30 June 2016:

- Reconciliations of equity under previous GAAP to equity under Ind AS as at:
  - the date of transition, being 1 April 2015 (in the first interim period)
  - the end of the comparative annual period, being 31 March 2016 (in the first interim period)
  - the end of the comparative interim period for each quarter (e.g. 30 June 2015 for 30 June 2016 quarter)
- Reconciliations of statement of profit and loss under previous GAAP to statement of profit and loss under Ind AS for:
  - the comparative interim period – quarter ending 30 June 2015
  - the comparative annual period – year ending 31 March 2016
- Explanation of significant adjustments to the statement of cash flows
- Explanation of errors made under previous GAAP, whether correction of errors should be presented separately from changes in the accounting policies.

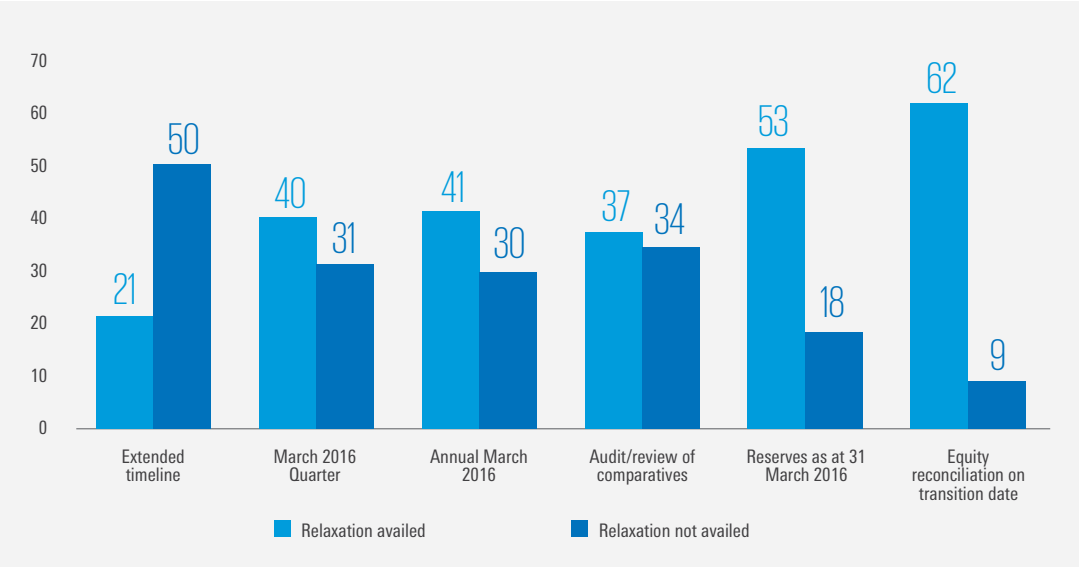
However, the SEBI circular restricted the requirement on reconciliations to the following:

- Reconciliation of its equity for the previous year ended 31 March 2016 to be provided while submitting the audited yearly balance sheet for the period ended 31 March 2017
- Reconciliation of its equity for the previous year ended 31 March 2016 to be provided in case the listed entity intends to provide the same while submitting the unaudited/audited Ind AS compliant half-yearly balance sheet for the period ended 30 September 2016.
- Reconciliation of its net profit/loss as mentioned in the unaudited/audited quarterly financial results to be provided only for the corresponding quarter of the previous year.

Key trends for covered companies: Relaxations availed for submitting quarterly financial results for the period ending 30 June 2016

The chart below summarises the number of covered companies who availed the relaxations provided by SEBI.

Trend in timing and presentation of results

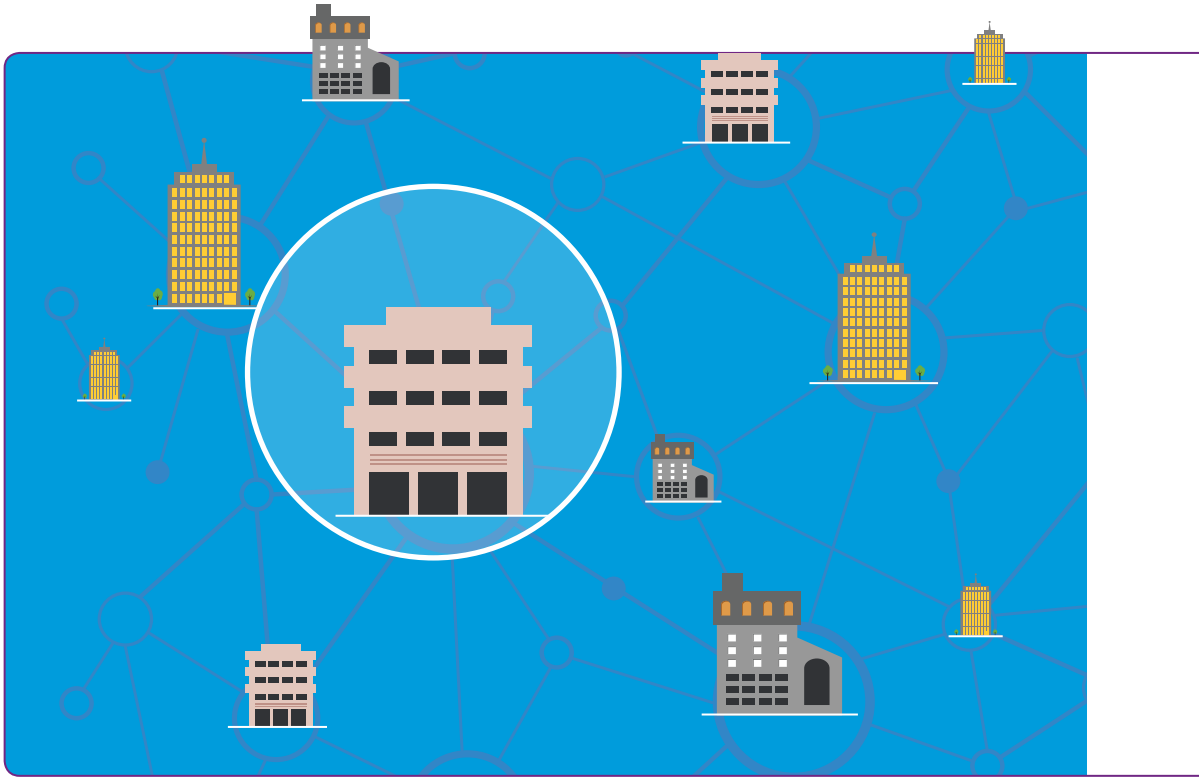


Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies upto 14 September 2016

Under Ind AS, a parent prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Separate financial statements may be prepared in addition to the consolidated financial statements. As mentioned earlier, of the covered companies, 28 have provided stand-alone financial results for the quarter ending 30 June 2015 while 43 have provided consolidated financial results for the quarter ending 30 June 2015. This is due the fact that SEBI permits companies to prepare stand-alone financial results as a relaxation for the first year of Ind AS implementation.

The relaxations in terms of reporting timelines have been availed by a smaller proportion of covered companies as compared to the relaxations for comparative period results, the requirement of limited review/ audit of the comparative period results and the presentation of reconciliations. This may be attributed to the fact that by the time the SEBI circular was notified, many companies would have already planned/ set up their respective board meetings with reference to the original timeline of 14 August 2016.

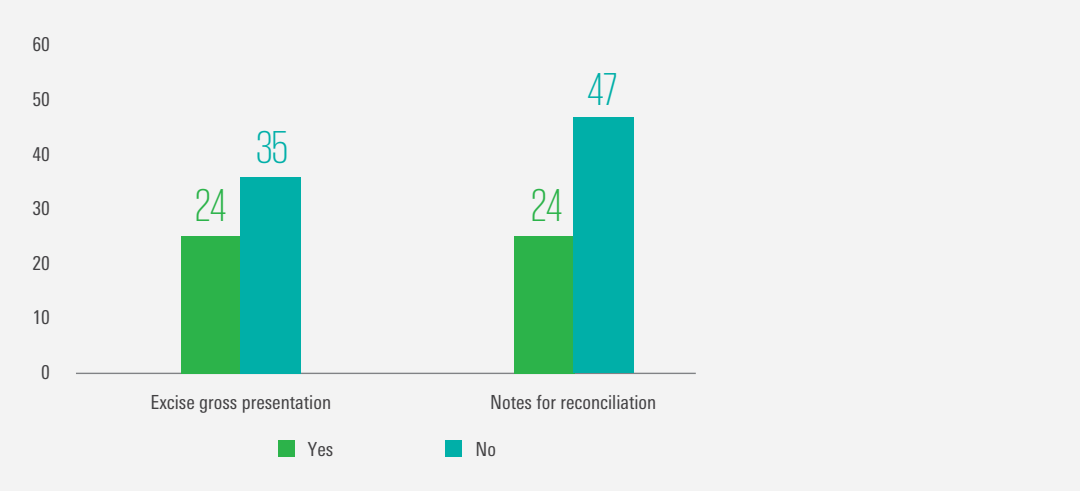
While almost 55-60 per cent of the covered companies have availed the relaxations other than those for timelines, the number of companies not availing the relaxations is also significant. This is probably attributed to the fact that these companies feature in the top 100 listed companies in the country would have processes in place to meet the timelines for submission of financial results. The proportion of companies availing the relaxation regarding submission of financial results provided by SEBI could be higher if all listed companies covered in phase I are to be considered.



Other SEBI relaxations for quarterly reporting

Key trends for covered companies: Other presentation related matters

Other presentation related matters



Source: KPMG in India's analysis 2016 based on the primary data gathered from BSE 100 companies upto 14 September 2016

Excise duty

As discussed previously, the requirements of the statement of profit and loss format prescribed by SEBI for presentation of excise duty for the quarter ended 30 June 2016 appear to be not in line with the requirements of Ind AS. The SEBI circular, however, did specify that in case of technical difficulties in interpreting the format, companies should be guided by the requirements of Ind AS and Schedule III to the Companies Act, 2013.

Accordingly, presentation of excise duty is an area where covered companies reporting quarterly results as per requirements of Ind AS for the quarter ended 30 June 2016 have displayed a mixed practice. 24 companies amongst the covered companies have presented excise duty as an expenditure and not as a reduction from revenue.

It is pertinent to note that the respective stock exchanges have issued a circular dated 20 September 2016 highlighting a SEBI clarification that all companies may follow an approach consistent with the requirements of Ind AS i.e. present excise duty as an expenditure and not as a reduction from revenue. Accordingly, in the next quarter, the inconsistency in approach for presentation of excise duty may not apply.

Reconciliation from previous GAAP

Companies at a minimum were required to reconcile the profit as per Ind AS for the quarter ended 30 June 2015 with the profit for the same period under AS. As reflected in Chart above, some companies have additionally disclosed equity reconciliations as of 31 March 2016.

However, there is no specific requirement to provide explanations to the reconciliations presented as part of the quarterly results (including for the reconciliation of profit for the quarter ended 30 June 2015). Therefore, very few of the covered companies have presented notes/explanations to the reconciliation. Due to lack of explanations, it is difficult to understand the nature of the reconciling items disclosed by the covered companies. We expect to see narrative explanations for the reconciliations for the year ended 31 March 2017.

Looking ahead

India's journey to convergence with IFRS was initiated in 2007 when the Institute of Chartered Accountants of India (ICAI) released a concept paper on the process of convergence with IFRS. The efforts put in by various stakeholders since then have culminated into the first set of results being published by the top listed companies in India in compliance with Ind AS. It is therefore appropriate that all stakeholders concerned should reflect on this journey and congratulate themselves on their contribution in bringing about one of the most significant changes in financial reporting in India.

Publishing the first set of quarterly results marks only the first step in this process of convergence. The companies covered in phase I would now need to gear up for the next quarter where they would be required to publish the balance sheet as of 30 September 2016.

Further, companies that have chosen to present comparatives without any limited review or audit by the statutory auditors would also need to complete the process by the third quarter of this financial year.

Last but not the least, the annual financial statements can pose two sets of challenges for many companies. Disclosures to be included in the annual financial statements are very detailed, time consuming and often require involvement of various stakeholders within the respective company. Accordingly, it is ideal that companies prepare for this in advance.

Many companies who are yet to prepare consolidated financial statements may need to consider the impacts on the consolidated financial statements and if significant, communicate with various stakeholders appropriately.

While we have presented some of the emerging trends and perspectives on the Ind AS results published so far, it may be important to consider what we could look forward to in the next few months until the annual financial statements are published.

Detailed explanations to the reconciliations presented

As discussed above, Ind AS 101 requires detailed explanations to be provided for in relation to the reconciliations required to be presented. Accordingly, one could expect such explanations to be presented along with the annual financial statements.

These could help various stakeholders to obtain a more detailed understanding of the adjustments being considered by companies and may also enable benchmarking amongst peers.

Disclosures for exemptions and exceptions chosen

Ind AS 101 also requires companies to mandatorily present the net worth reconciliation as of 1 April 2015 and 31 March 2016 (in relation to financial statements for the year ended 31 March 2017). These reconciliations along with the disclosures for the exemptions and exceptions chosen by companies will provide insights into the choices made by these companies on first time adoption and the impact of such choices on key metrics such as net worth, key ratios involving return on capital employed, debt equity ratio, etc.

Impact on consolidated financial statements

There are still a significant number of companies who are yet to publish consolidated financial results and will be presenting the same for the first time as part of the their annual financial statements.

There are significant differences between AS and Ind AS which affect only the consolidated financial statements and accordingly, this may be an important area to watch out for.

Position for Minimum Alternate Tax (MAT)

This is an area where companies themselves are awaiting clarity. The requirements for adjustments made on the transition date were issued for public comments recently, companies have already made their choices for the transition date and therefore would be eager to understand the implications under MAT.

Evolving accounting positions

As companies in the first phase progress during the year, the positions taken for various matters may evolve or undergo a change, especially in cases where there are clarifications issued by Ind AS Implementation Task Force Group (ITFG), Expert Advisory Committee (EAC), etc. Appropriate messaging/ disclosures will be critical as and when companies consider changes to the positions taken under Ind AS.

Standard setting process

Now that companies have commenced preparing financial results/statements as per Ind AS, it will be important for them to understand the process of incorporating changes in alignment to Ind AS. Internationally, under IFRS 15 '*Revenue from Contracts with Customers*' (IFRS 15) and IFRS 16 '*Leases*' (IFRS 16) are two major revisions expected to apply in the near future. Accordingly, it will be essential that the regulators lay down the process and timelines for incorporating future changes as per IFRS revisions so that all relevant companies are able to plan and prepare appropriately.

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