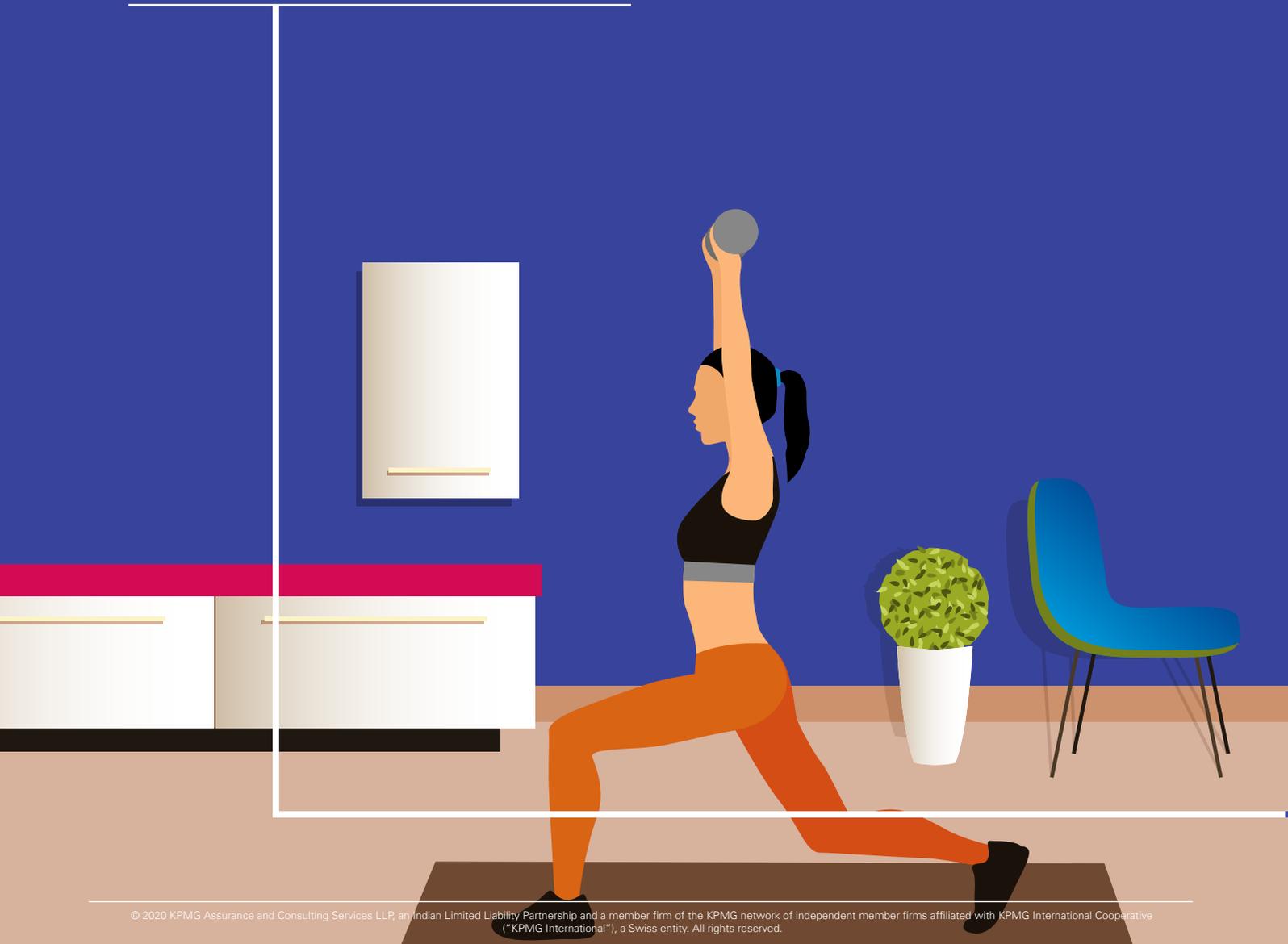


Analysis of disclosures on COVID-19 by listed entities



This article aims to:

Analyse disclosures and impact of COVID-19 on financial results of Nifty50 entities for the quarter and year ended 31 March 2020.



Introduction

The coronavirus (COVID-19) and measures taken to control the pandemic e.g. lockdown has impacted various countries, businesses, individuals either directly or indirectly. This has led to an increase in economic uncertainty and posed risk on the ability of a business to survive, which in turn has significant financial reporting impacts.

As the situation continues to evolve, it becomes all the more imperative for companies to provide timely and adequate information to investors and various stakeholders about the impact of COVID-19 on their business operations, performance, financial position and future prospects. These disclosures could form part of the financial results accompanied by notes, board's report, management's discussion and analysis in the annual reports and disclosures filed with the stock exchanges.

Regulators internationally (e.g. IOSCO¹, ESMA² and SEC³) and in India (SEBI⁴) have elaborated on the importance of disclosure about COVID-19. Their statements highlight the need for transparent and entity specific disclosures. Therefore, this article aims to provide a high level summary of the review of the financial results published by Nifty50 entities⁵ for the quarter and year ended 31 March 2020.

Basis of our analysis

This analysis is based on the disclosures provided by Nifty50 entities in their financial results prepared in accordance with Ind AS or other regulations (for banking and Non-Banking Financial Companies (NBFCs)) for the quarter and year ended 31 March 2020. We have also considered accompanying investor presentation and press releases to these financial results.

Impact analysis

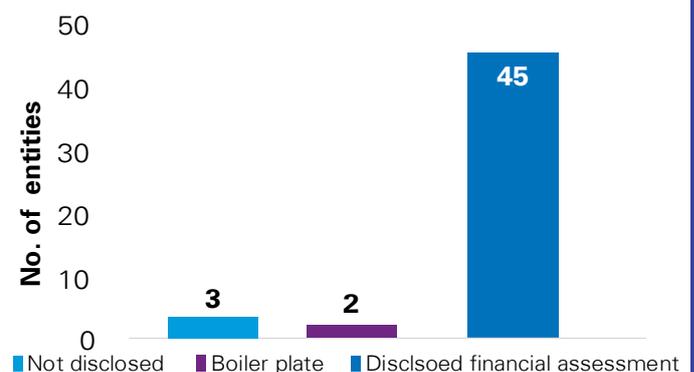
Disclosure of the impact of COVID-19 pandemic in financial results

The impact of COVID-19 on financial results would depend on the facts and circumstances including degree to which a company's operations are exposed to the impacts of the outbreak.

On an overall basis, out of Nifty50 listed entities analysed, 47 entities gave a note on COVID-19 in their financial results for the quarter and year ended 31 March 2020 and three entities did not provide any information relating to COVID-19.

Further, out of 47 entities (who have given a note on the impact of COVID-19 in their financial results), 45 entities provided information in some form on quantitative and qualitative financial impact of COVID-19. Balance two entities have provided boiler plate disclosure regarding COVID-19 which discusses the possible effects that may result from the pandemic on their operations such as lockdown impact, shutting down of factories, etc.

Note on COVID-19 in financial results as at 31 March 2020

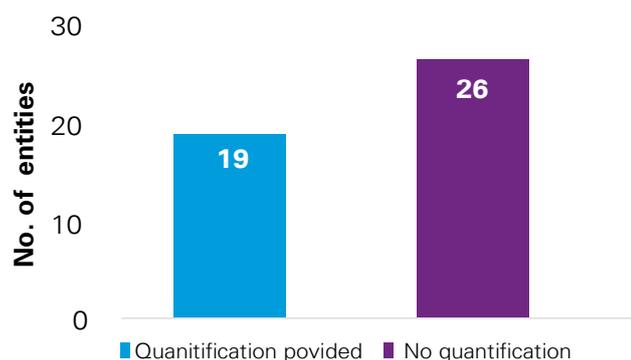


(Source: KPMG in India's analysis, 2020 basis financial results of Nifty50 entities)

1. IOSCO - International Organization of Securities Commissions
 2. ESMA - European Securities and Markets Authority
 3. SEC - U.S. Securities and Exchange Commission
 4. SEBI - Securities and Exchange Board of India
 5. We have analysed the financial results of 50 listed entities on Nifty50 that have their securities listed on NSE as on 1 April 2020.

Out of the above 45 entities, 19 entities have quantified the impact of outbreak on the financial position/results/profitability and performance. The disclosure provided by these entities discusses how the COVID-19 outbreak and lockdown impacted the sales, revenue and profit growth of such entities.

Specific financial impact of COVID-19 on financial results



(Source: KPMG in India's analysis, 2020 basis financial results of Nifty50 entities)

As showcased in the chart above, 26 entities provided qualitative narrative disclosure of the impact of COVID-19. Out of this group, six entities disclosed the fact that there was no significant or material impact of COVID-19 pandemic on the financial position/results/profitability and performance.

Exceptional items

Eight entities out of Nifty50 entities have disclosed the impact of COVID-19 in their consolidated statement of profit and loss as an exceptional item. Out of these eight entities, four entities belong to energy and natural resources sector, three entities from industrial manufacturing sector and one entity is from automotive sector.

The four entities in energy and natural resources sector have revalued the inventory as at 31 March 2020 at net realisable value or replacement costs which is lower than cost and considered the impact of valuation of inventories due to dramatic drop in oil prices

accompanied with unprecedented demand destruction due to COVID-19 and the same has been disclosed as an exceptional item in the financial results.

Whereas, other entities belonging to industrial manufacturing sector and automotive sector have disclosed the quantum of provision on account of impairment relating to Property, Plant and Equipment (PPE), intangible assets or goodwill, including impairment losses and gains on disposal of or changes in ownership interest as exceptional items.

Measurement of impact of COVID-19 on revenue

16 entities out of 45 entities that provided information on financial impact of COVID-19 in their financial results also elaborated separately on the impact on their revenue due to impact on sales due to shutdown of factories and stores, etc. However, out of these 16 entities, only five entities quantified the impact on the company's revenues due to COVID-19 by disclosing the amount of fall in revenue and sales in the quarter ended 31 March 2020 and two entities disclosed that COVID-19 pandemic had no significant or material impact on the revenue for the year 2019-2020.

Balance nine entities have only provided the narrative explanation and did not quantify the impact on revenue.

Assessment of impairment as on 31 March 2020

Out of Nifty50 entities, 32 entities have disclosed in their financial results that management has carried out an impairment analysis as on 31 March 2020 which includes assessment on recoverability of carrying value of PPE, intangible assets, goodwill, receivables, inventories and investments.

Next steps

The analysis of financial results announced by Nifty50 entities for the quarter and year ended 31 March 2020 as well as subsequent filings done pursuant to the SEBI circular, seems to suggest that companies have largely provided a high level qualitative view on how they are impacted, only a few have provided information on the financial impacts.

The COVID-19 has impacted companies in several areas, including recognition of revenue, valuation of inventories, impairment of assets, recoverability of receivables and loans, fair value measurements, accounting for loss making or onerous contracts, restructuring provisions and the like.

As companies prepare to report the financial results for the quarter ended 30 June 2020, they should take into account the SEBI advisory while disclosing the impact of COVID-19 on their financial results. Companies are expected to explain the impact of COVID-19 on their financial performance, financial position and cash flows. Highlight the changes in strategy and targets to address the effects of COVID-19 and measures taken to address and mitigate the impacts of the pandemic on the company.

SEBI's advisory on disclosure of material impact of COVID-19 by listed entities

On 20 May 2020, SEBI issued an advisory and encouraged listed entities to evaluate the impact of the COVID-19 pandemic on their business, performance and financial results, both qualitatively and quantitatively, to the extent possible and disseminate the same. Additionally, the circular provides an illustrative list of information that listed companies may consider while disclosing the impact of COVID-19 subject to the application of materiality.

In compliance with SEBI advisory on disclosure of material impact of COVID-19, out of Nifty50 covered entities, 20 entities have filed the letter of disclosure of impact to SEBI (as on 30 July 2020). The key information covered entities considered while disclosing the impact of COVID-19 are in alignment with illustrations in SEBI advisory.

Additionally, SEBI provides that while submitting financial statements under Regulation 33 of the Listing Regulations, entities may include the impact of the COVID-19 pandemic on their financial statements, to the extent possible. Out of the 20 entities which have filed letter of material disclosure to SEBI, only four entities have discussed the impact of COVID-19 on financial statements for the quarter and year ended 31 March 2020. However, all these four entities have disclosed that there is no material impact due to COVID-19 outbreak.

